



**NATIONAL AUDIT OFFICE
ANNUAL REPORT 2009**

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National Audit Office Annual Report 2009

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Foreword by Ms Rasa Budbergytė, Auditor General

When overlooking activities of the National Audit Office in 2009 I am happy that the Supreme Audit Institution implemented all planned work. This Report contains data on the most important work done in 2009 as well as an extract from financial statements.

As each year we submitted to the Seimas obligatory reports: opinion on the account of the execution of the 2008 State Budget; opinion on the report on

public debt; and opinion on the State property. Opinion on the draft 2010 State Budget was also delivered to the Seimas.

Last year conducting financial (regularity) audits we delivered special focus to the use of the EU financial assistance, use of funds received for the sold public land lots in counties; accounting of land lots; transfer of property owned by the State to local governments, its management and accounting. We also carried out assessments of general controls of information systems. Financial (regularity) audits also revealed that though financial accounts contained less errors, there are still problems in such areas as a well-balanced management of State property and funds, internal control systems, and qualification of accountants.

Performance audit programme mostly focused on the state property and finance management, energy sector, public economy, healthcare and social protection, culture. Among the most urgent audit recommendations delivered to the Government I could mention the following:

- Having assessed the VAT administration, we recommended developing measures for fighting VAT evasion and fraud, which could ensure the compensation of damages made by evasion from paying the VAT.
- Having assessed the design of the State Investment Programme, we recommended to unify assessment methods of investment projects, to set project selection assessment criteria, to ensure that programme should include only those investment projects, which meet requirements.
- Concerning the use of funds for closure of the Ignalina nuclear power plant we recommended to authorise an independent body to carry out the monitoring and management of projects implemented by the power plant, which would be responsible directly to State institutions of Lithuania.
- In the area of the state enterprises management we recommended to design a general state enterprises management policy, to review the property managed by state enterprises and to disown the unused property.
- Having assessed the State social insurance system, we recommended to amend legal acts so that Fund payments would compensate only incomes lost due to contingency, from which contributions were calculated and paid, and the amount of social insurance payments would be linked to the amount of contributions paid and duration of calculation and payment of contributions.
- We recommended to prepare the review of the culture financing system, and to transfer the function of culture projects financing by the principle of a “stretched hand” to the body.

- Having assessed the use of funds allocated to the improvement of provision for comprehensive schools, we recommended to accelerate the renovation of schools, to assign coordination of investment programmes of provision and renovation of all comprehensive schools to one institution; to adopt a general long-term plan of financing of education institutions of the country.

Seeking to inform Lithuanian Government institutions and public on use and management of the EU financial assistance we prepared the overall report on the 2004-2008 EU financial assistance management. Within the competence set by the law we conducted external reviews of audits carried out by municipal control and audit services. Having summarised their results a report was prepared containing recommendations to the Association of Municipal Controllers to improve audit quality control, to carry out not only financial but also performance audits, to pay more attention to municipal controllers' training.

It is worth underlying that the Seimas is constantly strengthens the parliamentary control of the implementation of public audit recommendations. Seimas Committee on Audit and other committees considered the most significant audit reports, gave proper attention to audit recommendations implementation plans, followed their implementation. Implementing Seimas proposals given during the consideration of the National Audit Office 2008 Annual Report, we started since 2009 to assess management, use, and disposal of finance and property not only from the point of view of legality and regularity but also from the point of view of economy and violation of public interest. We expect that this will stimulate state institutions, bodies and organisations to use more economically State Budget appropriations allocated to them, and to defend public interest in all areas of the state governance. On the other hand, increases the trust of State Budget appropriation managers to public auditors. More and more heads of institutions make certain that conclusions and recommendations of the National Audit Office help them to manage public assets more responsibly. Understanding the extreme significance of qualification of public auditors we spared neither time, nor money, the bulk of which was received from the EU assistance.

Seeking to improve audit quality we gave much attention to the development of audit methodology: we developed a new version of Performance Audit Manual, updated Financial (Regularity) Audit Manual, and developed a lot of other methodological documents.

I would like to thank all public auditors and other staff of the National Audit Office, who in spite of the reduced funding of our institution fulfilled well all their functions and applied much efforts in order the National Audit Office could deliver maximal benefits to Lithuanian people.

Auditor General

The Most Important Results of 2009

- National Audit Office achieved all results planned for 2009. More than 85% of recommendations submitted to audited bodies were implemented; implementation of corporate effectiveness criterion has increased by 13%; and the scope of planned work in spite of reduced financing from the State Budget not only decreased but even increased. All this was achieved due to proper and timely implementation of activity decisions.
- Joining the strengthening of parliamentary control of state accounts and revenue conducted by the Seimas, National Audit Office (hereinafter referred as NAO) submitted to the Seimas the following reports:
 - ▶ on the account of the execution of the 2008 State Budget;
 - ▶ on the 2008 accounts on 2008 public debt, loans given from funds borrowed on behalf of the State and given State guarantees;
 - ▶ on the 2008 account on the state-owned property.
- NAO also delivered to the Seimas opinion on the draft Law on Approval of Financial Indicators of 2010 State and Municipal Budgets. The major part of recommendations on improving the draft of the State Budget were implemented, and suggestions were adopted in the Law on Approval of Financial Indicators of 2010 State and Municipal Budgets.
- During 2009 public auditors conducted 191 public audit, including:
 - ▶ 125 financial (regularity) audits of state institutions, bodies, and organisations. LTL 20 billion or 81.6% of used State Budget appropriations as well as LTL 347 million of the Employment Fund were audited;
 - ▶ 23 financial (regularity) audits in local governments administrations of targeted subsidies from the State Budget for implementation of state (delegated to local governments) functions and for funding pupils' basket. LTL 1.3 billion or 52% of used special targeted subsidies were audited;
 - ▶ 9 audits in the area of the European Union structural assistance implementing functions of the certifying body for 2004-2006 assistance and implementing functions of the audit authority for the EU structural assistance to Lithuania for 2007-2013 towards achieving the convergence objective;
 - ▶ 5 evaluations of general control of information systems;
 - ▶ 29 performance audits of state property and finance management, energy sector, transport and communication, control of state economy and market, public administration, internal and foreign policy, healthcare and social protection, justice, national security and defence, use and disposal of public land. 15 audits were started in 2009, which are to be concluded in 2010.
- In 2009 NAO conducted external reviews of 15 audits carried out by municipal control and audit services assessing audit quality assurance policy and procedures, related to the general audit activity, their effectiveness. It is expected that recommendations delivered at reviews will help to improve audit process and improve the quality of audit outcomes in local governments.
- Seeking to increase the impact of public audit and to control by parliamentary means the implementation of recommendations delivered in public audit reports, NAO as each year closely cooperated with the Seimas Committee on Audit and other committees. In 2009 Seimas Committee on Audit considered 26 public audit report including 15 performance and

11 financial (regularity) audit reports. 7 Seimas resolutions related to public audits and other NAO activities were adopted.

- Implementing Seimas proposals given during the consideration of the National Audit Office 2008 Annual Report, we started since 2009 to assess management, use, and disposal of finance and property not only from the point of legality and regularity but also from the point of economy and violation of public interest. We expect that this will stimulate state institutions, bodies and organisations to use more economically State Budget appropriations allocated to them, and to defend public interest in all areas of the state governance.
- Applying best practice of supreme audit institutions and generally accepted standards public audit methodology development was in focus in 2009. The following parts of the Financial (Regularity) Audit Manual were updated: “Development of Report and Opinion” and “Planning”; new parts “Financial Audit Procedures Assessing Fraud and Corruption Risks” and “Assessment of Legality”. The development of the new Performance Audit Manual was completed.
- When planning the 2010 public audit scope the NAO used in 2009 for the first time a new instrument for developing the public (performance) audit programme: a series of discussions on the selected priority area of public sector activities, in which the majority of performance audits are planned for the next year. Opinions and arguments presented enabled public auditors to receive during a short time concentrated and unbiased information on the topic, to find answers to the questions: whether it is necessary, when, and with what scope to plan performance audits for the next year.
- In 2009 the NAO established a new part of public audit quality control and assurance system: hot external reviews of performance audits. It helps to assess and improve the quality of performance audits, to reveal areas for methodology development and auditors’ training; to provide the management with reliable information on the quality of audits conducted.
- The fact that since 1 January 2010 public sector bodies shall manage accounting and accounts on the base of new public sector accounting and financial reporting standards impelled the NAO to organise in 2009 training on public sector accounting involving all public auditors. This training enabled to prepare better for transition to the new budgetary sector bodies accounting standards, to get theoretical knowledge and develop practical skills.
- In 2009 the assessment of NAO activity processes risks was carried out: it covered all corporate processes. Risks identified will reduce the probability of risk arousing events, potential negative consequences or damages, enhance proper management decisions and effective activity planning process, enable efficient detecting threats and finding mitigating opportunities, increase the efficiency of resource distribution and use.

2010 Challenges

- Facing a reduced funding, to seek retaining the scope of public audit needed to obtain information sufficient for the NAO reasoned opinion on state accounts, to cover the most risky areas of public sector.
- When carrying out financial (regularity) audits to orient towards selected strategic study areas: revenue of special programmes; funds used for remuneration and social insurance expenditure; optimisation of public sector expenses; expenditure for funding pupils' basket; effectiveness and legality of State Investment Programme projects. This will enable not only to state gaps in these areas but also to develop proposals on preventing them in the future.
- When carrying out public performance audits to focus on the assessment of implementation of one of the objectives of the State Long-Term Development Strategy – Competitive Economy.
- To develop the Public Audit Strategy for 2011–2015.
- Seeking more effectiveness of institution performance, better public audit quality and more significant audit impact to implement the project “Improving NAO activity processes by establishing quality management methods”. To implement the assessment of corporate processes applying the LEAN quality management method, external reviews of public audits, formulating proposals for NAO processes improvement and increasing audit effectiveness.
- Seeking to improve public audit quality and institution performance to implement the project “Improvement of Special Competencies of the NAO Staff”. To carry out professional training for financial, performance, and IT auditors, management training for audit groups leaders and heads of institution units.
- Strengthening personnel development policy to start the establishment of career, positions, and leaders reserve.
- To develop public audit methodology: to develop typical procedures for financial (regularity) audit by accounting areas following public sector financial reporting and accounting standards; to apply provisions of the new Performance Audit Manual.
- To abandon paper documentation using audit management and documentation software TeamMate.

The Mission of the NAO is Helping the State to Manage its Property Wisely

When implementing its Mission the NAO seeks to promote accountability, management oriented towards results and people needs, progress of finance management and control systems.

When supervising whether public property is managed and used lawfully and effectively and how the State Budget is implemented the NAO audits:

- state budget implementation, use of State funds; management, use, and disposal of State property; implementation of the budget of the State Social Insurance Fund; implementation of the budget of the Compulsory Health Insurance Fund;
- use by respective fund management institutions and beneficiaries of funds of the European Union (hereinafter referred as EU) allocated to the Republic of Lithuania and implementation of programmes in which Lithuania participates;
- use of State budget funds allocated to municipal budgets; management, use and disposal of municipal property in accordance with the scope of government auditing as defined in the Law on the State Control;
- In a manner prescribed by international treaties of the Republic of Lithuania and other legal acts, the European Union financial assistance allocated to the Republic of Lithuania and shall submit the records of these audits to the appropriate institutions.

The scope of public audit shall be established in Annual Public Audit Programme, which shall be approved by Auditor General, providing that public audit of two types: financial (regularity) and performance shall be conducted (Fig. 1).

Fig 1. 2009 public audit scope: audits performed and audited bodies where audit procedures were carried on



Financial (regularity) audit means the evaluation of financial statements and /or other accounts of an audited body as well as management, use and disposal of state funds and property from the point of view of legality and compliance with objectives set by the law.¹

¹ Since 2010 the aim of financial (regularity) audit shall be as follows: evaluation of financial and budget implementation sets of accounts and/or other data of accounts of an audited body as well as management, use and disposal of state funds and property from the point of view of legality and compliance with objectives set by the law and issuing of independent opinion.

In 2009 systemic study directions of financial (regularity) audit were selected taking into account the most risky for accounting errors and shortcomings areas, detected by previous years audits:

- EU financial assistance and its assimilation;
- use of funds received by counties for acquisition of land for public use;
- accounting of state land lots and disclosure in financial accounts of counties;
- transfer of state-owned property to local governments, its management, use, disposal, and accounting.

Financial (regularity) audit is also conducted in the area of EU structural assistance as well as evaluating general control of information systems.

Performance audit means evaluation of the economy, effectiveness and efficiency of the public and internal administration activities of an audited body and revealing opportunities of improvement.

When selecting 2009 performance audit directions the main attention was given to issues arising in the following areas of the public sector:

- management of State property and finance;
- energy sector, control of public economy and market;
- transport and communication;
- public administration;
- internal and foreign policy;
- environment protection;
- healthcare and social protection;
- culture, physical culture, and sports;
- education and science;
- justice;
- national security and defence;
- use and disposal of State land lots.

Performance audit is also carried out in the area of state accounts when assessing the draft Law on the Approval of Next Year Financial Indicators of the State Budget and Municipal Budgets.

1. The Main Performance Outcomes

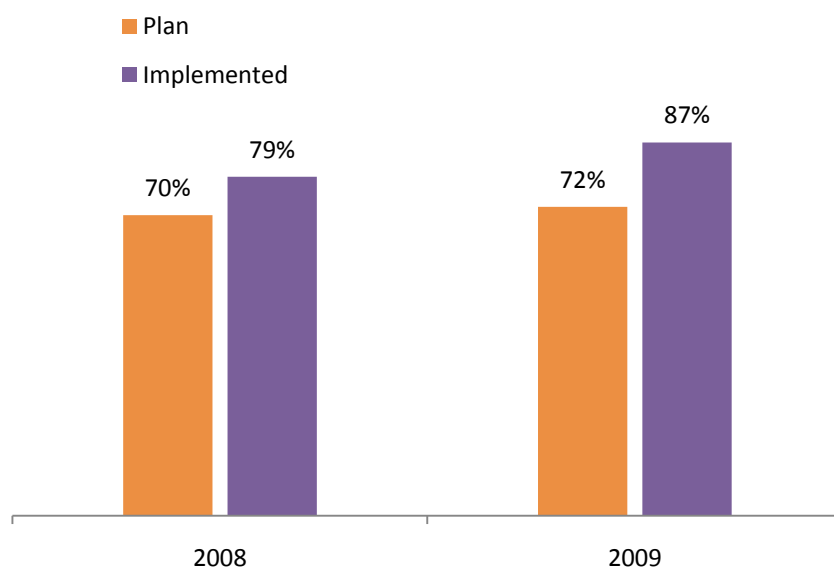
When planning and organising NAO activities general, common to all state institutions, bodies, and organisations strategic planning principles and international practice of supreme audit institutions is applied. Institution's performance is evaluated according to assessment criteria such as implementation of institution's strategic objectives (effect), achievement of institution's programme objectives (result), and fulfilment of programme tasks (product); the change of these criteria shall be constantly monitored.

In 2009 NAO achieved the planned effect criterion "Assessment of public sector finance management and control systems". In comparison with the previous year its implementation increased by 13%. Having assessed this positive trend we may state that public audit effectively contributes to the progress of establishing public sector finance management and control systems.

The results of public audits carried out by the NAO are public audit opinion and report containing recommendations for improvement of audited body performance. The share (per cent) of implemented recommendations by audit type is a NAO result assessment criterion.

Having given special attention to delivering audit recommendations and follow-up in 2009 the per cent of implemented recommendations exceeded the planned level and was higher in comparison to 2008 (Fig. 2).

Fig. 2 Implementation of audit recommendations in 2009 exceeded the planned level



2008–2009 changes in Lithuanian economic situation required to cut budget appropriations so it had direct effect also for reducing financial resources of the NAO. In 2009 the funding from the State Budget for NAO tasks implementation was reduced by 12%. This impelled looking for new solutions enabling to use financial, human, and material resources optimally and efficiently.

Consciousness of the staff and efficient use of resources enabled not only not to reduce the scope of tasks planned for 2009 but in some cases even to increase it (Table 1)

Table 1. NAO implemented all planned product criteria

| Product criterion | 2009 plan | 2009 actual | Implementati on of criterion |
|--|------------------|--------------------|---|
| 1. Number of obligatory opinions submitted to the Seimas | 4 | 4 | Implemented |
| 2. Public Audit Programme implemented (public audits of the EU financial assistance) (per cent) | 100 | 100 | Implemented |
| 3. Public Audit Programme implemented (implementing EU structural assistance for 2007-2013 towards achieving the convergence objective) (per cent) | 100 | 100 | Implemented |
| 4. Public Audit Programme implemented (performance audits) | 100 | 100 | Implemented |
| 5. Ratio of audited funds to State Budget appropriations (per cent) | 80 | 81,6 | Implemented |
| 6. Number of reviews of municipal control and audit services | 12 | 15 | Implemented |

In 2009 public auditors audited more used budgetary appropriations than it was planned in 2008, more external reviews of municipal control and audit services were carried out.

Public auditors fully implemented the 2009 Public Audit Programme, submitted to the Seimas all planned opinions, carried out all planned audits of the EU structural assistance, concluded planned performance audits.

2. Management of Corporate Processes

Organisation of activity

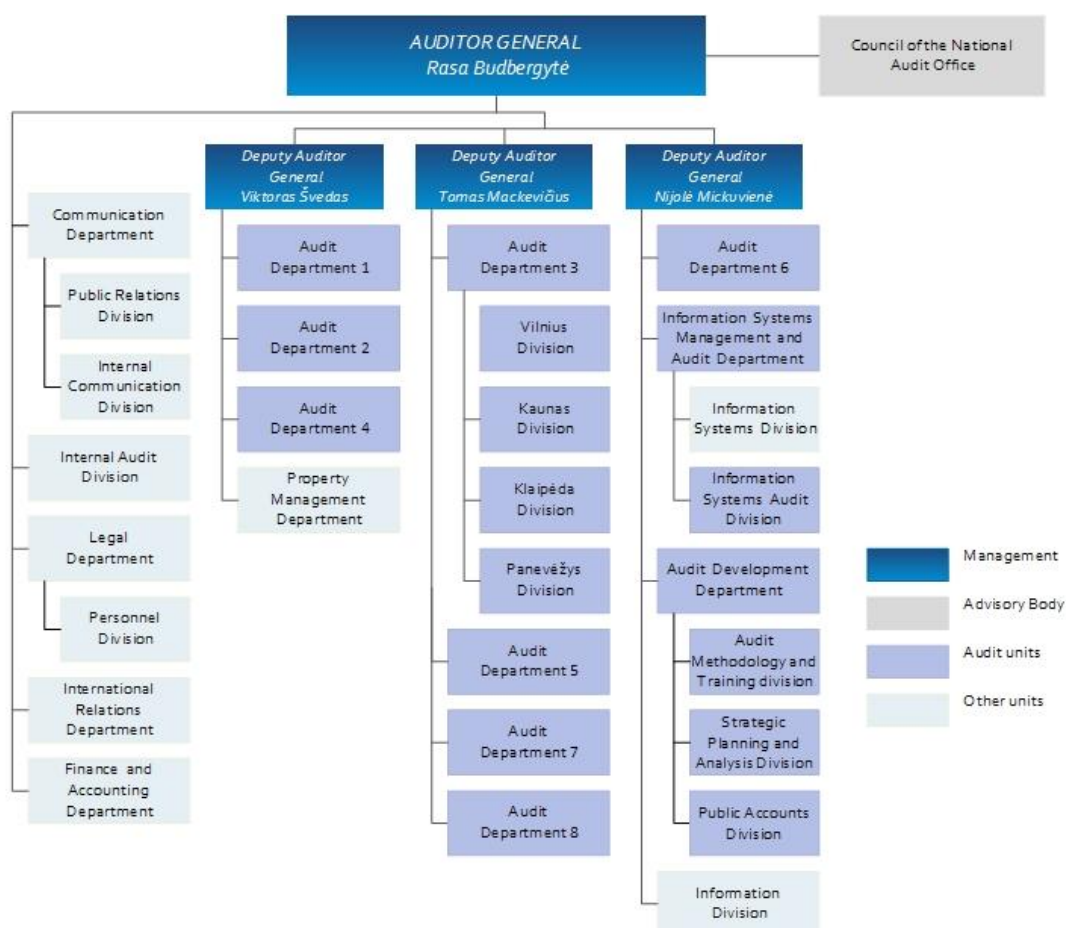
When organising and implementing its activities NAO follows the Constitution of the Republic of Lithuania, the Law on the State Control and other legal acts, international agreements, Public Audit Requirements. Activities of the institution are based on principles of independence, legality, publicity, impartiality, and professional excellence.

NAO is headed by Auditor General who is appointed for a five-year term by the Seimas upon the nomination of the President of the Republic. Since 2005 the NAO is headed by Auditor General Ms Rasa Budbergytė.

As an advisory body to Auditor General there is the NAO Board. The Board comprises NAO management and heads of audit units who jointly consider the most important strategic issues of activities and audit, NAO activities and service in it.

NAO comprises departments, divisions, and other services, which are necessary for implementation of public audit functions (Fig. 3).

Fig. 3 2009 structure of the NAO



NAO comprises 8 departments directly implementing function of public audit, which carry out public audits. 7th and 8th departments carry out EU audits in the field of structural assistance. Auditors of Information Systems Audit Division of the Information Systems Management and Audit Department carry out evaluation of general control of information systems.

Since 2009 after partial review of the structure a State Accounts Division was established in the Audit Development Department. Its aim is to prepare NAO opinions on the draft Law on Approval of Financial Indicators of State and Municipal Budgets, on the account of the execution of the State Budget; on the accounts on public debt, loans given from funds borrowed on behalf of the State and given State guarantees; on the account on the state-owned property. The State Accounts Division may be considered an audit performing NAO unit as far it has assignment to carry out public audit of consolidated accounts, to take part in audits conducted by other audit departments.

In order to organise NAO activities and implementation of its main functions in the most efficient way standing or temporary commissions, working groups, and committees are working alongside.

In 2009 the working group on developing the new version of the Performance Audit Manual worked actively. Its members considered and improved all parts of the Manual taking into consideration remarks made by management and auditors, proposals and international practice.

Important corporate decisions in 2009 were considered by the NAO Strategic Planning and Performance Risk Management Commission charged to help Auditor General to make effective strategic decisions and manage corporate strategic risks in order to ensure the systematic development of the NAO. In the beginning of 2009 on the initiative of the Commission a new risk management cycle was started and it was decided to carry out in 2009 assessment of all NAO performance risks. The processes, which were included into the risk assessment plan approved by the Commission, covered all NAO performance processes, which were assessed during 2009.

NAO performance risks were detected during assessment sessions according to the processes risk assessment plan approved by the Strategic Planning and Performance Risk Management Commission. In 2009 were held eleven such sessions, at which all 13 approved NAO performance processes were analysed..

Standing Public Audit Methodology Commission, which is charged to ensure the conformity of NAO audit methodology with internationally acknowledged auditing standards, in 2009 considered and approved the draft of the Financial Audit Manual part “Summarising of Audit Results”, the draft of the new Performance Audit Manual, also considered cases of good practice, which were later recommended to auditors.

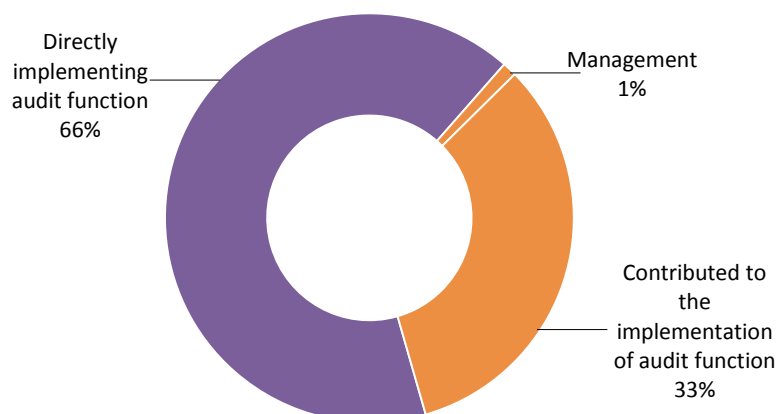
This Commission analyses and assesses the conformity of draft audit manuals, their appendixes, procedures, rules, other methodology and/or amendments of the above with internationally acknowledged auditing standards; it either approves or delivers remarks and returns for improvement or makes decisions on acknowledging certain cases as good practice and disseminating it among the staff conducting audits.

Personnel Management

By the end of 2009 355 employees worked at the NAO. Last year the number of candidates for employment at NAO increased extremely. 90 candidates were competing what means that there were on average 18 candidates to one position (in 2008 – 5.6; 2007 – 4.6). It demonstrates not only increased interest in public audit but also the improvement of institution's image.

The majority of NAO employees were directly involved in performing audit function (Fig. 4).

Fig. 4 More than 66% of NAO employees are directly involved in performing audit function



Officers directly performing audit functions include not only public auditors and specialists (public auditor's assistants) but also lawyers permanently working with audit groups and heads of audit departments and their deputies supervising financial (regularity) or performance audits.

Following good practice of corporate management just a little bit more than 30% of all institution staff were employed at NAO units, which are not directly involved in public audit however are necessary for implementation of public audit functions (Fig 4).

These employees produce a reasonable added value to the public audit process. They not only contribute to the timely conclusion of audits (ensuring proper functioning of information systems, filing documents, managing material recourses) but also contribute to presentation of audit results (by providing methodological explanations of audit standards, guidelines, establishing new audit processes, methods applied by international community).

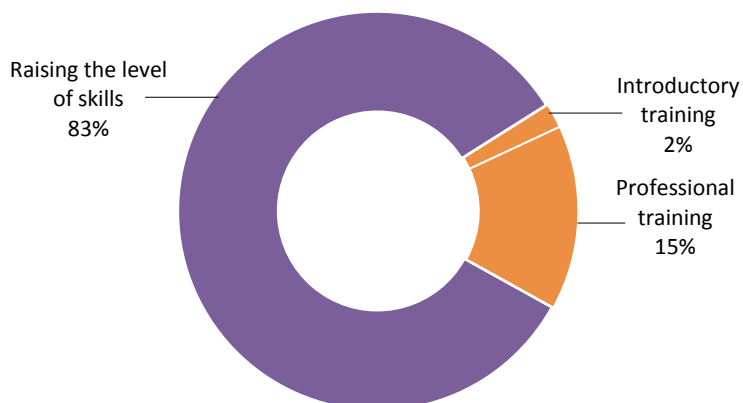
As each year NAO personnel policy is at the focus following the assumption that only well organised and constantly developing staff can deliver high quality and satisfying public results.

In 2009 NAO personnel needs estimating criteria were developed, staff promoting and motivating system designed. Much attention was given to incorporation of new employees into the work process. Since now they are not only familiarised with our institution but also to work for 3 month with a personal coach. This helps proper learning of public audit basics and integrating into a professional and thrusting team.

Staff Training

In spite of minimal financial resources in 2009 the NAO using internal resources and EU support gave to its staff training not less attention than in the previous year. In 2009 the majority or 86% of the NAO staff were involved in training. Most of them were raising the level of their skills (Fig 5).

Fig. 5 In 2009 83% of the NAO staff were raising the level of their skills



More than LTL 600 thousand were spent for training during 2009. The major part or 90% of this amount was allocated from the Transitional Period Institutional Development Measure Programme, 8% of funds from the priority "Technical Assistance for EU Structural Assistance Received for the Administration of Convergence Objective" VP4-1.1-FM-01-V measure "Establishment and Efficient Functioning of the EU Structural Assistance Administration System".

Since 1 January 2010 public sector bodies shall keep books and prepare sets of accounts applying new public sector accounting and financial reporting standards (PSAFRS). The fact that public sector accounting principles were to change required to organise auditors' training in 2009. 5 training events were organised for performance auditors "General knowledge about public sector accounting according to PSAFRS" and 10 training events for financial auditors "Audit oriented knowledge about public sector accounting according to PSAFRS".

240 hours of consulting were delivered to 10 pilot audit groups. Pilot audits helped to assess application of PSAFRS at audited bodies, to detect problems and issues. Professional consulting, cooperation between public auditors, consultants, and audited bodies enabled better preparation to the transition to new accounting standards. During pilot audits auditors with the help of consultants developed practical skills in PSAFRS application. Summarising issues discussed during these consultations practical recommendations to financial auditors were developed.

Development of Public Audit Performance

NAO seeks to apply in its activities the most progressive working practice of supreme audit institutions and generally acknowledged standards. Their application covers the whole audit process: audit planning, field work, reporting, development of the follow-up of recommendations issued on this basis, establishment of proper technical conditions for performing audit.

Developing the public audit performance in 2009 attention was given to the updating both of financial (regularity) and performance audit methodology:

- updated parts of the Financial Audit Manual: “Development of report and opinion” and “Planning”;
- new parts of the Financial Audit Manual: “Financial audit procedures assessing fraud and corruption risk” and “Assessment of legality”;
- a draft of a new Performance Audit Manual developed.

Implementing Seimas proposals given during the consideration of the National Audit Office 2008 Annual Report, we started since 2009 to assess management, use, and disposal of finance and property not only from the point of legality and regularity but also from the point of economy and violation of public interest. We expect that this will stimulate state institutions, bodies and organisations to use more economically State Budget appropriations allocated to them, and to defend public interest in all areas of the state governance.

Among the results of public audits conducted by the NAO are recommendations on improvement of the audited body performance. In order to increase effectiveness (result) of the NAO activities, to monitor and increase the public audit impact (effect) in 2009 the process of submitting and follow-up of recommendations (monitoring system) was specified.

In 2009 a new part of public audits quality control and assurance – hot external review of performance audit results – was established in the NAO. It is implemented by the External Review Commission comprising Deputies Auditor General, heads of audit departments, and Audit Development Department. Auditor General also takes part in Commission meetings. Such review assesses all draft reports of preliminary studies, audit plans and draft reports of public audit. This measure helps not only to assess a running audit but also to provide proposals for improvement before the end of the process, to reveal areas of audit methodology development and auditors’ training.

Majority of data on institutions, enterprises, land and other immovable property as well as persons also data of accounting system are stored and filed electronically. It not only stimulates but also obligates the NAO to use computerised auditing means, audit management and documentation systems in order to analyse large amounts of data and to save time.

NAO information system comprise subsystems related to specific functions: public audit management and documentation subsystem (TeamMate), subsystem for accounting audit results (ARAP), document management subsystem (KONTORA), personnel accounting subsystem (KOPA).

In addition to regular text editing and calculating software we use a progressive data processing and analysis software IDEA. By using it auditors can quickly do various specific data selection, complex calculation and comparisons, which would be impossible to do manually during such a short time.

3. Cooperation and Partnership

Now public is very keen about public audit results hoping to identify current systemic shortcomings of the State Budget funds use and to receive proposals how to use taxpayers' money more effectively. Changing environment, new challenges and objectives stimulate the NAO to look for constant closer cooperation with state institutions, nongovernmental organisations, science and other bodies seeking for public sector accountability, improvement of the management oriented towards results and public interest.

Cooperation with the Seimas

Cooperation with the Seimas increases the public audit impact and improvement of the implementation of recommendations laid down in public audit reports by means of parliamentary control.

NAO strategic partner in the Seimas is Seimas Committee on Audit. In 2009 it considered 26 public audit reports (15 performance audit and 11 financial (regularity) audit reports). Committee also considered 10 other issues related to NAO activities. Committee adopted 26 decisions related to public audit reports and other activities of the supreme audit institution.

Members of the Committee on Audit of a new term of office visited the NAO, familiarised with principles of designing the Public Audit Programme, follow-up system, public audit quality assurance system.



Visit of Seimas Committee on Audit members to the NAO in September 2009

Other Seimas committees considered 17 public audit reports, mostly Committee on Social Affairs and Labour, Committee of the Development of Information Society, Committee on Rural Affairs.

NAO opinions on the set of accounts of the execution of the State Budget, public debt, account on the State-owned property, draft State Budget, were considered by Seimas committees and Seimas plenary meetings, which also approved the NAO 2008 Annual Report .

In 2009 Seimas adopted 7 resolutions concerning public audits and other activities of the NAO.

In 2009 Art 14 of the Law on the State Control was amended so that the NAO was entitled to conduct performance audit of Bank of Lithuania activities prescribed in the Law of the Bank of

Lithuania as far as it does not contradict objectives and tasks of the European system of central banks set forth in the EU law.

NAO staff was actively involved in activities of a working group established by the Committee on Audit on the improvement of the public sector external and internal audit legal framework; took part in a Europe week discussion arranged by the Committee on Audit and Seimas Europe Information Bureau on the mandate of bodies performing municipal audit in Lithuania in the context of the European Union; NAO constantly delivered opinions on various draft legal acts considered in the Committee.

In addition, during the year NAO received and answered 60 inquiries of members of the Seimas, Seimas committees and other structural units.

Public Relations

NAO gives much attention to public information, promotes interest in its work and public audit results. Implementing PR policy based on publicity and cooperation we seek not only to contribute to effective impact of public audit on social processes but also to consolidate a positive image of the NAO.

Information on results of institution's activities. In 2009 88 press releases on public audits and other NAO activities were prepared and disseminated. Audits conducted by the NAO and other institution's activities were mentioned in mass media more than 3000 times. Absolute majority (98.7%) of information on public audits was positive.

During 2009 NAO employees took part in about 40 radio broadcasts, answered verbally or in written about 350 inquiries of mass media.

Internet website www.vkontrole.lt is constantly updated and improved, it enables to familiarise not only with audits performed but also with events inside the institution.

During 2009 8 new chapters were created on the website, 7 new functions installed, 6 chapters and functions improved. The website meets all requirements set for state institutions' websites, its contents and design are further improved.

Involving public into NAO activities. In January 2009 was celebrated the 90th anniversary of the NAO establishment. This date was marked by the international conference “Public Audit – Helping the State to Manage its Property Wisely”.

At the conference officials from Lithuanian and EU institutions and state officials exchanged their experience and views on such issues as public audit, parliamentary control, EU budgetary perspectives and accountability.

About 300 guests and NAO employees took part in the conference.



Snapshots from the conference “Public Audit – Helping the State to Manage its Property Wisely”

When planning the 2010 public (performance) audit programme in September-October 2009 for the first time was held series of discussions according to a selected priority area of public sector activities, in which planning the next year public audit programme a majority of public performance audits will be conducted.

As the priority area for 2010 audits we selected the competitive economy. The focus on this area was drawn up due to reforms, unfavourable economic conditions, public expectations of implementing a social-economic model of a welfare state.

During the series of discussions “Competitive Economy: Are We on the Right Way?” representatives of ministries and other Government bodies stated official position while guests from academic community, nongovernmental organisations, and business expressed their sometimes different views. Among 65 participants representing both public and private sector were guests from President’s Office, Seimas, Ministries of Economy, Education and Science, Interior Affairs, state enterprise Energy Agency, Lithuanian Confederation of Industrialists, Lithuanian Confederation of Business and Employers, Lithuanian Wind Energy Association, Lithuanian Association of Hydroenergetics, Association of Local Authorities in Lithuania, Lithuanian Free Market Institution, Knowledge Economy Forum, Kaunas Technology, Vilnius Mykolo Romerio, Klaipeda universities, other institutions and organisations, businessmen.

Opinions and arguments helped public auditors to get during a short time concentrated and unbiased information, to discuss problematic areas of ensuring a competitive economy and get answers to the questions whether it is necessary at all, when, and in what scope to plan performance audits for the next year.

During 2009 700 students from Vilnius and Mykolo Romerio universities, Klaipėda Business and Technology Colleges as well as pupils from the Vilnius Vytauto Didžiojo gymnasium were familiarised with activities of the NAO. They were interested not only in the supreme audit institution but also in public audit itself, its evolution and development prospects.

Communication with citizens. Specialists of the NAO in 2009 considered 160 complaints, petitions, and applications from citizens, gave answers via e-mail.

All complaints, petitions, and applications received from citizens in 2009 were answered or forwarded to other institutions and bodies, law enforcement bodies within their competence while informing applicants about the motion.

One of the results of successful cooperation with the public was election of the NAO as the best performing state institution.

4. International Cooperation

NAO constantly maintains and develops international relations with supreme audit institutions of other countries, international organisations, it is member of International Organisation of Supreme Audit Institutions (INTOSAI) and its regional division – European Organisation of Supreme Audit Institutions (EUROSAI).

NAO actively cooperates with EU institutions namely European Commission and European Court of Auditors, a cooperation agreement with which was signed in 1996.

The main structure of cooperation between supreme audit institutions and European Court of Auditors within EU is the Contact Committee comprising heads of Member States supreme audit institutions and the President of the European Court of Auditors, Committee of Liaison Officers and working groups considering specific audit issues.

In 2009 member of the European Court of Auditors Irena Petruškevičienė few times visited NAO presenting main aspects of the 2007 EU budget execution, results and planned changes in activities of the European Court of Auditors, 2008 annual and EU budget execution reports, indicating the most progressive areas of the EU funds use and those to be improved.

Cooperation with the European Commission is implemented via missions auditing use of European Communities funds in Lithuania. Auditors of the NAO take part in seminars and working groups arranged by DGs of the European Commission analysing issues related to EU funds, internal control system and auditing.

In March 2009 the annual coordination meeting of DGs of the European Commission and representatives from Lithuanian institutions was held at the NAO. The main issues of managing and control of EU structural assistance in 2000-2006 and 2007-2013 programme periods were discussed.

Representatives of the European Commission assessed positively the work performed by Lithuanian institutions during 2008. At the meeting audits conducted by DGs of the European Commission and implementation of recommendations, audit strategies and 2009 audit plans as well as annual summary were discussed. Representative of the European



Snapshots of the European Commission representatives visit to the NAO

Anti-Fraud Office (OLAF) presented a comprehensive analysis of irregularities detected in EU Member States during the 2000-2006 programme period.

In 2009 the NAO as the supreme audit institution of the Republic of Lithuania took part in activities of INTOSAI and EUROSAI committees and working groups as well as working groups of the Contact Committee of Heads of EU Supreme Audit Institutions. NAO constantly cooperates with the European Parliament Committee on Budget Control, European Commission, and European Court of Auditors.

Bilateral Cooperation

Bilateral cooperation with supreme audit institutions of various countries is implemented by exchanging visits, participating in joint events, conferences, training events, and seminars, conducting parallel audits and exchanging information.

In 2009 Kazakh governmental delegation visited the NAO.

During the visit the guests were familiarised with NAO activities and legal framework, public audits of their interest within such areas as market regulation and ensuring the competitiveness.

In November 2009 delegation of the Moldova Court of Accounts headed by the President of the Court of Accounts Ala Popescu visited the NAO. During the visit issues related to legal framework regulating activities of a supreme audit institution, preparation of annual reports and annual audit programmes, personnel management and training, audit of local governments, and cooperation with parliaments were discussed.

Developing and maintaining international cooperation meetings with the Ambassador of the United Kingdom Mr Simon Butt were held in 2009.

In September 2009 Auditor General Rasa Budbergytė met Ambassador of the Republic of Angola Dr Domingos Culolo residing in Kingdom of Sweden.



Snapshots from Kazakh governmental delegation visit to the NAO



Snapshots of Dr. Domingos Culolo, Ambassador of the Republic of Angola visit at the NAO

During the meeting the potential cooperation with Angola audit institution, NAO relationship with the Lithuanian Seimas and law enforcement bodies were discussed, NAO activity principles were presented.

Ambassador noted that Angolan supreme audit institution could use good practice and experience of the NAO in public audit and cooperation with other state institutions.

In 2010 the NAO will seek to continue active cooperation with European Court of Auditors, European Parliament, European Commission, Nordic and Baltic and Polish, Baltic Sea Region, Ukraine and Moldova supreme audit institutions, properly represent the country and supreme audit institution at

INTOSAI and EUROSAI committees and working groups.

5. National Audit Office – Advisor to Municipal Control and Audit Services

According to the competence set forth in the Law on the State Control and the Law on Local Self-Government the NAO for the 5th year carries out external reviews of audits conducted by municipal control and audit services. The aim of such reviews is assessing the quality assurance policy and procedures related to general audit work, their effectiveness, disseminating examples of good practice, indicating areas for auditors' training, delivering reliable information on quality of audits conducted.

In 2009 15 services from 60 were selected for review. 12 financial (regularity) and 3 performance audits were reviewed. Effectiveness of audit quality policy and procedures was assessed at the institutional and individual audit level. Representatives appointed by the Association of Municipal Controllers took part in the process of external review.

Report on external review of audits conducted by municipal control and audit services was based on review summary and was delivered to the Association of Local Authorities. Having detected risks, audit shortcomings and mismatching with Public Audit Requirements the NAO recommended:

- Association of Municipal Controllers should legitimize in regulating legal acts the audit quality control if only one person (controller) is employed in municipal control and audit service in order to ensure proper external audit function at municipalities;
- municipal control and audit services implementing provisions of Art 27 (1) of the amendment of the Law on Local Self-Government shall plan and carry out both financial and performance audits;
- to focus on municipal controllers' training especially developing knowledge and skills in planning (financial audit) and strategic and preliminary studies (performance audit).