National Audit Office

2014

Annual Report

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Foreword by the Auditor General

The reconstituted National Audit Office has been working for 25 years now to ensure the lawful and rational use of public funds as well as property in order to create a more transparent and open state that is easier to live and work in. A state in which the taxpayer's money comes back to the taxpayer though more efficient public sector services such as better healthcare, improved social policy as well as a cleaner and safer environment. As we turn the page on the 25th year of our establishment's activity we will be reviewing the work that was completed and planned in 2014 based on the provisions of the Constitution of the Republic of Lithuania as well as the Law on the National Audit Office and in consideration of the observations made by state authorities and the public.

Last year, with the aim of assessing whether ministries, municipal governments and other public establishments had been operating and managing their funds based on the principles of economy, effectiveness and productiveness, we conducted 33 financial (regularity), 20 performance and eight EU financial assistance fund audits. We also carried out auditing procedures in all 60 municipal governments. Reacting to public sector risks, we conducted five investigations. Some risks were assessed as additional issues over the course of the public audits.

Even though in certain cases we have still had to issue qualified or adverse opinions about the activity of specific public sector institutions, or even a disclaimer of opinion, unqualified opinions were predominant last year. This means that in most cases no significant violations of the law were identified in the financial activity reports and accounting systems we investigated. Compared to previous years, there was a noticeable decrease in the number of public procurement violations, however, public establishments have still not fully solved the public procurement puzzle.

The year 2014 also saw improved indicators for the management of public property. There was a decrease in violations of the law related to letting public property, but some issues remain unresolved in connection to the lease of residential premises and public property that is let without public tender. We encounter cases in which municipal governments still struggle to plan and account for funds and property in compliance with the law, reduce debt and create suitable conditions for the smooth implementation of investment projects that are important to the community.

Last year, the recommendations we submitted with the completion of each audit were typically related to increasing productivity. The implementation level of performance audit recommendations issued in 2014 reached 84%. This high level of responsiveness to our recommendations is the result of the institution's consistent monitoring system for the implementation of recommendations and our constant cooperation with the audited entities, the Government and the Seimas Committee on Audit. We intend to continue strengthening this area and looking for ways to encourage the implementation of recommendations that require changes in legislation.

All of the work that was planned for 2014 was completed. Achievement levels measured with our evaluation criteria demonstrate that in encouraging the progress of the public sector in the application of financial management and control systems, the institution has consistently selected suitable measures for achieving the objectives it has set. In 2014, the European Court of Auditors and representatives of the supreme audit institutions of Norway and Finland conducted an independent peer review of the institution and confirmed that the practices of the National Audit Office meet the requirements of the International Standards of Supreme Audit Institutions, that the institution has effective quality control and reporting processes, post-audit monitoring, a good audit documentation system and cooperates appropriately with the audited establishments and the Seimas.

In choosing to go down the path of modern management, we have prepared for the implementation of the ISO 9001:2008 quality management standard, approved the institution's IT strategy for 2015–2020, set up an activity planning and monitoring system based on the principles of project management, and have been actively developing our international ties by sharing experience and best practices with other countries.

Such results would not have been possible without the dedication of the National Audit Office's staff and their sincere desire to do their work to the best of their ability. This is why we make sure to continually develop the abilities of our employees, encouraging team work and improving our training and qualification development system.

I would like to thank the team working at the National Audit Office for their contributions to the improvement of public sector activity.

Auditor General Giedrė Švedienė

Most Significant Achievements of 2014

Implementation of the public audit programme	The NAO conducted 61 audits: 20 performance and 41 financial (regularity) audits, 8 of which were audits of funding from EU structural assistance funds. Auditing procedures were carried out in 515 entities. Public institutions and establishments audited during financial (regularity) audits used up 93.8% of public fund assignations.
Submission of conclusions and audit reports to the Seimas of the Republic of Lithuania	The following conclusions and audit reports of 2013 were submitted to the Seimas of the Republic of Lithuania: ▪ National set of financial statements, including national debt reports, the set of consolidated statements of the State; ▪ Set of consolidated financial statements and budget execution statements of the state and the execution of the State budget; ▪ Set of consolidated statements of the Compulsory Health Insurance Fund; ▪ Set of consolidated statements of the State Social Insurance Fund; ▪ Set of statements of the Ignalina Nuclear Power Plant Decommissioning Fund, Guarantee Fund, Reserve (Stabilisation) Fund and Privatisation Fund.
Assessment of state and municipal budget projects for 2015	We submitted a conclusion to the Seimas of the Republic of Lithuania regarding the law approving the financial indicators for the 2015 state and municipal budgets. To the Government, we proposed the further strengthening of the fiscal discipline system because the established measures are insufficient for ensuring fiscal discipline.
Ensuring efficient response to risks emerging in the public sector	In 2014, we reacted quickly to emerging public sector risks and conducted five investigations. We assessed the management of state-owned real estate, the calculation of wages, the activity of the Lithuanian Cinema Centre and the monitoring and control of activity carried out by tourism service providers. Other risks were assessed as additional issues over the course of the public audits.
Peer review of NAO activity	In 2014, representatives of the supreme audit institutions of Norway and Finland as well as the European Court of Auditors conducted an independent peer review of the NAO and confirmed that the practices of the National Audit Office meet the requirements of the International Standards of Supreme Audit Institutions. The institution has effective

	quality control and reporting processes, post-audit monitoring, a good audit documentation system and actively cooperates with the entities it audits and the Seimas.
Implementation of the ISO 9001:2008 standard	We completed all the preparatory work necessary for the application of the internationally recognised quality management system based on the requirements of the LST EN ISO 9001:2008 standard[1], The NAO evaluated and improved all of the institution's processes in order to ensure that the quality management system set up within the institution could be recognised as meeting the highest quality management standards in the spring of 2015.
Approval of IT strategy	The NAO approved the institution's IT strategy for 2015–2020. The strategy creates a framework for sustainable IT development, services that meet users' needs, management based on best practices and developing highly competent employees.
Informational activity planning and monitoring system set up	In 2014, we set up an informational activity planning and monitoring system[2] within the institution based on the principles of project management. The system is used to manage activity planning, execution and monitoring information as well as the documentation of public audits across the entire institution.
Development of international ties	In 2014, we organised 20 international events during which 400 participants from 122 countries shared their experience. Representatives of the NAO actively participated in 30 international events, giving presentations, presenting audit reports and discussing issues relevant to supreme audit institutions. In 2014, we coordinated the execution of the international National Park Audit and got involved in an international audit targeting the production of biometric documents.

[1] Activity implemented under the project "Implementation of the quality management model in compliance with ISO 9001: 2008 quality standard requirements at the National Audit Office". The project is implemented under measure "Public service quality initiatives" of Priority 4 "Strengthening administrative capacities and increasing the efficiency of public administration" of the Human Resources Development Operational Programme for 2007-2013.

[2] Activities implemented as part of the project "Improving the Management of Activity Implemented by the National Audit Office" over the 2011–2014 period. The project was implemented under the measure "Public service quality initiatives" of Priority 4 "Strengthening administrative capacities and increasing the efficiency of public administration" of the Human Resources Development Operational Programme for 2007-2013.

Scope of Public Audit

61	public audits completed as part of the public audit programme for 2014
8	conclusions and audit reports submitted to the Seimas of the Republic of Lithuania
1	conclusion on the state budget project for 2015 submitted to the Seimas of the Republic of Lithuania
515	entities audited
997	recommendations issued to audited entities during public audits

The constitutional duty of the National Audit Office is to monitor whether public property and public funds are managed and used in compliance with the law. We guide ourselves with this principal in mind as we conduct independent public audits, including both financial (regularity) and performance audits. In conducting these audits not only do we seek to assess the management of public funds and the use of public property, we also wish to encourage a positive and productive impact with these public audits on the state finance management and control system as well as a style of public governance that is oriented towards results and the needs of the public.

Every year, in order to effectively carry out our duties and receive enough information to underpin our audit conclusions, we establish the scope of the public audit in the public audit programme. The public audit programme is approved by the Auditor General, in consideration of the recommendations submitted by the Seimas Committee on Audit. We collaborate with the Seimas Committee on Audit and other committees both in planning the scope of public audits and in communicating public audit results.

In the annual NAO report for 2014, we will be presenting both public audit summaries and the institution's performance indicators, accomplishments and results.

Financial (regularity) audit

33	financial (regularity) audits completed
93.8	percentage of state budget appropriations used by institutions and establishments in which financial (regularity) audits were conducted
3,947	entities underwent financial auditing procedures in preparation for the submission of conclusions and audit reports to the Seimas
814	recommendations issued after the completion of financial (regularity) audits
55	percentage of recommendations implemented before the completion of an audit
3.41	million LTL: recommended for repayment to the state budget
11	audit results referred to other public sector authorities within the limits of their competence

Conclusions and audit reports submitted to the Seimas of the Republic of Lithuania

Implementing the provisions of the Law on the National Audit Office and other laws, we submitted conclusions and audit reports to the Seimas of the Republic of Lithuania on the national set of financial statements, including national debt reports, the set of consolidated statements of the State, the set of consolidated statements of the Compulsory Health Insurance Fund, the set of consolidated statements of the State Social Insurance Fund and the set of statements for public resource funds, the fund estimates of which are approved by the Seimas (set of statements of the Ignalina Nuclear Power Plant Decommissioning Fund, Privatisation Fund, Guarantee Fund, Reserve (Stabilisation). In our conclusions, we issued our independent opinions[3] on the regularity of the financial statement sets and the lawfulness of the management, use and disposal of public funds and property. Information about the opinions issued in each case are presented in Annex 1.

Conclusion on the lawfulness of the national set of consolidated financial statements, state debt reports and loans for 2013

As we conducted financial (regularity) audits of the financial statement sets of lower-level public sector entities, we identified significant data distortions that had an influence on the correctness of the data presented in the national set of financial statements. In order to ensure that national and consolidated financial statement sets are prepared as correctly as possible, we have informed the Ministry of Finance of this, and the Ministry corrected some of the distortions identified with additional consolidation entries.

However, the National set of financial statements still does not accurately reflect the value of state-owned property: financial reports do not register and financial statements do not indicate the value of forest land, a large portion of movable cultural assets are registered with the symbolic value of one litas and not their real value, unoccupied public land has not been registered to the Real Property Register or evaluated according to the requirements of Public Sector Accounting and Financial Reporting Standards.

In 2013, the Government took on new debt obligations without violating established limits, however, some municipal governments or their budgetary establishments disregarded borrowing limitations and municipal borrowing procedures. We determined that by having no clear debt management strategy, municipal governments put themselves at risk of destroying their financial sustainability in the future because once they have approached the maximum borrowing limit and lost their right to borrow, they will no longer be able to implement investment projects, manage existing debt obligations or balance their budgets.

Conclusion regarding the set of consolidated financial and budget execution statements of the state and the implementation of the State budget;

In 2013, the set of budget execution statements of the state was in all significant respects prepared and submitted in compliance with Lithuanian law. The Ministry of Finance took into consideration all of the observations issued by the NAO during the audit and allowed appropriation managers to correct identified inaccuracies or insufficiencies of information in the state budget execution and explanatory statements.

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[3] One of four types of opinions can be issued by the auditors: an unqualified opinion means that the auditor does not have any significant observations on financial and/or other financial statements, and violations of the accounting system or the law that would alter the auditor's opinion; a qualified opinion means that the auditor has identified errors or violations of the law and/or cannot issue an unqualified opinion without submitting certain observations; an adverse opinion means that the auditor has identified significant errors or significant violations of the law; a disclaimer of opinion means that the auditor could not acquire sufficient, reliable or appropriate evidence during the audit or significant limitations were imposed on the work of the auditor.

Revealing exact types of income in the statements is of paramount importance because 69% of budget income was accounted for disregarding its economic classification. In order to ensure that the data presented in the national statements is as accurate as possible, we proposed to the Ministry of Finance an amendment or addition to existing legislation that governs the preparation and presentation of the accountancy of taxes and other payments to budgets.

Currently applicable laws and policy for planning and allocating funds for the implementation of the investment programme only satisfy the needs of individual sectors of the economy and such efforts are mostly based on individual initiatives. There is a need for a more systemic attitude and more coordination between different areas of investment in how investments are used. In order to ensure that public investment projects are implemented at a minimal cost and meet the needs of the public, we proposed to the Ministry of Finance improving the laws that govern public investment planning and correction in a way that would allow them to react to changing needs and to resolve issues related to drawn-out or faltering projects.

In 2013, the state budget was executed in every significant respect in compliance with the laws governing the use of public funds, however, 84.7 million litas were used unlawfully, which amounts to 0.3% of all state budget appropriations. These funds were not used according to their purpose, economically, in compliance with the Law on Public Procurement or the laws governing investment, they did not protect the state from losses and violated financial discipline as well as the laws governing the payment of wages. In addition to this, 45.6 million litas of public costs were paid directly from borrowed funds, i.e., without redistributing them through the state budget, which is why they were not accounted for in the appropriations used in 2013.

Conclusion on the set of consolidated statements of the Compulsory Health Insurance Fund

In 2013, the set of consolidated budget execution statements was prepared and presented in every significant respect in compliance with Lithuanian law, however, the set of consolidated statements of the Compulsory Health Insurance Fund did not indicate a receivable sum of 26.3 million litas in compulsory health insurance payments, which the State Tax Inspectorate indicated as payable compulsory health insurance payments in the VSAKI system.

The National Health Insurance Fund and its subordinate bodies managed, used and disposed of public funds and property lawfully and for the purposes provided by the law in every significant respect; however, we did not have the opportunity to assess the regularity of the use of 2.6 million litas from the budget of the Compulsory Health Insurance Fund allocated for paying for centralised medical emergency dispatch services because we could not acquire sufficient evidence to prove that 794.2 thousand litas from this budget were paid for factually conducted blood tests. The audit opinion was also influenced by violations of the equal rights and non-discrimination principles established in the Law on Public Procurement and violations of the Law on Health Insurance, as well as the unlawful and unjustified use of funds from the Compulsory Health Insurance Fund budget.

Conclusion on the set of consolidated statements of the State Social Insurance Fund

The set of consolidated budget execution statements was prepared and presented in all significant respects in compliance with Lithuanian law; however, the annual budget execution statements incorrectly included income and costs not related to the budget execution results of 2013. Because accounting mistakes made in 2012 were not corrected in 2013, the set of consolidated financial statements indicated incorrect data: the financial status report indicated smaller short-term provisions, greater payable social benefits, lower receivable tax and social payment incomes, etc.

Funds for increasing employment and maintaining related establishments were allocated without conducting an analysis of the need for such funding or any extensive calculation, thus a surplus of 3.7 million litas was allocated to the Employment Fund in violation of the approved budget for 2013. In addition to this, 640.6 thousand litas from the fund were used to cover the administrative costs of the Employment Fund, even though the law does not provide for such use of the funds.

Because provisions for the compensation of health insurance payment administration were not harmonised in various legal acts, Sodra did not receive 15.2 million litas of income for collecting these payments and transferring them to the Compulsory Health Insurance Fund. These discrepancies were well-known, but the appropriate legislative amendments were not initiated on time. The Fund's managing board also did not take advantage of the opportunity to demand free transaction services for its funds from two commercial banks, as allowed by the Law on State Social Insurance, and paid 15.2 million litas for crediting social insurance payments to recipients' bank accounts in 2013. What is more, in 2013, Sodra's territorial divisions paid out a share (208 million litas in total) of the funds allocated for maternity (paternity) leave payments intended for one parent with children from the ages of 1 to 2, to persons who had not gone on maternity (paternity) leave, and calculated the size of these payments by applying inconsistent principles.

Conclusion on the set of budget and financial statements of the Privatisation Fund and the regularity of the management, use and disposal of public funds and property as well as their use for purposes intended by the law

An adverse opinion has been issued for the second year in a row on the set of financial statements of the Privatisation Fund. The reasons behind this remain relatively similar: a portion of the property (intended for selling) that was handed over to be managed by the Public Property Fund was not evaluated according to the Public Sector Accounting and Financial Reporting Standards, there is no data on contingent assets or all of the receivable payment penalties and interest; and there is no way to verify that all the data presented in the statements is based on asset and obligation inventory data. Public property was not managed properly: private enterprises were given the opportunity to benefit from the gratuitous use of public property, the establishment did not supervise or ensure that all of the property entrusted to the management of the Public Property Fund was managed in compliance with the law and that the state received maximum gain from its public property.

Having evaluated the importance of the points covered during the public audit, we proposed to the board of the Public Property Fund to consider and assess the actions and liability of the enterprise's director and responsible employees with regard to the identified violations of the law and the losses incurred by the state.

Because the audit results were produced during a period in which two state enterprises were undergoing restructurisation (based on the Republic of Lithuanian Law on the Manager of Centrally Managed State Assets of 01 October 2014, the rights and duties of Valstybės turto fondas VĮ (Public Property Fund) were handed over to Turto Bankas VĮ (Bank of Property), the owner's rights and duties of which are implemented by the Ministry of Finance), we proposed to the Ministry of Finance to review and coordinate the implementation of recommendations submitted by the NAO, paying special attention to conducting a proper inventory of public property and the collection of damages incurred by the state due to the unlawful use of public property.

Conclusions on sets of statements of other public resource funds, the estimates of which are approved by the Seimas

Having conducted auditing procedures of the Ignalina Nuclear Power Plant Decommissioning Fund, the Guarantee Fund and the Reserve (Stabilisation) Fund, no significant data distortions were identified in the sets of financial statements for 2013. The funds managed, used and disposed of funds and property lawfully and used them for the purposes established by the law. Unqualified opinions were issued on the accuracy of the funds' set of statements and the management, use and disposal of public funds and property.

Financial (regularity) audits of state establishments and institutions, resource and tax funds

Having evaluated the results of the financial (regularity) audits conducted in 2014, we can proudly state that we find fewer significant mistakes in how audited entities prepare their annual sets of financial statements: the majority of entities audited in 2013 prepared their budget execution statements without making any errors, and there was a significant decrease in errors made in the sets of consolidated financial statements compared to the previous year.

However, we still cannot rely upon the data presented in the financial statements provided by the State Tax Inspectorate's Tax Fund. The NAO discovered that the Inspectorate did not implement supervisory actions on time in every case and not all of these actions were effective, thereby creating the conditions for residents to avoid the declaration and execution of their tax duties, and preventing the state from receiving all the tax income it was due. We addressed the Minister of Finance and recommended the initiation of an investigation in order to determine whether the Inspectorate, as the administrator of taxes, was carrying out the supervisory function it was assigned by the Law on Tax Administration and whether taxes were being calculated, declared and paid correctly.

During the audits, in order to ensure the correct and timely preparation of financial statements, we organised meetings with the audited entities and pointed out the errors and discrepancies we had identified. Before the audits were even over, the audited entities corrected a certain share of these mistakes and implemented more than half of our recommendations (55%).

This year we issued more qualified opinions and recommendations (58%) on the management, use and disposal of public funds and property. The nature of violations related to the management of public funds and property has not changed in any essential way: other economic entities are allowed to use and receive the benefits of public property gratuitously, property is handed over to be managed without signing contracts, there is no supervisory mechanism for evaluating whether the property is managed by the other entities according to its intended purpose, residential premises intended for employees are rented to individuals who no longer work for the institutions and for unjustifiably low rent, properties are rented out without a public tender, rental fees are calculated incorrectly; inaccurate, unclear as well as ambiguous procurement documents are drawn up for public procurement procedures, contracts for the purchase of services are signed for indefinite periods of time, procurement values are set incorrectly, and the wrong choice of public procurement method limits the possibility for a larger number of providers to participate in the tender, thus not allowing the competition to bring down the price of products or services.

In 2014, the deputy Auditor General was forced to pass a decision because of the significant violations of the law identified in the Telšiai District Municipality, which the said entity failed to eliminate during the audit or the violations could not be eliminated due to their very nature.

Compared to previous years, the number of decisions has decreased because of auditors' efforts to convince audited entities to take necessary measures to eliminate the errors identified while the audit was still in progress. This saves the resources of the audited entity and the audit institutions, avoiding costs related to the administration of decisions and producing the immediate impact of the public audit.

Over the course of the audit, we use all available measures for resolving identified issues; however, when we encounter potential cases of corruption or violations of public interest, we pass auditing results over to the appropriate law enforcement institutions or other public sector institutions. This course of action is established by the standards that govern public auditing and best auditing practices, because only the appropriate institutions, within the limits of their respective competences, can professionally investigate cases of corruption and public procurement issues as well as protect the public interest from harm.

In 2014, the NAO handed over the results of four audits and one investigation to law enforcement authorities, and the results of six audits to other public sector institutions. Information about all of the audited results handed over is presented in Annex 3.

In order to suitably investigate shortcomings, risks or suspicions that emerge over the course of an audit, we cooperate with the General Prosecutor's Office, the Special Investigation Service, the Public Procurement Service and the Financial Crime Investigation Service as well as other institutions involved in the supervision and monitoring of public administration. Every year we have increasingly more issues to decide upon together:

- In 2014, we renewed our cooperation agreement with the General Prosecutor's Office and assigned employees responsible for the exchange of information. Public auditors consulted with the specialists of the General Prosecutor's Office if auditors had suspicions about potentially counterfeit public procurement documents. Representatives of the General Prosecutor's Office also consulted auditors on the purposefulness of handing over public audit results. Such consultations allow auditors to clearly identify possible cases of violations of the public interest and suitably prepare the documentation necessary for submitting information to third parties.
- In 2014, as part of our continued collaboration with the Financial Crime Investigation Service, representatives of the NAO conducted an investigation of documents and issued a specialist conclusion on the grounds based on which Lietuvos Dujos AB sets the price for supplying natural gas to residential and other users.
- Together with the Special Investigation Service and the Financial Crime Investigation Service, we discussed the execution of pre-trial investigations for potential criminal activity, and known cases of deception and/or fraud. We informed the Special Investigation Service and the Financial Crime Investigation Service about the results of the audits carried out from 2013 to 2014, and based on individual requests submitted by these institutions, provided them with information and documents related to completed public audits.
- In 2014, we hosted three meetings with representatives of the Public Procurement Service to discuss:
  - possible violations of the Law on Public Procurement identified during auditing. During this meeting we established a consistent procedure for submitting information and auditing material to the Service. Based on information we submitted, the Service carried out an investigation and responsible persons were prosecuted;
  - issues emerging from public procurement procedures implemented by the audited entity during the auditing process;
  - how to evaluate and agree upon the same definitions of concepts such as 'unforeseen circumstances' and 'essential and non-essential revisions of contractual terms'.

By communicating and cooperating with other institutions in the public sector, we seek not only to exchange information, but also to solve systemic public sector issues together:

- Before the completion of audits in 2014, we contacted the Ministry of Finances in order to immediately resolve municipal issues such as establishing a clear municipal debt methodology, recognising funds from the state budget as income in municipal budgets, and attributing appropriations related to the independently executed functions of municipal entities to the economic cost classification article of 'Appropriations for other levels of government'.
- We informed the Ministry of Finance about the observations we submitted to the Ministry of Agriculture during the financial (regularity) audit, and in turn, the Ministry of Finance began to solve

the problem of assessing the true value of unoccupied public land by clarifying the accounting standards for unused public land. This decision was relevant to several areas of the public sector.

- Subsequently, when we contacted the Ministry of Agriculture about the accounting of land reclamation machinery, specialists began to draft a bill for a new amended version of the Law on Land Reclamation and the ministry decided to revise the Rules for Accounting Reclaimed Land and Reclamation Structures.
- In 2014, we initiated a meeting between representatives of the NAO and the National Land Service during which we discussed issues related to the formation of land plots necessary for the use of reservoirs as hydrotechnical structures.
- We also initiated a round-table discussion between representatives of the Ministry of Finance, the Ministry of Communications and Transport as well as the NAO, during which we discussed the different reasons for planning and allocating funds from the state budget for the purpose of carrying out the functions required by the law, as well as recognising and accounting for obligations.
- In 2014, we participated in a discussion with representatives of the Presidency, the Ministry of Culture, the Ministry of Finance and the NAO about problems encountered in the partial funding of cultural projects.

The NAO's experience over the past couple of years has demonstrated that close cooperation with other public sector institutions means the faster resolution of systemic problems in the sector.

Timely reaction to external information

As we carry out public audits, we take into account the public sector issues that are most relevant to the public. Even though we plan our activity carefully, there has not been a single year during which we did not encounter emerging public sector risks that needed to be addressed immediately in connection with the unlawful or ineffective management, use or disposal of state property. We believe that the timely and objective responses we were able to produce contributed to the appropriate resolution of the issues at hand. In 2014, we conducted five separate investigations. The public sector risks for which we did not initiate separate investigations were assessed during public audits as additional auditing points.

- Management of public property. At the request of the Seimas Committee on Audit, we conducted an assessment of the handover of the formerly state-owned property at 5 Vytauto St. in Palanga to the Lithuanian Capuchins of the Lourdes vice-province with respect to its regularity, rationality and effectiveness.
- Activity of the Lithuanian Cinema Centre. As the NAO was planning its public audit programme for 2014, the Seimas Committee on Education, Science and Culture suggested that the NAO conduct a public performance audit of the Lithuanian Cinema Centre subordinate to the Ministry of Culture. This issue was not included in the 2014 public audit programme as a separate performance audit, however, the question was investigated during the financial (regularity) audit of the Ministry of Culture.
- Calculation of wage payments. As an additional issue in the implementation of the 2014 public audit programme during the financial (regularity) audit of the General Prosecutor's Office, the NAO conducted an assessment of the fairness and regularity of the wages calculated for and paid out to the employees of the General Prosecutor's Office based on court verdicts issued in 2012 as well as the actions taken by the General Prosecutor's Office when the courts recognised the firing of its employees as unlawful.
- While conducting a financial (regularity) audit of the set of consolidated statements and having assessed the data of the consolidated budget execution statements of Lietuvos Nacionalinis Radijas ir Televizija VšĮ (Lithuanian National Radio and Television), the NAO observed an inappropriate wage

payment procedure in the public sector. We discovered that the wages of the heads of the Lithuanian National Radio and Television were not regulated by law, and thus the NAO contacted the Seimas Committee on Education, Science and Culture in order to resolve the situation.

- Monitoring the activity of tourism service providers. In consideration of a proposal by the Seimas Committee on Audit to assess how and using what measures the State Department of Tourism under the Ministry of Economy implements the monitoring and control of the activity of tourism service providers, the NAO conducted audit procedures in 2014 and presented the Seimas Committee on Audit with the information we acquired in January of 2015.

Audit of EU structural assistance funds

8	audits of EU structural assistance funds completed
4.5	billion litas of funds declared to the European Commission were audited during the audits of EU structural assistance funds in 2013
60	payment applications audited
0.53	% of most likely error in the entire population of costs declared to the European Commission in 2013

The NAO carries out audits of EU structural assistance funds as required by European law. The purpose of these public financial (regularity) audits is to issue an opinion to the European Commission on the correctness, truthfulness and comprehensiveness of the statements of the financial assistance that Lithuania receives. Auditing conclusions and reports are presented to the European Commission.

By resolution of the Seimas[4], the NAO shall:

- be the institution that draws up a winding-up declaration for the closure of assistance from the Cohesion Fund (ISPA) granted for the period 2004–2006;
- be the audit institution that evaluates whether EU structural assistance granted for the period of 2007–2013 for Achieving the Convergence Objective;
- be the institution that audits the Operational Programme for investment of the EU Structural Funds for the period of 2014–2020;
- be the institution that audits the compliance of the institutions of the management and control system of EU structural funding with their designation criteria.

[4] Resolution No. IX-1667 of the Seimas of the Republic of Lithuania of 1 July 2003 on mandating the National Audit Office of the Republic of Lithuania to conduct audits of EU structural assistance granted to the Republic of Lithuania (Žin., 2003, No. 70-3171; 2007, No. 108-4402).

Winding-up audits of the Cohesion Fund (ISPA) for 2004–2006

In performing the functions of the audit institution that prepares winding-up declarations for the closure of assistance from the Cohesion Fund (ISPA) granted for the period of 2004–2006, 7 public audit reports and declarations (public audit conclusions) were presented to the European Commission's Directorate-General for Regional and Urban Policy by the end of 2014. In addition to this, at the request of the European Commission, the previously issued public audit reports were reviewed and repeatedly verified by the European Commission, the Ministry of Finance and other responsible institutions of the management and control system. Five such reports were issued in 2014.

In performing the functions of the audit institution which prepares winding-up declarations upon closure of the assistance from the Cohesion Fund (ISPA) granted for the period 2004–2006, public auditors evaluated the functioning of the management and control system and the veracity of project final expenditure reports and applications for payment of the balance of the Community assistance: whether the information contained therein is true and whether the costs were incurred observing the requirements of the regulations and decisions of the Council of Europe, the European Commission and national law. In the conclusions of the public audit for 2014, auditors issued 72 observations and two recommendations.

Audit of EU structural assistance granted for the period of 2007–2013 for achieving the convergence objective

In 2014, as the audit institution designated to check the EU structural assistance granted for the period of 2007–2013, the National Audit Office carried out a public audit of operational effectiveness of the Management and Control System (MCS) for EU structural assistance composed of 27 institutions and the suitability of 4.5 billion litas in costs declared to the European Commission in 2013, during which:

- assessing the operational effectiveness of the MCS, an evaluation of the developed internal control system and its operation was conducted in all institutions (except for the payment institution) in consideration of the risk analysis results of each individual institution;
- assessing the adequacy of costs declared to the European Commission in 2013, the NAO checked 60 applications for payment selected using a statistical sampling procedure (totalling over 442 million litas of declared costs) related to all of the funding measures administered by executive institutions and managers of overall grants, including 166 public procurements. Financial errors were identified in nine of 60 investigated applications for payment;
- when investigating selected applications for payment, the NAO discovered a sum of costs not eligible for funding that amounted to LTL 374,241.35. Extrapolation revealed that the most probable error over the entire reporting period in the population of declared costs amounted to LTL 23,677,462.03, which was 0.53% of all the costs declared to the European Commission in 2013 (Lithuania declared 4.5 billion litas) and does not exceed the tolerable 2% error level established in EU legislation.

In the public audit report, 16 observations of moderate importance were issued to the MCS institutions. Three observations of minor importance were issued to the audited entities as separate statements. In addition to this, 11 recommendations were issued to MCS institutions on how to improve the management and control system as well as eliminate shortcomings related to declared costs. A further six recommendations were implemented during the audit.

Having regard to the fact that the MCS met the requirements laid down by EU legislation and functioned effectively and that no significant errors were identified in the expenditure declared to the European

Commission (the errors identified did not exceed the tolerable 2% error level established in EU legislation), the public auditors issued an unqualified opinion.

Audit of EU structural funding for 2014–2020

Last year we continued our preparation for carrying out the functions of the audit institution that assesses EU structural assistance for 2014–2020 delegated to the NAO by the Seimas, namely:

- preparing for auditing the compliance of the institutions of the Management and Control System of EU Structural Fund assistance for 2014–2020 to their designation criteria: analysing and determining the main requirements for MCS institutions for the period of 2014–2020 according to which an assessment of MCS compliance will be carried out, starting to prepare audit questionnaires for the compliance of MCS institutions to their designation criteria, participating in work meetings and meetings of respective expert work groups of the European Commission services organised for discussing points relevant to this period, issuing suggestions and observations to EU projects and methodological documents regulating this area;
- preparing for carrying out the functions of the Audit Authority for the Operational Programme for investment of the EU Structural Funds for the period of 2014–2020: starting to prepare an audit strategy for the Operational Programme for investment of the EU Structural Funds for the period of 2014–2020 which will anticipate the main deadlines and methodological solutions for the audit, starting to conduct a risk analysis of MCS institutions and the processes occurring within them, determining auditing priorities for the coming years and training as well as qualification development plans, participating together with the Ministry of Finance in developing a document outlining Cooperation between the Audit Authority and the Audited Entity.

Performance audit

20	performance audits completed as part of the public audit programme for 2014
25	performance audits initiated in 2014 to be completed in 2015
13	public sector areas in which performance-related issues were evaluated during auditing
76	public sector entities in which auditing procedures were conducted
146	recommendations issued to audited entities
84	percentage of performance audit recommendations implemented where audit completion is set for 2014

We use public performance audits to assess whether the audited entity operates according to the principles of economy, efficiency and productivity, and seek to reveal how public establishments and organisations organise and execute their activity and implement the tasks they are assigned.

During a performance audit, we evaluate the performance of one or several institutions or the specific activity areas or implemented programmes of a single institution. In doing so, we issue recommendations to the audited entity on how to improve their performance.

As we plan a performance audit, we seek to cover as many areas of the public sector as possible, however, the majority of our audits target a selected priority area. The public audit programme for 2014 focuses mostly on two areas of the public sector and the problems that are most pronounced in these areas (Table 1):

- accessibility and effectiveness of public sector services for the public;
- improving public sector management.

1 lentelė. Public performance audits in priority activity areas of the public sector	
Accessibility and effectiveness of public sector services provided to the public	▪ Organising child care ▪ Organising healthcare in oncology ▪ Organising adoption ▪ Ensuring food safety ▪ Implementation of single-window electronic services
Improving public sector management	▪ Maintenance of building heating and hot water systems ▪ Organising healthcare of statutory officers ▪ Introducing the concept of the probation system in Lithuania ▪ Study loan system ▪ Organising children's non-formal education ▪ Management and control of the enterprise bankruptcy process ▪ Organising protection of the public interest ▪ Management of financial risks in state-owned enterprises ▪ State control of land use
A comprehensive list of performance audits conducted in 2014 is presented in Annex 2 of the report.	

A total of 146 recommendations were issued to audited entities as part of audits completed in 2014. The majority of the recommendations (68%) were related to increasing performance effectiveness. By the end of 2014, 16% of these recommendations were already implemented. The deadlines for the remaining recommendations have not yet expired.

The overall level of performance recommendations implemented is 84%. This level of responsiveness to our recommendations is the result of the institution's consistent monitoring system for the implementation of recommendations and our constant cooperation with the audited entities. Recommendations are one of the most important measures for increasing the impact of the public audit, which is why we continue to strengthen this area and look for ways to encourage the implementation of recommendations that require legislative amendments.

We present the investigated subject matter and impact of the performance audits completed in separate areas of the public sector in 2014 once the audited entities implemented the recommendations that were issued the previous year.

Environmental protection

In 2014, as we carried out an international audit together with seven other countries (Bulgaria, Denmark, Croatia, Poland, Norway, Ukraine and Estonia), we assessed whether national parks were performing effectively in ensuring the preservation of biodiversity. The results of our audit revealed that Lithuania has still not revised the Biodiversity Strategy it passed in 1998, which understandably no longer meets the demands of the present day. Some of the risks and measures identified by the strategy are no longer relevant and new ones have not been taken into account.

Impact of the public audit

In implementing the recommendations issued as part of the public audit on the Untapped Potential of Reducing Areas Affected by Quarrying, the Ministry of Environment approved a Plan for the Management of Public Land Affected by Quarrying for 2014–2020 in 2014. The plan establishes the need for collecting and systematizing data on affected areas, identifying the circumstances under which each area was affected, identifying the perpetrator if illegal human activity is detected, determining priorities for managing damaged areas, and developing as well as implementing projects for managing priority areas. The plan also supports the development of an inventory of land areas affected by quarrying.

In implementing the recommendations issued as part of the public audit on the Performance of Regional Waste Management Systems, the Government and Ministry of Environment created the conditions necessary for the sustainable performance of waste management systems and the reduction of the amount of waste dumped in landfills because the adoption of the Law of the Republic of Lithuania on Taxes for the Pollution of the Environment and the Law of the Republic of Lithuania on Packaging and Packaging Waste will mean a new tax in 2016 for polluting the environment by disposing waste in landfills and a new deposit for disposable drinks packaging. The National Waste Management Plan for 2014–2020 passed by the Government on 16 June 2014 will impose a mandatory deposit for disposable drinks packaging, provide for the construction of mechanical-biological processing facilities, set food waste collection duties and other measures to encourage recycling. In 2014, the Ministry of Environment allocated over 9 million litas for the Product and Packaging Waste Management Programme for the purpose of implementing these measures.

Healthcare

The audit on Organising Healthcare in Oncology (for the period of 2010–2012) was completed in March of 2014. The audit revealed that the public sector has failed to create the conditions for equal access to quality diagnostic and treatment services in relation to cancer. There is no clearly regulated sequence for the provision of diagnostic, treatment and other important services to patients in place, and it is not clear who is responsible for providing healthcare to cancer patients, or when and on what scale the services are to be provided. There is also no mechanism in place for adequately assessing and predicting the situation of cancerous disease in the future. Some of the recommendations issued by the NAO for ensuring access to quality cancer diagnostic and treatment services, adequately evaluating the future of oncological disease in the country and monitoring the situation were implemented by the Ministry of Health during the audit itself.

The performance audit on Ensuring Food Safety revealed that food safety is ensured increasingly more effectively: there are twice as few outbreaks of disease due to the activity of food business operators and cases of illness. However, unsafe and poor-quality food products still manage to reach users. The level of violations identified in catering establishments remains high for the third year in a row, reaching over 40%. The results of the audit also revealed that users are not always suitably informed about unsafe food products that enter the market. Recommendations were issued to the State Food and Veterinary Service for effectively ensuring food safety in Lithuania.

Social security and labour

An assessment of whether the care of children in Lithuania is organised effectively has revealed that the current child care system does not always ensure the protection of a child's interests and needs. Because of the poorly planned and unimplemented measures, a large part of the results that were to be implemented by reforming the system of institutional care were not achieved, and the deadline for executing the reforms was postponed for almost 18 years (for 2030). For many years, the number of children living in permanent children's homes has not changed in any essential way (around 4.1 thousand or 39%), the network of children's care institutions has not been optimised, they remain too large to ensure adequate conditions for children.

The current system does not encourage foster care within foster families: it does not motivate foster parents and there are not enough social services for families fostering children. Therefore, every year, there are seven times more children in need of foster care than there are families prepared to take on the duties of foster care. Institutions that shape family policy and are responsible for organising adoption were presented with recommendations for encouraging foster care, selecting suitable foster parents and implementing measures to ensure that the most important interests and needs of children in foster care are met.

In 2014, we also assessed whether adoption is adequately organised. The auditors discovered that not all potentially adoptable children were offered for adoption because employees sometimes failed to evaluate the adoptability of a child, detailed criteria for selecting a family for the child are not regulated and neither is the adoption procedure itself or the functions of the participating parties, after adoption there is a lack of qualified specialist services for families and no strategy is in place for encouraging the adoption of children. The auditors issued recommendations for improving the adoption process to the Ministry of Social Security and Labour as well as the State Child Rights Protection and Adoption Service.

Impact of public audits

In order to implement the recommendations issued as part of the performance audit on the Determination of Disability and of the Capacity for Work Level (completed in 2012), several legal acts were revised to create suitable conditions for the objective determination of capacity for work: the procedure for determining the level of capacity for work and the Description of Criteria for Determining the Level of Capacity for Work were both revised. Newly regulated functional and professional criteria will allow authorities to evaluate an individual's independence, their potential for integrating into society and the labour market. Vocational rehabilitation is organised more effectively: individuals with a capacity for work level of 0–45% will be able to participate in the vocational rehabilitation programme and others will be involved in the formal vocational education and training programmes.

With the implementation of the recommendations issued as part of the performance audit on the Protection of Child Rights (completed in 2012), more rigorous supervision is now ensured for biomedical studies that involve the participation of children. The initiated revisions of legal acts have created suitable conditions for improving the work of municipal authorities with families and children at social risk: methodological recommendations to be used in municipal child rights protection departments were developed for assessing the need for social services and social work with family planning, a maximum number of at-risk families with which a single social worker can work was set, criteria for evaluating a child's needs were established, etc. This will allow authorities to ensure the better protection of children's interests and rights in municipalities.

The majority of recommendations were related to the adoption of a new and revised version of the Law on Fundamentals of Protection of the Rights of the Child – the bill for the amendment of the law and the executive legal acts have been registered by the Seimas. In implementing the recommendations of the NAO, the Ministry of Justice developed a project for amendments to the Code of Criminal Procedure that will ensure better conditions for the protection of child rights in the criminal process (during questioning, etc.).

Education and science

In 2014, the NAO assessed whether the state-supported loan system was increasing access to higher education and creating the conditions for saving public funds. From 2009, as the terms for student loans were changed, students were presented with increasingly greater possibilities for taking out loans, however, the impact of this on access to higher education has not been assessed. The results of the public audit demonstrated that providing loans from the funds of credit institutions is currently the most effective alternative, however, loan repayment tendencies should be projected for the long-term. The NAO issued recommendations to the Ministry of Education and Science in order to help manage comprehensive information about the impact of student loans on access to higher education as well as adequately assess the risk of an increase in the cost of providing loans.

An assessment of whether the vocational guidance system was organised purposefully and implemented adequately revealed that not all students are given equal conditions for receiving vocational information, consulting and career development services, and that the continuity and quality of vocational guidance is not adequately ensured. There is no national-level definition of a specialist who provides vocational guidance (career) services to students, and there are no clearly defined qualification requirements, competencies, functions and professional areas of activity; no system has been created for developing the qualification of such specialists and thus suitable conditions have not been created for their continual development and equal opportunities for all students to receive services of equal quality. In addition to this, assessments of vocational guidance activities are not conducted, and neither are assessments of whether they meet users' expectations and needs, therefore, there is no sufficient basis for shaping policy in this area and there is a lack of information for improving the quality of vocational guidance. The National Audit Office issued recommendations to the Ministry of Education and Science with a view to creating suitable conditions for all students to receive quality career development and vocational information and consulting services.

Impact of public audits

With the completion of the public audit on Organising the Preparation and Evaluation of Study Programmes in 2012, we recommended that in organising the work of specialists evaluating study programmes, institutions should ensure the active involvement of social partners (employers) in their expert groups. When this recommendation was implemented in 2014, employer representatives were involved in all evaluation groups and received training. The purpose of this was to take into account employers' opinions on the quality of studies and to ensure that study programmes meet labour market demands.

With the implementation of the recommendations issued as part of the audit on the Development of Informal Adult Education and in view of ensuring the more effective coordination of informal adult education activity, provisions were adopted for the Informal Adult Education Council of Lithuania, an Informal Adult Education Council of Lithuania was set up and an Action Plan for the Development of Informal Adult Education for 2014–2016 was approved, which, in consideration of demand, establishes three priority objectives and the funds to implement them as well as the participating institutions. The action plan proposes the application of three models of funding for adults, models that residents living in smaller towns and rural areas will also be able to use.

Culture

During the audit on Ensuring the Preservation of the Immovable Heritage of Manors evaluating the period of 2005–2013, auditors observed that there were certain problems related to accounting, funding and assistance for managers of manors. It was often unclear which objects the state was protecting and why. In addition to this, not all the necessary documents for the preservation of heritage had been drafted, sometimes even without adhering to heritage preservation requirements. About 80% of the immovable heritage of manors registered to the Register of Cultural Property is in poor condition and deteriorating.

2006

2013

The recommendations issued as part of the audit stipulated the necessity to ensure the adequate accounting, protection, maintenance and use of the immovable cultural heritage, avoiding the potential loss of the most valuable objects.

Impact of public audits

With the implementation of the recommendations issued as part of the public audit on the Renovation and Modernisation of Libraries (completed in 2010), a Cultural Heritage Actualisation Programme was approved for 2014–2020 that proposed goals, objectives, priorities and general as well as special requirements for state investment in cultural heritage and cultural infrastructure (including libraries). The implementation of the programme will involve an evaluation of infrastructure plans presented by libraries, investment effectiveness and innovation development in relation to performance and services based on established requirements and criteria as well as the purposeful allocation of funds for renewing infrastructure.

Management of information resources

Last year, performance auditors assessed whether the implementation of single-window public and administrative electronic services was being managed effectively. The e-services created by national and municipal institutions and establishments are still not provided through a single window because the conditions necessary for the effective cooperation of institutions developing and providing them have simply not been created. Apart from this, the provision of e-services is not always the more effective alternative compared to traditional services, and the e-services provided do not always meet the needs of the users. Responsible institutions do not always coordinate interrelated operations, and thus e-government policy is not shaped in a consistent manner. The NAO issued recommendations to the Government, the Ministry of the Interior and the Committee of Information Society Development under the Ministry of Communication and Transport for creating the conditions necessary for the effective provision of electronic services using the single-window principle.

An evaluation of how the Ministry of Justice managed information resources over the period of 2010–2013 revealed that it had not developed an IT management system that covered the entire area managed by the Minister of Justice. The supervisory measures applied by the ministry for ensuring the confidentiality, integrity and accessibility of electronic information (data), as stipulated by the law, were evaluated as insufficient. However, examples of best practices were identified in certain establishments under the purview of the Minister of Justice. The NAO issued recommendations to the Ministry of Justice for improving the management of the ministry's information resources and also recommended that the best practices applied in establishments operating in the area managed by the minister be applied within its other establishments.

Energy

With the audit on the Maintenance of Building Heating and Hot Water Systems, the NAO sought to determine whether the procedure for organising the maintenance of building heating and hot water systems, adopted on 1 November 2011, created suitable conditions for users to receive adequate maintenance and use services for the heating and hot water systems in their buildings. The results of the audit demonstrated that about 20% of building heating and hot water systems had not been adapted to the new procedure and did not ensure the effective use of heating, whereas centralised heat supply networks were still not operating at optimum capacity. The provisions of the Law on Heating and Hot Water on the dependency of heating and hot water systems had not been implemented, and the system for their use and renewal was ineffective.

Impact of public audits

The NAO issued recommendations to the Government of the Republic of Lithuania and the ministries of Energy and Environment on how to increase the effectiveness of heat consumption in apartment buildings, to improve the maintenance of heating and hot water systems as well as to ensure adequate supervision for this process. By order of the Minister of Energy, a work group was formed for the purposes of improving the regulation of the heating and hot water supply system and considering the recommendations issued to the Government in the audit report.

In December of 2014, the Government of the Republic of Lithuania implemented the recommendations issued as part of the 2011 public audit on the Implementation of the National Programme for Increasing Energy Efficiency for 2006–2010 by approving a Programme for Increasing the Energy Efficiency of Public Buildings. This programme proposes to save 60 GWh of primary energy and prevent 14 thousand tonnes of greenhouse gases from entering the atmosphere by renewing public buildings up to 2020.

Justice

The audit on whether the protection of the public interest is adequately organised in Lithuania revealed that public institutions find it difficult to determine what violations of the law should be considered violations of the public interest because legislation does not sufficiently define the content of public interest within the context of the activity of public institutions. Thus, human resources are not always effectively used to protect the public interest, and violations of the public interest often go unnoticed or are identified incorrectly. Auditors took note of the fact that prosecutors applied measures for defending the public interest increasingly less frequently, and the General Prosecutor's Office had no data on whether the violations of public interest were eliminated with the measures applied by the prosecutors. The NAO issued recommendations to the Government, the General Prosecutor's Office and other public institutions for ensuring the more effective organisation of protection for the public interest.

Interior affairs

The audit on organising the healthcare of statutory officers revealed that the Ministry of the Interior had not ensured the economical use of public funds for the healthcare of statutory officers or equal access to services provided for all statutory officers across the entire country. Insufficient regulation does not distinguish the healthcare services that are to be provided to officers and the cases in which these services are to be financed from the state budget. Only when healthcare services for officers and cases for their provision have been clearly identified will both healthcare establishments and statutory officers be clear on which services are to be paid for from the state budget or the CHIF and which services are to be paid out-of-pocket. Auditors noted that the changes made to the provisions of the Internal Service Statute on the healthcare of statutory officers in 2006 did not lead to any essential changes in the organisation of healthcare services, therefore the Ministry of the Interior continued to organise healthcare services for statutory officers as well as personal healthcare services by using public property for this purpose. The NAO issued recommendations to the Government, the Ministry of the Interior and the Ministry of Healthcare on how to use the funds of the state budget in a more economical way and organise the healthcare of statutory officers more effectively.

Impact of public audits

In implementing the recommendations of the 2012 audit on Organising the Activity of the Emergency Response Centre, a bill amending article 68 of the Law of the Republic of Lithuania on Electronic Communications was adopted in 2014 based on which the providers of public communications networks and public electronic communications services were obligated to gratuitously provide location identification data (including flow data) without the consent of the subscriber or the factual user of the electronic communications services. In addition to this, based on the approved Action Plan for the Development of Service Infrastructure for the 112 Emergency Response Number, the function of emergency medical services should be integrated in the general Emergency Response Centre, i.e., responses to emergency numbers 03, 033 and 103 across the entire country.

In the 2012 audit report on Organising the Education and Training of Statutory Officers, recommendations were issued on adopting an amendment to the Law of the Republic of Lithuania on Vocational Education and Training and to the statute of the Ministry of Justice, which essentially changed the entire procedure for organising the training and education of officers working in the Prison Department. A reorganisation of the infrastructure of the Lithuanian Police School was implemented: the Lithuanian Police School base in Trakai was transferred to the Mastaičiai community in the District of Kaunas, where the primary vocational training of police officers began to be implemented in September of 2014.

Management of public property and funds

An evaluation of whether the measures for checking insurance policyholders implemented by Indėlių ir investicijų draudimas VĮ (the state enterprise Deposit and Investment Insurance) was ensuring the adequate and comprehensive information of deposit holders and investors revealed that current legislation does not govern the ways, form and measures to be used by the insured for informing depositors and investors about the insurance of deposits and liabilities to investors The company's internal documents also do not regulate which informational measures should be checked and how they should be evaluated. In order to ensure the clear and comprehensive information of deposit holders and investors, the NAO issued a recommendation to the Ministry of Finance on the requirements that need to be set for policyholders, indicating the methods, form and measures in which deposit holders and investors should be informed. One of the ways of providing information currently under discussion in the European Union, namely, the provision of information with an acknowledgement of receipt, could also be applied in Lithuania.

The results of the audit on the Management of Financial Risk in State-Owned Enterprises and Public Establishments demonstrated that the Guidelines for Managing Financial Risk published by the Ministry of Finance in 2012 encouraged enterprises to regulate the management of financial risk; however, financial risk is still not sufficiently managed in state-owned enterprises – too little attention is paid to forming and implementing financial risk management policy. In order to achieve better management of financial risk in state-owned enterprises, the NAO has issued recommendations to the Government, the ministries of the Republic of Lithuania and the Public Procurement Service. We hope that the implementation of the recommendations we have issued will lead to the less financially risky management of financial resources of enterprises operating in areas managed by the ministers, because enterprises will evaluate financial risk and plan for measures to prevent it.

The 2014 audit on the Maintenance of Public Land Reclamation Facilities allowed us to assess whether the Ministry of Agriculture was suitably shaping and implementing state policy in the area of land reclamation and whether municipalities were taking adequate care of public land reclamation facilities. Drainage ditches are a core part of the land reclamation system and the effective operation of the entire system depends on them. In all of the municipalities audited in 2011–2013, grass was being cut in only 5% of the main drainage ditches managed by municipal authorities.

Poorly maintained drainage ditch

Well-maintained drainage ditch

The results of the audit revealed that the Ministry of Agriculture has failed to carry out all the functions it had been assigned in the field of land reclamation in a proper manner, and so the condition and changes in the condition of all reclaimed land and reclamation facilities is not known, which prevents the effective planning of land reclamation works. The Reclamation Facilities Privatisation Plan for 2015 provided for in the Long-Term Development Strategy of the State will not be implemented, because the Ministry of Agriculture has not prepared the necessary draft legislation. As a result, the state will continue, for an indefinite period of time, shouldering the additional burden of maintaining reclamation assets, the benefits of which are derived by the owners of the reclaimed land. The National Audit Office issued recommendations to the Ministry of Agriculture to help shape a more effective state policy in the field of land reclamation, implement the restructuring of assets, and reduce the burden of the maintenance of land reclamation facilities borne by the state. In the implementation of the recommendations issued by the NAO, a land reclamation programme for 2015–2017 has already been approved. The programme proposes indicators for evaluating the extent to which objectives are reached as well as the effectiveness and economy of the use of allocated funds.

The public audit on the State Control of Land Use showed that the state control of land use in Lithuania does not always ensure the rational use of land and the efficient implementation of the legislation on land use. Unfortunately, the establishment of priorities of the state control of land use does not always take into account the long-standing land use issues that concern the public. Despite the fact that a number of land use problems, such as free access to water or land use in the Baltic coastal area, have been persisting for many years, they have still not been properly addressed. In view of the fact that problems related to access to bodies of water are still relevant in Lithuania, the Ministry of Agriculture should consider checks of access to bodies of water as one of their priorities.


Blocked access to Pailgis Lake in Pailgės village, District of Švenčioniai.

National economy and market regulation

In 2014, the National Audit Office conducted an audit to assess the efficiency of the management and control of the corporate bankruptcy process. The results of the audit revealed that bankruptcy processes are initiated too late, thus, even if the bankruptcy process is organised in the most effective way possible, the majority of creditors would not have the possibility to regain their funds. The auditors also took note of illegal actions aimed at intentional insolvency because pre-trial investigations are terminated in view of insufficient evidence or the limitation period, company property not being sold off at market price, etc. In consideration of the audit results, the NAO issued recommendations to the Government and to the Enterprise Bankruptcy Management Department under the Ministry of Economy to help shape and implement a more effective insolvency policy.

Impact of public audits

The adoption of the amendments to the Law on Public Procurement on 1 January 2014, saw the implementation of the recommendations issued as part of the public audit on the Execution of Simplified Public Procurement Procedures – the limits of low-value product and service procurements were increased from 100 thousand to 200 thousand litas, and a requirement was established demanding that the procuring organisation announce the initiated procurement on their website, as well as the winning contender, the intended procurement agreement and the implemented procurement agreement. This reduces the administrative burden on the procuring organisation and simultaneously ensures transparency.

In order to ensure that providers' offers are not rejected based on their failure to meet formal requirements, the procedure provides for the possibility to modify the documents submitted along with the procurement offer.

In order to reduce the length of public procurement procedures and reduce administrative burdens, certain Public Procurement Service procedures of approval have been dropped and shorter deadlines have been established for the service to approve offers.

In 2013, as part of the Public Procurement Office's effort to establish a call centre, hardware, software and digital telephones were installed for the use of service consultants, and functions of the STS call centre were configured for recording calls, transferring calls and call accounting. In 2014, the software and hardware of the call station was developed further.

In 2014, in response to the recommendations issued as part of the public audit on the Development of Free Economic Zones and Industrial Parks, authorities passed a bill amending articles 2, 12 and 13 of Law No. VIII-1312 on Investment and Law No. XII-1416 amending the law to include Article 91, which will enter into force on 1 November 2015, thus marking the implementation of the recommendation to set regulatory principles for the activity and management of industrial parks.

Other (establishments accountable to the Seimas or Government and other institutions)

Impact of public audits

The recommendations issued as part of the audit on Organising and Executing Elections (completed in 2013) were implemented by drafting legal acts that would allow the reduction of queues for voters: reducing the size of electoral districts, and thus increasing the speed at which election data is collected, as well as linking the number of committee members in electoral districts to the number of voters, and thus distributing human resources evenly to produce a smoother process for electoral districts. Setting a lower maximum deviation of the number of voters in single-member constituencies from the average number of voters in the constituency to 10%, will ensure the same value of votes. The computerisation of electoral districts and the use of informational systems during the election process will ensure the faster collection of data, and the new training procedure for observers and members of election committees will equalize the process of preparing for elections and improve the level of knowledge necessary for the adequate fulfilment of a committee member's duties. Linking the number of ballot cards and the time needed to fill them in with the number of polling booths will reduce queues during the election process, and setting minimal requirements for polling booths will allow authorities to ensure the principle of the secret vote in all electoral districts.

Communication and Cooperation

46	Seimas committee or commission meetings during which public audit results were presented and discussed
57	agreements signed with municipal audit and control services
14	students completed internships at the National Audit Office
20	international events organised in Lithuania
30	presentations given at international events
11	publications prepared and published in international publications
2	international audits conducted, one of which was conducted in the capacity of the coordinating authority

The Seimas of the Republic of Lithuania

The public audit carried out by the National Audit Office is a component of the parliamentary control system. By communicating and cooperating with Seimas committees and presenting audit results, we seek to increase the impact of the public audit and strengthen the supervision of how the recommendations issued as part of the audit are implemented.

In 2014, representatives of the National Audit Office participated in 78 meetings of the Seimas Committee on Audit and of other committees and commissions. In 46 of these, public audit results and the control and monitoring of the implementation of recommendations were discussed. In cooperation with the Seimas committees, the NAO shared necessary material and information, identified which aspects of a certain issue are most important to the committee and was responsive to presenting information in the most acceptable form.

Just as we have done every year, in drawing up the performance audit part of the annual public audit programme, we communicated with the Seimas committees in order to discuss important problems in the public sector the resolution of which would contribute to the more effective and productive management of public property and funds. In 2014, the committees of the Seimas issues 23 suggestions. We took some of these suggestions into account as we drew up the public audit programme for 2015, and others were included as part of the strategic investigations of various public audits.

Members of the Seimas Committee on Audit participated in a meeting that took place at the Kaunas Division of the National Audit Office in 2014 along with representatives from the National Audit Office, the Kaunas City and District municipalities, the Association of Local Authorities in Lithuania and the Municipal Association of Ombudsmen, where they discussed the public audit report on the Results of the Financial (Regularity) Audit in Municipalities. The Seimas Committee on Audit was also introduced to the cooperative efforts of the National Audit Office and foreign supreme audit institutions conducting municipal audits.

Meeting with the Seimas Committee on Audit at the Kaunas Division of the National Audit Office

Municipal control and audit services

As the supreme audit institution that submits a Conclusion on the Set of National Financial Statements to the Seimas of the Republic of Lithuania, the National Audit Office must make sure that the audits of the set of consolidated municipal statements are carried out properly and to a high standard. Municipal ombudsmen issue a conclusion to the municipal councils on the set of consolidated municipal statements and the use of municipal funds and property submitted for verification. In the preparation of this conclusion, authorities must ensure that all of the errors and violations identified within the municipality during the financial (regularity) audit are assessed. This is why municipal ombudsmen must use both the work carried out by the auditors of the National Audit Office and, just like the NAO itself, the results of the audits conducted by municipal auditors.

If we wish to use work completed by other auditors, we must make sure of the quality of their work, so in compliance with the provisions of the Law on the National Audit Office, we conducted the annual external review of 15 audits carried out by municipal control and auditing services. During the review, we assessed the work carried out by municipal control and auditing services and issued recommendations on how to improve the quality of their audits.

Five years ago, we realised that external reviews of the work carried out by municipal ombudsmen were not enough to improve the quality of the municipal audits, so we began to look for ways to make this process acceptable to both sides, sharing our work in a cooperative spirit in a way that would avoid the overlap of work and produce the desired quality. This marked the beginning of our partnership initiative – for five years in a row now the NAO has signed mutually beneficial cooperation agreements with the municipal control and auditing services.

The National Audit Office and 57 of Lithuania's municipal control and auditing services signed agreements ensuring their cooperation during the financial (regularity) audits of municipal governments, which were completed in 2014. The institutions became committed to sharing their professional auditing experience and best practices as well as coordinating audit strategies and developing collaborative ties in relation to the issue of external audits.

The points which the National Audit Office and the municipal control and auditing services of Lithuania collaborate on and prospects for further cooperation were discussed at an event during which representatives of the National Audit Office met with board members of the Municipal Association of Ombudsmen. Those taking part in the meeting shared their professional auditing experience and best practices as well as discussing how to further develop collaborative efforts with regard to external audits and coordinate auditing strategies. Participants discussed audit programmes as well as evaluated and discussed the results of auditing procedures. Both representatives of the National Audit Office and the Municipal Association of Ombudsmen emphasised that their cooperation was intensive and mutually beneficial. Employees of the municipal control and auditing services pointed out positive aspects of the partnership such as the opportunity to develop and to consult with their peers at the National Audit Office, thus ensuring the greater reliability of the audits they conduct.

Auditors conducting audits in the public sector

The National Audit Office, together with the Ministry of Finance, the Lithuanian Chamber of Auditors, the Association of Internal Auditors and the Municipal Association of Ombudsmen, has been implementing the cooperation programme for 2011–2015 with the aim of helping improve public sector management and the quality of external and internal audits. Every year, the cooperating parties organise joint events during which they discuss new developments in auditing methodology, present annual audit results and share the experience they have accumulated.

In 2014, the NAO and representatives of the Ministry of Finance established a set of Guidelines for the Development, Operation, Improvement and Assessment of Internal Control in Public Sector Entities. The document was prepared based on an analysis of the methodologies used in various segments of the auditing process for evaluating internal auditing within the public sector and general aspects of assessment. This document will help auditors evaluate internal auditing processes and allow responsible employees working in public sector entities to adequately develop and maintain an internal control mechanism.

In the fall of 2014, the guidelines were presented to representative of the country's ministries, municipalities and other entities during the 'Development, improvement, and assessment of internal control in public sector entities' seminar hosted by the National Audit Office. During the event, representatives participated in a discussion on the main principles of developing, operating, improving and assessing internal control, addressed pertinent problems and possible solutions, and discussed how to evaluate the internal control system by cooperating and using a common methodology.

Seminar on the 'Development, improvement, and assessment of internal control in public sector entities'

The academic community

Last year, the National Audit Office continued implementing its cooperative agreements with Vilnius University and the Mykolas Romeris University. Joint activities that involve these academic institutions contribute to the strengthening of public auditors' abilities and the better image of the National Audit Office within the academic community.

In implementing the plan for cooperating with universities for 2014–2015, representatives of the NAO participated in the committee assessing the final papers of graduate students in the Vilnius University Faculty of Economy, gave lectures on public performance and financial audits as well as EU audits and presented the activity of the NAO to undergraduate and graduate students. The NAO also collaborated with the E-Learning and Examination Centre at Vilnius University for the possibility to use their distance learning system.

Just like in previous years, university students were invited to complete their internships at our institution. In 2014, a total of 14 students showed their interest in auditing work and decided to acquire professional experience at the NAO.

International relations

Participation in international organisations

The National Audit Office of Lithuania is a member of two organisations uniting supreme audit institutions: the International Organisation of Supreme Audit Institutions (INTOSAI) and its regional working group, European Organisation of Supreme Audit Institutions (EUROSAI). As an active participant in the activity of these organisations, the National Audit Office increases confidence in the institution as a reliable partner that actively contributes to the accumulation of experience and the spread of new ideas in the field of auditing.

In May of 2014, we organised a meeting of the Internal Control Standards Subcommittee of the Professional Standards Committee of the International Organisation of Supreme Audit Institutions (INTOSAI) attended by 26 representatives from 12 supreme audit institutions, members of the internal Control Standards Subcommittee and representatives of the subcommittee's partners. The meeting was used to present the results of the subcommittee's activity, discuss issues related to implementing and improving internal control systems in the public sector and the results of collaborations between supreme audit institutions and their partners, i.e., institutions responsible for the implementation of internal control in the public sector. Discussions were also held about the subcommittee's new action plan for 2014–2016. One of the main priorities is to revise the INTOSAI standards of good management linked to the accountability of public sector institutions with regard to internal control and risk management.

Participants of the meeting of the INTOSAI Internal Control Standards Subcommittee of the Professional Standards Committee

In October of 2014, the National Audit Office of Lithuania organised a seminar and the 12th annual meeting for the Work Group on Environmental Auditing of the EUROSAI attended by 53 representatives from 26 member states of the EUROSAI organisation. The main topics discussed during the meeting were biodiversity and the application of surveys in environmental audits. During the meeting, members of the work group shared their knowledge, best practices and the results of their work. The National Audit Office was approved as a member of the Management Committee of the EUROSAI Work Group on Environmental Auditing. A one-day training seminar on the topic of infrastructure auditing was hosted based on the guidelines prepared by the INTOSAI Work Group on Environmental Auditing for Environmental Issues Associated with Infrastructure Development.

Members of 12th annual meeting and seminar of the EUROSAI Work Group on Environmental Auditing

In October, we organised the EUROSAI seminar on "Compliance Audit: Use of the Compliance Audit Guidelines (ISSAI 400 and 4000-4999) and Best Practice". The seminar was attended by 65 representatives from 22 EUROSAI member states, who shared their professional knowledge and experience of the application of standards by international supreme audit institutions. During the seminar, combining general plenary and topical work sessions, participants were introduced to the results of the INTOSAI Compliance Audit Standards Subcommittee and its standard improvement plans, the newly developed ISSAI compliance assessment tool (iCAT) and the manual for the implementation of Compliance Audit standards in supreme audit institutions. The material and conclusions presented during the seminar were made available to members in the online CA News ("Compliance audit news") and published on the seminar's website in English.

Participants of the EUROSAI seminar on "Compliance Audit: Use of the Compliance Audit Guidelines (ISSAI 400 and 4000-4999) and Best Practice".

During the 9th EUROSAI congress in the Hague (the Netherlands), dedicated to the topic of innovation for improving the audits conducted by supreme audit institutions, the National Audit Office was charged with leading one of the seminars. Along with representatives from 14 European supreme audit institutions, the NAOL team explored various more effective alternatives for cooperating with parliaments, law enforcement authorities, the academic community and other public sector institutions. Of the 35 seminars that took place during the congress, the seminar led by the National Audit Team was recognised as the most innovative.

Participants of the Lithuanian-led seminar at the 9th EUROSAI congress

Visit of the delegation from the European Court of Auditors

In order to discuss cooperation between supreme audit institutions and the European Court of Auditors (ECA) as well as the strengthening and development of cooperative ties, an ECA delegation under the leadership of Vitor Caldeira visited the National Audit Office in 2014. This meeting was one of official events of the ECA delegation's visit to Lithuania.

The main topic of the visit was the challenges of accountability and public auditing. During the visit to the National Audit Office, representatives discussed possibilities for strengthening cooperation between supreme audit institutions and the ECA, shared insights into possible forms of cooperation in evaluating the achievement of objectives for the EU's Europa 2020 strategy, presented previous collaborative experiences and the prospects of the ECA's cooperation with the National Audit Office, an overview of cooperation between the ECA and national audit institutions in the preparation of assurance statements regarding the reliability of EU accounts and the regularity and soundness of related operations as well as possible topics for joint audits related to economic and financial management, and shared examples of cooperation between supreme audit institutions and the European Court of Auditors.

Visit of the delegation of the European Court of Auditors headed by Chairman Vitor Caldeira to the National Audit Office.

Sharing professional experience

As we participate in international activity not only do we learn from the experience of other countries, we share our own experience as well.

- In 2014, together with the State Audit Institution of Montenegro, we implemented the EU-funded twinning project "Audit Quality Control in the State Audit Institution of Montenegro". With this project we sought to help the State Audit Institution of Montenegro establish an audit quality control system in compliance with the International Standards on Auditing and to standardise audit activities according to the best international auditing practice. A team of NAO experts participated in several missions to Montenegro to evaluate the quality control system of the State Audit Institution, to develop audit quality guidelines, an action plan for implementing audit quality standards, documents and recommendations for improving the audit quality control system, and to provide guidance and training for public auditors and members of the Senate. Our colleagues from Montenegro visited the National Audit Office to study how it operates. The results of the joint efforts of experts from the State Audit Institution of Montenegro and the National Audit Office of Lithuania were excellent: participants developed audit quality control guidelines as well as provided training to Montenegrin auditors in how to both ensure audit quality and apply the International Standards of Supreme Audit Institutions; also, the International Standards on Auditing were translated into the Montenegrin language.
- In June of 2014, we shared our professional experience of auditing the use of EU structural assistance with delegates from the Bulgarian AFCOS (Anti-Fraud Coordination Service) Directorate on their visit to the National Audit Office. The purpose of their visit was to learn about the Lithuanian system for protecting the financial interests of the European Union. Of all the EU countries, these audits are conducted by supreme audit institutions only in Lithuania and Romania, so Bulgarian officials were especially interested in public auditors’ actions in cases of suspicion of misappropriation of funds, embezzlement and fraud.

- In a July meeting with Mr. László Domokos, President of the State Audit Office of Hungary, we spoke about the roles of the Hungarian and Lithuanian supreme audit institutions in the implementation of functions related to the supervision of state budget policy. Our Hungarian colleagues were presented with the NAOL's new function of budget policy control, its experience in solving conflicts of interest and the institution's code of professional ethics. During the meeting, we discussed the future peer review of Hungary's SAI activity, which will be conducted by the experts of the NAOL and colleagues from the Polish SAI.
- On 3 September 2014, during an informal meeting of public auditors from Ireland, Estonia, the Netherlands, Latvia, Slovenia, Sweden and Germany hosted in Lithuania, participants discussed topics related to the closure of the 2007–2013 structural assistance period, including high-risk areas that require auditing, applicable auditing methods and how to ensure the smooth final reporting process to the EC, etc.
- On 4-5 September 2014, representatives of the Netherlands Audit Authority for EU Structural Assistance paid a visit to the NAO for the purpose of exchanging experience. Auditors from both countries compared the audit procedure manuals used in their countries, discussed individual phases of the auditing process and shared best practices in the areas of the risk analysis of the institutions administering EU assistance, the selection of EU projects subject to auditing and error evaluation, and discussed the application of financial corrections in the area of public procurement as well as prospects for auditing the use of EU structural funding for 2014–2020.
- In September of 2014, we initiated an international working meeting on the topic of "Municipal debt and financial management: Experience and best practice". The meeting was attended by SAI representatives from Bulgaria, Estonia, Latvia, Poland, Lithuania, Slovakia and Hungary who conduct municipal auditing procedures. Participants of the international event discussed issues related to borrowing, shared experiences and best practices in the area of municipal auditing, and discussed the scope, problems, results and legal aspects of municipal audits. The meeting was also used to discuss possibilities for the further strengthening and development of cooperation between Europe's SAIs in the area of municipal auditing and approve a proposal for setting up a municipal auditing work group within the European Organisation of Supreme Audit Institutions.

Management of the institution

100	% assessment indicator achieved for the implementation of the institution's strategic goal
100	% implementation of the public audit programme
3.7	points out 4: how audited entities rate auditors' professional conduct and communication
6.4	% employee turnover within the institution
76	% of employees directly involved in the public auditing process
37	academic hours on average dedicated to developing the qualification of one employee
29.5	million litas utilised in the implementation of the functions assigned to the institution

Planned and achieved performance indicators for the NAOL

By implementing the strategic action plan for 2014–2016, the National Audit Office sought to encourage the accountability of institutions in the public sector and a style of management oriented towards producing results and meeting the needs of the public. This objective is measured by the criterion of effect: an evaluation of the financial management and control systems in the public sector[5]. The institution successfully achieved the planned value of the criterion of effect for 2014 (Table 2).

2 lentelė. Planned and factual performance assessment criteria for the National Audit Office

	planned 2014	factual 2014
Evaluation of financial management and control systems in the public sector (score) (effect criterion)	3.4	3.4
Implementation of recommendations (%) (result criterion)	89	87
Implementation of public audit programme (%) (product criterion)	100	100
Mandatory reports prepared (units) (product criterion)	8	8
Implemented public audit programme (EU financial assistance audits) (%) (product criterion)	100	100

In 2014, as part of our effort to implement the institution's strategic goal, we implemented the programme for the 'Control of the Use of Public Property and Budget Execution' with the aim of encouraging accountability in public sector institutions and progress in their financial management and control systems. We evaluated this progress by calculating the level of the implementation of recommendations issued during public audits. Having made changes to the mechanism for monitoring the implementation of public audit recommendations, we were 2% short of achieving our objective in 2014. The share of implemented recommendations only reached 87%, as opposed to the planned 89%. This is a result of the even more rigorous process for monitoring the implementation of public audit recommendations. With the aim of achieving greater public audit impact, we were more principled in evaluating the institutions responsible for implementing our recommendations, often extending deadlines and encouraging further work in the belief that better results could be achieved. The implementation of these recommendations will continue to be monitored, just like all of the other recommendations issued as part of our public audits.

Structure of the National Audit Office

The year 2014 saw several structural changes take place in the National Audit Office:

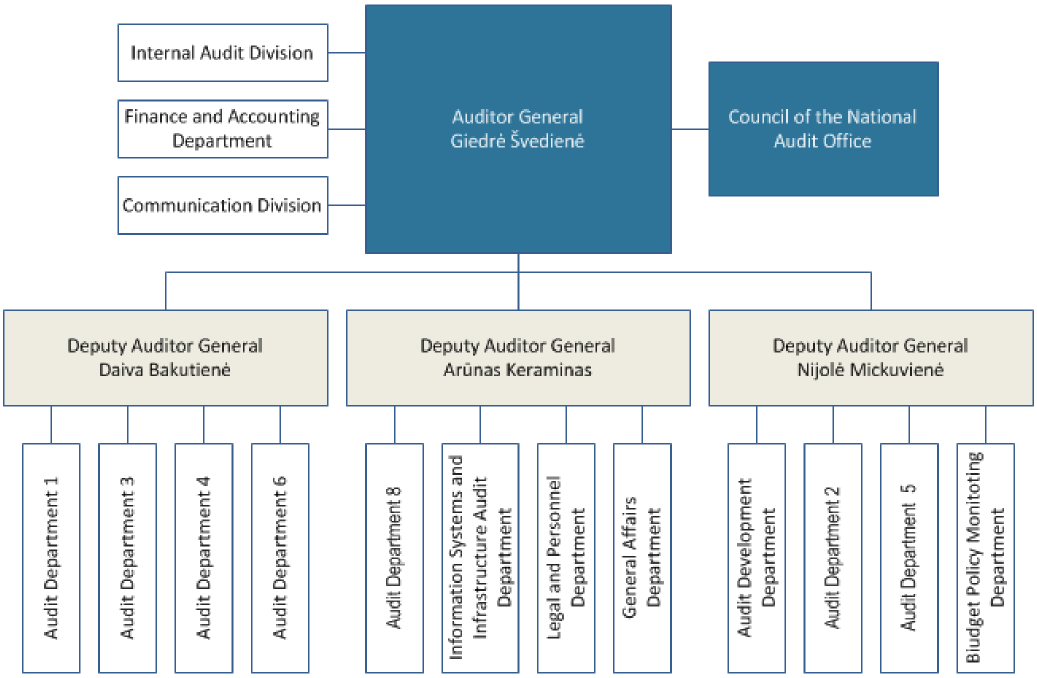
- In order to improve the function of implementing EU structural assistance audits assigned to the NAO, two audit departments (7 and 8) were merged into one. From 2014, all EU structural assistance audits will be carried out by Audit Department 8.
- With the adoption of the Republic of Lithuania Constitutional Law on the Implementation of the Fiscal Treaty and related legal acts, the functions of the controlling institution for budget execution

[5] The criterion is calculated as the mean value of the quantitative expression of financial (regularity) audit results (types of opinion) (the methodology for calculating the criterion is presented in Annex 4).

were assigned to the National Audit Office. In order to adequately implement these functions, the NAO established a new structural division, the Budget Policy Monitoring Department.

Eight audit departments are directly responsible for carrying out public auditing functions and are supported by six administrative divisions (Fig. 1).

1 pav. Structure of the National Audit Office



Human resources

At the close of 2014, a total of 390 employees were employed at the National Audit Office, 66% of whom have over 5 years of professional experience. The institution's attractive working environment helps us maintain a loyal staff: 14% of employees have been working at the NAO for over 10 years, and 12% have been working for over 20 years. A breakdown of staff composition by gender reveals that 76% of NAO employees are female and 24% are male. The average age of our employees is 42 years.

Employee turnover in 2014 reached 6.4%. A total of 25 employees left the institution. Of these, 4 completed their service at retirement age. Employees typically leave the NAO in order to work in positions of equal standing in the public service. The majority of the employees that left the institution evaluated the NAO as a great employer.

Every year, our team receives a fresh crop of young specialists. In 2014, the NAO hired 26 new employees, recruiting from a pool of 84 potential candidates. The majority (46%) were accepted into the positions of senior public auditors. On average, 2.3 contenders competed for each position.

For several years in a row now, the application of effective methods of management has allowed the National Audit Office to reduce the number of administrative staff. In 2014, administrative staff made up only 24% of the institution's labour force, dropping from 26% in 2013 and 30% in 2012.

In 2014, 150 training events were organised for the employees of the National Audit Office. More than half (58%) of the training events were offered free of charge: internal training headed by the institution's own lecturers, training events organised by the Ministry of Finance for institutions receiving EU funding, internal training events at the NAO organised by other institutions, free training events abroad and various other events. An average of LTL 740 was spent per employee. Most of this sum (55%) was spent on audit training and training in other professional areas.

In 2014, 89% of the institution's employees and 93% of the NAO's civil servants developed their qualification. On average, employees received 37 academic hours of training. The principal subject area of the events was training in auditing and other professional areas. In the area of auditing, 75% of all the employees involved in the auditing process developed their qualification. Internal training events and training events in Lithuania were attended by 308 employees, and 33 participated in training events abroad. A total of 228 thousand litas was used for organising training events in 2014, of which 68% was funded with EU assistance.

Financial information

In 2014, a total of 30.9 million litas was allocated for the Programme for Controlling the Use of Public Property and Budget Execution: 6.9 million litas from EU technical assistance funds for 2007–2013 (85% funded from EU technical assistance funds for 2007–2013 and 15% from co-financing funds) and 0.1 million litas from EU technical assistance funds for 2014–2020 (85% funded from EU technical assistance funds for 2014–2020 and 15% from co-financing funds). These funds were allocated for implementing the "EU Technical Assistance for Public Auditing in the Republic of Lithuania".

In implementing its designated functions, the National Audit Office used 29.5 million litas in 2014, of which 5.7 million litas came from EU technical assistance for 2001–2013 and co-financing funds, and 0.01 million litas came from EU technical assistance for 2014–2020 and co-financing funds.

Annexes

Annual report of the National Audit Office 2014

Annex 1

Financial (regularity) audits completed in 2014 and opinions issued

No.	Audited entity	Opinion issued on subject matter audited in 2013: set of (consolidated) budget execution statements	set of (consolidated) financial statements	reports on fund estimate execution	accountancy of taxes and other payments to budgets	regularity of state budget execution	regularity of the management, use and disposal of state (fund) budget funds and property	state debt statements	regularity of borrowing
	Audits of the national set and sets of consolidated statements of the State								
1.	Evaluation of sets of consolidated statements of the state and budget execution statements and execution of the state budget for 2013;	Qualified	Qualified			Qualified			
2.	Evaluation of the regularity of the national set of financial statements, state debt reports and borrowing for 2013		Qualified					Unqualified	Qualified
	Audits of resource and tax funds								
1.	State Treasury		Qualified				Qualified		
2.	State Social Insurance Fund	Qualified	Qualified				Qualified		
3.	Compulsory Health Insurance Fund	Unqualified	Unqualified				Qualified		
4.	Privatisation Fund	Unqualified	Adverse				Adverse		
5.	Reserve (Stabilisation) Fund	Unqualified	Unqualified				Unqualified		
6.	Ignalina Nuclear Power Plant Decommissioning Fund		Unqualified	Unqualified			Unqualified		
7.	Guarantee Fund		Unqualified	Unqualified			Unqualified		
8.	Tax Fund of the State Tax Inspectorate		Disclaimer of opinion		Qualified				
	Audits of Ministries and institutions subordinate thereto								
1.	Ministry of Social Security and Labour	Unqualified	Qualified				Qualified		
2.	Ministry of Health	Unqualified	Unqualified				Qualified		
3.	Ministry of Agriculture	Unqualified	Adverse				Qualified		
4.	Ministry of Environment	Unqualified	Qualified				Unqualified		
5.	Ministry of Energy	Unqualified	Unqualified				Unqualified		
6.	Ministry of Transport and	Unqualified	Unqualified				Qualified		

No.	Audited entity	Opinion issued on subject matter audited in 2013							
		set of (consolidated) budget execution statements	set of (consolidated) financial statements	reports on fund estimate execution	accountancy of taxes and other payments to budgets	regularity of state budget execution	regularity of the management, use and disposal of state (fund) budget funds and property	state debt statements	regularity of borrowing
	Communications								
7.	Ministry of Economy	Unqualified	Unqualified				Qualified		
8.	Ministry of the Interior	Unqualified	Unqualified				Qualified		
9.	Police Department under the Ministry of the Interior.	Unqualified	Unqualified				Qualified		
10.	Ministry of National Defence	Unqualified	Unqualified				Qualified		
11.	Ministry of Justice	Unqualified	Unqualified				Unqualified		
12.	Ministry of Foreign Affairs	Qualified	Qualified				Qualified		
13.	Ministry of Education and Science	Unqualified	Qualified				Qualified		
14.	Ministry of Culture	Unqualified	Qualified				Qualified		
15.	Ministry of Finance	Unqualified	Unqualified				Qualified		
	Audits of research and education organisations (institutions)								
1.	Lithuanian University of Health Sciences	Unqualified	Unqualified				Qualified		
2.	Institute of Lithuanian Literature and Folklore	Unqualified	Qualified				Qualified		
3.	Nature Research Centre	Unqualified	Qualified				Qualified		
	Audits of other state institutions								
1.	Seimas Ombudsmen's Office	Unqualified	Unqualified				Qualified		
2.	General Prosecutor's Office	Unqualified	Unqualified				Qualified		
3.	State Security Department	Unqualified	Unqualified				Qualified		
4.	Legality of disposal of the State budget funds allocated to public institution Foundation for Disposal of Goodwill Compensations for Jewish Religious Community Immovable Property						Unqualified		

Management, use and disposal of state budget funds and public property in municipalities

1. Municipal governments (60 municipalities)

Audits of EU and other international financial assistance

1. Cohesion Fund Project No 2004/LT/16/C/PE/005 Development of Water Supply and Waste Water Systems in Klaipėda
2. Cohesion Fund Project No 2004/LT/16/C/PE/002 Nemunas Midland River Basin, 1st package
3. Cohesion Fund Project No 2004/LT/16/C/PE/004 Nemunas Lowland River Basin, 1st package
4. Cohesion Fund Project No 2005/LT/16/C/PE/002 Nemunas Upland River Basin, 1st package, 1st stage
5. Cohesion Fund Project No 2006/LT/16/C/PE/001 Investment Programme for the Venta – Lielupe River Basin, 1st stage, Phase 1
6. Cohesion Fund Project No 2005/LT/16/C/PE/004 Neris River Basin Investment Programme, 1st stage (Vilnius city and district)

7. Cohesion Fund (ISPA) project No 2003/LT/16/P/PE/017 Hazardous Waste Management in Lithuania
8. Management and control system of Operational Programmes Implementing Lithuanian Strategy for the Use of European Union Structural Assistance for 2007-2013 Towards Achieving the Convergence Objective, and expenditure declared to the European Commission in 2013

Annex 1

Performance audits completed in 2014

Environmental protection

1. Performance of national parks (international audit)
2. National parks (coordination of the international cooperative audit of national parks)

Culture

3. Ensuring preservation of immovable heritage of manors

Management of public property and funds

4. Activity of Deposit and Investment Insurance VĮ
5. Management of financial risks in state-owned enterprises
6. Use of state-owned land reclamation property

Interior affairs

7. Organising healthcare of statutory officers

Healthcare

8. Organising healthcare in oncology

Social security and labour

9. **Organising child care**
10. Organising adoption

Management of information resources

11. Management of public information resources at the Ministry of Justice
12. Implementation of single-window electronic services

Education and science

13. Study loan system
14. Organising children’s non-formal education

Other (establishments accountable to the Seimas or Government and other institutions)

15. Ensuring food safety

Justice

16. Organising protection of the public interest
17. Introducing the concept of the probation system in Lithuania

Agriculture

18. State control of land use

National economy and market regulation

19. Management and control of the enterprise bankruptcy process

Energy

20. Maintenance of building heating and hot water systems

Annex 1

Audit results submitted to law enforcement institutions and other institutions

Dep.	Audit results submitted to	Grounds
3	General Prosecutor's Office	(2) Protection of public interest, (1) Failure to serve.
1	Financial Crime Investigation Service	Upon request of law enforcement institutions.
1	Special Investigation Service	Proposal to conduct investigations for possible violations/observations.
1	Chief Official Ethics Commission	Proposal to conduct investigation into possible conflict of public and private interest.
1	Public Procurement Service	Proposal to investigate violations of the Law on Public Procurement identified during the auditing process.
1	Government Office	Informed about the inappropriate use of funds from the state budget and violations.
1	Information Society Development Committee under the Ministry of Transport and Communications	Presented with information on the illegitimacy of public information systems.
1	Ministry of Finance	Presented with information on potentially inappropriately implemented functions.
1	Government representativein Vilnius County	Protection of public interest.

Annex 1

Methodology for calculating the criterion of effect

The indicator for financial management and control systems in the public sector is calculated as the mean of quantitatively expressed financial (regularity) audit results (opinion type).

Components:		Score	Weight	Product
Set of (consolidated) budget execution statements	Example 1	2.2	0.5	1.1
Set of (consolidated) financial statements	Example 2	3.4	1	3.4
Regularity of the management, use and disposal of state (fund) budget funds and property	Example 3	3	1.5	4.5
	Criterion			3.00*
*(1.1 + 3.4 + 4.5) / 3 = 3.00				
Type of Opinion	Score			
Unqualified	4			
Qualified	3			
Adverse	2			
Disclaimer of opinion	1			