2015
ANNUAL REPORT
OF THE SUPREME AUDIT INSTITUTION

Today, the purpose of the National Audit Office (NAO) is not just to provide professional assessments of how public property and funds are managed or to identify mistakes that have been made. It is also critical that we use our recommendations as well as competence and lead by example, thus encouraging the entire public sector to develop and implement positive change in the area of management.

As we work, we set ourselves important goals – first and foremost, to increase the impact of our audits in order to achieve positive changes in the public sector that contribute to the welfare of the public. This is why we are making every effort to improve the quality of the results our audits produce, increase our openness to the public and promote the results we achieve. We want to be valued as experts, so that the fruit of our labour is used to make decisions that are important to Lithuania and that have a positive impact on society.

This report presents an overview of our work in 2015, with which we have sought to objectively and professionally identify performance issues in the public sector and encourage their resolution. In 2015, we carried out 22 performance and 35 financial (regularity) audits, auditing 6.9 billion euros of budget appropriations in total. We also audited a total of 1.3 billion euros in costs declared to the European Commission as part of our EU structural assistance audits. Fulfilling our role as the institution responsible for controlling budget policy, we submitted 3 conclusions and one report on the scenario for economic development and financial indicators of the government sector in 2016 to the Seimas.

Most audit observations issued by the NAO in 2015 were linked to public procurement, whereas the number of reporting and financial accountancy errors and violations decreased twofold. We do everything we can to make sure that the implementation of the recommendations we issue is not process-oriented, but rather results-oriented.

In 2015, we started making certain changes to how work is organised and have begun optimising the structure of the institution. We reduced the number of staff positions by 5% in order to ensure the more rational use of funds, initiated a reorganisation of our network of regional branches and have optimised how our property is managed by closing down the training centre in Giruliai.

Last year, we were awarded a certificate confirming that the institution's quality management system meets the requirements of the ISO standard. Such an evaluation of our work is very important to us and also commits us to produce results of even greater quality and organise our activity with even greater efficiency.

I firmly believe that the institution can and should be a role model for the public sector. Thank you to the entire team for your work and your desire to constantly improve.

Auditor General Arūnas Dulkys

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I. ACTIVITY AND CHANGES

We have created a solid foundation for the public audit which allows us to aim for high quality

In 2015, we finished implementing the public audit strategy for 2011–2015, with which we sought to:

- increase the impact of the public audit;
- use existing resources more effectively;
- develop the competence of our employees.

As we implemented the Public Audit Strategy, we consistently transitioned to applying the International Standards of Supreme Audit Institutions and developed a public audit process on the basis of these standards. This was verified by international experts who conducted a peer review of the institution's activity.

The NAO was tasked with a new role as the institution responsible for implementing budget policy control

The work we completed strengthened the NAO as the supreme audit institution and created a host of new challenges. In addition to its existing functions, from the beginning of 2015, the NAO was tasked with a new role as the institution responsible for implementing budget policy control. This means that we are now in charge of monitoring fiscal discipline for the national budget, assessing budget formation at every stage and monitoring the implementation of financial sustainability goals within the government sector on an annual and mid-term basis.

The National Audit Office is the only supreme audit institution in the entire European Union (EU) that is responsible for implementing the national programme for financial and performance audits, conducting regulated audits of investments from EU structural funds and supervising compliance with the rules of fiscal discipline set for the government sector.

The NAO's management system meets the very highest of quality requirements

In 2015, we received confirmation that both our public auditing practices and the management system used by the institution meet the highest standards for quality. The National Audit Office was awarded proof of this in the form of a LST EN ISO 9001:2008 certificate. By applying the most progressive practices, we seek to lead by example in the public sector, promote better managerial practices and look for ways to use the limited resources at our disposal more effectively and productively.

The resolute decisions made in 2015 with regard to achieving ISO certification enabled us to pay more attention to developing the competence of our employees. In turn, the knowledge and experience gained by our staff enabled the NAO to focus on solving strategic and essential problems as well on increasing impact in the public sector.

1. IMPACT OF PUBLIC AUDITS

A relevant and flexible public audit programme

Public audits target systemic and essential problems in the public sector

In order to audit systemic and relevant issues as well as problems that are related to strategically important public priorities, we continually monitor the public sector and identify risks, which we then use to form the basis of the institution's annual action plan. Every risk is individually assessed based on criteria such as relevance to priority areas, scope, importance and auditing possibilities. In 2015, we added several new criteria to this list that evaluate a risk's relevance to national and European strategic documents, the goals established therein, international obligations and indicators oriented towards impact. This enabled our auditors to focus their attention and efforts on the most relevant issues of the present day and the future.

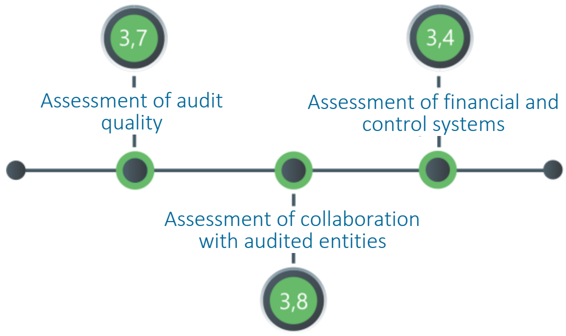
In our plans for 2016 we have allocated a substantial amount of resources for auditing horizontal subject matter that spans several or all public sector areas. These subjects include the following:

- the management of public investment programmes,
- the management of public enterprises,
- the public sector's internal control system,
- the set-up and management of public establishments,
- the promotion of investment and innovation, etc.

We believe that a systemic assessment of problems can generate greater added value and encourage both civil servants and politicians to take the action necessary for resolving existing problems and preventing problems in the future.

The NAO assesses risk factors in the public sector on a continual basis. Public auditors constantly monitor the relevance of audit subjects and evaluate existing as well as newly emerging risk factors in the public sector. This allows us to identify emerging issues and threats in time and direct appropriate resources towards them.

High level of audit quality



The quality of our public audits meets the standards of the most advanced international auditing practices and the expectations of our auditees

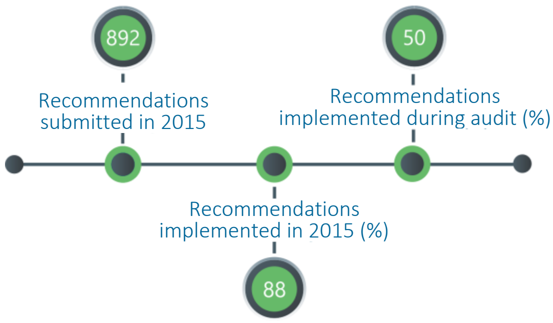
For several years now, the National Audit Office has been applying international auditing standards in its work (standards prepared by the International Federation of Accountants, the International Auditing and Assurance Standards Board and the International Organisation of Supreme Audit Institutions (INTOSAI)). This is a result of our consistent work in this area and has enabled us to ensure the compliance of our public auditing practices with the highest requirements for quality. However, it is never enough to simply apply the standards – no less important is the need to maintain a certain level of quality in our audits. For us, this is a continual process. Working in this direction, we will be proposing an amendment to the Law on the National Audit Office that would legally establish international auditing standards as the basis for conducting public audits.

We consistently conduct quality and impact assessments of the results our audits produce, and we use the findings as grounds for improving specific areas of our auditing process. According to our auditees, we maintained a standard of high quality in our auditing work in 2015, receiving a score of 3.7 out of 4 from the entities we audited. In 2011, as the NAO began to implement the public audit strategy for 2011–2015, we only scored 3.2.

As part of this same survey, we also ask our auditees to suggest ways of improving the effectiveness and productiveness of our joint work effort. Decisions made based on these suggestions, enabled us to improve our score for collaboration during the auditing process from 3.7 to 3.8 (out of 4) in 2015.

We also judge the quality of our audits based on the improvement of financial management and control systems in the public sector. We use the opinions issued as part of the financial (regularity) audit to calculate an indicator that demonstrates the general situation with regard to reporting and accounting in the public sector. The greater the number of unconditional opinions our auditors issue (the best possible evaluation), the higher the indicator. We are happy about the fact that in 2015 this indicator reached its best score in five years: 3.4 (out of a possible maximum of 4).

Strengthening the monitoring of recommendations



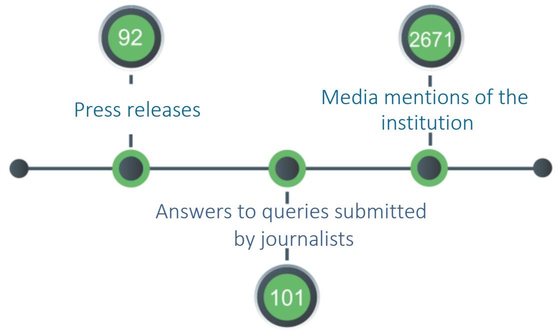
We seek to ensure that public audit recommendations are not only implemented, but also produce the greatest possible impact

We focus a great deal of attention on issuing recommendations and monitoring their implementation. In 2015, the level of recommendations implemented reached 88%. With the continual, purposeful and resolute application of specific measures, we sought to ensure the results-oriented rather than the process-oriented implementation of recommendations.

In 2015, we began to collect information from our auditees about the observable impact these recommendations have on their organisations. The impact assessments we received provided us with additional motivation to continue improving the process of issuing recommendations and monitoring their implementation because it is a critical factor in creating positive change in the public sector.

Sometimes the quick implementation of recommendations is simply not possible, for systemic and essential changes take time. In some cases, the best efforts of the audit institution and the auditee are simply not enough, which is why we actively communicate and cooperate with the Government, the Seimas Committee on Audit and various other committees as we address issues pertaining to the implementation of recommendations. We will shortly be ready to open up information on the implementation of recommendations to the public, providing it with an additional source of objective information based on which it will be able to demand more relevant, effective and productive decision-making from public authorities.

Openness for the purpose of increasing impact



We inform the public about what the institution does and the value it generates and use openness as a tool for increasing impact

With the understanding that the general public does now always recognise the use or importance of the public audit, we seek to communicate to a wider audience information about the possibility of using the results of expertly conducted, objective and professional public audit reports that can be trusted.

In 2015, we concentrated more on presenting the role and functions of the NAO, its methods, the work it does, plans for the future and the value the NAO generates: we conducted discussions with institutions of the law, exchanged experience on the national and international level, and informed members of the Seimas and the Government about the main principles of public audit planning.

In 2015, we actively used a broad range of public relations measures and made better use of social media. Our targeted efforts in this area paid off, and interest in the institution's work increased across the board. We plan to continue working actively in this area in 2016 as well. We believe that the interest in audit results and their impact demonstrated by the public, politicians and members of the Government will lead to the positive outcomes we are expecting.

Encouraging the public sector to learn from its mistakes

We encourage dealing with problems in the public sector on a preventive basis

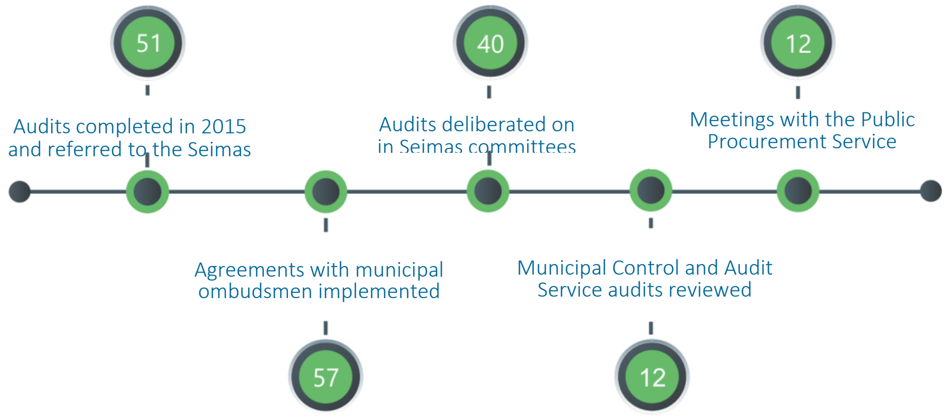
Thanks to our many years of public auditing experience and substantial database, we often notice changes in errors and violations being made in the public sector as well as various recurring mistakes and transgressions. In order to promote preventive action, every year, we inform public sector institutions and their management about the most frequently occurring mistakes and violations identified during our public audits. We encourage them to educate themselves in this regard and implement specific preventive measures as well as avoid the pitfalls we identify.

In 2015, the most frequently occurring violations were related to public procurement, accounting and financial reporting and budget composition.

By conducting strategic investigations and monitoring areas of the public sector, public auditors also identify performance risk factors that are not necessarily incorporated in the public auditing programme due to their scale or relevance. We continue monitoring risk factors that do not end up on the audit list, informing our auditees, Government members and Seimas committees about them because we expect to be able to tackle individual problems without resorting to a full-scale public audit.

The public risk factors that are currently being monitored but have not been included in the list of audits for 2016 are presented in the second section of this report (*Performance results*).

Cooperation for better results



Our active collaboration with our strategic partner – the Seimas Committee on Audit – helps us achieve greater audit impact

The Seimas Committee on Audit and other committees constantly analyse public audit reports and use parliamentary control measures to encourage public sector entities to fix errors identified by auditors and implement the recommendations they issue in a timely manner.

In 2015, the NAO submitted the results of 46 public audits completed in 2015 to the Chairman of the Seimas and various Seimas committees and commissions. The results of a further 40 audits completed over the period of 2008–2015 were presented to Seimas committees during deliberations on various legal acts, bills and other pertinent issues. It is important for us to see and know that certain amendments to the law, which produce positive change for the state, were initiated based on recommendations issued as part of public audits.

Joint projects with municipal ombudsmen promote more transparent and effective management of municipal finances

In 2015, we served in the capacity of external supervisor to audits carried out by 15 Municipal Control and Audit Services. Only in four services did the quality control systems create the necessary conditions for conducting audits in compliance with the Public Audit Requirements, international auditing standards and methodologies prepared by the NAO. In nine of the services, we identified significant deviations from the legislation regulating the audit process; and in two, we found that the quality control systems did not ensure audits were conducted in the manner required by law.

The services were issued with recommendations on how to improve their audit quality control systems and the quality of the actual audits. We submitted various proposals to newly elected or re-elected mayors to discuss the results of the peer reviews with their municipal ombudsmen and seek to identify the reasons behind the poor performance as well as prevent identified mistakes from occurring again in the future.

In order to strengthen the municipal auditing process and help create the necessary quality control systems, in 2015, the NAO actively shared its professional auditing experience and best practices with municipal control and auditing services, coordinated our auditing strategies and developed our collaborative activity with regard to external auditing.

We believe that regular exchanges of information and experience sharing are crucial for establishing a more efficient and productive municipal audit system.

Cooperation with law enforcement and other public administration institutions helps us protect public funds from wanton or illegal use

As they conduct their audits, public auditors regularly observe that organising public procurement procedures is still a challenge for public institutions, and this area partially determines the quality of public administration. In 2015, a total of 12 meetings with the Public Procurement Service took place, during which the NAO presented the PPS with information about various violations of the Law on Public Procurement and related legal acts, and the two institutions discussed work and collaboration-related issues. New developments in the field of public procurement and various topics on the subject of violation prevention and control were discussed during joint training events.

In the seminar-discussion on "Advanced risk analysis and selection methods as the most efficient measures for protecting public funds", representatives of the Special Investigation Service, the Public Procurement Office, the State Tax Inspectorate and the Financial Crime Investigation Service gathered to share risk analysis practices and evaluate needs and possibilities for reviewing methods applied by the institutions in order to develop more effective ways to protect public funds and produce better results.

In cooperation with other public administration institutions, we organised seminars on the subjects of public procurement, competition, the prevention of corruption and other relevant topics. Following the training events organised by the Financial Crime Investigation Service, during which auditors learned how to recognise cases of deceit, the NAO identified a potential case of document forgery, which was referred to the appropriate law enforcement institution.

International communication and cooperation

We are not an institution that only participates in international activity, we also initiate international debates ourselves

The National Audit Office of Lithuania is a member of two international organisations: the International Organisation of Supreme Audit Institutions (INTOSAI) and its regional working group and the European Organisation of Supreme Audit Institutions (EUROSAI). The institution also maintains collaborative international relationships with various European and other supreme audit institutions (SAIs) and actively cooperates with the European Court of Auditors (ECA).

Once the NAO started consistently applying international auditing standards, the institution received positive evaluations from foreign experts and foreign SAIs began taking an interest in our practices.

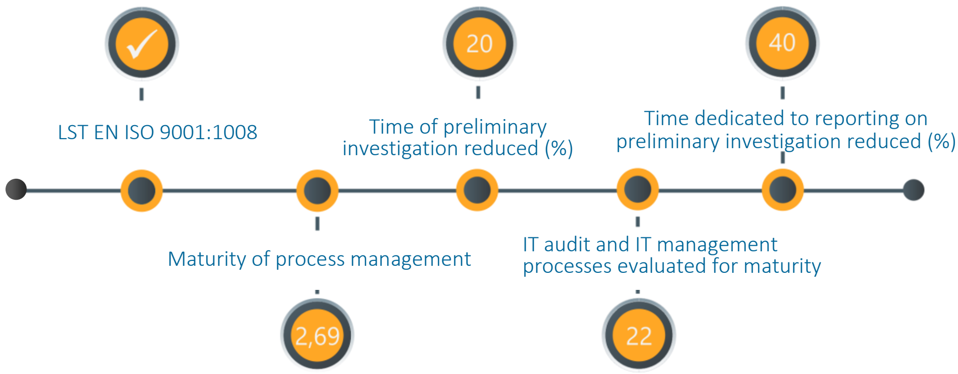
In 2015, representatives from the SAIs of Latvia, Moldova and Armenia visited the NAO for an exchange of experience. We participated in two peer reviews of SAI activity: in Hungary, we were there to advise on the topic of communication strategy and in Kyrgyzstan, on the topics of quality control, applying international standards and increasing the value generated by audits and peer reviews. We successfully completed the EU-funded twinning project on "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.

We moderated the international seminar on the "Planning and Execution of Municipal Budgets", which was organised as part of the NAO's initiative to set up an EUROSAI working group for addressing issues related to municipal audits.

A total of 9 articles were published on the activity and results of the National Audit Office in the publications of international organisations.

2. USE OF RESOURCES

Improving performance processes



We have begun measuring the maturity level of our processes

In 2015, the National Audit Office was awarded a certificate confirming that the institution's quality management system complies with the LST EN ISO 9001:2008 standard. The quality management system covers the entirety of the NAO's activity related to the implementation and support of the public audit and is oriented toward external and internal clients, processes and resources.

An evaluation of the maturity of the institution's processes based on the requirements of ISO 9001 revealed a score of 2.69 for maturity level (managed). We have now set ourselves the ambitious goal of achieving a maturity score of no less than 4 points (out of a possible 5) for each process by the year 2020. The best scores in 2015 went to the following processes: EU structural assistance audits, maintenance of international relations, administration of information and management of material resources.

The possibility of calculating the costs of our work enabled us to make changes to our processes that increased their effectiveness

In 2014, the NAO implemented a detailed project and audit time-keeping system, which allowed us to evaluate the cost of performing certain tasks or their stages and the impact of change more realistically in 2015. It was now apparent, that a change in the presentation of the preliminary investigation at the beginning of a performance audit led to an average 40% decrease in time spent preparing it and a 20% decrease in time spent for the entire process. This, in turn, means that we can use the time that was saved on initiating new audits or expanding existing ones.

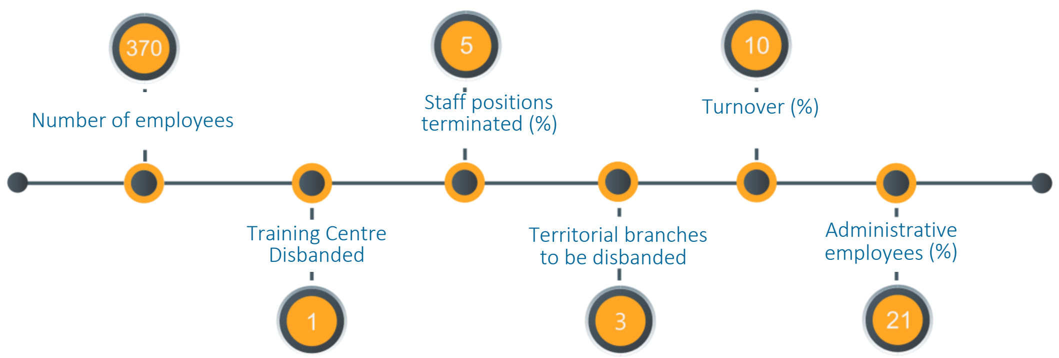
The maturity of the institution's IT audit and IT management on a strategic level was evaluated as high

We are professionals, which is why we see the benefits of having our activity evaluated by recognised experts. In 2015, together with experts from the Swiss Federal Audit Office, we conducted an assessment of the institution's IT audit and IT management activity. This was the first of three assessments planned in the NAO's IT strategy for 2015–2020.

We received a high evaluation for our IT management and maturity on a strategic level as well as various constructive recommendations for practical improvements in the area. Not only will their implementation contribute to increasing the NAO's competence but also to increasing the impact of the public audit.

We have started implementing the NAO's IT strategy, which pays special attention to the adequacy of the technology used to facilitate audits. According to our plans, our employees will be able to receive 95% of these services based on service level agreements (SLA, OLA) and have access to the information system no less than 90 % of the time during business hours on work days. In addition to this, we have taken global trends in the development of information systems into account and seek to achieve the greatest possible openness of system modules and user-friendly interfaces between them.

Optimising resources



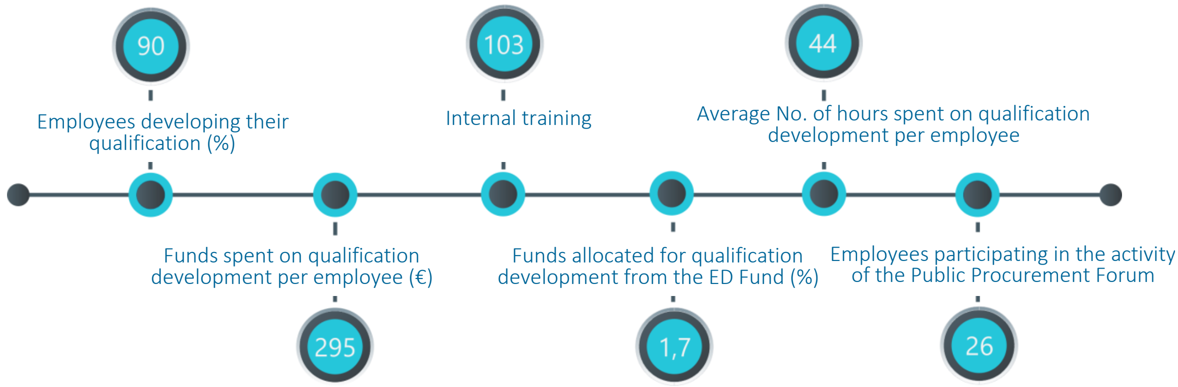
We are eliminating non-essential resources in order to make better use of our essential ones

In 2015, we initiated various changes in the area of work organisation and reduced the number of staff positions by 5% in order to use our funds with greater rationality. For the purpose of improving the quality of our audits and the effectiveness of audit management, we have started to optimise the structure of the organisation: on 1 July 2017, we will be closing down territorial branches of the NAO in Kaunas, Klaipėda and Panevėžys, and auditors from these divisions will be invited to join our auditing forces in Vilnius.

We have also handed over the management of the former premises of the Training Centre in Klaipėda, as serving a purpose that was non-essential to the SAI, to the Bank of Property (Turto Bankas VĮ). Thus we seek to optimise the management of theNAO's property and the structure of the divisions providing auditing support functions. We encourage other public sector institutions to follow suit.

The NAO plans to continue dedicating more attention to organisational management and the effective management of human resources and property.

3. COMPETENCE OF EMPLOYEES



Qualification development

We have renewed our model for assessing the need for training

The institution's success is inextricably linked to its policy for employee competence planning and development, and qualification development always means moving forward. The knowledge and capabilities of our employees increase the organisation's effectiveness, which is why we spent 2015 focusing a lot of attention on developing their competences and qualification.

We renewed our model for assessing the need for training in the personnel management system by grouping various subjects into a coherent system of 11 key areas and thus facilitating the planning of training for our employees.

In 2015, 90% of staff developed their qualification, and 1.7 % of the total wage fund was spent on training and qualification development.

More than half (57%) of the 180 training events organised by the NAO were implemented without incurring additional costs and by making use of the special skills, experience and knowledge of the institution's very own employees. We also actively participated in free training events offered by Lithuanian and foreign organisations. Thus we spent an average of 295 euros per employee on training events and qualification development, and each of our employees spent an average of 44 hours participating in various qualification development events.

Promoting teamwork

We strive to make teamwork our strength

In 2015, the NAO set up groups for Increasing Audit Impact, Audit Quality and Audit Promotion. Not only do these groups supervise the implementation of recommendations issued as part of earlier peer reviews of the NAO's activity but also propose measures for improving audit quality, impact and the promotion of audit results.

An important factor in 2015 was the development of organisational culture, i.e., the establishment of the Organisational Culture Council. The Council initiated various activities that have helped to shape and entrench the values of the NAO and listen to the expectations of every employee.

The institution also has other working groups set up to address issues related to management, administration and the quality of work. Their initiatives reflect the needs of all of our employees and contribute to promoting teamwork and team spirit. Among these are working groups for monitoring the process of accession to the OECD and for monitoring Lithuanian as well as European projects in the energy sector. The institution's Public Procurement Forum is used as a platform for sharing practices in the evaluation of public procurement procedures, developments in the jurisprudence of the European Union and national courts, training events and information announced by institutions controlling public procurement procedures, and homogenising the assessment of issues related to public procurement. In 2015, 26 of the institution's employees participated in the forum, meetings took place with members of the Public Procurement Service and the Special Investigation Service, and participants discussed various issues related to the implementation and assessment and public procurement procedures.

II. RESULTS

In implementing its mission, the National Audit Office carries out public audits and other functions it is tasked with by the law and resolutions issued by the Seimas.

The public financial (regularity) audit

A financial (regularity) audit is the assessment of an auditee's sets of financial and budget execution statements, sets of consolidated annual statements, set of financial statements of the state and/or data from other reports, the regularity of the management, use and disposal of public funds and property and their use for purposes established by the law.

The public performance audit

Performance audits are used to assess whether the auditee is conducting its operations based on the principles of economy, effectiveness and productivity, and whether it is carrying out the responsibilities it is charged with adequately. The NAO seeks to show public establishments and organisations the possibilities for improving performance and preparing for certain risks that may have a negative effect on the activity of the establishment or organisation. The public performance can target one or several institutions at once, specific areas of activity or programmes within one or several institutions.

Audit of investments funded with EU structural assistance funds

By resolution[1] of the Seimas, the NAO is responsible for the following:

- auditing EU structural assistance granted for the period of 2007–2013 for Achieving the Convergence Objective;
- auditing investments funded with EU structural assistance funds for 2014–2020;
- auditing the compliance of the institutions of the management and control system of EU structural funding for 2014–2020 with their designation criteria.

The function of budget policy control

With the adoption of the Republic of Lithuania Constitutional Law on the Implementation of the Fiscal Treaty on 1 January 2015, the function of the controlling institution for budget execution was assigned to the National Audit Office.

1 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 Funds assistance received in the Republic of Lithuania

4. BUDGET POLICY CONTROL

Implementing the task of monitoring the rules established by the Constitutional Law on the Implementation of the Fiscal Treaty, applying the principles recommended by the independent fiscal institutions of the OECD and their best practices in the EU, the NAO submitted **3** conclusions and **1** report to the Seimas.

In developing a state budget project it is important to ensure compliance to the rules of surplus of general government because if unfavourable risk factors emerge, there will be substantial deviations from the structural government deficit projected by the Government for 2016.

The Government proposed that the Seimas set the following mid-term goal for the period of 2016–2018: a structural government deficit no greater than 1% of the GDP at current prices. As Lithuania faces moderate risk for the long-term sustainability of its government finances, the lower boundary for the mid-term goal should be the structural government deficit: 0.5% of the GDP at current prices.

It is of paramount importance that we ensure the stable and consistent reduction of national debt. In order to avoid the growth of national debt in times of recession and reduce national debt in times of prosperity, Lithuania should have sufficient fiscal space to accommodate sudden drops.

Monitoring budget policy

In 2015, as part of its role as the institution responsible for budget policy control, the NAO presented its first ever conclusions on the approval of the economic development scenario for 2015–2018 and on the task of structural stimulation to the Seimas. The culture of fiscal discipline is still in its infancy in Lithuania, therefore, the National Audit Office has an important role to play in helping the Government keep to careful income planning tactics, reduce national debt and decrease the deficit.

Economic development scenario

The National Audit Office approved the economic development scenario for 2015–2018

Having conducted an assessment of the publicly available economic development scenario drawn up by the Ministry of Finance for 2015–2018, the NAO determined that the scenario was based on selected and identified preconditions as well as on currently available statistical data and did not contradict economic trends. We also pointed out that regulatory documents do not establish any procedure for preparing an economic development scenario or how often such a scenario should be drawn up. There is no approved and publicly announced methodology for formulating macroeconomic projections, including projection models, preconditions and external risk factors.

We aso approved the revised economic development scenario for 2015–2018, however, we emphasised that negative risk factors are predominant in Lithuania's external environment. We recommended that the Government keep to careful income planning tactics, especially when planning income from the value added tax in 2016.

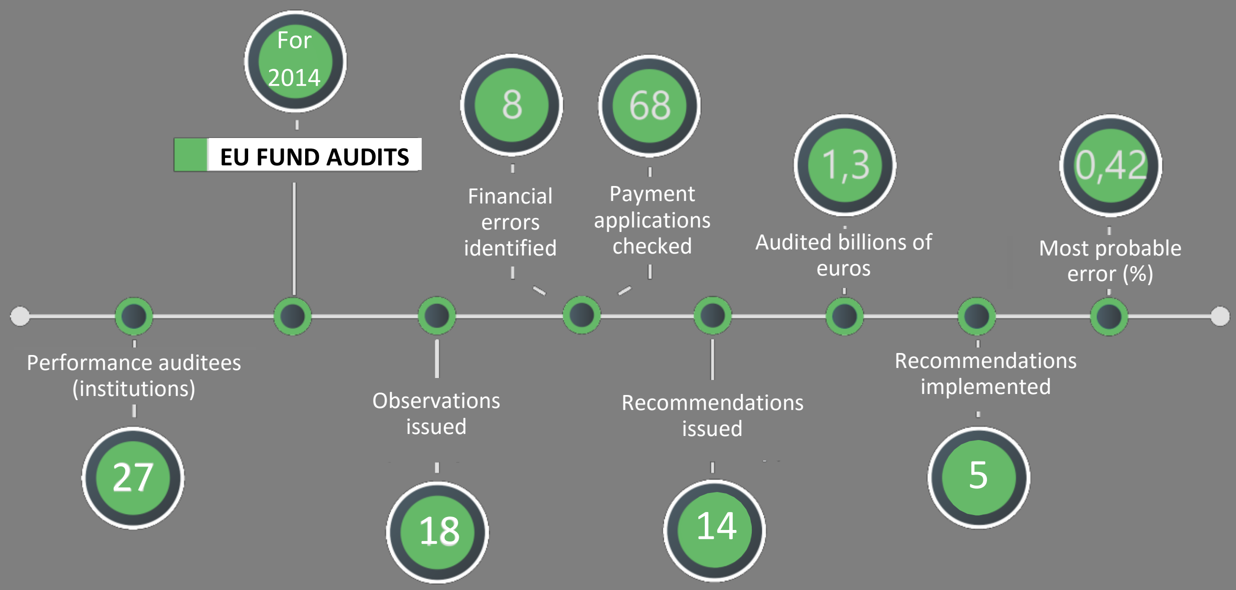
Financial indicators for the public sector in 2016

Conclusion issued on the task of structural stimulation and report submitted on the financial indicators for the public sector in 2016

In implementing the function of budget policy control, we conducted an assessment of the budget proposal for 2016. In the conclusion on the task of structural stimulation, established in the draft law on the approval of financial indicators for state and municipal budgets, and the need for additional measures (monetary expression) for completing this task, and in the report "On the 2016 financial indicators for the government sector", the NAO issued the following observations on:

- the risk that in 2016 it may be that the government will fail to ensure compliance to the rules for surplus of general government and for limiting the growth of expenditure in the sector;
- the lower boundary of the mid-term goal for 2016–2018;
- risk to the sustainability of national debt.

5. AUDIT OF EU STRUCTURAL ASSISTANCE FUNDS



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

In 2014, the Lithuanian management and control system for EU structural assistance complied with the requirements established by law and operated effectively

In 2015, 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 the operational effectiveness of the Management and Control System (MCS) for EU structural assistance composed of 27 institutions and the suitability of 1.3 billion euros in costs declared to the European Commission in 2014, during which:

- financial errors were identified in 68 of the investigated payment applications;
- 0.424 % of costs declared to the European Commission in 2014 were identified as ineligible for funding (Lithuania declared 1.3 billion euros) and did not exceed the tolerable 2% error level established by EU law.

Based on the results of this audit, the European Commission will be making decisions regarding the further provision of EU structural funding to Lithuania for the programming period of 2007–2013.

Audit of investments funded with 2014–2020 EU structural assistance

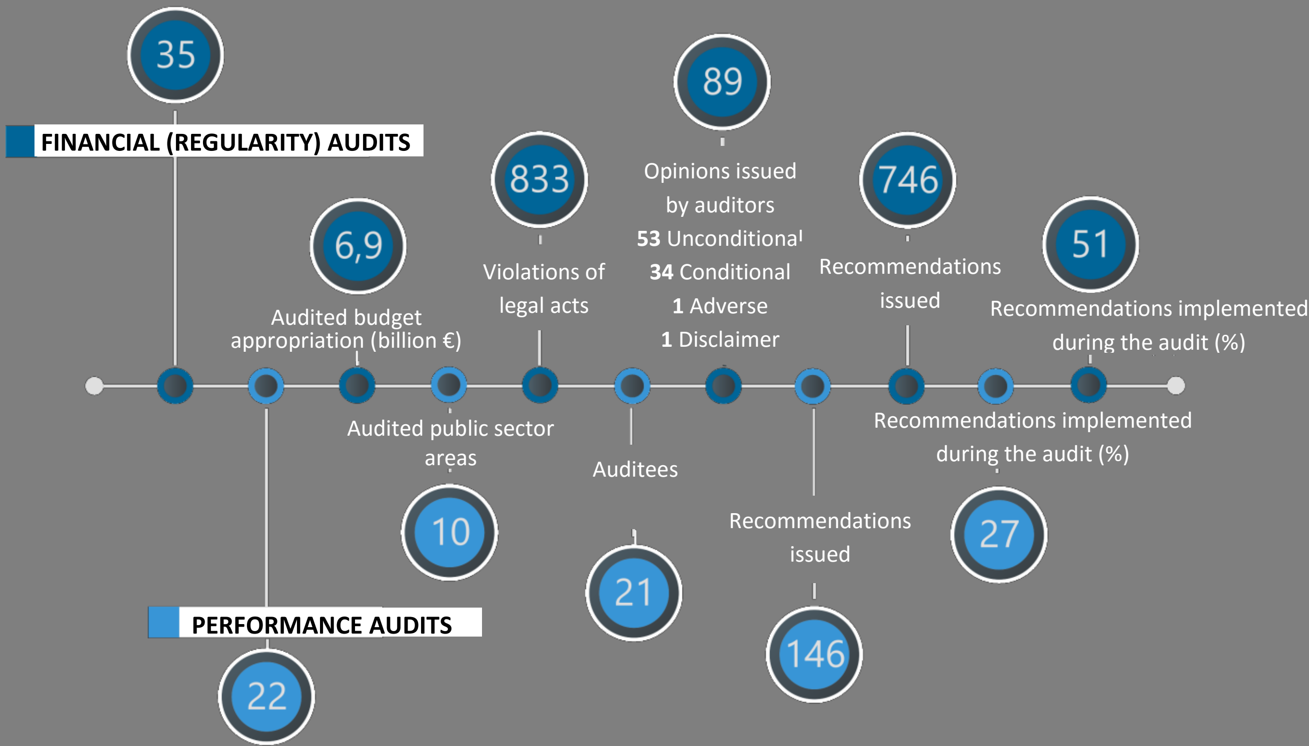
We have prepared for auditing the compliance of the institutions of the management and control system of EU structural funding for 2014–2020 with their designation criteria

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:

- 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, issuing suggestions and observations for EU projects and methodological documents regulating this area;
- we prepared an audit strategy for the Operational Programme for investment of the EU Structural Funds for the period of 2014–2020 which will establish key audit directions, and started to conduct a risk analysis for MCS institutions and processes. We discovered that investment planning processes and the processes of evaluating suitability of incurred costs and public procurements were the riskiest;
- we began a public audit of the operation of MCSs for EU Structural Funds for the period of 2014–2020 and the costs declared to the European Commission for the reporting period of 2015–2016, a report on which will be submitted to the European Commission by 15 February 2017.

6. PUBLIC AUDIT

The Lithuanian public reasonably demands real accountability for the actions of civil servants and expect principled action from the National Audit Office if errors are identified in the area of public governance. We believe that the results of the audits we conduct will lead to essential change and facilitate the decision-making process for the heads of public institutions with regard to improving performance and accountable public governance.



SET OF NATIONAL FINANCIAL STATEMENTS

The set of national financial statements covers data

from the following sets of statements

- National
- Municipal
- State Social Insurance Fund
- State Compulsory Health Insurance Fund
- Other resource funds (Privatisation Fund, Guarantee Fund, Ignalina Nuclear Power Plant Decommissioning Fund, VĮ, Reserve (Stabilisation) Fund)

The Ministry of Finance is responsible for drawing up the set of statements.

Managed funds **Managed property**

Set of financial statements of the state for 2014, million EUR

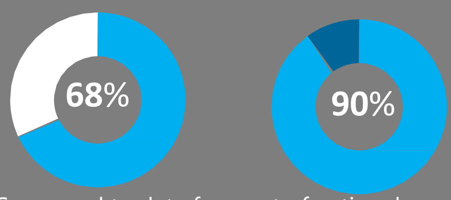
SET OF FINANCIAL STATEMENTS OF THE STATE

The set includes data from the following sets of statements

- Ministry groups composed of ministries, institutions subordinate thereto and the managers of appropriations in the purview of the minister
- Other institutions accountable to the President, Seimas and Government
- Other public institutions and establishments
- State Treasury and Tax Funds

The Ministry of Finance is responsible for drawing up the set of statements.

Managed funds **Managed property**



Compared to data from set of national statements

CHALLENGES

Ensuring a clear and transparent process of consolidation.
Registering and indicating property that belongs to the state in financial statements, i.e., forests and forest land.

Ensuring the appropriate economic classification of national budget income because the erroneous classification of income leads to the incorrect planning of income in subsequent years.

Revising and simplifying the process for administering income payments for budgetary establishments because some establishments use such income for purposes of their own without recognising it as state budget income. Thus the possibility of using the income for the general needs of the budget is lost.

Clearly establishing criteria when setting a smaller portion of profit for paying dividends for enterprises is recommended (possible) because such exemptions significantly reduce the income flowing into the state budget.

Improving the methodology for calculating national debt (calculations should be based on real and not statistical data). Refinancing high-cost national debt as soon as possible.

The following section presents information about the results of public audits conducted of specific areas of public governance, resource and tax funds as well as municipal audits.

ENVIRONMENTAL PROTECTION

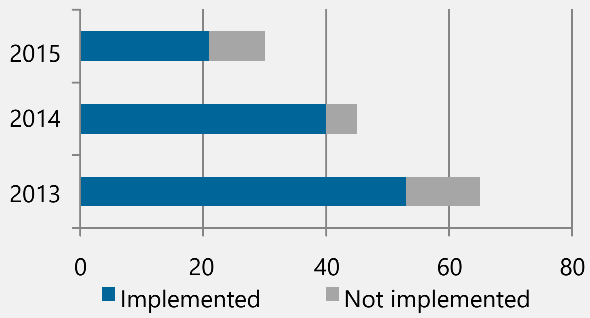
Institutions

- Ministry of Environment and its dependent establishments

Managed funds Managed property

Compared to data from set of national statements

Recommendations



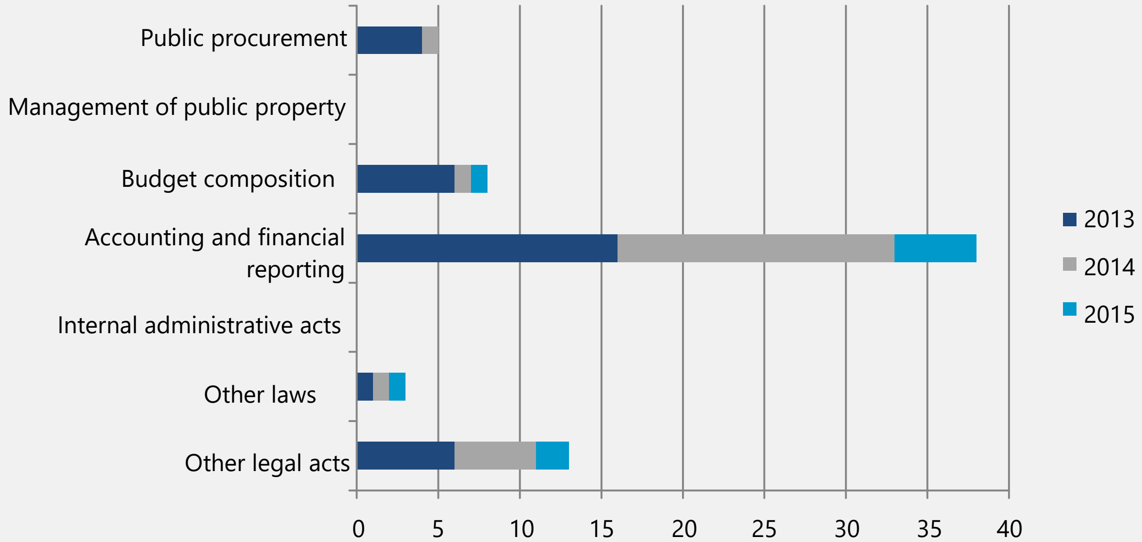
AUDIT IMPACT

In 2015, the long-awaited results of the implementation of recommendations issued as part of the public audit on "The management of real estate, use of machinery for groundskeeping in national parks and reserves" produced a positive effect, increasing the effectiveness of the management of property belonging to national parks and reserves and the more rational use of funds, and stimulated discussion on the necessity of revising how the system of protected territories is managed.

Audits completed in 2015

- Financial (regularity)
  – Ministry of Environment of the Republic of Lithuania
- Performance
  – Management of real estate, use of machinery for groundskeeping in national parks and reserves
  – Removal of Products Containing Asbestos

Violations of legal acts



CHALLENGES

A solution for organising and implementing the state control in the field of environmental protection has still not been found. The insufficient supervision of economic entities in the field of environmental protection can lead to irreversible damage to the country's eco-systems.

We are continuing to monitor the risk posed by the still unimplemented directive requirements for recycling. mechanical-biological processing construction projects. The responsible institutions are behind schedule with regard to the establishment of a land-fill for hazardous waste.

The recommendations of the OECD should be implemented more actively in the field of environmental protection with regard to decreasing the number of public enterprises conducting the same activity. In the case of environmental protection, this means 42 forest services.

ENERGY

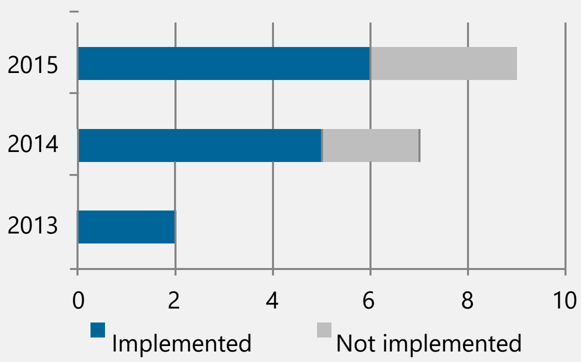
Institutions

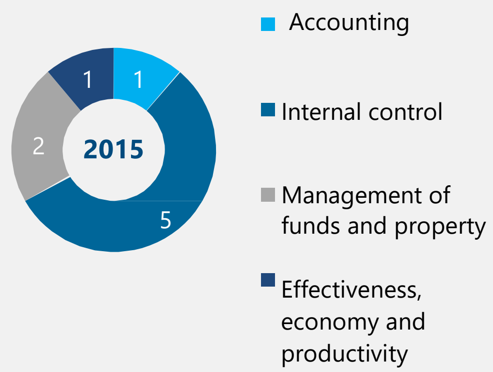
- Ministry of Energy and its dependent establishments
- Institutions operating in the purview of the Minister of Energy and associated institutions (State Energy Inspectorate, National Commission for Energy Control and Prices, State Nuclear Power Safety Inspectorate)
- Ignalina Nuclear Power Plant Decommissioning Fund, VĮ

Managed funds Managed property

Compared to data from set of national statements

Recommendations





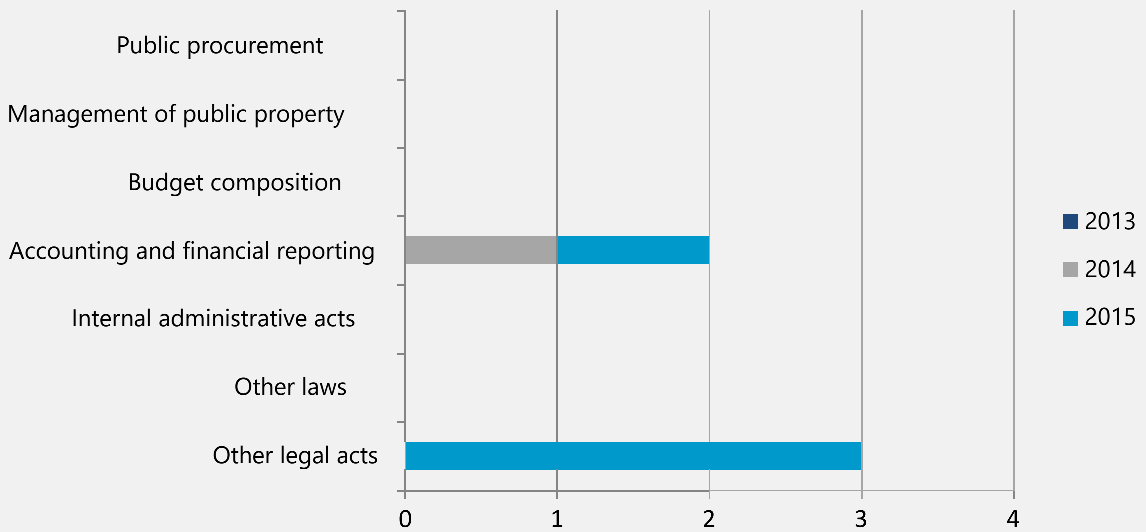
AUDIT IMPACT

As a result of the implementation of recommendations issued by the NAO, we would like to mention the amendment of the Law on Energy prepared by the Ministry of Energy. The amendment is aimed at implementing essential changes in the supervision of the services and work of energy enterprises as well as their purchases of gods from servicing companies.

Audits completed in 2015

- Financial (regularity)
  - – Ministry of Energy of the Republic of Lithuania
  - – Ignalina Nuclear Power Plant Decommissioning Fund
- Performance
  - – Providing services that serve public interest in the electric energy sector
  - – Implementation of the recommendations issued as part of the public audit "On the reorganisation of the electric energy sector"

Violations of legal acts



CHALLENGES

The national energy strategy must be renewed in order to achieve energy supply security, competitiveness and comprehensive development. We must also understand the influence and benefits of the objects being development on the country's general energy demand and eliminate the risk of ungrounded investments. Energy and environmental institutions must come to a general agreement with regard to sustainability.

In order to achieve transparent and grounded energy pricing, we must ensure that the National Commission for Energy Control and Prices is given the right to receive all necessary information from subsidiary and associated companies servicing electric energy enterprises.

As the administrator of the funds in the Ignalina Nuclear Power Plant Decommissioning Fund, the Ministry of Energy should assess the auctioning practices through which the property of the power plant is sold because the current situation has shown that sales auctions are not sufficiently supervised. This is essential if we wish to guarantee the flow of maximum income into the Fund's account.

CULTURE

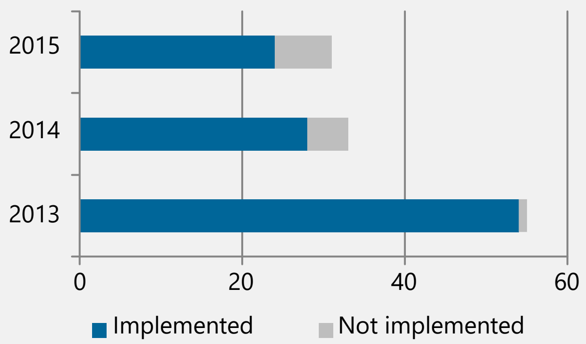
Institutions

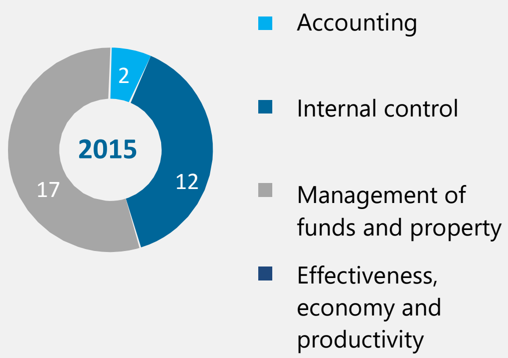
- Ministry of Culture and its dependent establishments
- Establishments operating in the purview of the Minister of Culture (theatres,museums, libraries, etc.)
- Other institutions related to the field (State Cultural Heritage Commission, State Commission of the Lithuanian Language, etc.)

Managed funds Managed property

Compared to data from set of national statements

Recommendations





AUDIT IMPACT

In 2015, the Ministry of Culture prepared and approved a Programme for the Protection of Immovable Cultural Heritage for 2016–2020 and the action plan for 2016–2018. The documents establish strategic goals, objectives and directions for planning and implementing the protection of national cultural heritage, and will help the ministry shape policy for the protection of cultural heritage with purpose and control its implementation.

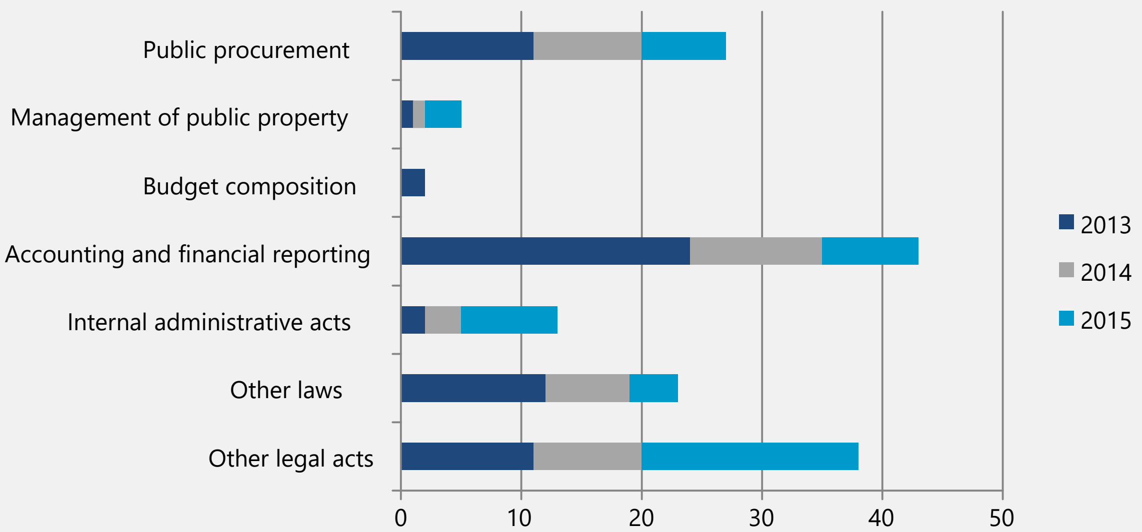
The Ministry of Culture also a prepared a methodology for assessing movable cultural heritage objects. Application of this methodology will reduce the likelihood of similar objects kept in different museums or libraries being evaluated differently, speed up the pace of object registration and regulate how the true value of an object is determined.

In 2015, the Ministry of Culture prepared Guidelines for Submitting Projects for Funding from the Culture Support Fund and plans for the evaluation of project applications in the field of cinema by the experts of the Lithuanian Film Centre. Thus, the implementation of the country's cinema policy will be concentrated in one establishment, ensuring its effective implementation.

Audits completed in 2015

- Financial (regularity)
  - – Ministry of Culture of the Republic of Lithuania
  - – Lithuanian National Drama Theatre

Violations of legal acts



CHALLENGES

The activity of cultural establishments is not sufficiently results-oriented (this is emphasised by experts as well) and the quality of their work is not adequately assessed. No system for results-oriented assessment has been established as of yet.

For almost six years now, the responsible institutions have failed to implement our recommendations for preparing Directions for the Strategic Development of Libraries,
and the ministry has been reluctant to implement the other recommendations issued by our auditors.

Though this duty is established by law, the ministry has still not prepared a strategy for the development of national, public theatres and concert establishments. Such a strategy is necessary both when planning state budget funds for financing the activity of these establishments and when setting and implementing goals and objectives for the activity of these theatre and concert establishments, granting statuses and resolving other issues on a national scale.

The ministry must establish and approve clear criteria as well as make grounded decisions regarding the distribution of funds from the Culture Support Fund.

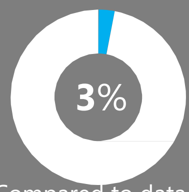
The issue of relocating residents residing within the Trakai Historical National Park has not been resolved for two decades. We have identified the risk that the opportunity to adapt the buildings of the Užutrakis manor complex for the purposes of tourism using EU structural assistance may be lost.

NATIONAL SECURITY AND DEFENCE

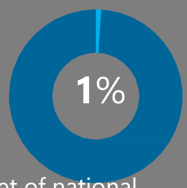
Institutions

- Ministry of National Defence and its dependent establishments
- State Security Department
- Special Investigation Service

Managed funds

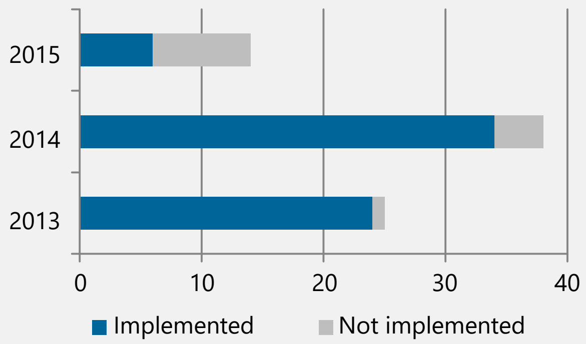


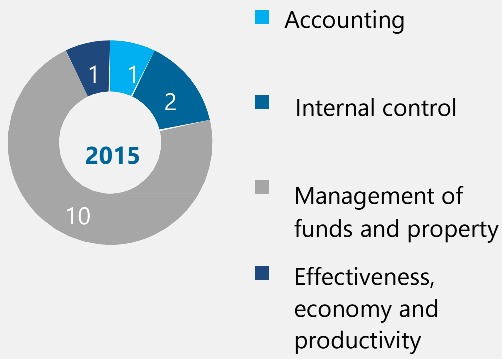
Managed property



Compared to data from set of national statements

Recommendations





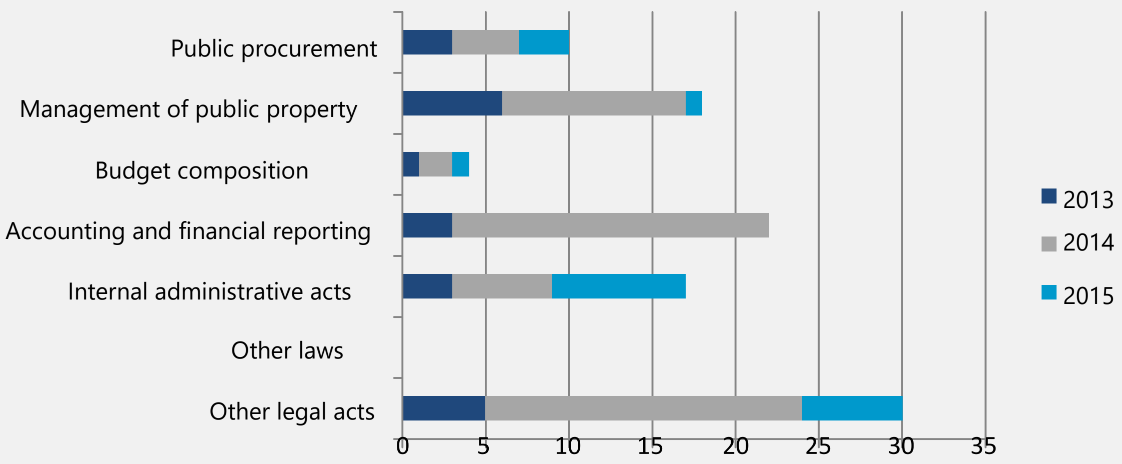
AUDIT IMPACT

The Ministry of National Defence is making progress in its management of public property and funds and has observably improved its system of internal control.

Audits completed in 2015

- Financial (regularity)
  - – Ministry of National Defence of the Republic of Lithuania
- Performance
  - – Management of information and communications technology in the National Defence System

Violations of legal acts



CHALLENGES

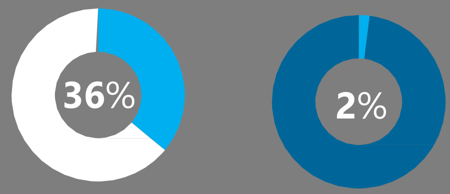
It is important to annually assess the impact of financial resources allocated to the ministry on its performance results and preparedness.

SOCIAL SECURITY AND LABOUR

Institutions

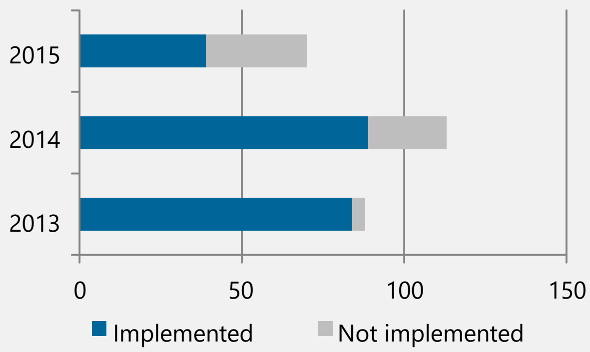
- Ministry of Social Security and Labour and its dependent establishments
- State Social Insurance Fund

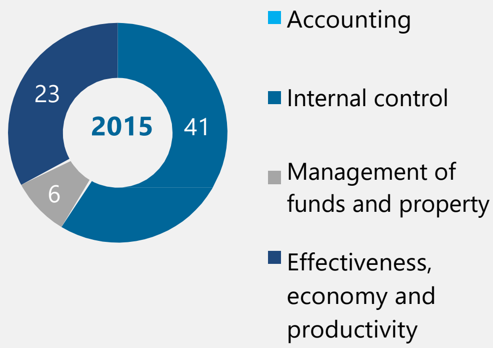
Managed funds Managed property



Compared to data from set of national statements

Recommendations





AUDIT IMPACT

With the State Social Insurance Fund Board's launch of the electronic invoice management service in 2015, it is probably that the institution will save 4,5 million euros annually and reduce the SSIF deficit.

In 2015, the ministry submitted an amendment bill for the Law on the Fundamentals of Protection of the Rights of the Child to the Seimas. The amendment establishes a procedure for removing children from dangerous environments and fixes various other shortcomings in the assurance of children's rights.

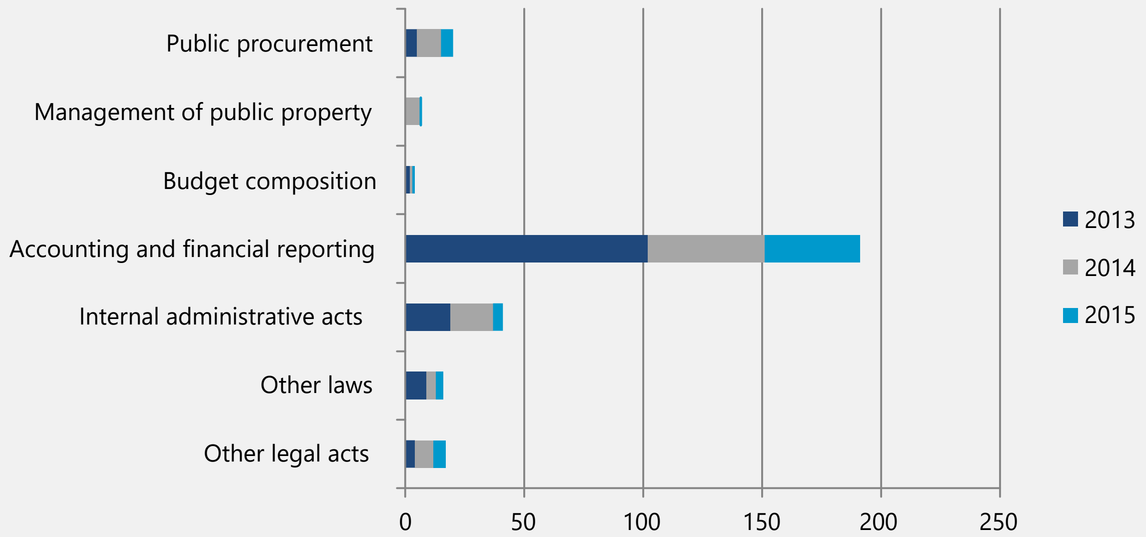
The approved Action Plan for the Development of Integral Assistance will allow municipal governments to create infrastructure for social services and provide several types of quality social services for seniors at home and thus reduce social exclusion among such individuals.

We believe that the proposed amendments submitted to the Seimas in 2015 will allow us to individualise minimal care measures for the child and encourage collaboration with the institutions implementing these measures. When the measures come to an end, the children will be monitored and consulted, thus ensuring their sustainable impact.

Audits completed in 2015

- Financial (regularity)
  - Ministry of Social Security and Labour of the Republic of Lithuania
  - State Social Insurance Fund
- Performance
  - Do currently provided social services meet the growing needs of senior individuals
  - Organising protection from domestic violence

Violations of legal acts



CHALLENGES

In our evaluation of previous public audit results as well as implemented recommendations and our analysis of the field of social security and labour, we have come to the conclusion that the institutions operating in the field still find it challenging to determine the true level of poverty in consideration of the basic indicators for social benefits and the level of impoverishment in the country.

The institutions are still failing to ensure the provision of food to the impoverished at the lowest possible price and provide a maximum number of people with essential food products.

The high level of unemployment remains an issue. Steps must be taken in order to ensure the more rational and purposeful use of funds from the Employment Fund for implementing active labour market policy measures.

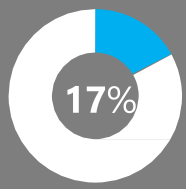
The issues of double payment and the payment of groundless unemployment benefits must be resolved, and a limit must be established by law for the administrative costs of the State Social Insurance Fund.

HEALTHCARE

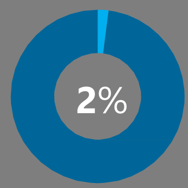
Institutions

- Ministry of Health and its dependent establishments
- Establishments in the purview of the Minister of Health (Drug, Tobacco and Alcohol Control Department, National Health Board, etc.)
- Compulsory Health Insurance Fund

Managed funds

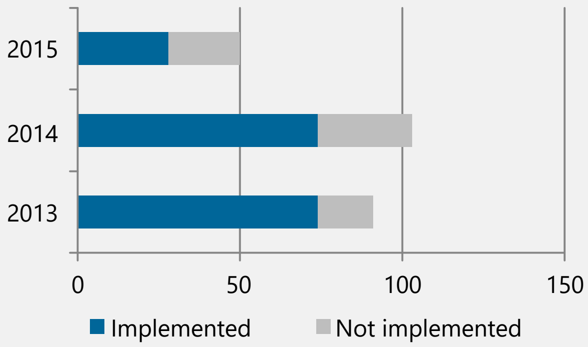


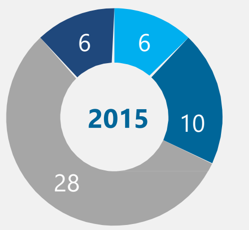
Managed property



Compared to data from set of national statements

Recommendations





AUDIT IMPACT

In order to develop a general and rational policy for the remuneration of employees working in healthcare establishments, the Minister of Health approved the Criteria for Establishing the Wages of Employees Providing Healthcare and Pharmaceutical Services in National and Municipal Public Healthcare Establishments.

The Ministry focuses more attention on supervising how the property it manages, including property that was lent on the basis of a use agreement, is used based on principles established by law, and is addressing issues related to the registration of public property according to the procedure established by law.

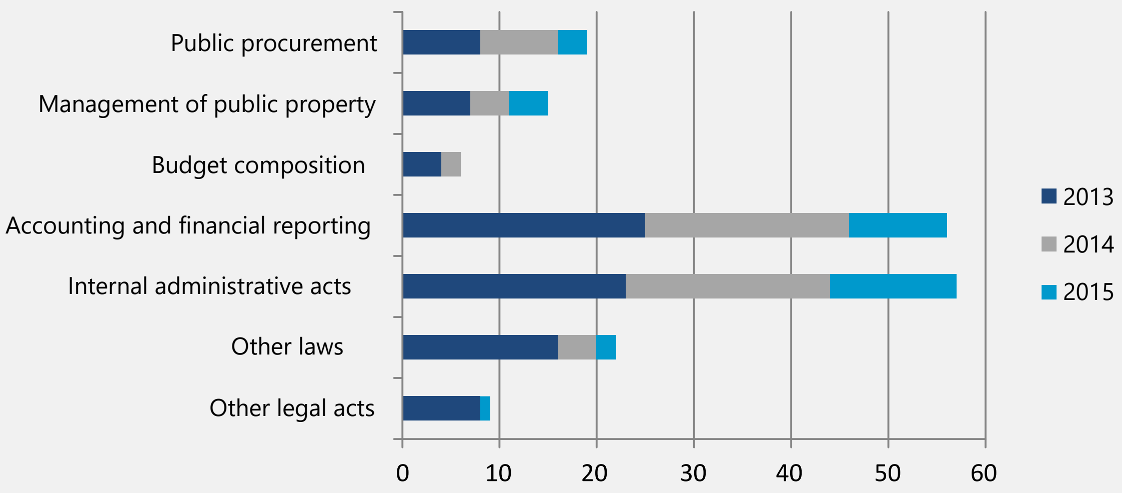
The payment system for services treating diseases of addiction was overhauled, lab testing in the process of monitoring HIV was decentralised and its prices revised in order to ensure that the funds of the Compulsory Health Insurance Fund produce added value to the insured.

In response to the recommendations issued as part of an audit conducted in the previous year and in order to ensure the quality of diagnostic and treatment services, diagnostic and treatment protocols were drawn up for a total of 123 diseases..

Audits completed in 2015

- Financial (regularity)
  - – Ministry of Health of the Republic of Lithuania
  - – Compulsory Health Insurance Fund
- Performance
  - – Organising greater public health in municipalities

Violations of legal acts



CHALLENGES

In consideration of previous audit results and the situation of recommendation implementation, we are once again urging the Ministry of Health to implement a renewal programme for emergency medical aid (EMA) vehicles, acquire new vehicles and view EMA services as critically essential in all regions. This would lead to the more efficient and effective provision of emergency medical aid to the residents of Lithuania.

In order to use the funds of the Compulsory Health Insurance Fund cost-effectively as well as transparently and eliminate the consequences of a cartel agreement, a procedure for setting basic prices, applied when compensating the purchases of technical orthopaedic tools by the insured, must be established.

The ministry failed to develop a nationwide system for monitoring the accessibility and quality of healthcare services.

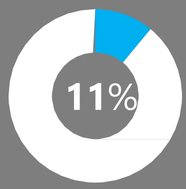
The e-health system is not functional.

EDUCATION AND SCIENCE

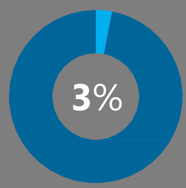
Institutions

- Ministry of Education and Science and its dependent establishments
- Educational and research organisations (universities and institutes)

Managed funds

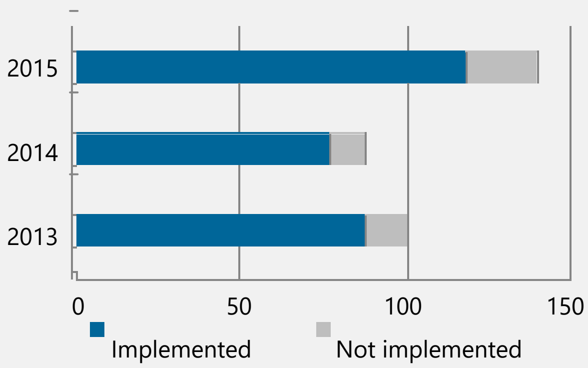


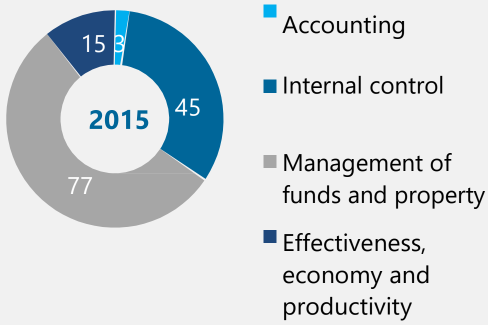
Managed property



Compared to data from set of national statements

Recommendations





AUDIT IMPACT

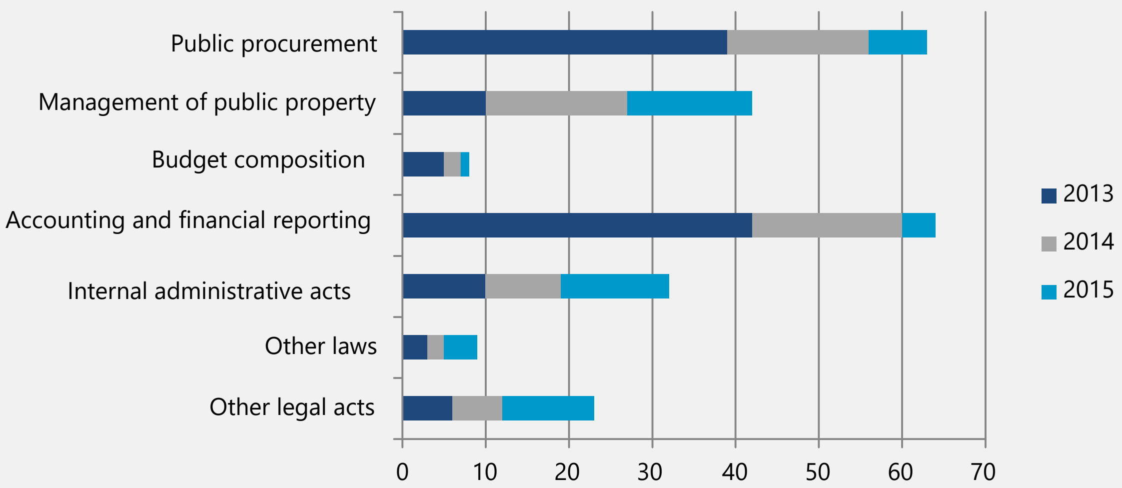
In 2015, the ministry approved and tested a method of funding informal education using education vouchers. The method will help ensure that informal education, as a means of meaningful occupation and a method of improving formal academic results, becomes accessible to students who previously did not have access to such services. With the application of this principle of funding, the number of students participating in informal educational activities increased by 17%.

Now that the amendment of the Law on Vocational Education and Training has entered into force, from 1 April 2016, vocational training establishments will have the right to lease national/municipal property or gratuitously hand it over to third parties, if this is necessary for ensuring the activity of the establishment.

Audits completed in 2015

- Financial (regularity)
  - – Lithuanian Ministry of Education and Science
  - – Vytautas Magnus University
  - – Lithuanian Academy of Music and Theatre
  - – Evaluation of the management, use and disposal of the long-term property of national research institutes
- Performance
  - – How is informal education organised for children?
  - – Do minimum child care measures ensure assistance to the child?

Violations of legal acts



CHALLENGES

Expert evaluations show that the academic achievement level of Lithuania's pupils is one of the lowest in Europe, and this situation has not changed for many years, so it is very important to ensure the quality of pre-school, pre-primary and general education: establish a compulsory assessment of pupils' achievements; create a nationwide system for the qualification development of educators; conduct an external assessment of all general education schools; develop a system for assessing pre-school and pre-primary education establishments – a task that should have been completed as part of the pre-school development programme for 2011–2013, but was not.

Responsible entities must address the issue of accumulated and unused funds from the Guarantee Fund in the State Studies Foundation, which should be transferred to the State Treasury, but are not, and the issue of the illegal funding of the Christian Culture Centre of the Vilkaviškis Bishopric from Ministry of Education and Science appropriations.

Attention must also be paid to improving the quality of education and optimising the school network on all levels (from pre-school to higher education), so that the education of specialists would meet the needs of the labour market.

JUSTICE

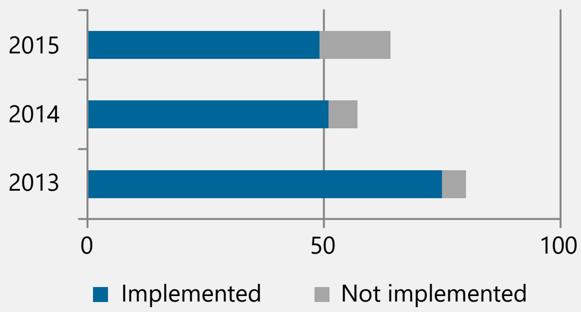
Institutions

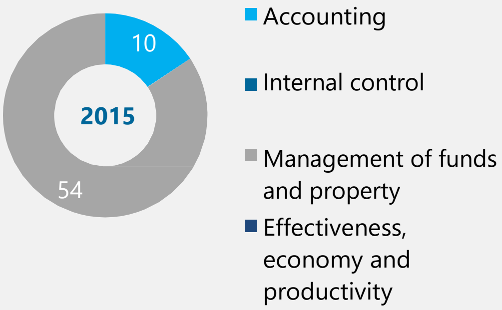
- Ministry of Justice and its dependent establishments
- Courts

Managed funds Managed property

Compared to data from set of national statements

Recommendations





AUDIT IMPACT

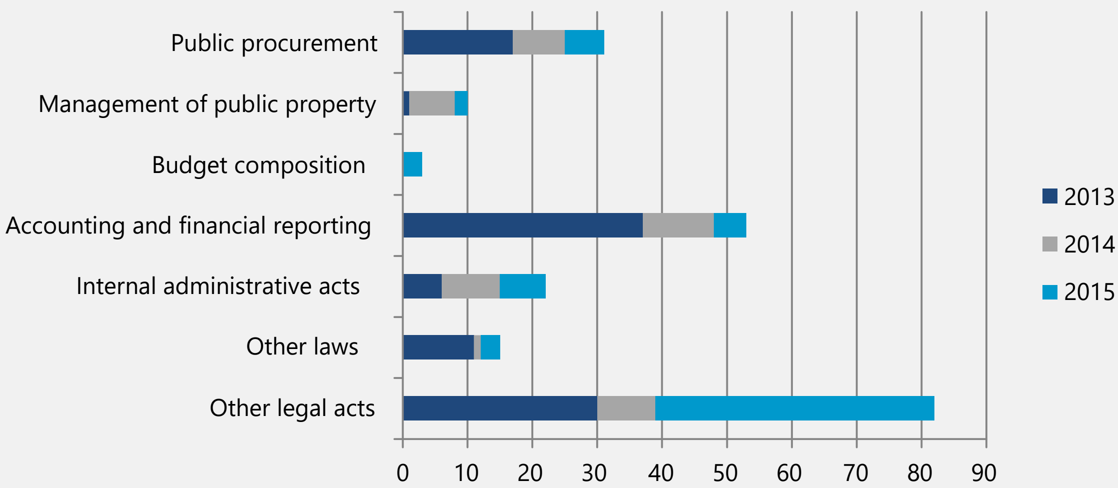
In the implementation of recommendations for the Protection of Public Interest, a law amending Article 19 of the Law on the General Prosecutor's Office was passed, thus establishing a mechanism for controlling the protection of public interest.

Amendments to legal acts on mediation in the area of state-guaranteed legal assistance have been proposed with a view to promoting the development of mediation in civil conflicts and creating real conditions for the provision of state-guaranteed legal assistance in the form of mediation.

Audits completed in 2015

- Financial (regularity)
  - Ministry of Justice of the Republic of Lithuania

Violations of legal acts



CHALLENGES

Because of the ineffective activity of entities participating in the legislative process, the process of legislation has been stretched out, leading to the delayed resolution of important issues. No mechanism for controlling the transposition of EU legal provisions.

Tax payers are still frequently compensated because of damage inflicted by the illegal decision-making of civil servants and officers. The initiative of the Ministry of Justice is essential in solving the issue of compensation for damage incurred by the state.

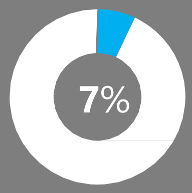
The timely and adequate implementation of the Programme for Modernising Prisons would enable the reduction of the cost of maintaining the prison system, improve working conditions for personnel and living conditions for prisoners.

TRANSPORT AND COMMUNICATION

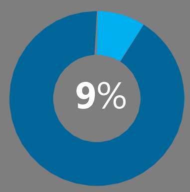
Institutions

- Ministry of Transport and Communication and its dependent establishments
- Communications Regulatory Authority

Managed funds

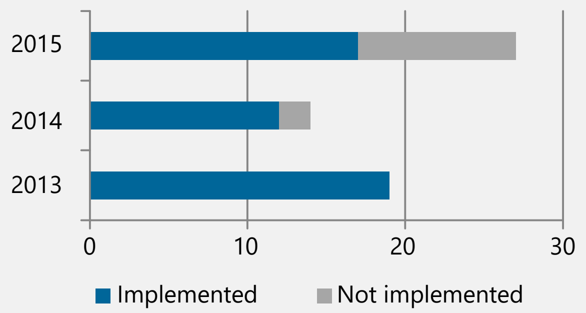


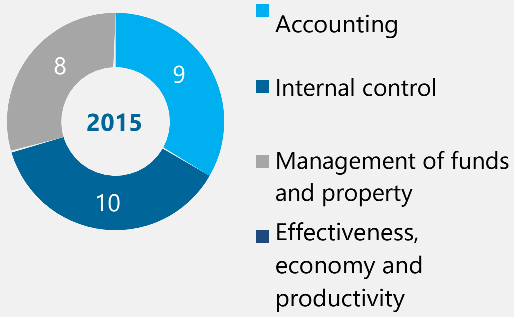
Managed property



Compared to data from set of national statements

Recommendations





AUDIT IMPACT

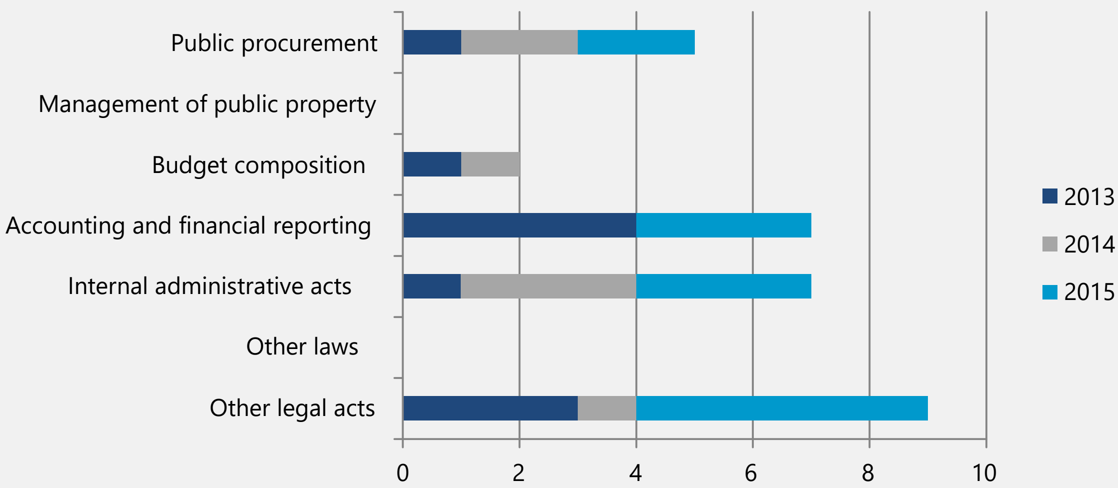
Having assessed the results of recommendation implementation in 2015, we are monitoring the development of an informational base of local roads and streets, which we believe will enable authorities to determine the current state of the local roads and streets as well as changes in condition, and help them predict road construction (repairs) and development work.

With the implementation of recommendations issued as part of the audit on the "Activity of Lietuvos Radijo ir Televizijos Centras AB", the enterprise generated additional income from leasing and selling property in 2015. This allowed the organisation to plan and develop new and more ambitious projects.

Audits completed in 2015

- Financial (regularity)
  - – Ministry of Transport and Communications of the Republic of Lithuania
  - – Communications Regulatory Authority of the Republic of Lithuania

Violations of legal acts



CHALLENGES

Rail Baltica is the largest infrastructure project undertaken by Lithuania over the entire course of its independence. It is also incredibly important to the state and the national budget both with regard to goals and expected expenditure. Monitoring this project is essential, which is why a group of experts from international audit institutions was set up to monitor the Rail Baltica Project. The group carries out ex-ante monitoring and will be able to initiate both general and individual audits.

At present, the public enterprises responsible for maintaining roads of national significance are not carrying out public procurement procedures for the provision of maintenance services for roads of national significance, even though these services are paid for with budget funds. Authorities must determine whether such a model does not limit possibilities for the participation of other economic entities that could potentially offer a competitive price for their services.

The National Programme for Safe Road Traffic for 2011–2017 has set the objective for Lithuania to be among the top 10 in the EU for the lowest number of deaths resulting from traffic accidents per 1 million residents (or no more than 60 deaths per 1 million residents). In order to address the issue of ensuring road safety in Lithuania, radical action must be taken in order to produce essential change, for not only has the situation not improved but it has also deteriorated.

FOREIGN AFFAIRS

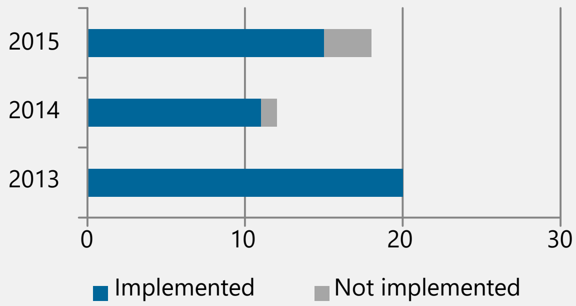
Institutions

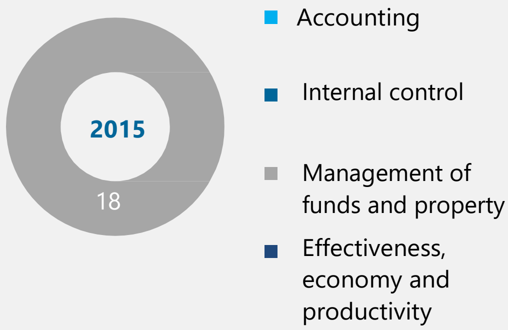
- Ministry of Foreign Affairs

Managed funds Managed property

Compared to data from set of national statements

Recommendations





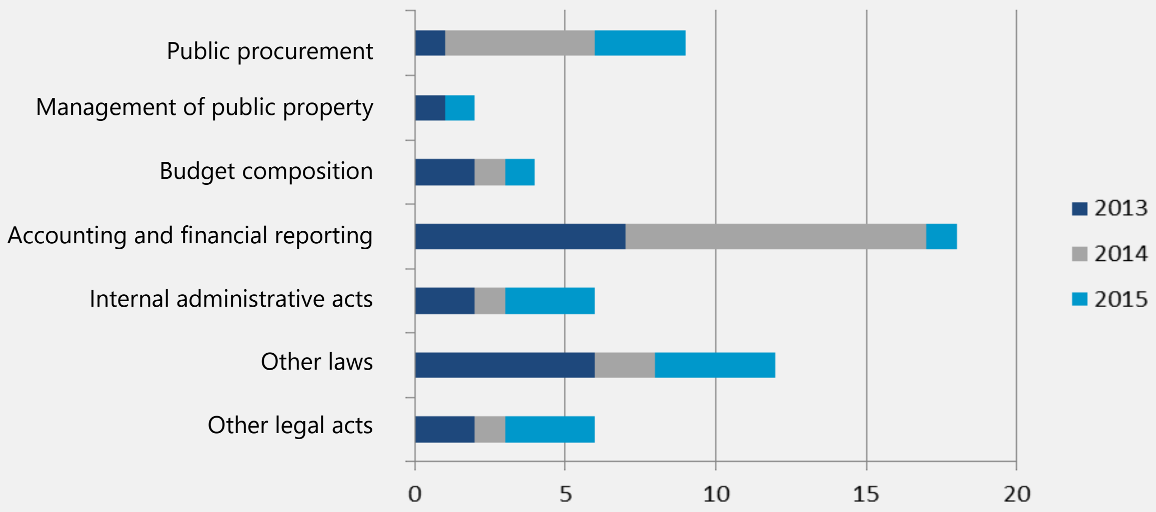
AUDIT IMPACT

Based on the recommendations we have issued, amendment bills have been drafted that will enable the relevant authorities to establish how the Ministry of Foreign Affairs and other institutions should interact and the ministry's obligations in the assessment of the purposefulness of delegating to international, European and foreign public institutions. The amendments will regulate the exchange of information between Lithuanian institutions on the planned and implemented delegation of persons, and also clearly regulate the functions assigned to the Ministry of Foreign Affairs in the developing area of cooperation, the process of providing humanitarian aid, ensuring compliance with the principles of providing humanitarian aid.

Audits completed in 2015

- Financial (regularity)
  - Ministry of Foreign Affairs of the Republic of Lithuania
  - Lithuania's chairmanship of the European Council in 2013
    Evaluation of the implementation of the inter-institutional action plan for 2013–2014

Violations of legal acts



CHALLENGES

The role of the Ministry of Foreign Affairs in coordinating preparation for OECD membership is important to all of the ministries participating in the preparation process. The ministry's close cooperation with the National Audit Office, which is responsible for monitoring the implementation of OECD accession guidelines, should enable the ministry to achieve greater results.

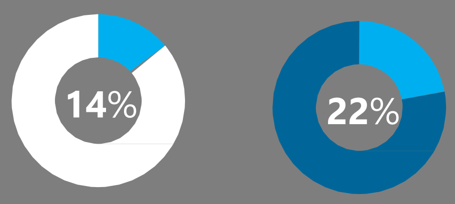
The ministry should productively contribute to increasing the competitiveness of the Lithuanian economy and the implementation of strategic international energy projects by using diplomatic means.

MANAGEMENT OF PUBLIC PROPERTY AND FUNDS

Institutions

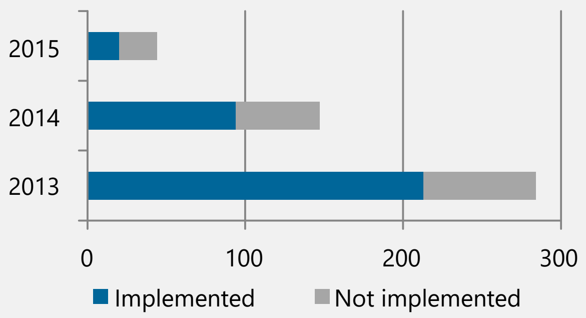
- Ministry of Finance and the establishments subordinate thereto
- Privatisation Fund
- Reserve (Stabilisation) Fund
- Tax Funds

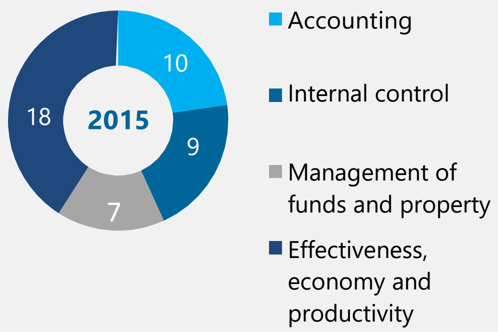
Managed funds **Managed property**



Compared to data from set of national statements

Recommendations





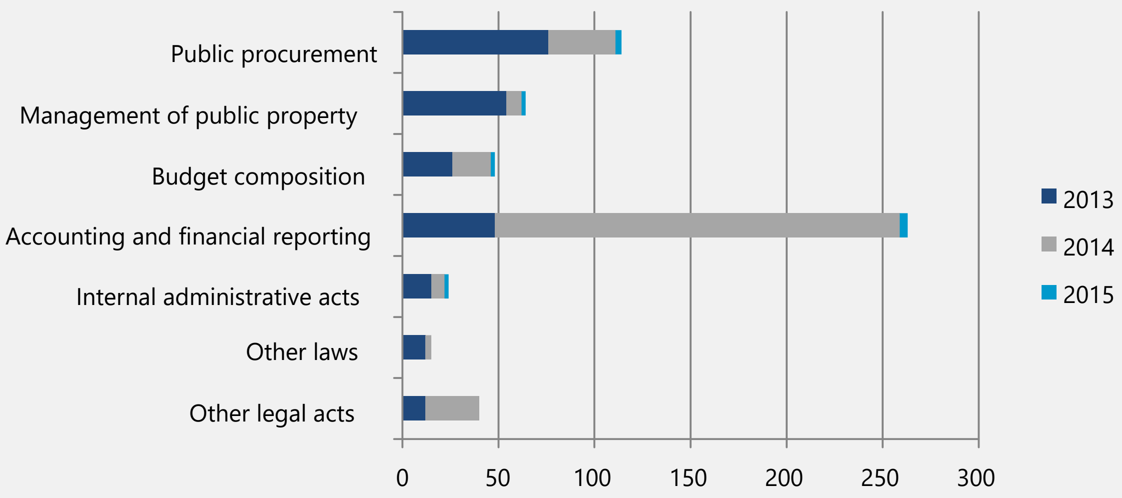
AUDIT IMPACT

In 2015, amendments to legal acts were passed, allowing authorities to improve the initiation of partnership projects between the government and private entities, feasibility studies and high-quality development of partnership projects, project implementation and the management of partnership agreements. The amendments have made the process more comprehensible and clearer both to the public and private sector.

Audits completed in 2015

- Financial (regularity)
  - – Ministry of Finance of the Republic of Lithuania
  - – Privatisation Fund
  - – Reserve (Stabilisation) Fund
  - – State Treasury
  - – Tax Fund of the State Tax Inspectorate
  - – Government Office
  - Legality of disposal of the State budget funds allocated to public institution Foundation for Disposal of Goodwill Compensations for Jewish Religious Community Immovable Property
- Performance
  - – Public supervision of the activity of property and business evaluators
  - – E-commerce control
  - – Public supervision of the organisation of gambling activity and major lotteries

Violations of legal acts



CHALLENGES

Ensuring that the proposal for the state budget and its indicators is approved and amended only by the Seimas of the Republic of Lithuania, and discontinue the delegation of some of these functions to the Lithuanian Government, as was the practice for the past few years.

Finding a suitable form of presenting the results of the implementation of annual strategic goals in the reports prepared by managers of state budget appropriations to the Seimas and the public.

Strengthening the assistance provided by the Ministry of Finance to public sector institutions on issues related to financial control and internal auditing as well as accounting. Improving the process of preparing sets of consolidated financial statements as well as the presentation of information in the explanatory text.

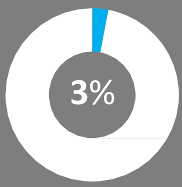
Strengthening supervision in the establishments subordinate to the Ministry of Finance and effectively representing the interests of the state in public enterprises.

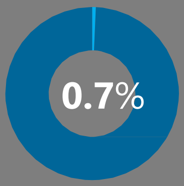
THE NATIONAL ECONOMY AND MARKET REGULATION

Institutions

- Ministry of Economy and the establishments subordinate thereto
- Guarantee Fund
- Competition Council
- Public Procurement Service

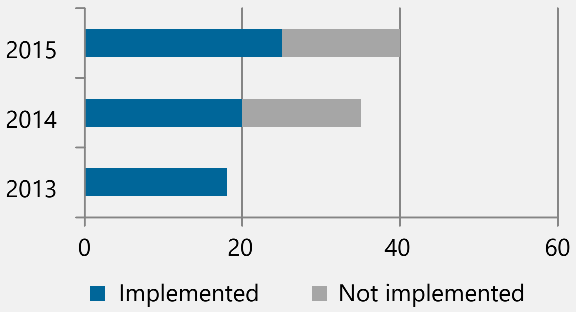
Managed funds Managed property

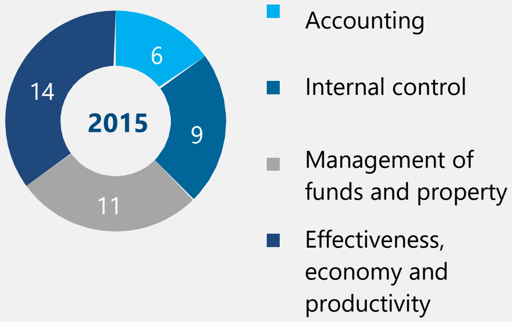




Compared to data from set of national statements

Recommendations





AUDIT IMPACT

In 2015, a bill was drafted to amend the Enterprise Bankruptcy Law, establishing essential developments for the implementation of insolvency policy.

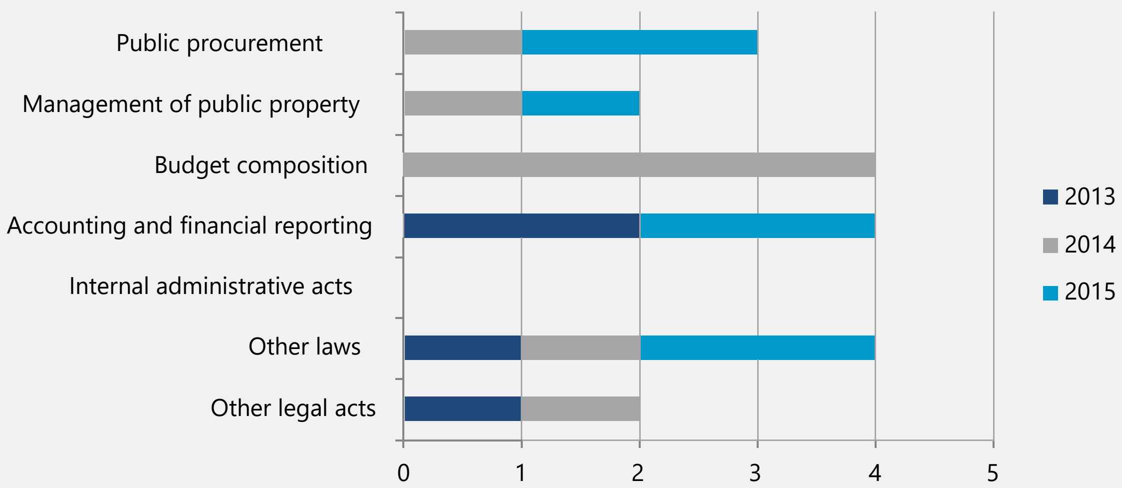
A new edition of the Law on Enterprise Reorganisation was also submitted to the Seimas. Once the new edition of the law is passed, authorities will be able to protect creditors' interests better and avoid the abuse of the reorganisation process.

In 2015, the Government charged the State Department of Tourism with the task of monitoring travel operators and identifying risk factors related to potential damage or emerging threats to the property interests of tourists and tourists' rights. The State Department of Tourism has implemented several measures that will allow it to effectively monitor the activity of travel operators.

Audits completed in 2015

- Financial (regularity)
  - Ministry of Economy of the Republic of Lithuania
  - Guarantee Fund
- Performance
  - Management of the process of enterprise reorganisation

Violations of legal acts



CHALLENGES

We expect to see cardinal changes in the policy for the formation and implementation of nationally significant economic projects because such projects are currently implemented without any clear principles of management or proper coordination either in general or at the ministerial level; monitoring does not ensure their proper implementation with regard to objectives set; and no mechanisms are in place to prevent the provision of state support that is incompatible with the internal market and violates the limitations of eligibility.

Lithuania's accession to the OECD is considered to be one of the country's main economic and political priorities. The aim of ensuring smooth accession to the OECD is incorporated in the Lithuanian Government's priorities for 2016. Because Lithuanian institutions have entered an intense 2-3 year long process of harmonising national legal acts and the legal acts of OECD countries, ratifying the OECD Convention, etc., and because we understand the importance of this issue to the State, we have been monitoring the implementation of the guidelines established in the roadmap for Lithuania's accession to the OECD.

INTERIOR AFFAIRS

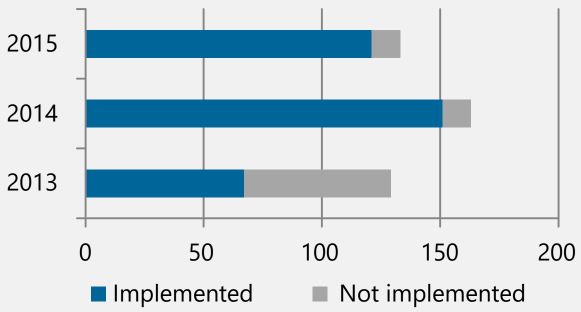
Institutions

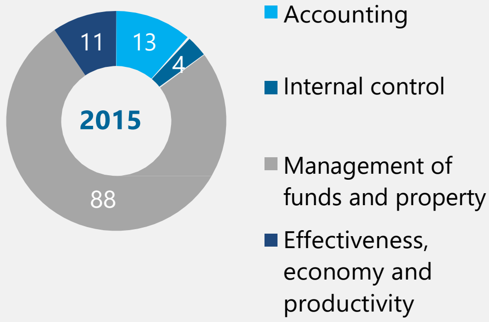
- Ministry of Interior Affairs and its dependent establishments
- General Prosecutor's Office

Managed funds Managed property

Compared to data from set of national statements

Recommendations





AUDIT IMPACT

As a result of the 2015 public audit on the "Management of immigration processes", a bill amending the Law on the Legal Status of Aliens was passed and several amendment projects have been initiated for modifying international agreements.

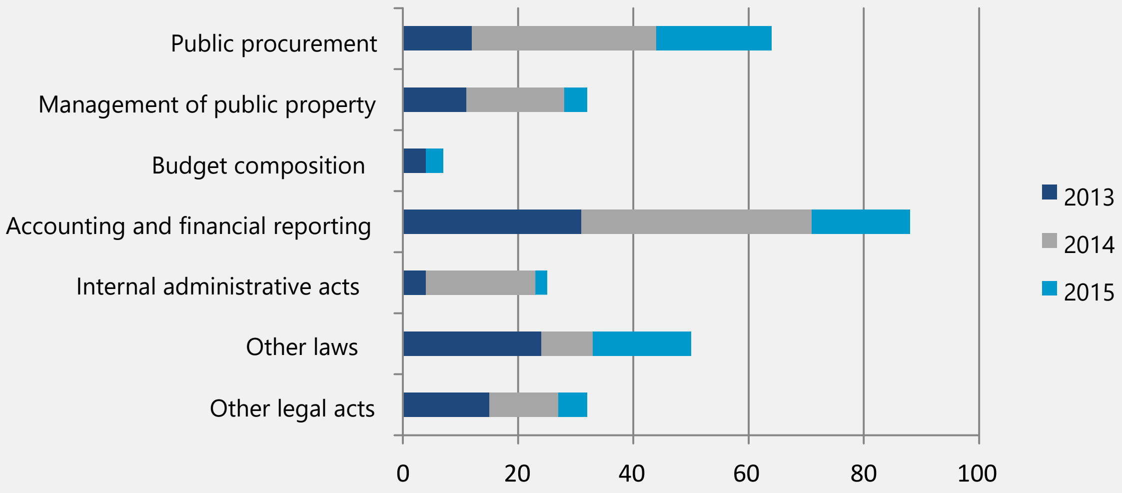
2015 saw the establishment of conditions necessary for the provision of single-window e-services from several institutions: a regulatory framework was established for developing a complex of e-services, linking these e-services to life events and evaluating the quality and need for e-services.

In response to the recommendations issued as part of the public audit on the "Management of Statutory Service", the Law Amending the Statute of Internal Service was passed in 2015. This was the first step towards the implementation of recommended reforms and the elimination of various shortcomings.

Audits completed in 2015

- Financial (regularity)
  - Ministry of Interior Affairs of the Republic of Lithuania
  - Police Department under the Ministry of the Interior
- Performance
  - Human trafficking: prevention and assistance for victims of crime
  - Management of Immigration Processes
  - Activity of the Public Security Service

Violations of legal acts



CHALLENGES

One of the main challenges Lithuania faces is the change in attitudes towards public participation in governance that occurs when the state transitions from the formal aim of complying with legal requirements and procedures to the real and active involvement of the public in government processes.

Authorities must ensure a reorganisation of public service, first by evaluating the functions carried out by public institutions and the need for employees in the public sector. The population of Lithuania is decreasing and increasingly more public sector services are being carried over to the internet, however, the number of civil servants per thousand residents is increasing.

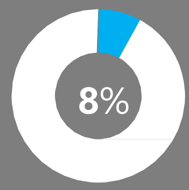
It is also important that authorities implement the new provisions of the Internal Service Statute.

AGRICULTURE

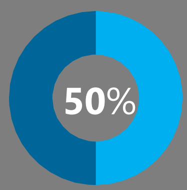
Institutions

- Ministry of Agriculture and the establishments subordinate thereto

Managed funds

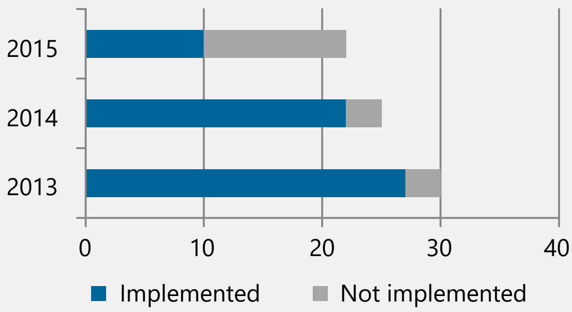


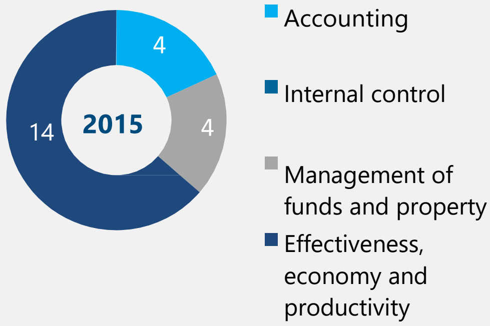
Managed property



Compared to data from set of national statements

Recommendations





AUDIT IMPACT

As a result of our consistent efforts, we have resolved the issue of public land accounting.

Ensuring food safety, authorities improved the quality control of meat products and communication to the public about unsafe food products.

In 2015, information acquired through the monitoring of the field showed that fines for illegally caught fish had been increased tenfold. With the implementation of more rigorous procedures, the number of violations related to the use of fishing nets is now approximately three times lower than in previous years. The number of confiscated fishing nets was over three times lower than in previous years as well.

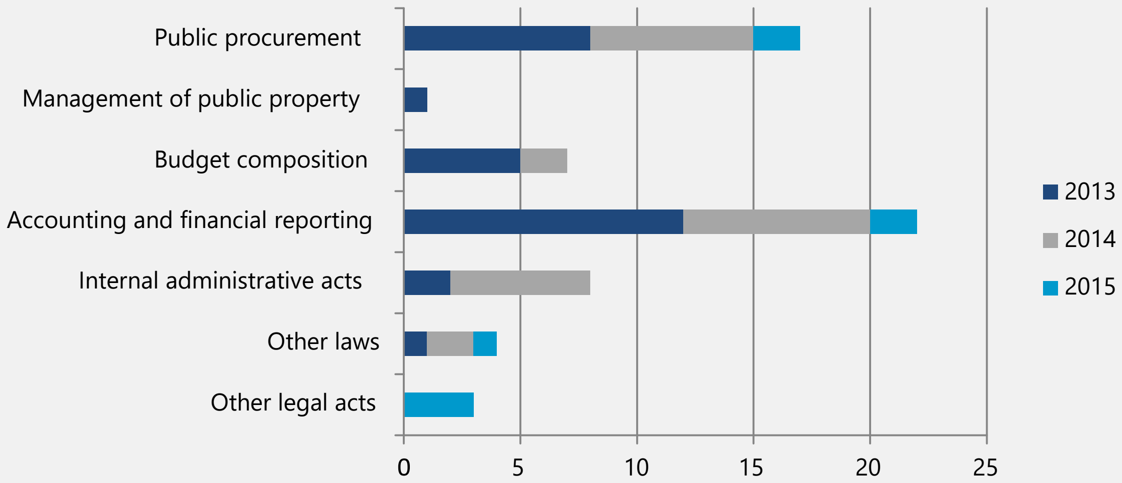
The newly approved criteria for protected farm animals will enable the more rational planning of measures and the protection of these animals.

Following the audits of the NAO, agreements were signed regarding the repayment of public funds used for ineligible purposes and the payment of dividends and interest due to the state that have not been paid.

Audits completed in 2015

- Financial (regularity)
  - Ministry of Agriculture of the Republic of Lithuania
- Performance
  - Development of farming animal breeding

Violations of legal acts



CHALLENGES

The management of public land remains a pertinent issue with regard to ensuring the lawful use of public land in rural areas, the use of leased land according to its established purpose and the collection of payments for land sold by instalments.

The management of public enterprises operating in the field of agriculture does not ensure the growth of business value for the enterprises managed by the ministry or a sufficient return on investment for public capital.

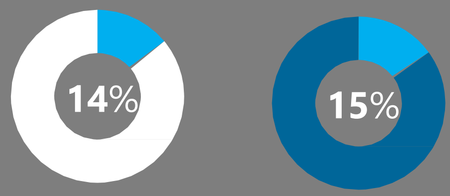
The European Court of Auditors has identified a high level of error in the use of EU funds in the field of agriculture, which demonstrates that the administration of funding requires substantial improvement. It is important that national institutions develop the ability to prevent such mistakes, identify them if they are made and correct them before costs are declared.

LOCAL GOVERNMENT

Institutions

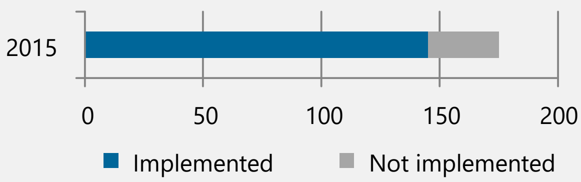
- 60 municipal governments

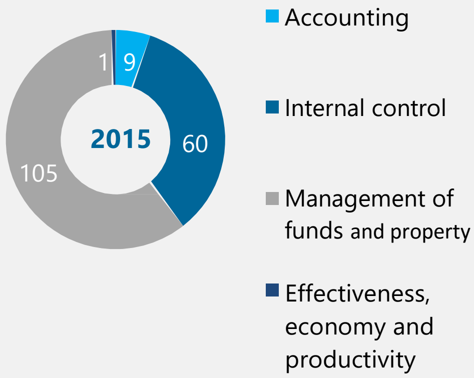
Managed funds Managed property



Compared to data from set of national statements

Recommendations





AUDIT IMPACT

Municipal governments improved their fiscal discipline. Improvements were made to various legal acts and measures were identified for municipal borrowing that will have to be incorporated into municipal debt and borrowing limits. The true debt obligations of municipal governments are now becoming apparent, and provisions have been established for ensuring the fiscal discipline of municipal budgets.

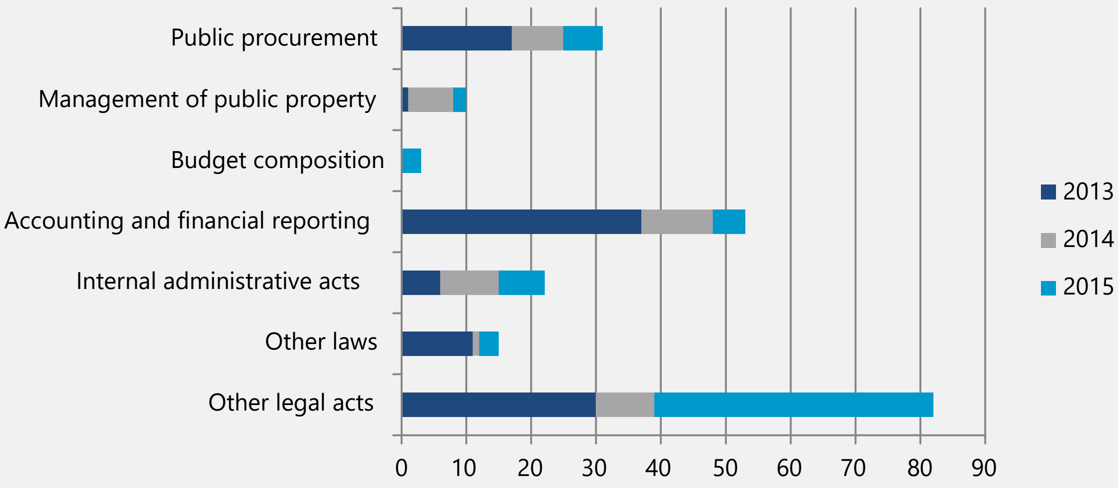
Information on municipal income and expenditure is reflected with more accuracy. With various improvements made to legal acts, EU funds and other international funding is now accounted for as municipal income for carrying out national and independent functions.

National investment projects are now implemented more effectively by local government. Amended legislation now requires municipalities to contribute to the implementation of national investment projects with their own funds (15%). We believe that this will encourage municipal governments to implement the said projects more productively.

Audits completed in 2015

- Financial (regularity)
  - Municipalities of the Republic of Lithuania

Violations of legal acts



CHALLENGES

Ensuring adequate municipal borrowing that does not exceed the limits established for debt and annual net borrowing, also ensuring the implementation of essential investment projects that are important to the local community.

Ensuring correct accounting and financial reporting.

Revising the principles for planning and distributing municipal income and improving the law regulates this.

Suitably implementing goals set for civil defence: in the event of an extreme situation, available resources would only allow authorities to warn slightly more than half of the country's residents, and authorities are not equipped to manage (potential) extreme situations or protect residents in the event of danger.

Implementing the development of local roads systematically and by ensuring investment planning, proper project selection and accounting. Conducting an inventory of and registering local roads and streets, conducting their legal registration.

MANAGEMENT OF INFORMATION TECHNOLOGY

Policy shaping institutions

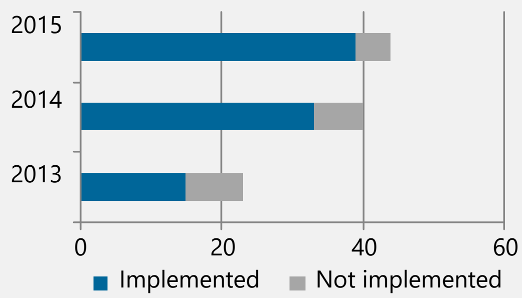
- Ministry of Transport and Communications
- Ministry of the Interior
- Ministry of National Defence
- Ministry of Justice

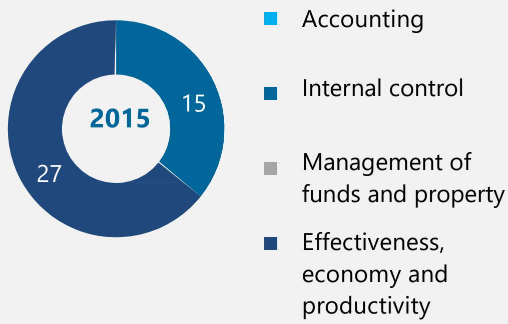
Audits completed in 2015

– The cyber security environment in Lithuania
– The production of biometric identity documents
– Management of information and communications technology in the National Defence System

– Management of police information resources

Recommendations





AUDIT IMPACT

As a result of recommendations implemented as part of the 2015 public audit on the "Management of Public Information Resources", public authorities are now making more effective use of public information resources: a model for the general use of information resources managed by the state and a plan for the optimisation of infrastructure were developed. Authorities began the consolidation process.

2015 saw the establishment of conditions necessary for the provision of single-window e-services from several institutions: a regulatory framework was established for developing a complex of e-services, linking these e-services to life events and evaluating the quality and need for e-services.

Responding quickly to the solutions auditors proposed for improving the management of the police's information resources, the Police Department eliminated a portion of the shortcomings identified during the audit itself.

CHALLENGES

Assessing the changes occurring in this area, we continue to focus our attention on the fact that there is a critical need to improve the Law on Cyber Security and other legal acts, eliminating the shortcomings that have remain unaddressed after the law was passed and taking into account the information security issues we have identified and the possible solutions we have proposed.

Striving to ensure the functionality of the e-healthcare system.

ANNEXES

Annexes to the Annual report of the
National Audit Office 2015

Financial (regularity) audits completed in 2015 and opinions issued

No.	Audited entity	Opinion issued for 2014							
		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 public (fund) funds and property	state debt statements	regularity of borrowing
	Audits of the national set and sets of consolidated statements of the State								
1.	Set of consolidated financial statements and budget execution statements of the state and the execution of the state budget for 2014;	Qualified	Qualified			Qualified			
2.	National set of financial statements, state debt reports and borrowing for 2014		Qualified					Unqualified	Qualified
	Audits of resource and tax funds								
1.	State Treasury		Qualified				Unqualified		
2.	State Social Insurance Fund	Qualified	Qualified				Qualified		
3.	Compulsory Health Insurance Fund	Unqualified	Unqualified				Qualified		
4.	Privatisation Fund		Qualified	Unqualified			Adverse		
5.	Reserve (Stabilisation) Fund		Unqualified	Unqualified			Unqualified		
6.	Ignalina Nuclear Power Plant Decommissioning Fund	Unqualified	Qualified				Unqualified		
7.	Guarantee Fund	Unqualified	Qualified				Unqualified		
8.	Tax Fund of the State Tax Inspectorate		Disclaimer of opinion		Qualified				

No.	Audited entity	Opinion issued for 2014							
		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 public (fund) funds and property	state debt statements	regularity of borrowing
Audits of Ministries and institutions subordinate thereto									
1.	Ministry of Social Security and Labour	Unqualified	Unqualified				Qualified		
2.	Ministry of Health	Unqualified	Unqualified				Qualified		
3.	Ministry of Agriculture	Unqualified	Qualified				Qualified		
4.	Ministry of Environment	Unqualified	Qualified				Qualified		
5.	Ministry of Energy	Unqualified	Unqualified				Unqualified		
6.	Ministry of Transport and Communications	Unqualified	Unqualified				Unqualified		
7.	Communications Regulatory Authority of the Republic of Lithuania	Unqualified	Unqualified				Qualified		
8.	Ministry of Economy	Unqualified	Unqualified				Qualified		
9.	Ministry of the Interior	Unqualified	Unqualified				Qualified		
10.	Police Department under the Ministry of the Interior	Unqualified	Unqualified				Qualified		
11.	Ministry of National Defence	Unqualified	Unqualified				Unqualified		
12.	Ministry of Justice	Unqualified	Unqualified				Qualified		
13.	Ministry of Foreign Affairs	Unqualified	Unqualified				Qualified		
14.	Ministry of Education and Science	Unqualified	Unqualified				Qualified		
15.	Vytautas Magnus University	Unqualified	Unqualified				Qualified		
16.	Lithuanian Academy of Music and Theatre	Unqalified	Unqualified				Qualified		
17.	Ministry of Culture	Unqualified	Unqualified				Qualified		
18.	Lithuanian National Drama Theatre	Unqualified	Unqualified				Qualified		
19.	Ministry of Finance	Unqualified	Unqualified				Qualified		
Audits of other state institutions									
1.	Government Office	Unqualified	Unqualified				Qualified		
2.	Regularity of disposal of the State budget funds allocated to the public institution Foundation for the Disposal of Goodwill Compensations for Jewish Religious Community Immovable Property						Qualified		

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