

## **Standard Summary Project Fiche**

### **Project Number LT 0008-01**

#### **1. Basic Information**

- 1.1. Desiree Number: LT 0008-01
- 1.2. Twinning Component Number: LT 2000/IB/FI/05
- 1.3. Title: Budget Management and Financial Control
- 1.4. Sector: Public Finance
- 1.5. Location: Ministry of Finance, Vilnius, Lithuania
- 1.6. Contact: A. Bielskiene, Director of the International Department, Ministry of Finance, J. Tumovaizganto 8a/2, Vilnius 2600. Tel. +370 2 390114

#### **2. Objectives**

##### 2.1. Wider Objectives

The wider objectives of this **1.5 MEUR Project** are to:

- Ensure effective financial control of the state institutions in line with the short and medium term objectives of the EC's Accession Partnership and the NPAA; and
- Introduce Performance Control and Internal Audit at Regional and Local Administration Levels in municipalities in the selected target regions.

##### 2.2. Immediate Objectives

- Support the Government's strategy for implementation of a financial controls system throughout the public sector in compliance with EC standards and EU best practice;
- Contribute to the Government's budget reform, improve accounting and internal control procedures and modernise financial management;
- Implement the audit methodology developed for the public sector of Lithuania and transfer the necessary audit skills to the internal audit units;
- A particular objective is development of sound financial management to enable the Government to comply with EU requirements with regard to sound financial management of EU funds.

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

The short-term priorities established in the Accession Partnership of the 13<sup>th</sup> October 1999 for strengthening institutional and administrative capacities do not mention financial control specifically but do emphasise that "massive efforts in reforming the administration" are required. Further, the subsequent evaluation in the report is: "there has been no progress towards setting up regional development policies and institutions or strengthening financial control". The medium-term priorities include setting up "... mechanisms for controlling finances and budgets".

In the Accession Partnership of 30<sup>th</sup> March 1998 the medium term priority for financial control is defined as: "reinforcement of institutional and administrative capacity – development of anti-fraud unit and State Control Office (the Supreme Audit Office), and of budget and financial control mechanisms".

In the Accession Partnership's Annex: Recommendations for action section 3.9 "Financial Questions" it is stated: "Considerable preparations are needed to establish the necessary financial management and control mechanisms to ensure satisfactory implementation of Community policies. Special attention must be given to the development of efficient internal control mechanisms and institutions, particularly regarding the number of qualified auditors and the accounting procedures".

The Short-term priorities in the NPAA are:

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1. Creation of an internal control system, and the establishment of structural units (services) in the public sector institutions.
2. Training of staff.
3. Draft the Law on Municipal Budget Execution Control.

The internal control system in Lithuania's public sector will be established as a decentralised internal audit system, i.e. control will be integrated into the institution itself. This internal control system will guarantee functional independence to internal control services of public sector institutions.

The medium term priorities of the NPAA in relation to this project are:

1. Qualifications provision of training to improve of auditors in the internal audit services.
2. Improvement of internal control and accounting procedures.
3. Establish the system of internal audit of budgetary institutions.
4. Draft the new edition Law on Budgetary Structure and of relevant legal acts.
5. Draft the Law on Audit.

In the Annual Report of October 1999 from the Commission on Lithuania's "Progress Towards Accession" it is stated that: "Internal financial control is not in line with good practice in Member States". The Annual Report has the following conclusion:

"There has been very little progress in establishing the legislative framework and institutions for financial control.

The roles and responsibilities of the Ministry of Finance and the internal audit units in other line ministries still need to be developed as well as the relations between these institutions. The independence of internal auditors vis-à-vis authorising officers in these institutions still has to be carefully scrutinised.

The State Control Office of Lithuania (the Supreme Audit Office) needs to undertake a review of its management and audit procedures in order to assess relevance and effectiveness of its activities. In particular, it should not be asked to carry out internal audit functions. For both internal and external control, extensive training in the application of internationally accepted audit standards and the development of audit manuals have become urgent."

#### 2.4. Contribution to National Development Plan

In the "Preliminary National Development Plan" of October 1999 the importance of strong financial controls is emphasized. In a special section regarding institution building priorities it is mentioned: "The primary objective of complementary institution building measures in the area of sound financial management is to enable the Government of Lithuania to comply with the EU requirements with regard to sound financial management of EU funds by strengthening the national budgetary and administrative structures as well as auditing, monitoring and evaluation systems.

The relative importance of an Internal Financial Control function stems from its across-the-board application for all EU pre-accession programmes.

This primary objective should be achieved through the following institution building priorities:

- Training and dissemination of information on sound financial management;
- Ensuring sound financial management;
- Support to the implementation of the work programme/action plan to ensure sound financial management;
- Testing the financial arrangements in practice and updating the existing draft programming manual;
- Strengthening the Internal Financial Control function; and
- Strengthening the National Fund in the Ministry of Finance."

### **3. Description**

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

##### *3.1.1 Budget Reform*

The Government of Lithuania is intensively carrying out a major reform of its overall budgeting process, which is based on the Programme and Performance Budget methodology and develops the function of Financial Controls throughout Lithuania's public sector. Improvements have been achieved particularly in treasury functions, with the implementation of the automated financial system, the Government Budgeting, Accounting and Payment System (the GBAP NAVISION system). The automated system had been implemented Government-wide in Lithuania (in more than 500 Government organisations, including most of the principal ministries) by the end of 1998.

The GBAP NAVISION system provides automated tools for better financial procedures, including budgetary matters, and control. To ensure that the expanded and integrated benefits of the new and improved system are integrated into the Ministry's institutions, financial procedures and control are being strengthened. Essential in this process is the establishment of a Government wide Internal Audit function, which would include establishing appropriate procedures and carrying out necessary training.

##### *3.1.2 Strategy for Improvement of Financial Controls*

The legal framework for improvement of Financial Controls is "the Programme for the establishment of Internal Control in the public sector" adopted by Government Resolution No 179 of 13 February 1998, as amended in April 1999, and Government Resolution No. 127 of 7 February 2000, attached in Annex 5.

The Government's resolution on the financial controls' strategy states that an Internal Audit Division has to be established in all Ministries, Heads of Administration of regional districts [i.e. counties], departments of the Government and Ministries, State Tax Inspection and any Public Sector Enterprise or Institution that has more than 300 employees. Institutions with less than 300 employees have to establish a position as Internal Auditor. The indicative timetable for the establishment of these units and positions is:

- Before May 2000: Reorganisation of existing structures in Ministries and other public sector institutions, which already have Internal Control Divisions, and
- Before August 2000: Establish Internal Audit Divisions in remaining ministries, departments of Government and ministries, Heads of Administration of regional districts and any Public Sector Enterprise or Institution with more than 300 employees, and
- Before August 2000: In institutions with less than 300 employees establish a position as Internal Auditor.
- For municipalities and municipality owned enterprises: The Government Resolution recommends local authorities to establish internal control functions following the same guidelines as for state budget institutions and enterprises.

It is foreseen that the number of staff needed for internal audit services in state budget institutions will total 300 by the end of 2000.

The State Control Office (the Supreme Audit Office), the Ministry of Administration Reforms and Local Administration, the Ministry of Finance and the Audit and Accounting Institute of Lithuania are the institutions responsible for the implementation of the strategy. The Ministry of Finance is responsible for preparation of internal financial control procedures and for providing guidance and advice to all institutions involved.

### 3.2. Linked Activities

Under programmes LI 94.05.03 and LI 96.08 Phare has provided assistance to the Budget and Treasury Departments at the Ministry of Finance. The objectives of the assistance were to improve the performance of the Budget and Treasury functions through: technical assistance to advise on domestic debt management, training and the definition and procurement of IT hardware for Treasury Operations. The project on debt management, LI 96.08, was launched in June 1996 and was closed in March 1998. The project for procurement and installation of computers was launched in August 1994 and completed at the end of 1998.

In addition, the Ministry of Finance has received comprehensive technical assistance from the Danish Government to implement an automated financial system: The Government Budgeting, Accounting and Payment System (the GBAP NAVISION System).

With the NAVISION system and the computers provided by Phare in place, the Ministry of Finance has the infrastructure for developing a modern financial system and further Phare assistance is building upon the results already achieved.

This project follows on from and builds upon the achievements from the on-going assistance provided by USAID to the Ministry of Finance in the area of Budget Policy and Management Reform. The USAID assistance will be completed by April 2000.

The work on strengthening the budgetary processes is also being supported through a Twinning Arrangement with Denmark financed under the Phare 98-programme with a special view to budget automation. The twinning arrangement was launched in January 2000.

In the area of financial control Phare assistance has since December 1999 been provided under the component "Sound Financial Management" in the 1999 Special Preparatory Programme for the Structural Funds through a Twinning Arrangement with Finland.

From the beginning of 2000, an IMF Resident Advisor will resume the assistance to the Treasury Department at the Ministry of Finance to complete the "Guidelines for conducting the internal audit of budgetary institutions".

Finally, technical assistance regarding introduction of internal audit units and implementation of financial controls in a number of budgetary units is covered by the Twinning Arrangement on "Performance Control and Internal Audit" under the Phare 99-programme, planned to start in 2<sup>nd</sup> Quarter of 2000.

The objective of this Twinning Arrangement is to assist in the implementation of Phase II of the Government's strategy on financial control, i.e. the implementation in municipalities in the selected target regions. Implementation of Phase III will be considered for co-financing support under the 2001 National Programme, provided that conditionalities have been met.

### 3.3. Results

As the basic budget and control procedures would have been developed at an earlier stage of the implementation of the Government's strategy, in this Twinning Arrangement most of the activities will be directed towards the implementation of already developed and approved procedures and methodologies. The results of the project are expected to be:

- Procurement of necessary equipment and software to operate budget planning and financial control in selected budgetary units, counties and municipalities;
- Adjusted procedures for budget planning and financial control developed in the earlier stages to meet the needs and requirements of the municipalities;
- Development and implementation of (adjusted) procedures manuals;
- Adequate staffing of the internal audit units in municipalities;

- Training of relevant staff through the preparation and implementation of training programmes in budget and internal financial control procedures for control officials in all budgetary units (not limited to counties and municipalities), including:
  - Implementation of a training of trainers programme;
  - Assistance in planning of general training programmes and in training of relevant staff in:
    - 1 Internal audit and other financial control procedures
    - 2 Using the automated budget system in the budget analysis and planning process;
    - 3 Using the information in the planning and management functions; and
    - 4 Performance Measurement system.

The training activities should be closely related to, follow on from but not overlap with, the training activities carried out in previous Phare projects.

The expected outputs are, with regard to:

a) Budgetary procedures:

- Advice regarding budgeting procedures to the staff at management level of relevant budgetary units;
- Implementation of techniques and tools for performance measurement;
- Implementation of budgeting procedures;
- Manuals for budgeting procedures;
- Training of trainers programme;
- Training of staff.

b) Financial control

- Advice regarding financial controls procedures to the staff at management level of relevant budgetary units;
- Transfer of moderns audit techniques and tools;
- Internal audit and control manual;
- Implementation of internal audit and control procedures;
- Training of staff of internal audit and control units; workshops, trainee ships etc.;
- Training of trainers programme and
- Procurement of hardware and software.

### 3.4.Activities

The activities for this project are:

- A twinning assignment with an EU Member State(s) providing a team of experts (1 PAA and between 4 and 6 STAs) with a solid knowledge of EC regulations and best practice regarding budgeting and financial control in general and experience with the functions of counties and municipalities in particular.
- Investment in financial control facilities in 19 municipalities.

#### **3.4.1 Twinning and training package (LT 2000/IB/FI/05)**

The Twinning will include:

- A 10.5 person/months PAA over a period of two year to support the recipient Ministries with the implementation of the whole twinning;
- Between 4-6 Short term Advisers (STAs) providing approximately 20 person months over 12 months as indicated in the schedule below.

Indicative schedule for the advisers			
Activity	PAA	STA's	Total Person months
General advice and project management	3	-	3
Budgeting	1	2	3
Performance measurement	1.5	2	3.5
Financial control	3	8	11
Training	2	8	10
TOTAL	10.5	20	30.5

It is envisaged that the individual team members could be involved in more than one activity. As the assistance is related to counties and municipalities and has to be delivered on-site, more than one STA is required for each of the above activities. The indicative number of STAs would be between 4 and 6, with an input of between 70 and 100 person days each, including training activities: 1-2 STAs for Budgeting and Performance Measurement, 3-4 STAs for Financial Control.

#### *Profile of PAA*

The PAA (12 calendar months) should have a broad work experience at a senior level in a Member State, preferably in financial control. The PAA will be responsible for co-ordination of the activities on-site and the inputs of the STAs; therefore s/he should have experience in project management and excellent inter-personal skills. The PAA will work closely with the management and staff of the Budget Department and the Treasury Department at the Ministry of Finance and with the Director and staff of the Association of Municipalities. The PAA will also be requested to deliver a significant input of training activities, particularly with regard to planning and management functions.

#### *Profile of Short Terms Advisers*

Other members of the team (approximately 20 person months) will be between 4 and 6 STAs. The STAs should have experience at a senior or middle management level in the Government or relevant agency of a Member State and have more than 10 years of experience in the areas relevant to this Twinning Arrangement, namely:

- Budget and performance measurement (1-2 STAs): As the reform of the Lithuanian budgeting process is based on the Programme and Performance Budget methodology the STAs in this area should have experience in integrated use and analysis of financial information in budget institutions. The STAs should have experience at user level with regard to implementation of Management Information Systems and Performance Measurement Systems.
- Financial control (3-4 STAs): The STAs on financial control should be able to assist in preparing and implementing procedures and manuals based on EC requirements and standards for financial control. As a significant part of the training with regard to financial control should be on-the-job training the STA should have excellent communication skills and experience in training. The STAs in the specific area of Internal Audit should have experience in the "top down internal audit approach" and should be able to provide guidance and assistance in the implementation of this methodology. The STA should have experience in audit planning and mechanisms to monitor the audit process. As much emphasis in the area of internal audit will be put on transfer of skills in relation to the daily work the STA must have experience in training of staff.

All the STAs should all be fluent in English and should be capable of providing training covering workshops, classroom training, on-the-job training as well as personal advice at a high level in the institutions involved. The emphasis will be the transference of skills and knowledge so that the results of the project are sustainable.

### **3.4.2 Investment component**

Procurement of software and hardware for servers and workstations, plus staff training, covering the 19 municipalities in the target regions and training of staff in counties and municipalities. The PAA and STAs will assist in the development of a schedule and time table for the procurement, installation and associated training; perhaps based upon a pilot scheme in a selected county and municipality followed out by a full roll-out to the remaining counties and municipalities. A needs analysis is presented in Annex 8, together with a brief investment plan.

## **4. Institutional Framework**

The principal recipients of this assistance and the host institutions will be the Ministry of Finance (MoF), the Ministry of Public Administration Reforms and Local Authorities (MoPARLA) and the Lithuanian Association of Local Authorities. The direct beneficiaries will be the 10 county administrations and 19 municipalities. At the municipality level more than 800 agencies will be affected, although they will not be directly involved in the twinning arrangement.

In Lithuania, there are 14 ministries and some 1,300 budget institutions and agencies. The State Treasury at MoF operates a single treasury account and all budget institutions hold their budget allocations in individual accounts in the Treasury's system and draw down allocations to the extent of available allocations. There are significant volumes of public funds outside the state treasury systems and these cover health and social security funds, transport funds and privatisation revenues, as well as local government. The budget institutions make requests for payment to the Treasury through their responsible line ministry.

There are no specific accounting standards for the public sector. At Government level there is a standard accounting system (the Government Budgeting, Accounting and Payment system - GBAP). This system provides a solid base of accounting and transaction controls and a clear chart of accounts based on an IMF standard. The Ministry of Finance has prepared a position paper describing the status of financial control system in Lithuania; it is a working document that forms the basis for the Ministry's policy and strategy and the Ministry has entered into a dialogue with DG Audit to refine it further (the position paper is reproduced in Annex 7).

According to SIGMA's assessment (28/06/1999) on Financial Control there is "an urgent requirement for a review of present arrangements leading to the preparation of detailed terms of reference and an appropriate legislative framework" with regard to internal audit. The Government's strategy on financial control aims to establish a financial control environment in line with EC requirements and EU best practice and, to the extent necessary, policies and procedures should be adjusted to match the technical assistance programmes mentioned in paragraph 3.2.

The counties are funded from the state budget and other sources and are accountable to the Government. Although the counties work closely with the municipalities on implementing laws, Government decrees etc. they are not empowered to exercise control over the municipalities. The principle of self-governance of the municipalities is laid down in the Local Government Law, and according to Article 24 the municipalities are independent from state institutions. Pursuant to Article 25, the Association of Local Authorities in their communication and collaboration with the President of Lithuania, Seimas, the Government and international organisations, represents municipalities. The legal basis (a specific agreement) for co-operation will be established between the central Government and the municipalities for the purpose of implementing the strategy on financial control by the summer of 2000.

## 5. Budget (in million EUR)

Project Components	Investment Support	Institution Building	Total Phare (= I + IB)	National Co-financing	IFI	TOTAL
Contract 1 Twinning		0.5	0.5			0.5
Contract 2 Procurement	1.0		1.0	0.5		1.5
TOTAL	1.0	0.5	1.5	0.5		2.0

The budget is based on the needs analysis attached in Annex 8 "Implementation in Counties and Municipalities of the Strategy on Financial Control". National co-financing is provided through investment in hardware equipment for all the counties and the training component involving users of computers and systems administrators as well as the procurement and customisation of NAVISION licenses for counties and municipalities.

## 6. Implementation Arrangements

### 6.1 Implementing Agency

The CFCU is responsible for contracting and accounting of the project. Responsibility for technical preparation, control and management of the PAA/STAs under twinning will remain with the beneficiary, The Ministry of Finance.

A Steering Committee will be established to manage and monitor the introduction of the budgetary and financial management system to the counties and municipalities. It will also form the policy focal point for the Twinning and as the project management steering body will ensure the smooth transfer of experience on the technical and administrative levels from Phase I to Phase II. It will consist of representatives from the Ministry of Finance, the Ministry of PARLA, the Association of Local Authorities and the municipalities, with the Ministry of Finance taking lead responsibility for all technical and methodological issues relating to the management of the system installation and the Ministry of PARLA being responsible for administrative issues at the municipality level.

The PAO is Zilvinas Pajarskas, Director of CFCU, Ministry of Finance, J. Tumo-Vaizganto 8A/2, room 241. Tel: +370 2 61 19 32, Fax: +370 2 22 53 35 and E-mail: cfcu@takas.lt

### 6.2 Twinning

The beneficiary institution is the Ministry of Finance, J. Tumo-Vaizganto 8a/2, 2600 Vilnius, Lithuania. The contact person is A. Bielskiene, Director of the International Department, Ministry of Finance, J. Tumo-Vaizganto 8a/2, Vilnius 2600; Tel. +370 2 390114.

### 6.3 Non-standard aspects

There are no non-standard aspects to this project and the CFCU will ensure that the DIS manual will be strictly followed. The project has two components: twinning and procurement.

### 6.4 Contracts

There will be two contracts in this project:

Value of Twinning Covenant 0.5 MEURO

Value of Procurement Tender 1.0 MEURO

## **7. Implementation Schedule**

Start of Twinning Call for Proposals:	2Q/00	Launch Procurement Tender:	2Q/01
Start of Twinning Activity:	2Q/01	Start of Delivery of Supplies:	4Q/01
Completion of Twinning:	1Q/02	Completion of Procurement:	4Q/02

## **8. Equal Opportunity**

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

## **9. Environment**

The investment components of this Project all relate to Institution Building activities.

## **10. Rates of Return**

The investment components of this Project all relate to Institution Building activities.

## **11. Investment Criteria**

The investment components of this Project all relate to Institution Building activities.

## **12. Conditionality and Sequencing**

Conditionality for providing the technical assistance is the Government's commitment to implement the "Programme for the establishment of Internal Control in the public sector". The project is expected to follow immediately after completion of the Twinning Arrangement on "Performance Control and Internal Audit" under the Phare 99-programme, planned to start in 2<sup>nd</sup> Quarter of 2000. Phase I, the introduction of the budgetary and financial management system, including equipping and training County administrations is funded entirely from State funds, begins in 2000 and is a precursor to the start of this project. Phase I is expected to be completed by the end of 2000.

Furthermore, it is a condition that, by July 2000, plans and budgets have been prepared for implementation of Phase II and Phase III of the "Programme for the establishment of Internal Control in the public sector".

Finally, it is a conditionality that, before Phare assistance can be launched for Phases II and III, a Memorandum of Understanding has been reached between the Government and the municipalities according to which the municipalities agree to adhere to the rules of financial control as applicable to Government institutions.

The key milestones in this project are:

- Memorandum of Understanding between the Government and Municipalities
- Appointment of Twinning Member State
- Commencement of Twinning
- Equipment tender launched
- Equipment delivered and associated training completed
- Completion of Twinning

## Logframe Matrix

## Annex 1

<b>Budget Management and Financial Control</b>	Project Number: <b>LT 0008-01</b>		
	Contracting Period Expires: 3Q/2002	Disbursement Period Expires: 3Q/2003	
	Total Budget: <b>2.0 MEUR</b>	Phare Contribution: <b>1.5 MEUR</b>	
Wider Objective	Indicators of Achievement	Sources of Information	Assumptions and Risks
Ensure effective financial control of the state institutions in line with the short and medium term objectives of the EU Accession Partnership and the NPAA.	EU standards & best practices for budget management and financial control introduced and implemented at the county and municipality level.	Assessment by the Government, MoF and MPARLA Annual report from the European Commission Annual assessment reports	Government's "Programme for establishing Internal Control in the Public Sector" approved; ministerial implementation begun before that in counties & municipalities Availability of a twinning partner
Immediate Objectives	Indicators of Achievement	Sources of Information	Assumptions and Risks
Support Government's strategy for implementation of financial control system throughout public sector in compliance with EU standards & best practice; Contribute to Government's budget reform, improve accounting & internal control procedures & modernise financial management; Implement audit methodology in the public sector; transfer necessary audit skills to internal audit units.	New budget, control and audit systems introduced and implemented Existing budget, control and audit units reorganised and new units established New budget and audit tools and techniques introduced	Internal development reports Audit reports Annual assessment reports	Political commitment at the local level to implement the strategy, i.e. Memorandum of Understanding between the Government and the municipalities. Results and experience from the project on budget automation and financial control under the 1999 PHARE programme should be transferred to this project. Assumed that a plan be prepared by July 2000 for implementation of the programme at the municipality level.
Outputs	Indicators of Achievement	Sources of Information	Assumptions and Risks
Advice regarding financial controls to management level of relevant budgetary units; Implementation of techniques & tools for performance measurement and financial control procedures; Training of trainers programme in financial control; Training of staff in budgeting & financial control; Procurement of hardware and software.	Internal audit units set-up, manuals, instruction books prepared, new procedures implemented, number of staff trained, audit programmes prepared; hardware & software delivered & installed	Audit reports. Manuals and training programs. Project progress reports. Project evaluation reports.	Continued commitment by the Lithuanian side to support the process by making the necessary decisions and implementation.
Inputs			
Twinning arrangement Study tours Training activities Computer hardware and software			Local input (equipment etc.) available Necessary Lithuanian staff available Condition that Lithuania provide contribution in kind

**Detailed Implementation Chart for the Project**

**Annex 2**

Year	2000			2001												2002												2003										
Detailed Project Implementation	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S		
<i>Launch Twinning Request to Member States (after Management Committee – May 2000)</i>																																						
<i>Selection of Member State(s) for Twinning</i>	X																																					
<i>Elaboration of Twinning Covenant</i>		X	X	X	X																																	
<i>Submit Twinning Covenant to the Commission &amp; Steering Committee for Approval</i>					X	X																																
<i>Twinning Package Commences</i>							X																															
General advice and project management							X	X	X	X	X	X	X	X	X	X	X	X	X																			
Budgeting							X	X	X	X	X	X	X	X	X	X	X	X																				
Performance measurement									X				X	X		X	X	X	X	X	X	X	X	X	X	X												
Internal control								X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X												
Internal audit								X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X												
Training								X	X			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X												
<b>Procurement begins</b>							X								X																							
Procurement of hardware and software													X	X	X	X	X	X	X	X	X	X	X	X	X	X												

**Cumulative Contracting and Disbursement Schedule for the Project (MEUR)****Annex 3****Cumulative Quarterly Contracting Schedule (MEUR)**

Project	4Q/00	1Q/01	2Q/01	3Q/01	4Q/01	1Q/02	2Q/02	3Q/02	4Q/02	1Q/03	2Q/03	3Q/03	Total
Budget Management and Financial Control - twinning			0.5	0.5	0.5	0.5	0.5	0.5	0.5				0.5
Budget Management and Financial Control – procurement					1.0	1.0	1.0	1.0	1.0				1.0
			0.5	0.5	1.5	1.5	1.5	1.5	1.5				1.5

**Cumulative Quarterly Disbursement Schedule (MEUR)**

Project	4Q/00	1Q/01	2Q/01	3Q/01	4Q/01	1Q/02	2Q/02	3Q/02	4Q/02	1Q/03	2Q/03	3Q/03	Total
Budget Management and Financial Control - twinning			0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Budget Management and Financial Control – procurement					0.125	0.25	0.675	1.0	1.0	1.0	1.0	1.0	1.0
<b>TOTAL</b>			<b>0.5</b>	<b>0.5</b>	<b>0.625</b>	<b>0.75</b>	<b>1.175</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>

## Reference to Feasibility/Pre-Feasibility Studies

Please refer to Annex 7 for more details about the Government's strategy.

NPAA Section IV. Financial Needs of the Sector for Implementation of the *Acquis* (2000-2002), has the following statement:

"The preliminary amount of necessary funds calculated for implementation of internal control services in the public sector is at the first stage of establishment of the services – LTL 105.109.75, and in the second – LTL 8.090.532."

As a detailed plan has not yet been prepared for the implementation of the Government's strategy at the municipality level an estimate of the total amount of necessary funds for "the third stage" has been made based on preliminary information from the municipalities and is presented in Annex 8, "Implementation in Counties and Municipalities of the Strategy on Financial Control".

As mentioned above in Section 12, Conditionality and Sequencing, it is assumed that before the end of July 2000 a plan has been prepared for implementation of the strategy at the municipality level. The plan should also include a detailed investment plan.

## GLOSSARY OF TERMS FROM INTOSAI AUDITING STANDARDS

### (INTERNATIONAL ORGANISATION OF SUPREME AUDIT INSTITUTIONS)

#### **Internal control**

The whole system of financial and other controls, including the organisational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular economic, efficient and effective manner; ensuring adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information

#### **Internal audit**

The functional means by which the managers of an entity receive an assurance from internal sources that the processes for which they are accountable are operating in a manner which will minimise the probability of the occurrence of fraud, error or inefficient and uneconomic practices. It has many of the characteristics of external audit but may properly carry out the directions of the level of management to which it reports.

#### **Independence**

The freedom of the SAI (Supreme Audit Institution) in auditing matters to act in accordance with its audit mandate without external direction or interference of any kind.

#### **Performance audit**

An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities.

## **Annex 5**

### **List of Relevant Laws and Regulations**

#### ***Legal framework***

- Pursuant to State Control Law of 30.05.1995, Law on Budget Structure of 30.07.1990 and Local Government Law of 07.07.1994, execution of the state and municipal budgets is controlled by the State Control Department, and execution of municipal budgets is also controlled by control services formed by regional and urban municipalities.
- The principle of self-governance of the municipalities is laid down in the Local Government Law, and pursuant to Article 24 the municipalities are independent from state institutions. Pursuant to Article 25, the Association of Municipalities in their communication and collaboration with the President of Lithuania, Seimas, the Government and international organizations, represents municipalities.
- The Government's strategy for improvement of financial controls was laid down in Resolution No. 179 of 13.02.1998 "On the Approval of the Public Internal Control Implementation Programme" and further detailed in Resolution No. 350 of 30.03.1999. Resolution No. 179 is attached to this Annex.
- By Resolution of 22.10.1998 on "The Budgeting Concept of the Republic of Lithuania" the Government has initiated the work on a new budget law. A draft Law on Budgetary Structure (Organic Budget Law) has been prepared and is under discussion. Certain elements of the law have already been implemented.
- Government Resolution of 06.05.1999 on "Measures to Implement Outline of Lithuanian Regional Development". The resolution deals with the preparation of financial controls of EU assistance funds.
- In June 1999, Seimas adopted a new "Law on Audit", transposing the provisions of the EU Directive on the approval of persons responsible for carrying out the statutory audits of accounting documents.
- In Government Resolution No. 127 of 7 February 2000 "On Internal Audit of Public Service and Public Enterprises of the Republic of Lithuania" the regulations of internal audit units and the time table for establishing internal audit units were approved. Resolution No. 127 is attached to this annex.

**Resolution of the Government of the Republic of Lithuania**

**No. 179, February 13, 1998  
Vilnius**

**On The Approval Of The Implementation Program of Internal Control System (Measures) in  
The Public Sector**

The Government of the Republic of Lithuania r e s o l v e s:

- 1) To approve the attached implementation program (measures) of the internal control system in the public sector.
- 2) To delegate to the Ministry of Public Administration Reforms and Local Authorities a task to form a permanent interdepartmental commission for coordination the execution of the internal control system implementation program (measures) in the public sector. The commission shall be formed by May 1, 1998.

PRIME MINISTER  
GEDIMINAS VAGNORIUS

THE MINISTER OF THE PUBLIC ADMINISTRATION REFORMS AND LOCAL  
AUTHORITIES  
KESTUTIS SKREBYS

APPROVED  
by Resolution No.179  
of the Government  
of the Republic of Lithuania,  
February 13, 1998

*Implementation Program (Measures) of The Internal Control System In The Public Sector*

The implementation program (measures) of internal control system in the public sector has been drafted as part of execution of the Parliamentary Resolution No. VIII – 535, enacted on November 25, 1997 and the Government’s Resolution No.1409, enacted on December 15, 1997 “On Formation of the Commission for Preparation of the Implementation Program of the Internal Control System and for Drafting Legal Needed for Implementation of the Program“. As part of execution of the program, the current status of the internal control in the public sector will be analyzed and the legislative basis allowing to reform the work by latest methodologies and techniques set.

The implementation program (measures) of the internal control system covers the following organizational works and works connected with the preparation of the legal acts delegated to relevant implementing institutions:

Identification of the measure	The time of the execution	Institutions responsible for the execution
<b>Organizational measures</b>		
1. To collect and generalize the data characterizing the status of the internal control in the public sector;	1 quarter 1998.	The State Control Office, the Ministry of Public Administration Reforms and Local Authorities, the Ministry of Finance;
2. To discuss the results of the evaluation of the internal control status and to issue opinion;	May 1, 1998.	A commission established by the Government of the Republic of Lithuania,
3. To arrange a seminar to discuss the status of internal control in the public sector and perspectives (a request for PHARE (SIGMA) support);	2 half of 1998.	The Ministry of Public Administration Reforms and Local Authorities, the Ministry of Finance, the State Control Office;
4. To develop and implement the internal audit system of spending units:		
4.1 To prepare proposals on the implementation of the internal audit system in spending units;	April 1, 1999	The Ministry of Finance, the Institute of Audit, Accounting and Property Valuation of Lithuania, the Ministry of Public Administration Reforms and Local Authorities, the State Control Office;
4.2 To form the internal audit units of spending units;	1 half of 1999.	ministries, which currently have control bodies
4.3 To complete the implementation of the internal audit system in spending units	1 quarter of 2000	Ministry of Finance, Institute of Audit and Accounting of Lithuania, Ministry of Public Administration Reforms and Local Authorities, the State Control Office
5. To prepare internal control standards for the public sector;	1 half of 1999	Ministry of Finance, Institute of Audit, Accounting and Property Valuation of Lithuania, the State Control Office;

<b>Identification of the measure</b>	<b>The time of the execution</b>	<b>Institutions responsible for the execution</b>
6. To prepare internal control manual for the public sector;	2 half of 1999	The Institute of Audit, Accounting and Property Valuation of Lithuania, the Ministry of Finance;
7. To train the staff of the internal control units	To begin in the 2 half of 1998.	Ministry of Public Administration Reforms and Local Authorities, the Institute of Audit, Accounting and Property Valuation of Lithuania;
<b>Drafting legal acts</b>		
1. To draft amendments to the State Control Law related to the internal control;	April 1, 1999.	The State Control Office;
2. To draft a resolution of the Government of the Republic of Lithuania "On the Approval of Typical (Sample) Regulations of Internal Audit Units of the Public Sector of the Republic of Lithuania";	April 1, 1999.	A commission established by the Government of the Republic of Lithuania;
3. To prepare methodological instructions for evaluation of the internal audit in the public sector;	2 half of 1999	The State Control Office, the Ministry of Finance, the Institute of Audit, Accounting and Property Valuation of Lithuania;
4. To draft amendments to the State Treasury Law of the Republic of Lithuania;	July 1, 1998.	The Ministry of Finance, the State Control Office;

## RESOLUTION

### GOVERNMENT OF THE REPUBLIC OF LITHUANIA

No. 127, February 7, 2000  
Vilnius

#### **On Internal Audit of Public Service and Public Enterprises of the Republic of Lithuania**

The Government of the Republic of Lithuania r e s o l v e s:

1. To approve the regulations of internal audit units of the public service and public enterprise of the Republic of Lithuania (attached).

2. To set the following:

2.1. Internal audit units shall be established in all ministries, regional administrations in the State Tax Inspectorate under the Ministry of Finance; internal audit units shall be also established in other public services and in public enterprises, which employ more than 300 employees, while in public services and public enterprises employing less than 300 people – only a position of an internal auditor shall be established. The head of an enterprise or service sets the number of staff of internal audit unit (the set number of the members of the staff in the service must not be exceeded).

2.2 internal audit units (positions of internal auditors) in public services and public enterprises must be established by July 31, 2000; currently functioning divisions of corporate control, revision, internal control and similar divisions in services and enterprises (except the General Inspectorate of the Ministry of National Defense) shall be reorganized as set forth in paragraph 2.1 of the present Resolution within the period of 3 months starting from the day when the present Resolution comes into force;

2.3 Established internal audit units (internal auditors) shall act by the Regulations of Internal Audit Unit of Public Enterprise or Service approved by the present Resolution. The procedure of internal audit, defined in the Regulations, shall also apply to all projects and programs financed with the EU funds;

2.4 Ministers, regional administrators and other managers of public services and enterprises defined under par. 2.1., must draft and approve work regulation of internal audit units (internal auditors) established in the relevant ministry, regional administration, public service or enterprise;

2.5 The Ministry of Finance shall methodologically guide internal audit units on financial audit issues, while the Ministry of Public Administration Reforms and Local Authorities shall methodologically guide them on issues of management and operational audit.

3. To recommend local authorities to establish internal audit units in municipal enterprises and budgetary services established by the Municipal Council, by following the Regulations of Internal Audit Unit of the Public Enterprise or Service, approved by the present Resolution.

PRIME MINISTER

ANDRIUS KUBILIUS

MINISTER OF PUBLIC ADMINISTRATION REFORMS  
AND LOCAL AUTHORITIES

JONAS RUDALEVICIUS

**REGULATIONS**  
**OF INTERNAL AUDIT UNIT OF PUBLIC ENTERPRISES OR PUBLIC SERVICES**

**1. General regulations**

1. Internal audit unit within public service or enterprise (hereinafter referred to as Unit) is a structural division of the said service or enterprise, executing the functions and tasks assigned to the Unit by the present Regulations.

2. The Unit shall be directly dependent on and reportable to the head of the public service or enterprise. The head of the service or enterprise shall submit to the Ministry of Finance information on the status of treasury operations handled by state budget appropriation managers.

3. Activities of the Unit shall be based on the principle of impartiality and objectivity.

4. The Unit shall function independently on internal control procedures executed by all levels of managers of the service or enterprise (structural divisions).

5. The Unit shall base its activities on the present regulations and the standards of internal audit of the public sector. International standards of internal audit shall be based upon only to the extent they are consistent with the laws of the Republic of Lithuania, unless international treaties of the Republic of Lithuania provide for otherwise.

**2. Goal, objectives and functions of Internal Audit Unit.**

6. The main goal of the Unit is to increase the efficiency of activities in the service or enterprise. In pursuing this goal, the Unit is obliged:

6.1. to ensure that the head of the service or enterprise is provided with impartial and independent information on the activities of the service or enterprise (the head of the service shall be additionally provided with information on its dependant institutions), the potential activity risks, on the status of the system of internal control;

6.2. to encourage implementation of new effective measures of internal control.

7. In pursuing its objectives, the Unit shall carry out the following functions:

7.1. it shall inspect and evaluate the following:

7.1.1. whether the activities of the service, enterprise, its structural divisions as well as subordinate institutions are in compliance with its goals and objectives and with the laws, resolutions of the Government of the Republic of Lithuania, other legal acts, and whether they observe their internal rules;

7.1.2. efficiency of functioning information systems;

7.1.3. data of financial reports;

7.1.4. whether material and financial resources are used effectively;

7.1.5. security of assigned property;

7.1.6 the use of funds for investments;

7.1.7 projects of information systems;

7.1.8. work organization and efficiency of usage of intellectual resources;

7.1.9. optimality of organizational structure;

7.2. it shall conduct audits of feasibility of projects and programs financed with the EU funds;

7.3. it shall draft final opinions and reports of internal audit, and along with recommendations shall submit these to the head of the service or enterprise; submit duplicates (extracts) of audit reports to divisions that were audited and to other interested structural divisions and to the heads of subordinate enterprises and services;

7.4. in subordinate enterprises and services, it shall carry out audit of annual financial accountability, shall submit audit opinion to the head of its enterprise or service and the audited institution; the head of the institution shall submit the opinion (along with the measures planned to eliminate the specified irregularities) to the Ministry of Finance, basing on the terms set in the work regulation;

- 7.5. it shall prepare reports on fulfillment of audit plans, on work done by the staff of the Unit;
- 7.6. it shall prepare proposals on improvement of the documents regulating audit procedures (standards, methodological recommendations, tests, memos , etc.);
- 7.7. it shall participate in developing, acquiring and implementing software for audit computerization;
- 7.8. it shall participate in preparation of tenders for certified auditors who will carry out audits of annual financial accountability of the service or enterprise and other kind of activities;
- 7.9. it shall organize and perform office works of the Unit basing on the requirements for office works of the service or institution; it shall guarantee a proper storage of documents, shall transfer audit conclusions and reports to archives according to the set procedure;
- 7.10 inspects whether proper actions were taken to eliminate the irregularities identified during the audit.
- 7.11. it shall execute other functions set by the laws and legal acts as well as directions of the head of public enterprise or service, related with internal audit.

### **3. Powers of Internal Audit Unit.**

- 8. The Unit, while executing its functions, shall have the power:
  - 8.1. to choose audit tests, procedures, terms and methods basing on legal acts and audit standards;
  - 8.2. to perform selective control measurements, inventory of valuables or other inspection of the property;
  - 8.3. to have access to all information accumulated in the service's or enterprise's database;
  - 8.4. without an express instruction by the manager of the service or enterprise, to obtain the following from all structural divisions and subordinate enterprises or divisions:
    - 8.4.1. to obtain copies of all applicable normative documents (resolutions, protocols, manager's orders, regulations, rules, instructions, acts, time-schedules, letters, etc.) that the audited structural divisions and subordinate enterprises or services are basing their work on;
    - 8.4.2. all accounting documents (financial reports, etc.);
    - 8.4.3. information on all investment and computerization projects under preparation;
    - 8.4.4. copies of the documents of the software being used, copies of such software and data of information systems;
    - 8.4.5. required user rights of computer network or software in order to supervise the functioning of the information system being audited;
  - 8.5. when carrying out selective audit and without notifying in advance, to visit all structural divisions and subordinate enterprises or services, to have access to all premises of structural divisions and subordinate institutions;
  - 8.6. to inspect any documents, money, securities, tangible property, as well as their storage place of the public enterprise or service;
  - 8.7. to obtain written and verbal explanations as well as duplicates of the documents of the managers and employees of the audited structural divisions and subordinate enterprises or services;
  - 8.8. having obtained a consent from the head of the service or enterprise, to ask assistance from employees of other structural divisions and subordinate enterprises or services in order to execute the functions of the Unit;
  - 8.9. to demand the following from the managers of structural divisions and subordinate services or enterprises being audited:
    - 8.9.1. to create appropriate conditions to carry out the audit, to work independently and to give impartial conclusions;
    - 8.9.2. to submit evaluation of draft audit reports not later than within five working days (in particularly complicated cases, the evaluation is to be submitted within 10 working days by notifying in advance the internal audit unit) upon obtaining such draft audit reports;

8.10. to attend training and qualification improvement courses, seminars and other professional events.

9. Internal audit units are obliged to respect constraints defined in legal acts pertaining to security of secrets of the State or service.

#### **4. Responsibilities of the staff of internal audit units**

10. The staff of the Unit is obliged:

10.1 to be objective and impartial; to execute the functions and assignments assigned to them professionally, on time and according to the set procedure;

10.2. to submit reports, data and conclusions that are truthful and well-founded;

10.3. to ensure security of the copies of financial reports, accounting data, registers, software and data of information systems taken for the purposes of audit;

10.4. to keep commercial, financial, professional secrets of the service or enterprise about which they learn during normal course of their activities; to withhold from preliminary public valuation of the audits performed;

10.5 to introduce the draft reports of internal audit to the heads of structural divisions and subordinate enterprises or services being audited and to the staff of the said institutions, responsible for the particular work field

10.6. to respect the norms of professional ethics.

11. The staff of the Unit are responsible for the truthfulness of conclusions and proper execution of their duties.

#### **5. Organization of the work of Internal Audit Units**

12. The Unit in an enterprise shall be headed by its manager, who is appointed for and dismissed from the work by the head of the enterprise; while the head of the Unit in a service shall be appointed and dismissed under the procedure set in the Law on Public Service.

13. The head of the Unit must be university-educated in economy, law or management and his/her work experience shall not be less than 2 years in the above mentioned spheres. The head of the unit can also be university-educated in other spheres and have the qualification of the auditor of management or finance. In addition, the head of the Unit must be an expert in the audited area and have practical experience.

14. If the service or enterprise has only one internal auditor, he/she is subject to the same qualification requirements as those applicable to the head of the Unit.

15 .The head of the Unit may have his/her assistant (s), who, in the absence of the head, will carry out his/her functions.

16. The head of the Unit:

16.1. shall independently organize and improve the work of the Unit, make suggestions of these issues to the head of the service or enterprise;

16.2. shall represent the service or enterprise in other organizations according to the competence of the Unit;

16.3. shall maintain professional relations on the issues of internal audit with foreign organizations and organizations of the Republic of Lithuania;

16.4. shall participate as an observer in the meetings of all levels of the managers of his/her service or enterprise;

16.5. shall prepare work instructions of the staff of the Unit and shall submit them to the head of the enterprise for approval;

16.6. shall plan the work of the Unit, set the directions for development and improvement of the activities of the Unit, its perspectives, strategies;

16.7. according to the work program approved by the head of the service or enterprise, shall organize audit of the structural divisions and subordinate services or enterprises;

16.8. shall draft audit plans;

16.9. shall submit audit conclusions and reports to the head of the service or enterprise;

16.10. shall advise the manager of the service or enterprise on the following:

16.10.1. list of job positions of the Unit;

16.10.2. in enterprises and services - appointment of the employees for a position or dismissal from the position;

16.10.3. in enterprises and services - promotion of the employees of the Unit, increasing of their salaries, transfer to the higher position and imposing disciplinary punishment;

16.11. shall supervise and evaluate the quality of the works performed by the staff of the Unit, and in the end of each year shall evaluate the work of every employee of the Unit.

## Reference to Relevant Government Strategic Plans and Studies

The following extract of the NPAA, Section 3.9.1. Financial Control, describe in detail the Government's strategy for improvement of financial controls.

### 3.9. Financial Questions

#### 3.9.1. Financial Control

##### I. Sector description

##### **Internal Control**

In the present system internal control of the budget is effected through computerised Government Budgeting, Accounting and Payment System (GBAPS), which covers budget institutions, Ministry of Finance, line ministries. All payments are classified in accordance to functional and economic classifications. The cash management has been enhanced as the data on revenues and expenditure is received on a daily basis and, in addition to that, transfers are made directly to enterprises, not through their line ministries. The sound financial control of the system ensures that the spending of all budget organisations does not exceed the state budget expenditure limits approved in GBAPS.

##### **External control**

Pursuant to the Laws of the Republic of Lithuania (State Control Law (30/05/1995); Law on Budget Structure (30/07/1990); Local Government Law (07/07/1994)), execution of the state and municipal budgets is controlled by the State Control Department (the State Control Office/the Supreme Audit Office); execution of the municipal budgets is controlled by control services formed by regional and urban municipalities.

##### **Control of European Union Assistance Funds**

In the implementation of the Resolution No.538 of May 6, 1999 of the Government of the Republic of Lithuania "On Measures to Implement Outline of Lithuanian Regional Development" the Ministry of Finance has drawn a plan for approximation of Lithuanian finance legislation to EU requirements for assistance in administration. In accordance to this plan the legislation, which would ensure finance control over European Union assistance funds, should be enacted by the year 2000.

On the basis of the above Resolution No. 538 of the Government of the Republic of Lithuania the Ministry of Finance by September 1, 1999 is going to prepare a methodology for preparation of assistance programs administration in the area of finance and budget. In this methodology the major items will cover the procedure of control, audit, supervision and evaluation of EU assistance funds in Lithuania. Internal audit units of organisations, which have effected payments, to ensure the following minimum control measures, will control the allocation of EU funds through structural funds:

- Ensure appropriate financial management;
- Risk estimation and estimation of potential difficulties in implementation as well as establishment of appropriate effect methods;
- Approval of audit systems and programs;
- Ensure legitimacy, regularity and realism of projects;
- Establishment of problems and their financial effect;
- Setting of control goals;
- Report of independent control in the last stage of payment.

## **Internal Control Implementation Programme for the Public Sector**

At the end of 1997, the Seimas adopted a decision aimed at encouraging implementation of the internal control system, conforming to international standards. By Government Resolution No. 1409 (15 December 1997) “On the Formation of the Commission for the Preparation of the Internal Control System Implementation Programme and of Draft Legal Acts Necessary for Their Implementation”, a commission was formed to prepare the internal control system implementation programme and to draft legal acts.

In accordance with Resolution No. 179 (13 February 1998) “On the Approval of the Public Internal Control Implementation Programme (Measures)”, the programme was approved. The following implementation stages were foreseen to:

- Form and implement the internal audit system in the budgetary institutions;
- Prepare typical internal audit regulations for the public sector;
- Train the officers of internal audit structural units;
- Prepare the internal audit standards for the public sector;
- Prepare methodical instructions for the public sector internal audit assessment;
- Publish internal audit methods for the public sector;
- Prepare a draft law on amendments and supplements to the Law on State Control pertaining to internal control; and
- Prepare a draft of the Resolution of the Government of the Republic of Lithuania “On the Approval of Typical (Exemplary) Regulations of Internal Audit Service in the Public Sector of the Republic of Lithuania”.

Government in its Resolution No. 350 of 30 March 1999 amplified the terms for implementation of measures and their executors. It proposed to:

- Complete implementation of the internal audit systems in the budgetary institutions in the 1<sup>st</sup> quarter of 2000;
- Prepare the public sector internal audit manual in the 2<sup>nd</sup> half of 1999;
- Prepare the public sector internal audit standards in the 1<sup>st</sup> half of 1999;
- Organise training of officers of the internal audit structural units in the 2<sup>nd</sup> half of 1999;
- Prepare the draft law on the amendments and supplements to the Law on State Control relevant to internal control in the 1<sup>st</sup> half of 1999;
- Prepare a draft of the Resolution of the Government of the Republic of Lithuania “On the Approval of Typical (Exemplary) Regulations of Internal Audit Service in the Public Sector of the Republic of Lithuania” in the 1<sup>st</sup> half of 1999; and
- Prepare methodical instructions for the public sector internal audit assessment in the 2<sup>nd</sup> half of 1999.

## **Development of the Internal Audit and Control System**

At present, a draft of Government Resolution “On the Approval of Typical (Exemplary) Regulations of Internal Audit Service in the Public Sector of the Republic of Lithuania” (together with draft regulations, identifying goals, functions, rights, and responsibilities) has been debated.

The public sector internal audit services are planned to be established in two stages: in 1999, in departments where internal control structural divisions are currently operating (their reorganisation into internal audit services); and, in 2000, in the remaining departments (all ministries and regional administrations; departments under the Government of the Republic of Lithuania and ministries as well as in the State Tax Inspectorate; other institutions, enterprises of the public sector, which employ more than 500 employees).

In accordance with the public sector internal control system implementation programme, proposals on implementation of the internal control system in the public sector were submitted to Government on 18 February 1999 covering the following:

- The decentralised audit system, i.e. control integrated into the organisation itself, is proposed in the public sector;
- Establishment of internal audit services in all ministries and regional administrations, departments under the Government of the Republic of Lithuania and at the State Tax Inspectorate;
- Internal audit services shall be established in the organisations in accordance to typical regulations; internal audit service regulations in each organisation shall be approved by its head; the head of the organisation shall specify the scope of internal audit in his organisation, and shall appoint the head of the internal audit service under direct subordination and accountability to the head of the organisation;
- The head of the internal audit service shall evaluate the need for internal audit and, on its basis, provide recommendations for the internal audit service structure, also prepare and approve internal audit work plans; and
- The Ministry of Public Administration Reforms and Local Government Affairs shall organise the training for the staff of the services established; the Ministry of Finance shall co-ordinate the activities of internal audit services and provide their methodical guidance.

The operation of internal audit is planned for the short term, identifying tasks and formulating strategic plans. The main internal audit procedures are to:

- Review accounting and internal control systems;
- Inspect the financial state and activities (review of measures to identify, measure, classify and provide that information and special inquiries about its separate parts, including a detailed inspection of economic operations, balances of accounts and procedures);
- Review the economy, efficiency and effectiveness and financial control of the organisation;
- Control the observance of legal acts, resolutions and other requirements, as well as conformity to management and other internal requirements;
- Provide information on special research pertaining to significant changes in the organisation that are necessary for management; and
- Provide objective and independent information to the head of the organisation on the activities of the organisation, as well of its subordinate enterprises and offices, and the internal control state; to the Ministry of Finance, on the state of treasury procedures of the State budget assignments performed by the governors.

The audit service shall submit reports to the head of the administration comprising:

- An audit plan, covering periods established by the head of internal audit;
- Explanations of more significant deviations from plans;
- A conclusion on the internal control of the organisation;
- Important recommendations; and
- A report on the results obtained, conclusions or recommendations.

In the sphere of financial control, it is foreseen to create an internal audit system for budgetary organisations during the 1<sup>st</sup> half of 2000.

### **Improvement of National Budget Formation**

The Law on Budgeting was adopted on 30 July 1990. Since then, it has been elaborated 11 times responding to the essential changes in the State development strategy and in the sphere of the budget. The Seimas advanced the budgetary structure reform due to the Resolution “On the Budgeting Concept of the Republic of Lithuania” adopted on 22 October 1998.

The budgetary structure was restructured in order to improve the planning, management, and control of budgetary system and involve the public, to increase its transparency and publicity. It is aiming to centralise the administration of State financial resources, attracting to the State budget those State financial resources that have not been previously attracted, and, in parallel, to provide

the legal basis in order to effect fiscal decentralization by increasing the independence of municipalities.

The following major budget improvement trends are foreseen:

- A new edition of the Law on Budgeting, (a draft was already prepared and at present is under analysis of experts);
- The application of the programme budgetary formation principles while forming a draft budget for 1999. (In the draft budget the funds of assignments for governors are planned for specific programmes according to State and Government priorities, as well as defining specific goals, tasks and measures for the implementation of programmes. Programme principles will be improved while forming a draft budget for the year 2000, creating the computerised budget formation process and assessment criteria databank, as well as better analysis of the budget programmes);
- Comprehensive training of staff; and
- Preparation of a new budget cycle and calendar, affording calendar opportunities for the budgetary process participants of all levels to improve their mission.

The following has already been implemented and developed in the budget reform:

- The application of the programme budget formation principles in the formation of the draft budget for 1999;
- Comprehensive training of the staff; and
- Increase in publicity on the budget.

At the preparation and performance stages further reforms have been introduced:

- An introduction of triennial budget planning;
- Essential reduction of non-budgetary state resources administration;
- Standardisation of adoption of laws having an effect on State revenues;
- Standardisation of municipality budget formation and performance procedures;
- Elaboration of the responsibility of State institutions in the process of budget;
- Improvement of expenditure control and other budget control systems; and
- Elimination of contradiction in laws.

Results predicted by the budget reform include:

- Effective use of State funds;
- Management of State resources in implementing an economic policy; and
- Democratic principles of State financial control.

### **Legal Base**

- The budgetary structure essentially is established by the Law on Budgeting (30 July 1990), and supplements to the law;
- The General Rules for the State and Municipal Budget Formation and Performance (9 December, 1991) regulate the procedure of budget formation;
- The Law on Public Procurement (13 August 1996) regulates public procurement of goods, works and services from the State, municipality budgets, the State social insurance fund budget and other State funds, from charity or other support received on behalf of State institutions, provided it does not indicate how to use it, also from foreign loans received on behalf of the State or with its guarantee, if in the agreements on their use no other terms are foreseen, from the funds of enterprises, offices and organisations, financed from the State and municipality budgets, as well as the State funds, received from their economic activities or appropriation or transfer of their property;
- The Law on the National Debt (22 August 1996) regulates the relationships of the national debt to domestic and foreign creditors;

- The Law on State Control (30 May 1995), State Control is the supreme State institution of economic financial control accountable to the Seimas, which supervises the legality of holding and use of State property and the State budget performance process. The State Controller directs State Control;
- The Law on Tax Administration (28 June 1995) and the Law on Tax Inspectorate (26 June, 1990) identifies the main concepts and regulations to be followed in the observance of the tax laws of the Republic of Lithuania, provides a list of applicable taxes of the Republic of Lithuania, determines the rights and duties of the tax administrator, and the rights and obligations of the tax payer;
- The Law on the Prevention of Money Laundering (2 October 1998) establishes measures for prevention of money laundering and State institutions responsible for the implementation of money laundering prevention. Government, the Tax Police, the Bank of Lithuania and the Customs Department under the Ministry of Finance are State institutions responsible for implementation of the money laundering prevention measures foreseen by this law.

## Financial control system in Lithuania

### 1. Legal framework

Legislation regulating the procedures of financial control of the Republic of Lithuania consists of the following legal acts:

- State Control Law (30.05.1995.), which sets that the State Control Office is the government's highest institution of economic financial control reporting to the Parliament of the Republic of Lithuania. The State Control Office monitors legality and efficiency of management and usage of state assets, execution of the state budget, behaviour of state institutions with respect to financial discipline and whether they make proposals as to how to ensure financial discipline. The State Control Office, whenever necessary, controls execution of municipal budgets as well as economic and financial activities of municipal institutions and enterprises (Currently, a new amendment to the State Control Law is under preparation).
- State Treasury Law (30.03.1999.), which sets (a) the contents of the State Treasury of the Republic of Lithuania, (b) the procedure for opening, replenishing and drawing from the State Treasury Account, (c) the purpose of State Single Treasury Account, its management, functions and implementation thereof, (d) procedure for establishment of state monetary funds, responsibilities and liability of the establishers thereof, and (e) the procedure for transfer of state budget appropriations to state monetary funds.
- Organic Budget Law (30.07.1990.), which defines the system of state and individual municipal budgets (Currently, an amendment to the Organic Budget Law is under discussion).
- Law on Local Self-Government (07.07.1994.), which sets the general procedure for organisation and activities of local self-government institutions as well as the competence of municipal councils, boards and controllers. Pursuant to this Law, the controller monitors the usage of municipal budget resources; legality, purposefulness and efficiency of exploitation of municipal property as well as of state property entrusted to the relevant municipality. Municipal controller reports to the municipal council. Self-government institutions are independent of state institutions (Currently, an amendment to the Law on Local Self-Government is under preparation).
- General Rules of Formation and Execution of State and Municipal Budgets (09.12.1991.), pursuant to which execution of state budget is controlled by the Ministry of Finance, while execution of municipal budgets is controlled by municipal control units. Control bodies established by ministries, departments, state agencies, regions and municipalities are engaged in financial control at the agency level (the Government has passed a decision to update the Rules).

In late 1997, the Parliament of the Republic of Lithuania passed a decision to speed up implementation of internal control system in compliance with the international standards. Pursuant to Resolution No. 1409 (15.12.1997.) of the Government of the Republic of Lithuania "On Formation of the Commission for Preparation of the Program of Implementation of Internal Control System and for Drafting Legal Acts Needed for Implementation of the Program", a commission was formed, which was delegated the task of setting the implementation program of internal control system and drafting legal acts.

The Government's Resolution No. 179 (13.02.1998.) "On Approval of the Program (Measures) for Implementation of Internal Control System in the Public Sector" approved the above-mentioned program (measures) along with their implementation deadlines and implementing institutions. The Ministry of Public Administration Reforms and Local Authorities was instructed to form a permanent interdepartmental commission for co-ordination of the execution of the above mentioned program (measures).

The above-mentioned Resolution sets the following implementation stages to:

- Discuss the results of internal control status analysis;
- Form and implement internal audit system in spending units;
- Draft typical regulations of internal audit in the public sector;
- Organise training for the staff of internal audit units;
- Draft internal audit standards for the public sector;
- Draft methodological guidelines for evaluation of internal audit in the public sector;
- Publish internal audit methodology for the public sector;
- Draft amendments to the State Control Law related to internal control;
- Draft a resolution of the Government of the Republic of Lithuania “On Approval of Standard Regulations of Internal Audit Unit of the Public Sector of the Republic of Lithuania”.

The Government of the Republic of Lithuania, by its Resolution No. 710 and Resolution No.350 of 12.06.1998. and 30.03.1999, respectively, revised the definitions, implementation deadlines and implementing institutions of certain measures set forth in the Resolution No. 179 of 13.02.1998.

As part of execution of the above-mentioned resolution No. 179, the Ministry of Public Administration Reforms and Local Authorities (hereinafter referred to as the Ministry of PARLA) issued a ministerial order, which established a permanent interdepartmental commission formed of representatives of relevant state institutions. The Commission’s task is co-ordination of execution of the program (measures) for implementation of internal control system in the public sector. The Secretary of the Ministry of PARLA chairs the Commission.

As part of execution of the above-mentioned program (measures), on 18 February 1999, proposals on implementation of the internal audit system of spending units were submitted to the Government. In addition, several training sessions were organised. Moreover, pursuant to the above-mentioned program, draft internal audit standards and internal audit methodology for the public sector has been prepared and an amendment to the State Control Law is under discussion now.

Pursuant to the above-mentioned program, a Government’s Resolution No. 127 “On Internal Audit of State Enterprises and Institutions” was drafted and approved. This Resolution approved regulations of internal audit units, which set the goals, functions, rights and responsibilities as well as the procedure for organisation of the work and for establishment of internal audit units.

## **2. Principles of the financial control system**

Pursuant to the Organic Budget Law, the Government organises execution of the state budget through the Ministry of Finance and its institutions, as well as through other state institutions and enterprises.

Internal control of the state budget is carried out through the computerised Government Budgeting, Accounting and Payment system (GBAP system) covering all spending units, line ministries and the Ministry of Finance. Here, all payments are classified by functional and economic classification. Management of cash flows has been improved in the sense that data on revenues and expenditures are received daily and expenditures are made by attributing them to a specific item of functional and economic classification and to a specific program. Payments are executed by the Treasury Department of the Ministry of Finance (hereinafter referred to as the Treasury), which also maintains the central list of suppliers. The strong financial control developed in the system ensures that a spending unit does not spend more than the budget limits set in the GBAP system.

### **2.1 Ex-ante control**

After the state budget is approved, it is sent to line ministries/departments, where the budget is made more detail by setting limits (control budgets) for every spending unit (by quarters and full economic and functional classification). Then, the control budgets are sent to the Treasury and spending units. After the Finance Act is passed, only the Ministry of Finance may make

amendments to it provided that the Parliament gives consent thereto. Line ministries are only entitled to shift appropriations between articles of classifications for their dependent spending units (within the set limits).

Spending units send requests for payments to their line ministry/department, where the requests for payment, prior to being sent to the Treasury, undergo budget control procedures in order to make sure that all changes to the budget were taken account of before submitting the requests to the Treasury. The Treasury exercises the same control over the requests for payment and has the right to reject any request for payment, which fails the control test. Under relevant legislation, the Treasury has the right to suspend payments. All the three levels maintain reports enabling to see the position of the spending unit.

In addition to the budget control, payments have to undergo strict validation procedures at different organisational levels in the GBAP system. In a spending unit, two persons, who have to use user codes, must validate a request for payment, otherwise it will be impossible to send the request for payment to the line ministry. Moreover, it is necessary to print a report on all requests ready for validation. Such report has to bear a signature of the head of the spending unit, the accountant and the person, who validates requests for payment in the GBAP system. This report is stored in the spending unit for ex-post control purposes. In the Treasury Department, requests are validated by two persons, one of whom carries out formal control of requests for payment (checks, who has validated the request in the spending unit and line ministry), and another certifies requests in order to make payments against them. All requests for payment that have been validated are electronically submitted to the bank and printed in four copies that have to be signed by two officials of the Treasury.

## **2.2 Ex-post control**

Ex-post financial control is the responsibility of internal audit units established under Government's Resolution No. 127. One of the functions of internal audit units is to check and assess the data of financial reports of the institution and to audit financial accountability in dependent institutions. The Unit operates on the basis of the Regulations of Internal Audit Unit of the State Enterprise or Institution and on the basis of Internal Audit Standards of the Public Sector. Internal audit unit, when executing its functions, contributes to the financial discipline in the process of organising the Government's activities, setting definite procedures, periodicity and accuracy of financial statements. Internal auditors - by analysing daily operations and executing the prescribed functions of the unit - monitor the adequacy, efficiency and cost-efficiency of internal control as well as legality and correctness of money transfer operations. Having detected any irregularities, the Unit informs the head of the institution thereon, proposes corrective measures and recommends measures to prevent such irregularities in the future. The head of the state institution or enterprise informs the Ministry of Finance about the status of treasury procedures performed by state budget appropriation managers and issues audit opinion pertaining to financial accountability.

Execution of state budget (an municipal budgets, if necessary) is also controlled by the State Control Office, which carries out external control.

## **3. Principles of internal audit system**

Pursuant to the Government's Resolution No. 127 "On Internal Audit of State Enterprises and Institutions", internal audit units shall be established in all ministries, regional administrations and the State Tax Inspectorate under the Ministry of Finance, in other state institutions and in state enterprises employing more than 300 employees. When an enterprise employs less than 300 employees, a position of an internal auditor will be established. The number of the staff of the unit shall be determined by the head of the institution or enterprise (without exceeding the set number of job positions, in case of an institution). All internal audit units shall be established by 31 July 2000. Units of departmental control, inspection, internal control and similar ones currently operating in

state institutions and enterprises shall be reorganised into internal audit units within three months (i.e. by 7 May 2000).

Municipalities are recommended to establish in municipal budgetary institutions and municipal enterprises internal audit units (hereinafter referred to as Units) under the approved regulations.

The Ministry of Finance shall give methodological guidance to internal audit units on financial audit issues, while the Ministry of Public Administration Reforms and Local Authorities shall do the same on management and operational audit issues.

The Unit is directly accountable to and reporting to the head of the institution or enterprise. The head of the institution or enterprise shall inform the Ministry of Finance on the status of treasury procedures carried out by state budget appropriation managers.

The Unit shall act independently on the procedures of internal control exercised by heads of any levels of the institution or enterprise (heads of structural division and subordinate institutions and enterprises).

The Unit shall inspect and assess the following items:

- Compliance by the institution with legal acts of the Republic of Lithuania;
- Efficiency of information systems;
- Data of financial reports;
- Efficiency of usage of tangible and financial resources;
- Security of assets;
- Work organisation;
- Optimality of the organisational structure;
- Usage of resources for investments;
- Projects of information systems.

The Unit shall (a) issue internal audit opinions and reports, which, accompanied by recommendations, are submitted to the head of the institution or enterprise; (b) send copies (extracts) of audit reports to the auditees and other concerned divisions as well as to the heads of dependent institutions or enterprises; (c) audit annual financial accountability in dependent institutions and enterprises, and submit audit opinion to the head of the audited institution and to the head of its own institution, who submits the audit opinion together with planned measures designed for elimination of any detected defects to the Ministry of Finance within periods set in the work regulations; (d) produce reports on execution of audit plans and assignments performed by the staff of the Unit; (e) audit implementation of projects and programs financed with the EU funds.

While carrying the above listed and other functions set forth in the above mentioned Government's Resolution, audit units shall ensure that the head of the institution is provided with impartial information on the activities of the institution or enterprise, on possible activity risks and the status of internal control system.

Its manager, who in the state enterprise is appointed and dismissed by the head of the enterprise, where the internal audit unit is established, heads the Unit. Appointment and dismissal of the manager in the state institution procedures are regulated in the Law on Civil Service.

#### **4. Local governments**

Execution of local government budgets is organised by the councils of local governments through management bodies formed by them and through other institutions and enterprises dependent on such councils. Municipal councils of finance produce consolidated budget execution statements, which are submitted to the Ministry of Finance under the procedure and timing set by the latter. Control units formed by the municipalities control execution of municipal budgets. Activities of control units are regulated in the regulations approved by the council. The State Control Office, when necessary, controls execution of municipal budgets as well as economic and financial activities of municipal institutions.

The Government's Resolution No. 127 recommends the municipalities to establish internal audit units in municipal budgetary institutions.

### **5. Short term plans**

Pursuant to the Government's Resolution No. 179 "On Approval of the Program (Measures) for Implementation of Internal Control System in the Public Sector" (with all relevant amendments indicated above), as well as pursuant to the Government's Resolution No. 127 "On Internal Audit of State Enterprises and Institutions", the plans for 2000 are as follows to:

- Approve and publish internal audit methodology for the public sector (responsible institution – the Ministry of Finance);
- Approve and publish internal audit standards for the public sector (responsible institution – Institute of Audit and Accounting);
- Draft and approve amendments to the State Control Law (responsible institution – the State Control Office), to the Law on Local Self-Governments (responsible institution – the Ministry of PARLA), and to the Organic Budget Law (responsible institution – the Ministry of Finance);
- Draft and approve work regulations of internal audit units (or internal auditor) of state institutions or enterprises (responsible persons – heads of state institutions and enterprises, where internal audit units will be established).

## **IMPLEMENTATION IN COUNTIES AND MUNICIPALITIES OF THE STRATEGY ON FINANCIAL CONTROL**

### **INVESTMENT NEEDS ANALYSIS**

The following "needs analysis" is based on a survey among municipalities carried out by the Association of Local Authorities in Lithuania:

#### **1. Background**

Government Resolution No. 179 of 13 February 1998, as latest amended in December 1999 has made establishment of an Internal Audit Division in budget-funded institutions with more than 300 employees mandatory. For budget-funded institutions with less than 300 employees a position as Internal Auditor must be established.

Standard regulations and procedures for the Internal Audit Divisions and Internal Auditors have been prepared and approved.

Due to the fact that original implementation plan has been postponed the time table now set for implementation of the strategy is very tight: 1) Institutions with existing control units have to reorganize these units within 3 months, 2) Other institutions have got the time until the end of July 2000 to establish divisions or internal auditor positions.

The Government Resolution recommends municipalities (local authorities and municipality owned enterprises) to follow the same guidelines as Government governed institutions. The Association of Local Authorities is the coordinator of the implementation at the level of local authorities.

The Treasury Department at the Ministry of Finance has been charged with the authority of preparing procedures and guidelines for the Internal Audit Divisions and has been authorized to make consultations to all institutions involved while assistance related to administration and the Ministry of Public Administration Reform and Local Authorities shall provide performance.

#### **2. Counties**

In Lithuania there are 10 counties as specified in Annex 1. Counties are Government institutions and the Government appoints Heads of counties. The counties are funded from the state budget and they are accountable to the Government. The Ministry of Finance and the State Control Department under Seimas control execution of budgets.

The total staff in counties is 3,456.

Implementation in counties of the strategy on financial control will follow the same guidelines as for government institutions. Investment in computers, software etc. is planned to be financed by the state budget and consequently included as a co-financed component in the request for assistance under the PHARE 2000 programme. The total amount co-financed by the budget of the counties is 0.350 EUR.

Counties are included in the budget for the PHARE assistance with regard to technical assistance for implementation of the strategy on financial control, including training of staff.

#### **3. Municipalities**

Lithuania has 56 municipalities as listed in Annex 2, which gives a specification of the number of employees, number of institutions financed from the local budget, the total local budget and the number of bank operations in 1999.

In accordance with the Local Government Law of 07.07.1994 municipalities are independent from state institutions.

Municipalities are funded through distribution from the State Tax Inspectorate of funds from collected personal income tax, property tax and other taxes related to the particular region as well as through equalisation funds. The execution of budgets is controlled by local control services.

A survey made by the Association of Local Authorities indicates that local authorities are expected to follow the recommendation of the Government and establish the Internal Audit environment as described for the state governed institutions. The local authorities and institutions will use the GBAP NAVISION system, which is also used by government institutions.

Based on the information provided in section 2, the need for computerisation in relation to budgeting and financial control is estimated to be:

- 53 servers in municipalities with more than 10 institutions, 1 million LTL
- 729 computers (3 stand alone computers (servers) in small districts), 56 central computers for municipalities, 220 computers for 11 big cities and 450 computers for 45 municipalities), 7.1 million LTL
- Software licenses and customisation, 3.0 million LTL
- Training of users and system administrators, 1.6 million LTL

The total investment for the municipalities is estimated at not less than 12.7 million LTL, or 3.150 MEUR.

More accurate plans and budgets for the implementation at the municipal level, including staffing, equipment and timing, are expected to be ready by July 2000.

#### **4. Implementation plan**

For the counties, preparations of the implementation are to be made in line with the general guidelines for all budgetary funded state institutions. Thus, planning of the preparation has to be completed before the end of 2000. However, the actual implementation, including most of the computerization and the training activities are not expected to take place until second half of 2001 and the beginning of 2002, which will make it possible to cover the activities, by the PHARE 2000 programme.

For the municipalities, a longer period of planning should be envisaged, as the institutional capacity is limited for most of them. There is also a bigger need for external assistance to the implementation. Consequently, completion of the implementation could last until the end of 2002, and even beyond that date.

The implementation plan is in three phases:

**Phase 1:** 10 counties, starting with the 4 target regions identified in the National Development Plan

**Phase 2:** Selected pilot municipalities, e.g. 18 municipalities in the target regions

**Phase 3:** Remaining municipalities and municipality owned enterprises

A detailed plan for the implementation at the level of local authorities is to be prepared by the Steering Committee and will be published in July 2000.

Annex 8.1 - List of counties

Annex 8.2 - List of municipalities

Annex 8.3 - Brief Investment Plan

<b>No. in the database</b>	<b>Name of Institution</b>	<b>No. of employees</b>	<b>Data updated on</b>
701	Alytaus County Governor's Administration	264	10.03.1999
702	Kaunas County Governor's Administration	358	29.10.1998
703	Klaipeda County Governor's Administration	389	03.12.1999
704	Marijampole County Governor's Administration	185	24.12.1998
705	Panevežys County Governor's Administration	359	06.12.1999
706	Šiauliai County Governor's Administration	760	13.12.1999
707	Taurages County Governor's Administration	177	06.12.1999
708	Telšiai County Governor's Administration	228	30.11.1999
709	Utena County Governor's Administration	308	30.11.1999
710	Vilnius County Governor's Administration	428	26.10.1998

## List of municipalities.

No.	ID	Municipality	Number of employees	No. of institutions financed from the municipalities budgets	Budget for 99 (thousand Litas)	Bank operations in 1999
1.	801	Vilniaus City	593	402	471,564	32,377
2.	802	Alytaus City	156	52	71,571	9,293
3.	803	Birštono City	18	10	12,398	3,360
4.	804	Druskininku City	73	36	24,799	7,396
5.	805	Kauno City	451	15	312,345	32,215
6.	806	Klaipėdos City	239	164	127,008	20,000
7.	807	Marijampolės City	153	40	49,528	3,931
8.	808	Neringos City	59	15	26,063	2,410
9.	809	Palangos City	95	32	26,988	5,740
10.	810	Panevėžio City	280	102	106,008	
11.	811	Šiaulių City	300	51	127,500	20,000
12.	812	Visagino City	108	28	39,110	8,706
13.	813	Akmenės District	113	23	34,250	8,749
14.	814	Alytaus District	109	11	32,843	5,380
15.	815	Anykščių District	116	15	39,176	4,500
16.	816	Biržų District	94	66	35,231	10,415
17.	817	Ignalinos District	134	34	29,983	10,680
18.	819	Jonavos District	81		48,771	
19.	820	Joniškio District	101	18	38,385	11,868
20.	821	Jurbarko District	146	10	72,218	19,415
21.	822	Kaišiadorių District	81		42,013	
22.	823	Kauno District	154	27	64,985	10,849
23.	824	Kėdainių District	101	49	58,764	12,160
24.	825	Kelmes District	116	6	36,419	9,098
25.	826	Klaipėdos District	67	59	89,733	10,557
26.	827	Kretingos District	126	42	46,983	6,631
27.	830	Kupiškio District	112	19	31,291	9,244
28.	831	Lazdijų District	68	12	71,805	6,780
29.	832	Marijampolės District	105	79	49,671	5,138
30.	833	Mažeikių District	110	82	49,385	14,330
31.	834	Moletų District	77	65	24,291	6,261

No.	ID	Municipality	Number of employees	No. of institutions financed from the municipalities budgets	Budget for 99 (thousand Litas)	Bank operations in 1999
32.	835	Pakruojo District	101	25	70,965	13,440
33.	836	Panevežio District	41	29	41,486	14,100
34.	837	Pasvalio District	65	23	36,590	10,011
35.	838	Plunges District	130	44	52,274	10,302
36.	839	Prienu District	141	16	37,298	6,460
37.	840	Radviliškio District	84	46	52,695	10,500
38.	841	Raseiniu District	102	69	42,185	
39.	842	Rokiškio District	207	28	43,625	11,763
40.	843	Skuodo District	191	50	31,560	
41.	844	Šakiu District	124	38	41,240	6,400
42.	845	Šalčininku District	191	78	35,197	3,382
43.	846	Šiauliu District	59	49	43,477	4,116
44.	847	Šilales District	185	27	37,372	3,959
45.	848	Šilutes District	115	13	59,407	683
46.	849	Širvintu District	92	19	25,304	6,088
47.	850	Švencioniu District	109	56	35,029	
48.	851	Taurages District	114	33	49,982	13,965
49.	852	Telšiu District	120	159	51,513	13,250
50.	853	Traku District	147	92	69,910	2,097
51.	854	Ukmerges District	126	62	87,894	8,722
52.	855	Utenos District	77	124	47,410	20,090
53.	856	Varenos District	94	14	37,191	7,252
54.	857	Vilkaviškio District	124	21	37,766	12,019
55.	858	Vilniaus District	266	14	67,468	4,869
56.	859	Zarasu District	64	15	54,314	7,798

**PHARE 2000 - Budget Management and Financial Controls**  
**Brief Investment Plan**

**1. Assumptions**

**1.1 Participants**

10 counties and 56 municipalities.

**1.2 Equipment**

1 central server in each county

5 computers in each county

1 central server (small, medium or big) in each municipality with more than 10 enterprises

20 computers in each of the 11 big cities

10 computers in each of the other 45 municipalities

**1.3 Software**

NAVISION licenses 40.000 LTL for servers and 2.500 LTL for single computers.

**1.4 Training**

1 system administrator per server, 2 users per computer

5 days of training for users and 10 days for system administrators

Training cost, 200 LTL per day per person trained

**1.5 Specification, Phase II - municipalities**

5 cities, 14 districts

1 big server, 3 medium servers, 14 small serves, 1 stand alone

18 central computers

5 cities @ 20 computers = 100 computers

14 municipalities @ 10 computers = 140 computers

18 servers + 259 computers

Training, (18 servers + 1 stand alone computer) x 1 administrator x 10 days = 190 days

Training, 259 computers x 2 users x 5 days = 2590 days

Total training 2780 days, number of staff trained 537

**1.6 Specification, Phase III - municipalities**

6 cities, 31 districts

2 big servers, 5 medium servers, 28 small serves, 2 stand alone computers

35 central computers

6 cities @ 20 computers = 120 computers

31 municipalities @ 10 computers = 310 computers

35 servers + 467 computers

Training of administrators,

(35 servers + 2 stand alone computer) x 1 administrator x 10 days = 370 days

Training of users, 467 computers x 2 users x 5 days = 4670 days

Total training 5040 days, number of staff trained 971

**2. Investment**

**2.1 Equipment**

1 central server in each county, 10 big servers @ 30.000 LTL 300.000

Computers, 5 in each county, 10 x 5 @ 10.000 LTL 500.000

Total equipment, counties 800.000

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1 central server in each municipality with more than 10 enterprises (=53 municipalities)

42 small servers @ 15.000 LTL	630.000	
8 medium servers @ 20.000 LTL	160.000	
3 big servers @ 30.000 LTL	90.000	
3 stand alone computers @ 10.000 LTL	30.000	910.000
Municipalities, 723 computers (53 central computers, 220 for 11 big cities, and 450 for 45 municipalities) @ 10.000 LTL		<u>7.230.000</u>
Total equipment, municipalities		8.140.000

Equipment total 8.940.000

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**2.2 Software**

Counties, 10 @ 40.000 LTL	400.000
Customisation	<u>80.000</u>
Total software, counties	480.000

Municipalities, 53 server licenses @ 30.000 LTL (average)	1.590.000
Single licenses 500 @ 2.500 LTL	1.250.000
Customisation	<u>160.000</u>
Total software, municipalities	3.000.000

Software total 3.480.000

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**2.3 Training**

Counties: 10 servers x 1 person x 10 days = 100 days	
50 computers x 2 persons x 5 days = 500 days	
Total 600 days @ 200 LTL	120.000

Municipalities: 53 servers x 1 person x 10 days = 530 days	
3 stand alone computers x 1 administrator x 10 days = 30 days	
3 stand alone computers, 2 users x 5 days = 30 days	
723 computers x 2 persons x 5 days = 7230 days	
Total 7820 days @ 200 LTL	<u>1.564.000</u>

Total training costs 1.684.000

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Number of staff trained:

Counties - 10 administrators + 100 users = 110  
 Municipalities - 56 administrators + 1452 users = 1508  
 Total 1618

**2.4 Summary**

Total costs counties 800.000 + 480.000 + 120.000	LTL 1.400.000
	EUR 350.000
Total costs municipalities 8.140.000 + 3.000.000 + 1.564.000	LTL 12.704.000
	EUR 3.175.000
Total costs	LTL 14.104.000
	EUR 3.525.000

2.4.1 Financed by the central government: Total costs counties LTL 1.400.000 / EUR 350.000

2.4.2 Financed by municipalities: Training costs LTL 1.600.000 / EUR 400.000 (in kind); Software and hardware app. LTL 1.100.000/EUR 275.000

2.4.3 Financed by PHARE: Software and hardware for municipalities LTL 10.000.000 / EUR 2.500.000