

## Summary Project Fiche

### Project Number 2003.004-341.01.03

#### 1. Basic Information

- 1.1. CRIS Number:** 2003.004-341.01.03
- 1.2. Title:** Strengthening Functional Capacities of Public External Audit Aimed at Practical Implementation of Acquis
- 1.3. Sector:** Public Finance
- 1.4. Location:** National Audit Office (NAO) of Lithuania, Pamenkalnio 27, 2669 Vilnius, Lithuania

#### 2. Objectives

##### 2.1. Overall Objectives

The overall objectives of this **EUR 1.494 million** project (with institution building and investment components), of which **EUR 0.136 million** are provided as national co-financing, are as follows:

- Assist the National Audit Office of Lithuania to operate efficiently and effectively in the present legal and technological public audit environment;
- Sustain new challenges, tasks and initiatives derived from the EU integration process.

##### 2.2. Project purpose

The purpose of this project is to:

- Strengthen methodological basis of the National Audit Office of Lithuania by developing national public auditing standards, audit manuals and methodologies, audit working papers, other relevant documents and procedures and apply the developed methods and tools when conducting financial and performance audit in new fields, in particular audit of EU pre- and post-accession funds, thus ensuring the protection of the financial interests of the Community;
- Improve audit quality by training auditors to apply modern audit methods and tools (including computer-assisted audit techniques) in order to meet INTOSAI and EUROSAI audit quality requirements;
- Establish modern audit infrastructure, close to that in the EU Member States, based on the latest developments in the field of IT, relevant audit methods, tools and techniques. Information technologies should be available for every auditor and support them during audit process (documenting audit process, using computer-assisted audit techniques, extracting data from databases, analysing data, etc.).

Seeking to achieve these objectives, the National Audit Office of Lithuania will follow the provisions of the following documents:

- Strategic Development Plan;
- Information Technologies Strategic Development Plan;
- Human Resources Development Strategy.

Activities to be undertaken under the proposed project (end of 2003 – beginning of 2006) will provide practical measures for the implementation of the objectives set out in the above-mentioned documents.

### **2.3. Accession Partnership and NPAA Priority**

The Government of the Republic of Lithuania approved the position paper “Financial Control” (28 Negotiation Chapter) by the Resolution No.1487 of 22 December 2000. The position paper states that the Republic of Lithuania shall be ready to meet the obligations of EU membership from 1 January 2004 and implement *acquis* in the field of financial control from the date of accession to the European Union.

On 16 May 2001 the EU submitted its common position on Chapter 28 underlining the main issues. The document notes, among other things, the importance of compliance of audit procedures with the INTOSAI auditing standards, auditor training programmes, the current situation and the stages of the implementation of the Strategic Development Plan of the NAO of Lithuania.

2001 Accession Partnership establishes the following priorities in the field of public external audit:

- Adopt and implement external and internal auditing standards in line with internationally approved and EC compliant standards, adopt control and audit manuals, prepare audit trails and methods for reporting, monitoring and accounting for national and EC funds;
- Complete the legislative framework of the National Audit Office including the enhancement of its independent status;
- Strengthen the fight against fraud;
- Continue efforts to ensure the correct use, control, monitoring and evaluation of EC pre-accession funding as a key indicator of Lithuania's ability to implement the financial control *acquis*.

The NPAA specifies the following priority:

- Strengthen the administrative capacities of external audit, to ensure external audit is in compliance with international external auditing standards and to apply them.

## **3. Description**

### **3.1. Background and Justification**

The Europe Agreement provides for Lithuania to develop the system of public financial control comprising the National Audit Office (NAO), municipal controllers as well as internal audit units until the beginning of 2004.

The National Audit Office of Lithuania seeks to become a modern and competent public external audit institution. Therefore, the Auditor General requested SIGMA to carry out a detailed Peer Review of the NAO activity. SIGMA experts conducted the review in February-March 2000 and submitted their recommendations in October 2000 and identified the main areas that should be developed:

- Develop an audit strategy on which audit manuals could progressively be constructed;
- Adopt and implement auditing standards in line with international and EU standards;
- Conduct attestation or certification-type audit;
- Upgrade information technologies that support the attainment of general audit objectives and improvement of audit quality.

The Strategic Development Plan was developed taking due account of SIGMA recommendations, NAO capacity and needs analysis during the pre-accession period, and defines the main goals of the NAO of Lithuania, the way these are to be achieved and the timescale for the Plan. The Plan was approved by the Decree of the Auditor General of 21 August 2002.

The Strategic Development Plan comprises the following stages: preparatory (2001-2002), implementation (2003) and consolidation (2004-2006). The plan was based on the assumption that *functional capacities* (i.e. ability to perform the external audit function) may be addressed once the institution has reinforced its *administrative capacities* (general institutional management, infrastructure, awareness).

In order to improve the system of public financial control, the Seimas of the Republic of Lithuania adopted on 13 December 2001 the Law on the Amendment of the Law on the State Control No.IX-650 that is based on conclusions and recommendations made by SIGMA experts. The Law should effect a major change in the whole system of public financial control. The new Law specifies that the National Audit Office, accountable to the Seimas of the Republic of Lithuania, shall supervise the lawfulness and effectiveness of the management and use of the State property and the implementation of the State budget and shall ensure that public external audit is in line with international auditing standards. It is within the NAO mandate to audit the authorities managing EU funds and beneficiaries, the use of EU funds as well as the implementation of programmes.

The National Audit Office of Lithuania underwent reorganisation by the Decree of the Auditor General No.V-16 of 1 February 2002. At present the NAO has got three regional offices instead of the former five, so the administrative capacity of the institution has been strengthened.

At present, the NAO employs about 260 staff members, 52% being the auditors, 18% - partially involved in the audit process (audit managers, IT audit support, audit review and supervision), 30% - administration. Taking into consideration new prospective tasks (EU pre- and post-accession funds auditing, performance audit, etc.), the number of NAO staff fully or partially involved in audit process is going to increase by the year 2005 up to 250.

We would like to note that the NAO of Lithuania is among 3 National Audit Offices in Europe (and *the single* among the candidate countries) who has agreed to audit European Union Structural Funds. This shows ambitions of the office as well as the great commitment to become an integral part of EU Supreme Audit Institutions network, when the European Court of Auditors can entrust that the NAO shall audit EU structural funds. Therefore, a significant part of modern European practices in this area has to be accumulated by the NAO of Lithuania, as well the audit management systems, equivalent to those existing in EU Member States and in the Court of Auditors have to be established while the auditors will be required to perform new tasks according the standards set by the European Court of Auditors.

The project will reinforce capacities of the NAO to submit reliable information on public administration to the public and managing authorities, the Seimas, the general public and European institutions.

The proposed project involves the following components: *Twinning*, *Procurement* and *Services*. All those components are inter-related while the following planned *Twinning* activities (see 3.4.1):

- Developing audit support infrastructure (including audit information management, communication and documentation systems) and infrastructure for audit-related training;
- Developing and implementing computer-assisted audit management system at the Lithuanian NAO, including tools and techniques for data extraction and analysis and process-oriented audit tools

- are aimed to provide expert advice for *Procurement* and *Services* components.

*Twinning component* is essential to transfer *Acquis* in the area of auditing of European Union structural Funds effectively, however, without adequate infrastructural support it may lose its value: auditors of Lithuania, having adequate knowledge to apply audit methodology in the area of EU Structural Funds audit will not have adequate technical possibilities. Alternatively, experts coming from the EU National Audit Offices or from the European Court of auditors will not be able to transfer their knowledge and skills within the existing infrastructure of the NAO of Lithuania, if it remains unchanged.

Essentially important issue is *training equipment*. A lot of seminars (those taking place within the framework of on-going PHARE project, foreseen in the proposed one, also sponsored by the European Court of Auditors) is not so effective if the consequent (not simultaneous) interpretation is used, because the English language of most of the auditors is not sufficient. Upgrade of training equipment will help the NAO of Lithuania to transmit directly training sessions also to the branch offices situated in different cities of Lithuania.

As concerns the *Services* component, there is a need to establish modern Computer-assisted audit management, communication and information system, based either on the existing modules of integrated information system VAKIS, or on alternative approaches (either creating completely new systems, or adapting existing ones, for example, *TeamMate*, *AutoAudit*, etc. ....). Such systems exist in most of EU Member States. Twinning arrangements should channel know-how on set-up and development of such systems and prevent from anticipated difficulties along the way, and the *Services* component will enable to implement such a system.

It has to be mentioned that without *Twinning arrangements* it would be difficult to develop and tailor such systems to specific needs of the Lithuanian NAO.

### **3.2. Linked Activities**

In February-March 2000 SIGMA experts carried out the Peer Review of the institution, financed from PHARE. The recommendations set forth in the SIGMA report dated 5 October 2002, served as a basis for developing and approving both the Strategic Development Plan of the NAO and the new Law on the State Control, that was adopted on 13 December 2001. The project will support the implementation of strategic decisions on external audit set out in the above-mentioned legal acts.

The National Audit Office maintains close relations with supreme audit institutions of EU member states and candidate countries as well as the European Court of Auditors. This ensures a number of joint training activities, mainly with the Swedish and British partners. At present discussions are being held on signing a cooperation protocol with the Swedish NAO and the Finnish SAI. In 2002 the NAO of Lithuania signed cooperation protocols with the National Audit Office of Denmark, Poland and Belarus.

One NAO auditor went on a traineeship programme to the European Court of Auditors in 2002.

In 2002 the Lithuanian NAO and the UK NAO signed the Twinning Covenant that aims at enabling the Lithuanian NAO to operate in accordance with the public audit *acquis* so that the NAO of Lithuania performs the public external audit function in line with international standards. To achieve these objectives the project focuses on the development of audit methodology and strengthening support functions. The Twinning is in compliance with the Strategic Development Plan by means of a Steering Committee. Until now there have been no problems identified which would adversely affect project completion in terms of overall timescale or budget.

The proposed project “Strengthening Functional Capacities of Public External Audit Aimed at Practical Implementation of *Acquis*” is closely linked with the aim to strengthen *functional* capacities of the Lithuanian National Audit Office, while the on-going PHARE project

No.LT01.09.01 “**Strengthening of Administrative Capacities of the Lithuanian National Audit Office**” focuses on organisational and managerial capacities. The specificity of the Lithuanian NAO is determined by the dualism of its functions – internal (managerial) and external (financial and performance audits). External functions can be strengthened, provided the appropriate legal, structural and managerial tasks are completed.

The main differences between those projects are presented in the Annex 4.

The following results of the on-going PHARE project No.LT01.09.01 are already being used as prerequisites for the proposed project.

1. To apply information technologies for the audit process effectively, the document *Information Technology Strategy Recommendations* has been prepared by *Angus Waugh* and *Henrik Johanson* – experts from the UK National Audit Office and the Danish National Audit Office. The document establishes 4-phased approach to development of Information Technologies at the NAO and covers the period until June 2006. Those 4 phases are the following:

- Phase 1 - Develop infrastructure and enhance security, functionality and resilience;
- Phase 2 – Develop technology refresh, training, desktop and remote site strategies alongside system policies, procedures and control processes;
- Phase 3 - Develop and implement business-enabling software, explore database and web application developments, devise and implement disaster recovery arrangements;
- Phase 4 - Develop remote access, direct external links to SCO clients and devise an Improved Information Management Strategy.

While phases 1 and 2 are being implemented by Twinning and Investment components of the on-going project No.LT01.09.01, phases 3 and 4 (partially phase 2) could be covered by the proposed one, keeping necessary time span between the activities of different phases.

This document has been used by the SCO to prepare implementation schedule for the SCO IT Development Strategy.

2. Another example is the *Human Resources Development Strategy* of the NAO, which was elaborated with the assistance of on-going project No.LT01.09.01 and gives the global frame for the implementation of training of the auditors.

Concrete implementation measures of this strategy will be built by means of the proposed project: training on application of modules of comprehensive and specialised audit manuals, audit methodologies, other materials worked out by the proposed project.

### **3.3. Results**

Building on the assistance the National Audit Office received in the past years, in particular on the on-going PHARE project, the guaranteed results from this project are:

#### **Result 1. Strengthening further public awareness concerning the importance of Public External Audit:**

- Strengthening further public awareness concerning the importance of Public External Audit and in priority with the Parliament.

#### **Result 2. Development of Financial and Performance Audit Planning Strategy:**

- Public Auditing Requirements dovetailed with the provisions of the National Auditing Standards;
- Audit approach for strengthening anti- fraud and corruption policies developed.

#### **Result 3. Development of Audit Manuals, Audit Methodologies and Audit Working Documents:**

- Guidelines for EU funds audit elaborated;
- The following comprehensive audit manuals developed and approved:
  - Comprehensive Financial Audit Manual;
  - Comprehensive Performance Audit Manual.
- The following modules of the Comprehensive Financial Audit Manual developed and approved:
  - Risk assessment module (inherent risk, detection risk, control risk, etc.);
  - Audit reliability module;
  - Internal control module;
  - Modules for particular types of audit (procurement audit, etc).
- The following modules of the Comprehensive Performance Audit Manual developed and approved:
  - Application of statistical audit methods in the audit process;
  - Public procurement audit;
  - Audit of state property management;
  - Environmental audit;
  - Audit of budgetary programmes implemented by the Government.
- The following specialised audit manuals developed and approved:
  - Manual on the audit of State property privatisation;
  - Manual on the audit of the State budget implementation;
  - Manual on the audit of the Government report on the property owned by the State;
  - Manual on audit of State revenue;
  - Manual on audit of Public debt;
  - IT Audit Manual.
- Audit methodologies elaborated:
  - for public debt audit;
  - for financial and performance audit of state revenue (revenue taxation systems);
  - for reporting to Parliament on the State budget setting.
- Working documents developed for external audit of EU pre- and post-accession funds as well as for auditing in IT/IS environment (financial audit) and conducting IT/IS audits (performance audit);

Areas for development of audit manuals, audit methodologies and audit working documents will be chosen to assure non-overlapping with the results of on-going PHARE project.

#### **Result 4. Development of Training Programmes, Training of Auditors:**

- Training modules worked out based on the developed and approved modules of audit manuals (see above);
- Principles of certification and rotation of public auditors prepared and implemented;
- Training modules and teaching methods developed and implemented aimed at training of in-house instructors;

- Training programmes and training materials how to apply developed modules of comprehensive and specialised audit manuals and audit methodologies worked out, in-house training instructors and auditors trained to use information technology tools during performance and financial audit processes, as well as in IT/IS audits;
- At least 100-120 auditors trained to apply developed modules of comprehensive and specialised audit manuals and audit methodologies described above, including on-the-job during joint pilot audits;
- Elaborated training programmes, training materials, in-house training instructors and auditors trained on the use of information technology tools in regular performance and financial audit processes, as well as in audit of information technologies;
- Modern training centre established and equipped with simultaneous translation equipment, computers and other relevant equipment supporting training process - a prerequisite for efficient training of auditors.

### **Result 5. Development of Audit Infrastructure including Computer-assisted Audit Management System:**

- Audit support infrastructure developed, infrastructure for audit-related training established, based on modern information technologies and compliant with the recommendations of the on-going PHARE project.
- Computer-assisted audit information management, communication and documentation systems (skills, methods and software) elaborated and implemented, including tools and techniques for data extraction and analysis and process-oriented audit tools.

### **3.4. Activities**

The Lithuanian NAO seeks effective, efficient, economical and sustainable development. The organisation, therefore needs to ensure its staffing, audit methods and support tools are in harmony with each other and geared to the same purposes.

The anticipated results will be achieved via the following components of the project:

- Twinning component;
- Procurement component;
- Services component.

All project components are aimed to achieve the project results described in section 3.3 “Results”, and are closely connected.

For example, institutional embedding of the outcomes, achieved by the means of the Twinning component will be implemented by appropriate equipment & services support (modern training facilities, auditors and audit managers equipped with hardware/ software for audit information exchange, audit documentation, audit data analysis, etc.).

#### **3.4.1. Twinning component**

The Twinning component aims at improving the NAO operational side by providing adequate training and consultations. The activity groups have to be implemented via the twinning arrangements with the assistance of a pre-accession adviser and short-term experts and lead to the expected results:

- Seminars/expert advise;
- Joint pilot audits;
- Study visits (to support the above activities).

Seminars/expert advice inputs have to be aimed to achieve anticipated project results and shall be specified at the stage of covenant preparation.

Concrete areas for Joint pilot audits will be identified at the stage of covenant preparation.

The study visits will be limited to a minimum and will be conducted provided the needed expertise cannot be brought to the NAO of Lithuania by the EU Twinning partner. The project will continue to support the visits linked with to other activities.

The following activities are expected to support anticipated results of the project:

### **Activities (Result 1):**

#### Seminars/expert advice on:

- Strengthening further public awareness concerning the importance of Public External Audit and in priority with the Parliament.

### **Activities (Result 2):**

#### Seminars/expert advice on:

- Developing audit approach aimed at strengthening anti- fraud and corruption policies; these activities should involve representatives of other Lithuanian institutions fighting fraud and corruption;
- Developing communication, information and business policies of the Lithuanian NAO;
- Assessing quality of financial and performance audit work done and subsequently improving the procedures for audit quality assurance, developing audit manuals and staff training programmes;
- Developing national auditing standards and applying them in practice at the NAO, for example relationship between external and internal audit;
- Setting the National Audit Office in the proper international context, including for example, relations and co-operation principles with the EC (including OLAF), the ECA, other SAIs and national authorities including reporting matters.

#### Study visits (to support the above activities)

Short-term study visits to the EU partner's SAI to learn about:

- Audit working environment and underlying particularities (of individual audit units).

### **Activities (Result 3):**

#### Seminars/expert advice on:

- Analysing common EU funds audit practices at SAIs in the Member States and making conclusions on how to use their experience in Lithuania;
- Analysing relevant EU legislation, recommendations, guidelines and manuals and their impact on the NAO work;
- Developing working documents for external audit of EU Structural Funds;
- Developing working documents for auditing in IT/IS environment (financial audit);
- Developing working documents for IT/IS audits (performance audit);

#### Joint pilot audits

Joint pilot audits used mainly for practical training of auditors should be conducted in the areas of development Audit Manuals or Modules of Audit Manuals and used as a validation tool for audit manuals, modules, methodologies, other support materials developed.

Concrete areas for Joint pilot audits will be identified at the stage of covenant preparation.

Study visits (to support the above activities)

Short-term study visits to the EU partner's SAI to learn about:

- Activity of the Methodology Unit.

**Activities (Result 4):**

Seminars/expert advice on:

- Developing training modules for auditors derived from the approved modules of audit manuals;
- Certification and rotation of public auditors;
- Developing methodology aimed at training of in-house training instructors;
- Developing infrastructure for audit-related training.

Joint pilot audits

Conducting 16-18 joint pilot audits (at least 2 audits of EU funds) in accordance with the Public Auditing Requirements. There should be:

- At least 2 audits of EU funds ;
- At least 1 audit of state revenue;
- A validation tool for audit manuals, modules, methodologies, other support materials developed;
- Accompanied by evaluation results and experts' recommendations.

Joint pilot audits shall be conducted in the areas of development Audit Manuals or Modules of Audit Manuals and also contribute to development of methodology. Concrete areas will be identified at the stage of covenant preparation.

Study visits (to support the above activities)

Short-term study visits to the EU partner's SAI to learn about:

- Staff training system, staff recording and data processing system;
- Recruitment system.

To achieve this result, Training Centre has to be established. Therefore, the Twinning activity has to be coordinated with the Procurement component.

**Activities (Result 5):**

Seminars/expert advice on:

- Developing audit support infrastructure (including audit information management, communication and documentation systems).
- Developing and implementing computer-assisted audit management system at the Lithuanian NAO, including tools and techniques for data extraction and analysis and process-oriented audit tools.

Study visits (to support the above activities)

Short-term study visits to the EU partner's SAI to learn about:

- Audit information and documentation management, exchange of information between different units.

To achieve this result, the Twinning activity has to be coordinated with the Services component.

The Twinning component will be delivered by the Pre-accession Adviser (PAA) over 18 months and assisted by 15-20 Short-term Experts (STEs), providing approximately 30-36 person months over 18 months.

The exact schedule of inputs, their exact duration and technical specialisms will be determined at the covenant drafting stage.

#### Profile of PAA

The PAA (18 calendar months), bearing overall responsibility for the project, should be a senior auditor or audit manager - an expert in financial and/or performance audit. He/she should have broad international and managerial experience and knowledge of audit environment. Knowledge of the main audit development issues in the EU candidate countries will be an advantage. The PAA should be able to work in English.

The PAA will work on a daily basis with the Lithuanian NAO staff to implement the project, support and co-ordinate the twinning component activities in Lithuania. He/she will have to provide organisational support to the EU Twinning Partner's Project Leader and all Short-term experts (STEs), including practical organisation of seminars and study visits.

#### Profile of Short-Terms Experts

Other members of the team (approximately 30-36 person months input) will be 15 to 20 Short-term experts (STEs). The STEs should have significant professional experience working at the SAI of a Member State in the areas relevant to this Twinning Arrangement: the STEs on financial and performance audit should be able to assist in preparing and implementing procedures and manuals based on the EC requirements and standards for the both types of audit. As a significant part of the training with regard to audit should be on-the-job training (joint pilot audits). The STEs should have excellent communication skills and experience in development and implementation of training programmes. The STEs in the specific area of audit of EU Structural Funds should be able to provide guidance and assistance in the development and implementation of the methodology of this kind of audit. The STEs should have experience in audit planning and mechanisms to monitor the audit process. As much emphasis in the area of the audit of the EU funds will be put on the transfer of skills in relation to the daily work of external audit, the STEs must have experience in training of staff.

All the STEs should be able to work in English and should be capable of providing training in the form of workshops, classroom training, on-the-job training, as well as personal advice at a high level in the institutions involved. The emphasis will be on the transfer of skills and knowledge so that the results of the project are sustainable.

#### **3.4.2. Procurement component**

The Procurement component shall support the project Result 4. Detailed specifications of equipment to be purchased under the Procurement component are given in Annex 5 "Indicative List of Services/Equipment to be financed under Investment Components of the Project".

Procurement component shall be coordinated with the relevant Twinning activities aimed to achieve project Result 4.

#### **3.4.3. Services component**

For development of modern audit infrastructure relevant hardware and software is necessary to run audit information management, communication and documentation systems (or any other computerised audit support systems) enabling to perform audit functions applying international audit standards and skills, acquired by means of the *Twinning component*.

Audit information management, communication and documentation systems require that auditors have an easy and ready access to this system from the remote locations. This approach is a standard in most EU supreme audit institutions.

The Services component shall support project Result 5 *Development of Audit Infrastructure including Computer-assisted Audit Management System*, and shall be aimed at devising and introducing the system of audit information management, communication and documentation, based either on the existing modules of integrated information system VAKIS, or on alternative approaches (either creating completely new systems, or adapting existing ones, for example, *TeamMate*, *AutoAudit*, etc. ....).

Computerised working papers ensure consistency, high audit quality and methodological understanding. Audit review, follow up, reporting is much more effective and eliminates unnecessary paperwork.

As long as such audit support systems exist in most of EU Member States, Twinning arrangements should channel know-how on set-up and development of such systems and prevent from anticipated difficulties along the way. It has to be mentioned that without the Twinning arrangements it would be difficult to develop and tailor such systems to specific needs of the Lithuanian NAO.

### **3.5. Lessons learned**

The on-going PHARE project No.LT01.09.01 **“Strengthening of Administrative Capacities of the Lithuanian National Audit Office”** has indicated possibilities how project activities could be better implemented at the NAO.

The main lessons of the on-going project are the following:

- Framework and sectoral Strategic Development Plans have to be worked out by the beneficiary institution in order to assure well-balanced co-ordination and implementation of project outcomes.
- Close link between Investment and Twinning Components have to be assured in order to use twinning expertise to dovetail Investment component specifications to the on-going needs of the beneficiary institution.
- Project activities (both of Twinning and Investment) have to be planned carefully in order to avoid the situation when implementation schedule of twinning recommendations have to be re-adjusted due to the possible delays in contracting of the investment component.
- High-level commitment of the beneficiary institution is important to assure consolidation of project outcomes into existing policies of institutional development.
- Involvement of most of the staff from the beneficiary institution is necessary to demonstrate that project does affect not singled areas but the most of the institution.
- Pro-active role of the beneficiary institution: recognition that project result is not only a successful accomplishment of activity but also suggesting the ways of implementation of activity result for the interest of the beneficiary institution.
- Linking activities of the on-going project with the other activities of institutional development has to be assured by the beneficiary institution.
- Appropriate project management structures have to be established involving project leaders, activity managers, PAA and STEs to assure co-ordination (within and outside the project),

information exchange for acquiring proper twinning inputs and for efficient use of project outputs.

The lessons learned will allow the National Audit Office of Lithuania to be better prepared for preparation of the Covenant, transforming project outputs into results of its institutional development, co-ordinating project inputs with the other initiatives.

This will allow the National Audit Office of Lithuania to achieve the maximum benefit in achieving the overall project objectives and consolidating the project results.

#### **4. Institutional Framework**

The Project will be implemented by the National Audit Office of Lithuania (**NAO**). The office is managed by the Auditor General and two Deputies. Audit functions are performed by 11 Departments of Financial Audit (including the Financial Audit Management Department, responsible for coordination and review of financial audit process), 5 Departments of Performance Audit (including the Performance Audit Management Department, responsible for coordination and review of performance audit process). Other departments supporting audit process or institution management are the following: Department of Public Accounts Audit and Audit Methodology, Legal Department, Personell and Training Department, Information Management Department, International Relations Department, Department of Finance and Accounting, Property Maintenance Department.

The project management structures set at the NAO for the current Twinning Project have proved their functionality and will be used in the future:

Steering Committee – corporate body for the joint implementation of the Strategic Development Plan and the Twinning project. The Committee is chaired by the Auditor General, Deputy Auditor General, Director of Department of Public Accounts Audit and Audit Methodology and Director of Information Management Department. The purpose of the Committee is to dovetail project outputs with the institutional development objectives set in the Strategic Development Plan and to propose measures for the Auditor General for institutional embedding of project results. The Committee meets once in 3 months.

Project Leader – senior manager of the NAO, responsible for coordination and implementation of project activities at the NAO.

Project Manager – official of the NAO, responsible for organisation and practical implementation of project activities at the NAO, including links with Activity Leaders, logistics, information, etc.

Activity Leaders – senior/middle managers of the NAO, responsible for the implementation of concrete activities (financial audit, performance audit, methodology, personnel, information technologies, etc.), including ensuring selection/availability of NAO staff, tuning activity objectives to institutional needs, presenting activity reports with suggestions how activity outputs should be used for institutional development.

Project Implementation Group – corporate body for monitoring project progress, information exchange between key actors in project management, suggestions how practical project-related issues could be addressed to achieve best institutional embedding of the results. The Group is chaired by the NAO Project Leader, NAO Project Manager, the PAA, other Activity Leaders are the members. The Group meets once in a month.

The Pre-Accession Adviser will work closely with individuals/corporate management bodies as above. He/she will have an office in the premises of the NAO of Lithuania, equipped with computer and printer, access to shared resources of the NAO (Internet, Intranet, telephone, copier, etc).

The Lithuanian NAO will also contribute to covering the expenses of seminars in Lithuania and local travel. All required training will be conducted at the premises of the Lithuanian National Audit Office.

The main responsibilities of the PAA, working in close cooperation with the NAO Project Manager, will be the following:

- Provision of organisational support to the EU Twinning Partner's Project Leader and to all STEs;
- Organisation of seminars, workshops, training and study tours and involvement in these as appropriate;
- Preparation of action plans relating to the different project activities.

## 5. Budget (in €million)

	Phare Support					
Project Components	Investment Support	Institution Building	Total Phare (=I+IB)	National Co-financing	IFI	TOTAL
Contract 1 Twinning	-	0.950	0.950	-	-	0.950
Contract 2 Procurement	0.108	-	0.108	0.036	-	0.144
Contract 3 Services	0.300	-	0.300	0.100	-	0.400
<b>TOTAL</b>	<b>0.408</b>	<b>0.950</b>	<b>1.358</b>	<b>0.136</b>	<b>-</b>	<b>1.494</b>

The Phare amount is binding as a maximum amount available for the project. The ratio between the Phare and national amount is also binding and has to be applied to the final contract price. The national co-financing commitment is a tax-excluded net amount.

An amount not exceeding 5% of the total project budget can be used for project preparation and supervision activities concerning the investment components of the project.

## 6. Implementation Arrangements

### 6.1. Implementing Agency

**PAO:** Žilvinas Pajarskas  
 Director, Central Financing and Contracting Unit (CFCU) Telephone: +370-5-2126621  
 J. Tumo-Vaižganto 8A/2, room 102, Fax: +370-5-2125335  
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The CFCU is responsible for contracting and accounting of the project.

### 6.2 Twinning

The beneficiary of the twinning component of the project is the National Audit Office (the State Control Office) of the Republic of Lithuania (NAO). The NAO will be responsible for technical preparation, control and management of the PAA/STAs under twinning. The contact person will be Mr. Dainius Jakimavicius, Director, Department of Information Management, Tel: +370-5-2620954, Fax: +370-5-2625092, e-mail: [Dainius.Jakimavicius@vkontrole.lt](mailto:Dainius.Jakimavicius@vkontrole.lt)

### 6.3 Non-standard aspects

There are no non-standard aspects to this project and the CFCU will ensure that the PRAG will be strictly followed. The project has three components: twinning, services and procurement.

### 6.4 Contracts

There will be three contracts in this project:

Value of Twinning Covenant EUR 0.95 million;

Value of Procurement Contract EUR 0.144 million, of which EUR 0.036 million is national co-financing;

Value of Services Contract EUR 0.40 million, of which EUR 0.10 million is national co-financing

## **7. Implementation Schedule**

<b>Component</b>	<b>Start of Tendering</b>	<b>Start of Project Activity</b>	<b>Project Completion</b>
Twinning and Training Package	2Q/03	4Q/03	2Q/05
Procurement Contract	3Q/04	1Q/05	2Q/05
Services Contract	2Q/04	4Q/04	2Q/06

N.B. Provided the project is approved, the Lithuanian NAO intends to commence the activities as soon as possible.

## **8. Equal Opportunity**

Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

## **9. Environment**

The (services and procurement) components of this Project all relate to Institution Building activities.

## **10. Rates of Return**

The (services and procurement) components of this Project all relate to Institution Building activities.

## **11. Investment Criteria**

The investment (services and procurement) components of this Project all relate to Institution Building activities.

## **12. Conditionality and Sequencing**

The Project is conditional on co-financing being available for the investment part (services and procurement components) of the project.

## **Annexes to Project Fiche**

- 1. Logframe Matrix**
- 2. Detailed Implementation Chart**
- 3. Cumulative Contracting and Disbursement Schedule for the Project (MEUR)**
- 4. Main differences between the on-going and proposed PHARE projects**
- 5. Indicative List of Services/Equipment to be financed under Investment Components of the Project**

<b>LOGFRAME PLANNING MATRIX FOR</b>  <b>Strengthening Functional Capacities of Public External Audit Aimed at Practical Implementation of Acquis</b>		Programme name and Number:	The Lithuanian National Audit Office
		Contracting Period Expires: 2Q/2005	Disbursement Period Expires: 2Q/2006
		Total Budget: <b>EUR 1.494 million</b>	Phare Contribution: <b>EUR 1.358 million</b>
<b>Overall Objective:</b>  The Lithuanian National Audit Office operates efficiently and effectively in the present legal and technological environment, and is able to sustain new challenges set by the EU integration process.	<b>Objectively Verifiable Indicators:</b> <ul style="list-style-type: none"> <li>The Lithuanian National Audit Office meets requirements for Supreme Audit Institution of an EU Member State and carries out audits following the reviewed and developed National Public Audit Standards complying with recommendations and practices of INTOSAI and EU recognised good practice</li> </ul>	<b>Source of Verification:</b> <ul style="list-style-type: none"> <li>EU reports on Lithuania's progress in the field of public external audit</li> <li>Annual Reports of the Auditor General</li> </ul>	
<b>Project Purpose:</b> <ul style="list-style-type: none"> <li>Strengthen methodological basis of the National Audit Office of Lithuania by developing national public auditing standards, audit manuals and methodologies audit working papers, other relevant documents and procedures in order to apply developed methods and tools for new fields of financial and performance audit, particularly external audit of EU pre- and post-accession funds</li> <li>Improve audit quality by developing auditors' skills to apply modern audit methods and means (including computer-assisted audit techniques) in order to meet requirements of the INTOSAI and EUROSAI</li> <li>Establish modern audit infrastructure, close to that in the EU Member States, based on the latest developments in the field of IT, relevant audit methods, tools and techniques as well as on the improved auditors' skills and techniques</li> </ul>	<b>Objectively Verifiable Indicators:</b> <ul style="list-style-type: none"> <li>Methodological framework of the National Audit Office of Lithuania further developed based on audit standards, audit documents and their review, taking into account changes in the audit environment.</li> <li>Improve quality, consistency, and efficiency of external audit measured through the following performance indicators:             <ul style="list-style-type: none"> <li>5 % target reduction in complaints and appeals of auditees against NAO statements,</li> <li>10 % target increase in recommendations accepted by auditees, and</li> <li>reducing time required to complete audits whilst maintaining quality with a target of 5% per annum for 1<sup>st</sup> 3 years.</li> </ul> </li> <li>Audit infrastructure, including strategies and support, using IT and computer-assisted audit system developed by Q2/2006.</li> </ul>	<b>Source of Verification</b> <ul style="list-style-type: none"> <li>Annual Reports of the Auditor General</li> <li>Progress Reports on the implementation of the Strategic Development Plan</li> <li>PHARE Project Interim Reports</li> <li>Reports of external reviewers</li> </ul>	<b>Assumptions</b> <ul style="list-style-type: none"> <li>State budget available</li> <li>Support of the management</li> <li>Understanding project objectives and commitment of the staff</li> <li>Coordination of project activities with the Strategic Development Plan of the National Audit Office of Lithuania</li> </ul>

<b>Results</b> <ul style="list-style-type: none"> <li>Strengthening further public awareness concerning the importance of Public External Audit.</li> <li>Financial and performance audit planning strategy (covering a three-year period and addressing institutional risks) developed and implemented</li> <li>Specialised audit manuals progressively constructed according to the strategy and based on general audit manuals produced within the preceding PHARE project; audit methodologies elaborated, audit working documents developed taking into consideration preparation for external auditing of EU pre- and post-accession funds as well as for auditing both in IT/IS environment and IT/IS</li> <li>Training programmes, training materials developed, in-house training instructors and auditors trained to apply standards, manuals and methodologies, audit work documents developed as well as on application of information technology tools in regular performance and financial audit processes, also in audit of information technologies</li> <li>Audit infrastructure (skills, methods and hardware) and infrastructure for audit-related training support established and based on modern information technologies</li> <li>Computer-assisted audit management system (skills, methods and software) elaborated, including tools and techniques for data extraction and analysis and process-oriented audit tools</li> </ul>	<b>Objectively Verifiable Indicators</b> <ul style="list-style-type: none"> <li>Financial and performance audit planning strategy developed and implemented with respect to the Lithuanian national legislation and approved by the Auditor General of Lithuania by Q4/2004</li> <li>At least 4 audit manuals developed, tested and approved</li> <li>Relevant audit methodologies, work documents and other audit supporting materials developed and approved by 2Q/2005</li> <li>Training programmes compliant with elaborated HR Development Strategy and system of professional competencies prepared and approved, training courses for in-house training instructors and auditors carried out; 100-120 auditors trained</li> <li>16-18 joint pilot audits carried out as a practical training tool and as a validation tool for audit support materials developed</li> <li>Audit infrastructure based on Information Technologies and computer-assisted audit system developed and compliant with recommendations of project LI01.09.01</li> </ul>	<b>Source of Verification</b> <ul style="list-style-type: none"> <li>Decrees of the Auditor General on approval Financial and performance audit planning strategy, audit manuals, methodologies and audit work documents</li> <li>Documents published and available at the Information Centre and on the Intranet</li> <li>Lists of trained in-house training instructors and auditors</li> <li>Lists of joint audits carried out, reports of joint audit teams</li> <li>Documents on installation of computer hardware and software</li> </ul>	<b>Assumptions</b> <ul style="list-style-type: none"> <li>Professional and committed twinning partners</li> <li>Sufficient human resources allocated by the National Audit Office of Lithuania to work within the project</li> <li>Skills of the main implementing divisions within the National Audit Office of Lithuania</li> <li>Ability of in-house training instructors and auditors to absorb knowledge, skills and techniques</li> <li>Accurate project planning in order to employ outcomes of the on-going PHARE project as the starting point for the present one</li> </ul>
<b>Activities</b> <ul style="list-style-type: none"> <li>Twinning arrangement assisted by the PAA and STE(s) on development and application of audit standards, elaboration of audit manuals, methodologies and working documents</li> <li>Twinning arrangement assisted by and STE(s) on development of training materials, providing training to in-house training instructors and auditors to apply standards, manuals, methodologies and audit work documents, also assisting joint audits teams to carry out audits</li> <li>Twinning arrangement assisted by and STE(s) on establishment of modern audit based on IT, on construction and deployment of computer-assisted audit system; training of in-house instructors and auditors on use of IT tools in regular audits; training on introduction of IT audits</li> <li>Supply contract for training equipment, equipment purchased and installed</li> <li>Services contract for development of the Information System of the Lithuanian National Audit Office. IS elaborated</li> <li>Any other relevant activities worked out at the stage of covenant preparation.</li> </ul>	<b>Means:</b> <ul style="list-style-type: none"> <li>1 long-term PAA 18 p/m</li> <li>30-36 p/m of training and advice from 15-20 (as required) short-to-medium term STEs</li> <li>Private sector subcontracting</li> <li>Joint audit actions</li> <li>Visits of the Lithuanian National Audit Office staff to the Institution of the Twinning Partner(s)</li> <li>Logistical TA and procurement</li> <li>Intangibles</li> </ul>	<b>Source of Verification</b>	<b>Assumptions</b> <ul style="list-style-type: none"> <li>Activities are carefully planned and timed at the stage of preparation of the covenant</li> <li>Activities are strictly separated in content and budgetary terms to prevent possible overlapping with the preceding PHARE project</li> <li>Managerial skills of the PAA, professional skills of STEs</li> <li>Managerial and professional skills of the Project Implementation Group.</li> </ul>
		<b>Preconditions</b> <ul style="list-style-type: none"> <li>National co-financing available</li> </ul>	

Year	2003						2004												2005												2006					
Month	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6
Twinning																																				
Procurement																																				
Services																																				

Design

Tendering

Implementation

## Cumulative Contracting and Disbursement (Phare contribution only – 1.358 MEUR)

	Date											
	2003		2004				2005				2006	
	30/09	31/12	31/03	30/06	30/09	31/12	31/03	30/06	30/09	31/12	31/03	30/06
<b>Contracting</b>												
• Twinning		0.950										
• Procurement						0.108						
• Services							0.300					
<b>Total contracting (cumulative)</b>		<b>0.950</b>				<b>1.058</b>	<b>1.353</b>					
<b>Disbursement</b>												
• Twinning		0.050	0.210	0.370	0.520	0.680	0.830	0.950	0.950	0.950	0.950	0.950
• Procurement							0.033	0.108	0.108	0.108	0.108	0.108
• Services							0.090	0.132	0.174	0.216	0.258	0.300
<b>Total disbursement (cumulative)</b>		<b>0.050</b>	<b>0.210</b>	<b>0.370</b>	<b>0.520</b>	<b>0.680</b>	<b>0.953</b>	<b>1.190</b>	<b>1.232</b>	<b>1.274</b>	<b>1.316</b>	<b>1.358</b>

## Main differences between the on-going and proposed PHARE projects

There are at least three arguments to make the difference between those two projects:

**1. Consequential sequence of activities and results.** Proposed project is considered to be a logical successor of the on-going PHARE project, while the activities and results of the proposed project will be built on the institutionally embedded results of the preceding one. The on-going PHARE project operates mainly on an *institutional level*, aiming at setting up new institutional principles, procedures and structures, while the present one – at shifting from institutional to an *individual level* aiming to implement the main objectives by means of the worked-out institutional principles, procedures and structures.

	Preceding PHARE project (main objectives)	Present PHARE project (main objectives)
Methodology	Setting-up prerequisites for development of methodological basis of the Lithuanian National Audit Office (principles, procedures, structures, comparative analysis, up-to-date INTOSAI practices, methodology implementation)	Strengthen methodological basis of the Lithuanian National Audit Office by developing public auditing standards, manuals, methodologies and audit working papers, other relevant documents and procedures in order to apply developed methods and tools for new fields of financial and performance audit particularly in auditing EU pre- and post-accession funds
Training	Develop training system for auditors at the Lithuanian National Audit Office (principles, procedures, competences, qualifications, structures, implementation, etc.)	Increase quality of external audits by training auditors to apply modern audit methods and means (including computer-assisted audit techniques) in order to meet quality requirements of the INTOSAI and EUROSAI
Information technologies	Develop information technology to support administrative and audit processes. It means review and upgrade of the existing integrated information system (hardware, software, best foreign practices) applying it both to the developed audit methods and procedures, and the administrative needs	Establish modern and comparable with existing in the EU Member States audit infrastructure, based on the latest achievements in information technology, relevant audit methods, tools and techniques. Information technologies should be available both for institutional level (audit information management, communication, documenting), and for individual level to support auditors during audit process (computer-assisted audit techniques, extracting data from databases, data analysis, etc.)

**2. Projects as the main mechanisms for implementation of the Strategic Development Plan.** Time when results of each PHARE project will be available is co-ordinated with the timetable of the Strategic Development Plan. To follow the Strategic Development Plan, structural and administrative activities are taking place in 2002-2003 (within the time frame of the first PHARE project), while the activities aimed at strengthening functional capacities - in 2004-2005, it means, beyond the time frame of the first PHARE project.

**3. Detailed information on activities and results of the on-going PHARE project.** Results of the proposed PHARE project are already known or will be known before work out of the Twinning Covenant of the present project. This will not only exclude possibility of duplication of activities, but also establish continuous transition from the first project to the second one.

**Indicative List of Services/Equipment to be financed under Investment Components of the Project**

	Indicative Phare Budget	Indicative National Co- financing	Total Budget
<b>Services Component</b>			
Software development of Integrated Audit Management System, software test and summary of results	300 000	100 000	400 000
<b>Procurement Component</b>			
<i><u>Equipment for Training and Information Centre</u></i>			
25 Computers with software	37 500	12 500	50 000
2 Multimedia projector (1 with camera)	17 250	5 750	23 000
2 Network Printers	3 000	1 000	4 000
1 Colour Printer	4 500	1 500	6 000
3 Copiers	18 000	6 000	24 000
1 TV	3 000	1 000	4 000
1 Video equipment set	1 500	500	2 000
2 Scanners	750	250	1 000
1 Simultaneous Translation Equipment	22 500	7 500	30 000
<b>TOTAL</b>	<b>408 000</b>	<b>136 000</b>	<b>544 000</b>