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National Audit Office



# 2019 peer review of the National Audit Office of Lithuania

## Report



NATIONAL AUDIT  
OFFICE OF LITHUANIA

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## Peer review opinion

### To the Auditor General of the Republic of Lithuania

We, the members of the international peer review team, are pleased to present the results of our review of the National Audit Office of Lithuania (NAOL). The team consisted of experienced financial, compliance and performance auditors from the European Court of Auditors, lead reviewer, and the Supreme Audit Institutions of Poland and the United Kingdom.

The review was conducted in accordance with ISSAI 5600 on peer review, and largely followed the Supreme Audit Institutions Performance Measurement Framework developed by INTOSAI.

The main objective of the peer review was to assess the extent to which the NAOL's audit practices comply with the International Standards of Supreme Audit Institutions (ISSAIs). This entailed assessing the NAOL's environment, its capability, performance, mandate and independence, and the core processes involved in its financial, compliance and performance audits. We also assessed the NAOL's relations with the Lithuanian Parliament (the Seimas) and the extent of implementation of the recommendations made under the previous peer review.

Overall, we found the NAOL's audit practices to be generally compliant with the ISSAIs, and relations with the Seimas to be effective. We identified areas where there is scope for improvement, including in relation with the effective independence of the NAOL, which could be reinforced. We hope the recommendations we make will serve to address the issues.

We greatly appreciated the cooperation and support provided by the National Audit Office of Lithuania and its staff during our work, and thank them. Their openness and cooperation were invaluable in enabling us to complete our work.



Eduardo Ruiz García  
Secretary-General  
European Court of Auditors  
On behalf of the peer review team

## Executive summary

The National Audit Office of Lithuania (NAOL) is the country's Supreme Audit Institution (SAI) and is accountable to the Parliament of the Republic of Lithuania. The main purpose of the NAOL, laid down in the Law on National Audit Office, is to oversee the implementation of the State Budget and the management of State property.

At the request of the Auditor General, an international team carried out a peer review of the NAOL. The peer review team comprised representatives of the European Court of Auditors, lead reviewer, the National Audit Office of the United Kingdom and the Supreme Audit Office of Poland.

The peer review was conducted in accordance with ISSAI 5600 on peer review, and largely followed the Supreme Audit institutions Performance Measurement Framework developed by INTOSAI. The objective of the review was to assess whether the NAOL's audit approach complies with the International Standards of Supreme Audit Institutions (ISSAIs), and identify opportunities for improvement. The peer review also assessed the extent to which the NAOL had implemented recommendations made following the peer review of 2014.

In the review team's opinion, the National Audit Office of Lithuania complies in all material aspects with the applicable ISSAIs, and its business processes, procedures and auditing practices contribute to achieving the organisation's statutory goals and strategic objectives.

Since the previous peer review the NAOL has improved its management and enhanced the quality of its audits. The team noted changes in the legal environment in which the NAOL operates and is of the opinion that the new Law on Civil Service, in force since 1 January 2019, may have an impact on the NAOL's independent functioning. We make a number of recommendations intended to reinforce the effective independence of the NAOL, and recommend that the NAOL refer them to the Seimas, the President of the Republic and the Government, as the matters concerned fall outside the NAOL's remit.

The peer review team evaluated the functioning of the entire organisation and, as a result, identified certain areas in which further improvement is possible:

- **Audit work** – we make recommendations aimed at improving the NAOL's audit policy and guidance, and certain audit and quality control processes;
- **Human resource management** – we propose improvements related mainly to staff mobility, recruitment and appraisal procedures;
- **Professional development and training** – we propose improvements aimed at providing training in a more structured manner.

We also identified examples of good practice applied by the NAOL, which we have highlighted in our report.

# Introduction

**01** The National Audit Office of Lithuania (NAOL) is the country's Supreme Audit Institution and accountable to the Seimas (Parliament) of the Republic of Lithuania. The NAOL's activities are regulated by the Lithuanian Constitution, Law on National Audit Office, Law on Civil Service that entered into force on 1 January 2019, and other laws and legal acts.

**02** The NAOL's main task is to ensure the legality and effectiveness of the management of public property and funds. It carries out financial, compliance<sup>1</sup> and performance audits in accordance with Public Auditing Requirements. It also applies the International Standards of Supreme Audit Institutions (ISSAIs) and, by extension, the International Standards on Auditing (ISAs). The NAOL seeks to facilitate parliamentary scrutiny and, through its recommendations, increase accountability and cost-effectiveness in the public sector.

**03** The peer review was conducted in accordance with ISSAI 5600<sup>2</sup> on peer review, and largely followed the Supreme Audit Institutions Performance Measurement Framework developed by INTOSAI. The objective of the peer review was to provide the NAOL and its stakeholders with an assessment of whether its audit approach is in line with the ISSAIs, and make recommendations for improving the NAOL's audit activities. The review also sought to assess the extent to which the recommendations of the previous peer review (2014) had been implemented.

**04** The peer team consisted of representatives from the European Court of Auditors (ECA), as lead reviewer, the Supreme Audit Office of Poland and the National Audit Office of the United Kingdom. The review work began in January 2019 and continued throughout the year. It involved examining the NAOL's financial, compliance and performance auditing, and quality review practices. Interviews were conducted with the Auditor General and his deputies, directors and heads of department, team leaders, auditors, and staff responsible for operational areas.

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<sup>1</sup> As with a number of SAIs, the NAOL uses the term "regularity audit" for the ISSAI term "compliance audit". For the sake of clarity, we use the term "compliance audit" throughout this report.

<sup>2</sup> The ISSAIs and their numbering are currently being revised.

**05** The review included detailed examination of selected performance, financial and compliance audits, and a number of outcomes of the quality control and review procedures. The audits were selected from those the NAOL had carried out in 2018 and the first half of 2019.

**06** The peer review team also interviewed Members of the Seimas and its staff, including Members of both the Committee on Audit and the Committee on State Administration and Local Authorities, as well as representatives of the Chancellery of the Government and the Ministry of the Interior, the President of the Republic of Lithuania, and the President and representatives of the Constitutional Court.



# Independence

**07** According to the ISSAIs, a SAI can only be objective and effective if it is independent of the entity audited and protected from outside influence. The UN General Assembly has also stressed the importance of the independence of SAIs<sup>3</sup>. Most recently, Goal 16 of the 2030 UN Agenda for Sustainable Development provides for building effective, accountable and inclusive institutions at all levels.

**08** The ISSAIs require the SAIs to have:

- (i) an appropriate and effective constitutional and legal framework within which the law sets out the details regarding the establishment of the SAI<sup>4</sup> and provides adequate legal protection, ensured by a Supreme Court, against any interference with the SAI's independence;
- (ii) financial independence/autonomy so that they are free to propose their budget to Parliament without interference from the Executive, and to appeal directly to the legislature if the resources provided are insufficient;
- (iii) organisational independence/autonomy so that they are free from direction or interference from the legislature or the Executive in the organisation and management of their institution, including matters relating to human resources (HR);
- (iv) a Head and members that are independent, appointed, reappointed or removed in accordance with the relevant conditions laid down in legislation, and immune from prosecution for any act carried out in the normal discharge of their duties.

## A constitutional and legal framework granting independence

**09** The independence of the NAOL is not mentioned specifically in the Lithuanian Constitution, but is the subject of a specific law<sup>5</sup> establishing the independence

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<sup>3</sup> E.g. Resolutions 66/209 and 69/22 encourage States to apply the principles of independence of SAIs, as set out in the Lima (ISSAI 1) and Mexico (ISSAI 10) Declarations.

<sup>4</sup> Including its role, powers and duties.

<sup>5</sup> Law No I-907 on National Audit Office of 30 May 1995, as amended on 15 November 2018 to become Law No XIII-1638, hereafter referred to as the "Law on NAOL".

principle. The Constitutional Court of Lithuania's jurisprudence and interpretation of the Law on NAOL have systematically upheld this principle. The legal framework also guarantees a high degree of initiative and autonomy, and the NAOL exercises both. However, the peers noted that the Auditor General does not have the right to refer attempts to interfere with his/her independence to the Constitutional Court<sup>6</sup>.

## Financial independence/autonomy

**10** The NAOL does not have complete budgetary autonomy: the Law on the Budget Structure<sup>7</sup> establishes the budgetary procedure for the entire public sector, including the NAOL. In practice, this means that the NAOL reports its budgetary needs to the Ministry of Finance (MoF), which grants a maximum appropriation based on those needs. Consequently, the amount granted may differ from the amount requested. The NAOL then prepares its budget estimates within the limits defined by the MoF, which consolidates all the public-sector budget estimates in a draft budget that is then submitted to the Seimas for approval.

## Organisational independence/autonomy

**11** With regard to HR, the Lithuanian legal framework was amended on 1 January 2019: the Seimas adopted a new Law on Civil Service and, in order to implement this law, the Government passed a Resolution<sup>8</sup> stipulating the procedure for recruiting civil servants.

**12** According to the Law on Civil Service, all NAOL staff<sup>9</sup>, including auditors, are to be recruited in accordance with this new procedure, which means that the Civil Service Department, under the Ministry of the Interior, has the control over the recruitment of all public sector officials. According to the procedure, the NAOL first defines the profile for a vacant post. The Civil Service Department then publishes the vacancy notice, and launches and manages the recruitment procedure. A Selection Board, comprising mostly representatives of the Civil Service Department, assesses the

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<sup>6</sup> The Constitutional Court is regarded as the Supreme Court ensuring constitutional legality.

<sup>7</sup> Law No I-430 on the Budget Structure of 30 July 1990, as amended by Law No XIII-2080 of 26 April 2019.

<sup>8</sup> Government Resolution No 1176 of 28 November 2018 on the Implementation of the Law on Civil Service.

<sup>9</sup> Other than those employed under contract.

candidates and proposes one candidate for non-managerial posts (including auditor posts) and two for managerial positions. Under the provisions of the Law on Civil Service, the Auditor General may reject a candidate only when a conclusion of a competent body is received confirming that the candidate does not meet special requirements set for the position.

**13** The Law on Civil Service does not include any provision preventing a conflict of interest arising from recruiting audit staff from an audited entity. This could compromise the NAOL's independence and reputation and therefore the NAOL has decided not to recruit any new officials under this new procedure.

**14** The Law on Civil Service also made changes to the annual performance-appraisal procedure applicable to public sector staff. The MoI now manages the "Civil Service Register" data system and thus administers all data on civil servants (including NAOL staff and appraisees' personal details). The new law states that an evaluation commission need only to be set up if requested by the Auditor General or an appraisee. It may also be set up on the initiative of a representative of the Civil Service Department, in which case the Department may decide to be a member of the commission.

**15** The Seimas' Committee on Audit has put forward a draft amendment to the Law on NAOL proposing that NAOL staff is no longer part of the Civil Service, and this is currently under consideration by the Seimas.

## **Independence of the Head of the SAI**

**16** The Seimas appoints the Auditor General on the basis of a proposal from the President of the Republic. There is no established procedure explaining how potential candidates may be identified and selected and then proposed to the Seimas.

**17** According to the Constitution, the Auditor General may be dismissed from office following a vote of no confidence passed by a majority of the Members of the Seimas. In addition, neither the Constitution, nor the Law on NAOL grants the Auditor General immunity in relation to the normal discharge of his/her duties.

## **Independence of the SAI - Conclusions and recommendations**

**18** The independence of the NAOL is recognised by the Lithuanian Constitution and reflected in the applicable legal framework.

## Recommendation 1

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To strengthen the effective independence of the institution, the following measures might be considered:

- (a) enhancing the status of the Auditor General by:
  - (i) putting in place an appointment and re-appointment procedure in line with international standards;
  - (ii) instituting a more protective removal procedure;
  - (iii) granting the Auditor General immunity in the normal discharge of his/her duties;
  - (iv) allowing the Auditor General access to the Constitutional Court in matters in relation with its independence;
- (b) instituting a procedure under the current constitutional framework that would allow the legislature (e.g. the Seimas' Committee on Audit) to ensure that the NAOL has adequate financial resources to carry out its mandate without the prior involvement of the MoF. This should include a legal procedure granting the NAOL the right of direct appeal to the Seimas in cases where the resources provided are insufficient for it to carry out its mandate;
- (c) ensuring that the Auditor General has the authority to decide on HR matters such as the recruitment and appraisal of staff. If the proposed amendment to the Law on NAOL is not adopted, adequate measures should be taken to guarantee that the Auditor General is the sole person ultimately responsible for NAOL staff recruitment and appraisal. Since these measures are outside the NAOL's remit, we recommend that the NAOL refer them to the Seimas, the President of the Republic, and the Government.

# Mandate

**19** ISSAI 1 and ISSAI 10 require that SAIs audit all public financial operations, irrespective of whether or how they are reflected in the national budget. This mandate is effective when a SAI has de jure and de facto rights to access and obtain the information and documentation it needs to carry out its controls, and is required to report on its activities.

**20** Section XII of the Lithuanian Constitution provides that the NAOL is the economic and financial control authority for supervising the use of State assets and State budget. The Law on NAOL develops this provision and defines the mission and goals of the NAOL and its rights and obligations. The peer review team noted that the Law on NAOL does not provide for the submission of follow-up reports to the legislature, though this does constitute NAOL practice.

## Mandate of the NAOL - Conclusions and recommendations

**21** The NAOL's mandate complies with the INTOSAI standards.

### Recommendation 2

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To strengthen the institution's mandate, the Law on NAOL could be updated to include the requirement that follow-up reports be presented to the Seimas.

Since this measure falls outside the NAOL's remit, we recommend that the NAOL refer the matter to the Seimas, the President of the Republic, and the Government.

## Organisational control environment

**22** The ISSAIs stipulate that SAIs should have a quality control system in place that ensures quality in all their work. SAIs should therefore have a Code of Ethics to ensure that staff conduct is beyond reproach, establish an appropriate system of internal control, ensure the audit process is subject to quality control and periodically evaluate this process through a quality assurance exercise.

### Code of Ethics

**23** The NAOL adopted a Code of Ethics on 27 April 2017 that applies to all staff. It contains provisions that limit the risk of conflict of interest in the course of an audit and includes a 12-month restriction on former employees of auditees being involved in any audits of the auditee concerned. Auditors are also required to fill in a declaration of impartiality before commencing any audit assigned to them.

**24** An Ethics Committee is responsible for investigating any violation of the Code, deciding on any preventive measures deemed necessary, and advising top management on ethical issues.

### System of internal control

**25** The NAOL obtained the ISO 9001 certification in March 2015 and applied the standard to ensure the quality of its business processes. It was valid for three years and renewed on 4 April 2018.

**26** Following the certification process, the Auditor General issued several instructions for the reorganisation of both the NAOL and the scope of its units' activities. Several commissions with specific responsibilities were also set up.

## Quality Control System

**27** The NAOL has a clear and comprehensive regulatory framework for the quality control of its auditing activities that includes:

- (i) the NAOL Strategy for 2016-2020;
- (ii) the Public Audit Quality Assurance Manual (PAQA Manual)<sup>10</sup>;
- (iii) the ISO 9001 certification.

**28** The Auditor General bears overall responsibility for the quality of the NAOL's activities and operation<sup>11</sup>.

**29** The roles and responsibilities relating to maintaining the quality of the audit process are defined in the PAQA Manual. The Audit Development Department's Audit Quality Assurance Division reviews every audit. The reviewer completes a questionnaire and the audit teams are obliged to address the findings and detail their response in the audit file.

**30** Action to ensure that the quality of NAOL products is satisfactory is taken at every stage of the audit work and report preparation. Those involved are the heads of audit teams, departmental advisors, directors, and Audit Quality Assurance Division staff.

**31** The PAQA Manual was revised recently and its implementation came into force in January 2019<sup>12</sup>. It requires staff who have not taken part in an audit procedure to review the completed audit. The NAOL has annual plans indicating which audits are to be reviewed and the related deadlines. The results of the reviews are presented to the audit teams.

**32** The Manual also stipulates that staff need to evaluate the effectiveness of the overall quality assurance system and make recommendations for its improvement. This evaluation had not been carried out yet at the time of the peer review.

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<sup>10</sup> Introduced by Auditor General Order V-49 of 9 March 2016, as amended by Auditor General Order V-5 of 9 January 2019.

<sup>11</sup> Law No I-907 on the National Audit Office of 30 May 1995, Article 10.

<sup>12</sup> Order VE-5 of 9 January 2019.

**33** The NAOL organises peer reviews every five years. It invites a group of Supreme Audit Institutions to review its internal processes and assess their compliance with international standards and good practice.

### **Organisational Control Environment - Conclusions**

**34** The Code of Ethics provides the NAOL's management with appropriate tools for the effective monitoring of compliance with ethical principles. In our view the systems of internal control, quality control and quality assurance set up by the NAOL also conform to international standards and are globally effective.



## Leadership and internal communication

**35** According to ISSAI GOV 9001 and ISSAIs 20, 30 and 40, a SAI's management should define and implement the institution's strategy and corresponding actions in a transparent and accountable manner. Staff should be aware of their obligations and informed of key decisions relating to all matters connected with the institution's operation. Management should lead by example, setting the tone and establishing good practice.

**36** Our review has confirmed that the NAOL's strategy for 2016-2020 was drawn up and is being implemented in a transparent and accountable manner.

### Leadership and internal communication - Conclusions

**37** In our view, the NAOL complies with INTOSAI standards in this regard.

## Financial management, assets and support services

**38** SAls must apply good management principles to ensure optimum use of their resources, which means that they should have an appropriate organisational, management and support structure that ensures good governance and supports sound internal control and management practices.

**39** SAls should therefore:

- (i) ensure effective management of their financial resources;
- (ii) ensure effective planning and use of their assets and infrastructure;
- (iii) have an appropriate administrative support structure for effective management and maintenance of their assets and infrastructure.

### Financial management

**40** Responsibility for financial management lies with the Department of Finance, headed by a Director who reports to the Auditor General. The NAOL follows the laws and practices applicable to public sector institutions in its budget preparation and implementation, and accounting and reporting<sup>13</sup>, and has a system of delegation of authority for the commitment and approval of expenditure, as required by law<sup>14</sup>.

**41** The Director of the Department of Finance and the Director of the Audit Development Department prepare the budget by drawing up a three-year strategic operational plan. The most recent, covering the 2019-2021 period, was approved by the Auditor General on 15 January 2019.

**42** Financial statements are prepared in accordance with the Public Sector Accounting and Financial Reporting Standards. They are made public, subject to review

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<sup>13</sup> For example, Law No I-430 on the Budget of 30 July 1990, as amended by Law No XIII-2080 of 26 April 2019.

<sup>14</sup> The Laws on Budget Structure, Budgetary Institutions, Accounting, and Public Sector Accountability.

by an external independent auditor appointed by the Seimas<sup>15</sup>, and presented to the Seimas at the same time as the NAOL's annual activity report. The external auditor has issued an unqualified opinion over the past three years.

## Planning and effective use of assets and infrastructure

**43** According to NAOL forecasts, staff levels should remain relatively stable in the coming years, and there is therefore no need to plan for additional physical or IT infrastructure. The NAOL plans to modernise its older building and update its IT network in 2021 and 2022. It has estimated the cost and plans to discuss the matter with the MoF in 2020 when they discuss its 2021 budget.

**44** The NAOL's IT infrastructure is adequate overall, and needs are reviewed and discussed regularly, e.g. within the Strategic Management Commission.

**45** The NAOL has secured access to appropriate archiving facilities, including electronic ones, thereby allowing documents and data to be stored in line with the legal requirements and applicable rules and laws.

## Administrative support services

**46** Overall responsibility for administrative support lies with the General Affairs Department. Staff working in administrative support functions such as IT, documentation and asset filing and storage, and infrastructure management generally have the skills and resources needed to perform their duties.

**47** The NAOL has a designated Information Technology Unit within its General Affairs Department that is staffed by seven specialists responsible for IT support and maintenance. Staff have clear responsibilities assigned to them by the Auditor General. The Department has developed a six-year IT Strategy (2015-2020) divided into Annual Action Plans (AAPs) whose implementation progress is reported to the IT Management Committee.

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<sup>15</sup> Law on NAOL, Article 8.4.

## **Financial management, assets and support services - Conclusions**

**48** The NAOL has an appropriate organisational management and support structure, and demonstrates accountability in the manner in which it manages its finances, assets and support services in order to achieve its objectives.

**49** Its Department of Finance has instituted good internal financial-management practices that it oversees. Its financial statements are made public, audited independently, and reviewed by the legislature.

**50** Its assets and infrastructure are adequate overall, needs are planned for, and administrative support services are adequately skilled and resourced in general.

## Human resource management

**51** The INTOSAI Lima declaration (ISSAI 1) recognises that a SAI's effectiveness is dependent on its capacity to recruit and retain highly skilled staff and deploy them effectively. According to the ISSAIs, SAI's HR policies and procedures should cover, among other things, recruitment, professional development, performance evaluation and promotion.

**52** SAIs are therefore required to:

- (i) assign responsibility for HR management to an individual or department;
- (ii) develop an HR strategy;
- (iii) have transparent recruitment processes, driven by needs assessments;
- (iv) evaluate individual performance and use this as a basis for promotion, as well as create and maintain a safe work environment in which staff are free to voice concerns.

## Human resource management

**53** On 30 May 2018, the Seimas allocated a maximum of 343 posts to the NAOL to cover the three types of activity for which the Office is responsible (audit, EU audit and budget policy monitoring). The Auditor General determines the structure of the NAOL on the basis of this maximum number.

**54** The NAOL took the initiative of reducing its staff by 15% over the 2015-2017 period, and committed to a further reduction of 5% in 2019. Consequently, the maximum number of staff was set at 325 in April 2019 (203 of whom are assigned to audit activities). Despite the reductions, the vacancy rate in 2019 was relatively high (7.5% at the end of June 2019 for the NAOL as a whole, and 5.5% for audit activities, compared to 8.5% at the end of December 2018). Like other public institutions in the country, the NAOL has difficulty recruiting and retaining staff, mainly because the salaries do not compete with those of the private sector and State-owned bodies.

**55** The Personnel Division is responsible for the HR management of NAOL staff, but not for the recruitment of civil servants who form part of the Government pool of employees.

## Human resource strategy

**56** A personnel strategy (“the personnel management and education process”) was put in place 10 years ago. It was reviewed annually by the Head of the Personnel Division and discussed within the Strategic Management Commission.

**57** An updated personnel management policy was approved by the Auditor General on 25 June 2019, following broad consultation. It consists of a list of goals formulated in a very general manner that the NAOL intends to attain in the following six domains: staff planning, staff pooling, training, staff motivation, performance assessment, and salaries. The NAOL is in the process of ensuring that these general principles have been or are in the process of being translated into detailed Annual Action Plans (AAPs). It intends to complete this task by the year-end. The policy requires that the detailed AAPs include criteria and indicators, but this could not be fully assessed at the time of the review. One of the sub-domains that was less advanced at the time of our peer review was that of staff performance, an area with little room for manoeuvre, as it is largely regulated by the Law on Civil Service.

**58** The policy states that staff are encouraged to consider internal rotation (in line with the provisions of the Law on Civil Service). The PAQA Manual provisions do not allow the same audit team to be involved in more than three or four consecutive audits, but there is no restriction on how long a person may work in one particular area. The NAOL’s personnel management policy does not call for systematic staff rotation, nor does it specify “sensitive” posts for which rotation should be compulsory after a certain number of years.

## Evaluation of staff’s individual performance

**59** Following the introduction of the Law on Civil Service and the Procedure for the Performance Appraisal of Civil Servants approved under Government Resolution No 1176 of 28 November 2018, appraisals are no longer carried out by a panel, but by the immediate manager of the member of staff concerned. The manager may consult other staff within the institution, if he/she feels the need. The names of the staff to be promoted are then approved by the Auditor General on the basis of the managers’ recommendations. The Auditor General approved all the staff proposed by managers during the most recent round of promotions.

**60** Employees who are not civil servants (around 18% of the NAOL’s staff) are evaluated in line with the provisions of the procedure for assessing the performance of

the staff of State and municipal bodies. Their salaries comprise both a fixed and a variable component, the latter being based on the employee's performance (either very good, good or satisfactory).

**61** Performance, future tasks and training needs are discussed during the appraisal of all staff. Targets and indicators are also agreed, and the risk of tasks not being carried out is also assessed. The appraisal does not include a formal evaluation of the member of staff's potential to perform at a higher level<sup>16</sup>.

**62** In addition to the annual appraisal exercise, the Law on Civil Service allows public institutions (including the NAOL) to operate a staff incentive scheme: managers may propose an additional promotion for staff that perform well, provided that six months have elapsed since the annual appraisal procedure. Civil servants may also ask the organisation of this additional promotion exercise under the conditions provided for in the Procedure for the Performance Appraisal of Civil Servants. Even though the promotions in question are discussed by the NAOL's top management (Auditor General, his deputies, and directors), the procedure is neither structured nor formalised. Staff representatives (the labour council) are not involved in promotion procedures.

## Human resource management - Conclusions and recommendations

**63** Responsibility for HR management is clearly assigned within the NAOL. The Office had recently revised its HR strategy, but had not yet fully translated it into concrete action plans at the time of this review. The NAOL is globally responsible for its staff appraisals.

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<sup>16</sup> See, for example, the INTOSAI Capacity Building Committee's Human Resource Management Guide for SAIs, page 22: "... the SAI should develop a system which gives weight to high performance, meritorious work and assessed potential, especially for promotions to the middle and senior management levels. These should be based on merit and potential, and not on time served."

### Recommendation 3

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When finalising the remainder of its action plans for the implementation of its HR strategy, the NAOL should consider:

- (i) defining clear objectives and criteria, including indicators, baselines and targets, for each action;
- (ii) seeking for possibilities to set up a mobility policy to encourage staff rotation, including in the case of sensitive posts, so as to comply with the relevant standards.

### Recommendation 4

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The NAOL should also seek for possibilities to better structure its staff appraisal by, for example, setting up a promotion panel that would be responsible for staff appraisal. This panel could consider evaluating, not only staff's merit, but also their potential to perform at a higher level.



## Professional development and training

**64** The ISSAIs state that SAIs should promote continuing professional development that contributes to individual, team and organisational excellence.

**65** SAIs are therefore required to:

- (i) establish and implement professional development and training plans;
- (ii) ensure training and development in all their audit disciplines.

**66** The NAOL develops its annual training plan based on the needs expressed by staff: following their appraisal, when their performance and future tasks are discussed, staff draw up their personal training plan, indicating the priority level of each of their training needs. The plans are validated by the heads of unit and then consolidated by the Personnel Division. The final list of training courses is then decided on by a Committee composed of the heads of the Finance Department, Audit Development Department, and Personnel Division, and the Deputy Auditors General.

### Professional training

**67** Induction training for newcomers and staff returning from extended leave are organised over a fortnight twice a year. Tutors are also designated to assist newcomers for three months.

**68** In 2018, NAOL staff attended a total of 79 training courses (general and tailor-made) covering a wide range of subjects ranging from induction training to audit, IT, and organisational and personal capacity and management. Training takes a number of forms: conferences, short-term consultations, lectures by NAOL staff or academics, training provided by a different institution, and so on. Staff are also offered other means of learning, such as support towards professional certification, and staff exchanges with other institutions, such as the Bank of Lithuania.

**69** Staff can provide feedback on training they have received using a standard online form covering five points (facility, duration, content, lecturer, whether they would recommend this training to colleagues). The Personnel Division monitors the feedback received.

**70** The training staff undergo is recorded in a database that is used to assess the extent to which the NAOL has succeeded in ensuring that all members of staff meet the personnel-management and education targets (e.g. complete 40 hours of professional-capacity-development training each year).

**71** Lastly, there are several possibilities for staff to exchange experiences and knowledge. For example, sharing sessions are organised regularly for audit team leaders or within audit departments. Audits are also discussed during recorded managers' meetings, which are available to all staff.

**72** The NAOL has posted the general competences it requires of all staff and the additional ones required of managers on its intranet site. The NAOL's values require all staff to demonstrate the following: professionalism, responsibility, cooperation and innovation. The additional competences required of managers are strategic thinking, the ability to organise unit activities, effective communication, leadership, and the ability to deliver staff training.

**73** It has also created a "competence centre" on its intranet site where staff can indicate their competences (from a determined list) on a voluntary basis. But the NAOL has not yet developed tailored competency requirements for staff in financial, performance and compliance auditing.

**74** Further, in relation to performance audit staff, we noted that only induction training is mandatory and there are no requirements for a minimum number of hours training to be completed by auditors each year. Audit training is organised on an annual basis to meet the needs of the organisation, as identified by the heads of departments. Audit training is organised on an annual basis to meet the needs of the organisation, as identified by the heads of departments.

## **Professional development and training - Conclusions and recommendations**

**75** The NAOL recognises the central importance of professional-development training and offers its staff a wide range of courses. Certain improvements would allow the NAOL to provide training in a more structured manner.

## Recommendation 5

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The NAOL should consider:

- (i) linking training offers to the specific competences required for a particular job;
- (ii) seeking possibilities to exchange knowledge with other SAIs, specifically in performance audit, for which it is difficult to find external expertise within the country;
- (iii) making some audit training compulsory, as necessary, to ensure that all auditors are up to date with best practice and learn new skills.

## Strategic planning cycle

**76** A strategic plan is important to SAIs, as it provides direction and ensures the requisite transparency and accountability. The plan should take account of stakeholders' expectations, emerging risks, and the institutional environment in which the SAI operates, and, where appropriate, include measures to strengthen that environment. The objectives fixed in the strategic plan should be operationalised into annual operational plans. The planning process should follow the principles of good governance stipulated in ISSAIs, with clearly defined timelines, steps, roles and responsibilities. Lastly, SAIs should report publicly on their operations and performance, to demonstrate that they are fulfilling their mandate.

### Implementation of the strategic plan

**77** The current NAOL Strategy for 2016-2020 defines the institution's mission, vision, values, strategic goals, and guidelines for achieving the overall strategic objectives. The strategy also lays down a set of indicators for monitoring its implementation. The process of developing the strategy was launched by the Auditor General, who provided high-level input and initiated screening of the legal environment, risks and internal processes. These preparations were complemented by high-level consultations with the key stakeholders, in particular the Seimas' Committee on Audit.

**78** Furthermore, in 2015 the NAOL introduced ISO 9001, the quality management system that brought in specific quality management requirements applicable to the entire organisation. The Office's activity focused on 10 principal internal processes, which necessitated more structured planning, management and monitoring.

**79** The NAOL's AAP lays down the detailed measures necessary to achieve the five-year strategic goals and objectives. They are developed by the Strategic Management Commission and process managers. The plans are submitted to the NAOL Council for consideration and approval, and then approved by the Auditor General.

### Monitoring and performance reporting

**80** Monitoring within the NAOL is carried out in accordance with approved control procedures. Once a month, the Audit Development Department monitors the implementation status of the Annual Action Plan. Its analysis is presented to the SAI's top management and heads of department. Where necessary, decisions on resources

and other corrective measures are taken on the basis of monitoring data and analysis of the AAP.

**81** The implementation of the AAP is reviewed by the Strategic Management Commission on a quarterly basis, and its relevance is assessed twice a year.

**82** Data are collected and processed by an IT system (ViPSIS) developed to plan and monitor the NAOL's activity. The data collected enable detailed reporting on over 60 indicators covering different areas of NAOL activity. The strategy and AAPs are posted on the NAOL's website.

### **Strategic planning cycle - Conclusions**

**83** The overall assessment of the strategic and complementary operational planning process is positive. The plans provide clear directions for the organisation regarding capacity building and resource management.

**84** The quantitative method is used to select audit topics, following systematic analysis of all activities undertaken by the State administration. The planning process respects the principle of transparency, adopts a no-surprise approach, and ensures proper monitoring of the tasks undertaken.

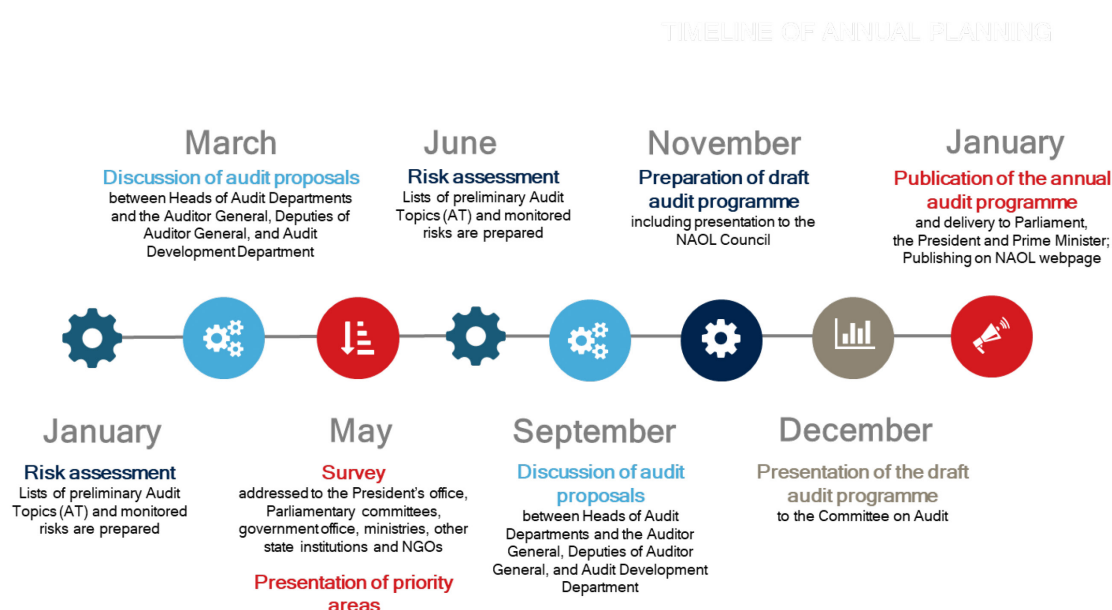
## Overall audit planning

**85** SAIs must audit in accordance with a self-determined programme. The overall audit programme defines the audits a SAI plans to conduct over a set period and helps it carry out its mandate in an efficient and effective manner. It is important that overall audit programmes are feasible and reflect the SAI's budget and staff. SAIs should therefore have a system that prioritises their work in a way that takes account of the need to maintain quality. SAIs should ensure that stakeholders' expectations and emerging risks are factored into audit plans, as appropriate.

### Audit planning process and outcome

**86** The process begins with input from the top management, which is followed by a thorough analysis and assessment of risks based on a scoring system. The NAOL draws up the Annual Audit Plan, which includes lists of audit tasks grouped by thematic domains, as well as the expected audit schedules. In principle, the Annual Audit Plan is developed for one year, however, it also contains information on ongoing audits that began in the previous year or will be completed in the following year. The plans define the expected results, deadlines, and staff responsible for specific actions. More detailed information, such as specific milestones, allocation of human resources, expected cost of the audit, etc., is produced internally and not made public.

**87** The Annual Audit Plan preparation process is presented in the chart below:



Source: The National Audit Office of Lithuania.

**88** Each audit department is responsible for monitoring specific areas of the public administration (see [Box 1](#)) in line with its field of competence. Ongoing “strategic studies” are used to help identify key risks and the challenges faced by auditees in the various areas of government and the economy that are monitored. This allows audit units to identify and develop potential audit tasks.

### **Box 1**

#### **Evaluation of added value of audit proposals**

Audit areas are monitored using 17 specific indicators covering major branches of the economy and government activity, which the audit units use to list the risks relating to specific areas and develop potential audit tasks. The NAOL then calculates the overall cost of the audits proposed and compares it to the level of risk in the corresponding audit area. This analysis helps assess the value for money of each audit proposal.

**89** The NAOL also sends an annual questionnaire to its stakeholders, including the President’s Office, Parliamentary committees, the Government Office, ministries, associations, and academic and other institutions, and their input is used in the general planning process.

**90** The process of gathering audit ideas is open to the public. Any citizen or institution may submit an audit proposal at any time of the year. Such proposals are submitted via a dedicated form on the NAOL’s internet website.

**91** Once the Deputy Auditors General have accepted a proposal, an extended, evidence-based audit proposal is developed that requires more detail, including a set of risk-related indicators. The information in the proposal typically includes an in-depth analysis of the issue’s cause and effect (fishbone diagrams), materiality (budget, strategic goals, indicators, etc.), stakeholder and public interest, potential impact of the audit, and the planned audit resources (costing).

**92** The Annual Audit Plan is reviewed twice a year, which allows for amendment of the plan where needed. The NAOL monitors the areas covered by the plan on a monthly basis to ensure that it remains relevant.

## Overall audit planning - Conclusions

**93** In conclusion, the NAOL has adopted a consistent approach to selecting topics for performance audits. In practice, the entire institution is involved in the process of selecting topics for future audits.

**94** The procedure for selecting and approving audit tasks is satisfactory and ensures that the work plan addresses the most important areas. The audit programme clearly defines the scope of the NAOL's work. The risk-assessment and planning procedure ensures that the scope of the audits undertaken is commensurate with the human resources and budget available. The audits included in the programme are in line with the NAOL's mandate and the main priorities fixed by the top management.



## Financial audit

**95** According to the ISSAIs, the overall objectives of an auditor auditing financial statements are to:

- (i) obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework;
- (ii) report on the financial statements, and communicate the results of the audit in accordance with the findings.

**96** The ISSAIs require SAIs to:

- (i) adopt audit standards that are in line with the fundamental principles of financial auditing as reflected in ISSAI 200 and incorporate them into policies and procedures that reflect the context of the SAI itself;
- (ii) establish a system for ensuring that the members of an audit team collectively possess the professional competence and skills necessary to carry out the audit;
- (iii) implement quality control measures.

### Financial audit standards

**97** The NAOL carries out its financial audits in line with the Law on NAOL. The bodies audited are determined by this legislation and report in accordance with the Public Sector Accounting and Financial Reporting Standards of the Republic of Lithuania. The NAOL has adopted International Auditing Standards for its framework and put additional guidance in place, where relevant, that is based on the ISSAIs, and Public Auditing Requirements. Those include matters of audit team management and skills, and quality control at the engagement level.

**98** The practical application of these standards is clearly and comprehensively described in the Financial and Legality Audit Manual. It includes guidance for auditors to help them assess audit risks, determine materiality and to design an appropriate audit approach. It also includes standard work programmes and checklists to assist

auditors in carrying out their work. The separate Manual on the Quality Assurance of Public Audits sets out the NAOL's quality control procedures.

**99** There are job descriptions for all financial auditor grades setting out the requirements for each role. Directors are responsible for setting up financial audit teams with appropriate skills and experience. The roles and responsibilities of team members are clearly defined in the Public Audit Quality Assurance Manual. A review of audit files confirmed that team members had the appropriate skills and experience for the roles and responsibilities assigned.

**100** The Financial and Legality Audit Manual includes guidance on communication and cooperation with the auditee and, as mentioned above, complies with the principles set out in the Standards. Certain details of the audit plan, such as the auditor's name and the audit objectives and overall approach are communicated to the auditee formally in writing and others, such as specific risks identified, are communicated orally during a meeting held with the management. There are clear and established procedures for highlighting issues that arise during an audit to the auditee. However, taking into account best practice, the Financial and Legality Audit Manual could provide more guidance on how to set out formally to the auditee specific information relevant to the audit, such as key areas of the Audit Strategy (i.e. the significant risks of material misstatements and the key audit matters).

**101** The NAOL uses the VIPSIS planning, management and monitoring system to record its audit work. Overall, the work is fully documented and the system is robust and fit for purpose (see [Box 2](#)).

## Box 2

### Effective use of the IT system to monitor progress and the use of resources

The VIPSIS system contains the audit tests performed and evidence gathered during the course of an audit. It also records evidence that the file has been reviewed, and allows team leaders to see the percentage of completion of each audit activity. This tool for resource planning and management information allows teams to plan and carry out audits in an efficient and effective manner. The VIPSIS time recording system allows management to identify how much time is spent on audits and how much on non-audit work.

## Financial audit process and results

**102** The NAOL's Financial and Legality Audit Manual sets out an established audit methodology that had been applied in practice in the sample of audits, with risk assessments being used to determine the appropriate nature and level of testing. One of the NAOL's strategic aims is to promote the effect of public audit on improving the public finance management and control system. The sampled audits were not able to test and place reliance on the internal controls as a means of obtaining the necessary level of assurance in certain audit areas. A control-based approach offers the NAOL more scope to make recommendations that encourage the management in the body audited to strengthen the internal control environment.

**103** Where necessary, funds are available for the employment of external experts and/or specialists in areas where specific technical knowledge is required to obtain sufficient and appropriate audit evidence. We noted, however, that none of the audit teams in the sample had identified the need to use external experts or specialists in their work.

**104** At the end of the audit process, the NAOL publishes its Public Audit Conclusion, which contains an opinion on both the financial statements and public execution reports. The NAOL also issues a Public Audit Report which contains observations arising from the audit, recommendations to the management, and a summary of the work carried out. This is provided for each audit body.

**105** The Public Audit Conclusion does not make it clear that the NAOL does not provide an opinion on the compliance aspects of its audits, but does report any significant findings and makes any necessary recommendations in this regard. This

information is available on the NAOL's website, but is not included in the published Conclusion and Report.

## Financial audit - Conclusions and Recommendations

**106** The NAOL has adopted International Auditing Standards for its framework and put additional guidance in place, where relevant, that is based on the ISSAIs, and Public Auditing Requirements. The Financial and Legality Audit Manual contains a comprehensive set of financial audit guidance and is in line with international standards.

**107** Based on a file review of a sample of financial audits, and interviews with the audit teams, the peer review team considers that the NAOL met the requirements of the standards in relation to the principles of auditing and transparency over the results of the work. Nonetheless, there are some areas where there is potential opportunity for further improvement.

## Recommendation 6

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To further enhance policy and guidance, the NAOL could improve its practice when communicating with the auditee, in writing, key elements of the audit approach and results.

To further improve its financial audit process, the NAOL could:

- (i) reflect on the opportunity to apply a control-based approach to certain areas of its audits. The NAOL could also promote and play a role in highlighting areas in which auditees' management could improve internal controls. This would encourage improved internal controls throughout the public sector;
- (ii) enhance its Public Audit Conclusion by making it clear that it does not provide an opinion on the compliance aspects of its audits.

## Performance audit

**108** Performance audit focuses on whether Government undertakings, systems, operations, programmes, activities and organisations are performing in accordance with the principles of economy, efficiency and effectiveness with a view to contributing to significant improvement in the conduct of Government operations and programmes.

**109** As for financial audit, the ISSAIs require SAIs to:

- (i) adopt audit standards that are in line with the fundamental principles of performance auditing and incorporate them into policies and procedures that reflect the context of the SAI itself;
- (ii) establish a system for ensuring that the members of an audit team collectively possess the professional competence and skills necessary to carry out the audit;
- (iii) implement quality control measures.

### Performance audit standards and quality management

**110** The NAOL clearly sets out recognised international standards, which govern its performance audits, on its website and in its internal Performance Audit Manual. The Manual also defines the expectations with regard to the application of these standards to performance audit work.

**111** The Performance Audit Manual has clear coverage of the overall standards required in relation to planning, undertaking and reporting performance audits. The separate PAQA Manual contains greater detail on the processes and expectations in terms of quality as regards the various roles within the organisation. There are also guidelines that focus on various elements of a performance audit, such as conducting a survey or drafting a report. These guidelines provide more detail on expectations and practical guidance for applying the overall standards to specific pieces of audit work.

**112** As for financial audit, there are job descriptions for the principal, senior and auditor grades. Senior auditors and above must have minimum levels of audit knowledge, but only principal auditors are required to have direct audit experience. The job descriptions do not explicitly state the need for knowledge of research design,

methods or evaluation techniques, or the ability to exercise professional judgement, although expectations regarding the latter are covered in the Performance Audit Manual.

**113** Directors are responsible for setting up performance audit teams with appropriate skills and experience. The samples reviewed showed that team leaders were selected on the basis of their subject knowledge. The roles and responsibilities of team members are set out clearly in the PAQA Manual.

**114** The Performance Audit Manual is the main document used to support auditors in carrying out their work. It covers audit design, evidence gathering, analysis and evaluation of evidence, report writing and the formulation of recommendations. Audit procedures are described at a high level and may not be adequate for more complex approaches. Focused guidelines go into more detail, but again could be further enhanced.

### Performance audit process and results

**115** The audits in the sample demonstrated that the teams made good use of the preliminary study to consider the wider context and identify the relevant problems and potential methodologies. Audit plans generally set out clear audit objectives, questions, criteria and methods. Whilst the plan template does not ask teams to set out how the audit covers the risks related to each of the 3 Es, our sample testing revealed that this was not done consistently. In the case of one audit, in which the use of a cost-benefit analysis was proposed, the information provided did not convince the reviewers that the analysis would fully address all potential challenges to the methodology.

**116** In 2018, the NAOL updated the project-management and reporting functionality of its audit software (VIPSIS), and is still determining how the reporting functionality can best be used. Audit-level information on performance measured against milestones is widely available, but limited when it comes to monitoring actual versus planned days. The audit plan currently sets out project tasks, project milestones and required staff days; it is not yet possible to view the associated costs online. There was some inconsistency in how teams filled in such details. For example, the audits in the sample differed markedly (and from stated guidelines) in terms of the overall number of staff-days and the balance between different stages.

**117** In the sample of audits, teams made good use of a wide range of evidence sources, using triangulation to inform conclusions and recommendations. They actively engaged with the VIPSIS software to document and manage evidence, and the NAOL quality assurance processes. We saw examples of teams mitigating and managing risks during fieldwork, regular communication with auditees, and tenacity in dealing with an auditee's objections to publication in the case of one report.

**118** In the sample of audit reports, we could not find a systematic, coherent, documented audit trail for some of the findings and conclusions in the final report. This results in a lack of alignment between the published report and the internal documentation, working documents and underlying source evidence, namely the evidence matrix<sup>17</sup>. There was also some inconsistency in how, and to what depth, the evidence matrix document was completed.

**119** The final reports in the sample were concise and problem-focused, and we could see links made in the text between the scope, audit questions, findings, conclusions and recommendations. However, the reports did not always clearly explain the rationale for the scope or the potential impact on the general public, and contained inconsistencies in the presentation of analyses or highly technical language and explanations. We saw good evidence of engagement with auditees over the report and recommendations. Overall, the performance audit reports published in 2018-19, met the five-day requirement regarding submission and publication.

**120** The Performance Audit Manual also sets out guidance on drafting and following up on performance audit recommendations (see [Box 3](#)). The NAOL draws up recommendations in respect of a small number of high-level questions. This can run the risk of not addressing more detailed, operational issues observed in the audit, which might have a more immediate impact.

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<sup>17</sup> The evidence matrix records audit findings and evidence linked to key messages, conclusions and draft recommendations.

### Box 3

#### Drafting and tracking performance audit recommendations

The team sets out recommendations in the draft report that are notified to the auditee, who is required to complete a table detailing the measures that will be taken to act on the recommendations and by when. The table is included in the published report. The NAOL enters all recommendations in its tracking system, publishes progress updates on its website, and provides a twice-yearly report on the implementation of the recommendations to the Seimas.

**121** The NAOL is now introducing a new process for recommendations. It will involve differentiating between significant and less significant recommendations and having different escalation routes where progress in implementing them is slow, or the auditee has not taken any action. As well as tracking and recording the measures taken by auditees, audit teams are encouraged to include the impact of these actions in the summaries published on the NAOL's website.

#### Performance audit - Conclusions and Recommendations

**122** The NAOL carries out its performance audit work in accordance with recognised international standards. These standards feed into more detailed expectations for auditors that are set out in its Performance Audit Manual, and more detailed guidelines covering the entire audit cycle, i.e. from planning to the follow-up of audit recommendations. The peer review work has revealed a few areas where improvements could be made.

#### Recommendation 7

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To further facilitate the work of its auditors, the NAOL might consider how it can best support its auditors in applying more complex audit methods, as well as how it can best challenge teams' use of more complex or unfamiliar methodologies, to ensure that they are robust and defensible.



### **Recommendation 8**

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To further enhance the planning of its audits, the NAOL could make minor additions to the internal Audit Plan template to address issues raised in this review, e.g. document risk analysis explicitly related to each of the 3 Es and the time and resources required to complete project tasks.

### **Recommendation 9**

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To further improve the audit evidence matrix, the NAOL should ensure there is a clear and documented audit trail for all findings and judgements in the final report.

### **Recommendation 10**

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To increase the impact of its work, the NAOL could look to develop ways to communicate detailed observations to auditees in addition to the higher level recommendations made in the final report.

## Compliance audit

**123** Compliance auditing comprises independent assessment of whether a given subject-matter complies with applicable authorities identified as criteria. Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities that govern the entity audited.

**124** The general principles of compliance audit performed by the NAOL are described in the Financial and Regularity<sup>18</sup> Audit Manual, which covers in detail audit scope and auditors' activities in the course of such an audit. As for other types of audit, a separate Manual on the Quality Assurance of Public Audits sets out the NAOL's quality control procedures.

**125** The NAOL performs one compliance audit every year, i.e. the audit of the regularity of the management, use and disposal of State budget funds allocated annually to the public establishment "Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities"

### Compliance audit - Conclusions and recommendations

**126** The NAOL performs its work in compliance with audit standards.

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<sup>18</sup> See footnote 1.

## Communication with stakeholders

**127** The ISSAIs state that one of the main objectives of a SAI is to demonstrate its relevance to citizens, Parliament and other stakeholders. To do so, SAIs should communicate with stakeholders to ensure understanding of their audit work and results.

### Communication with the legislature, judiciary, executive and law enforcement agencies

**128** Our work revealed that relations with the Seimas and its committees are strong. Similarly, the NAOL communicates well with the judiciary and the executive when needed. For example, the NAOL organises SIGNALS conferences every year since 2017. This event aims to popularise the role of the NAOL among State institutions and decision-makers. It hosts panels, lectures and debates on the operation of the public administration in Lithuania. The NAOL also presents its results, risks it has identified, the direction of its future activities and, more generally, its global aspirations.

**129** In line with audit standards, the NAOL has to report serious irregularities and suspected fraud to the competent authorities (notably law enforcement agencies). To ensure effective cooperation and communication with those agencies, a number of agreements have been signed, in particular with:

- (i) the Prosecutor General's Office of the Republic of Lithuania;
- (ii) the Financial Crime Investigation Service under the Ministry of the Interior of the Republic of Lithuania;
- (iii) the Special Investigation Service of the Republic of Lithuania.

### Communication with the media, citizens and civil society organisations

**130** While providing information on the results of its audits, the NAOL communicates with the media via press releases and conferences. For instance, in the period under review, regular press conferences were held to brief journalists on the outcomes of audit tasks completed. They included visual information, such as infographics, graphs, graphic layouts, and presentation videos, and were conveyed to the major news agencies, which provide news to the country's mainstream media. The

NAOL also sent relevant information to identified media representatives and the editorial offices of major web portals in the country by e-mail.

**131** The Auditor General actively and regularly uses both social media and the Office's website to post information on the NAOL and its activities, which helps inform the public.

**132** In the course of our review, we met with media representatives to obtain their opinions on the information they were receiving from the NAOL. One of them suggested that the NAOL could personalise messages sent to individual journalists in order to better attract their attention.

The NAOL is also in contact with civil society organisations. For example, when it plans its audits for the following year, it contacts NGOs and asks what issues they have noticed and where the NAOL could be most useful.

## **Communication with stakeholders - Conclusions**

**133** The NAOL has developed effective communication with its stakeholders.

## Follow-up of 2014 peer review recommendations

**134** The peer review team also looked specifically at the extent to which the recommendations of the previous peer review of 2014 had been implemented. Of the 11 recommendations made at the time, nine had been implemented and the other two partly implemented (see [Annex](#)).

## Peer review team

The peer review of the NAOL was carried out by representatives of the following SAIs:

### **The European Court of Auditors (ECA) - Lead reviewer**

Mr Eduardo Ruiz García

Ms Stephanie Girard

Mr Alfonso De La Fuente Garrigosa

Mr Rafał Czarnecki

### **The National Audit Office of the United Kingdom**

Mr Tim Valentine

Ms Helen Hodgson

Ms Natalie Low

### **The Supreme Audit Office of Poland**

Mr Piotr Miklis

Mr Przemysław Witek

The contributions of other individuals from these audit institutions were most appreciated.

## Annex

### Follow-up of the 2014 peer-review report recommendations

No	Recommendation	Current status	Analysis
1.	The NAOL should reinforce measures to make the best use of its staff resources. These could include increasing mobility, providing resources for the occasional contracting of external expertise, and reviewing of the type and extent of audit-related work done by legal advisers. The NAOL could also systematically organise 'lessons learnt' sessions after audits have been completed.	Partly implemented	The NAOL changed its structure in 2018 and many staff were assigned to new departments as a result. Most legal advisers were transferred to audit divisions. Nevertheless it is to be noted that there is no mobility policy at the Office, even though there is some mobility in practice.
2.	Consider introducing annual (or bi-annual) reporting on the progress made in implementing the highest-priority recommendations. The NAOL should address a report to the Seimas and the government.	Implemented	
3.	Consider establishing audit-office-wide strategic priorities with an adequate level of detail, and allocating resources to high priorities among all audit departments.	Implemented	
4.	The NAOL should maintain the efficient external review arrangements, but reconsider the number and scope of the control layers in its supervision procedures.	Implemented	
5.	The NAOL should consider prioritising recommendations and explicitly assessing their cost and benefit whenever possible.	Implemented	
6.	The NAOL should consider increasing statistical sampling in order to achieve representativeness of testing	Implemented	

	and efficient resource use. This could be facilitated by centralised sampling support to auditors. In addition, the sampling methodology, sampling assumptions and the coverage achieved should always be fully documented in the audit files.		
7.	As control systems improve, the NAOL should ensure that it uses every opportunity to undertake tests of controls and rely on good systems as appropriate. This will require systematic implementation of the audit assurance model.	Partly implemented	The Financial and Regularity Audit Manual has comprehensive guidance on how to assess and to test controls. However, this is not always applied in practice.
8.	The scope and criteria need to be described clearly in compliance audit reports and opinions.	Implemented	
9.	The NAOL should fully include the fieldwork stage in its ongoing quality review. The adequacy of audit evidence should be checked independently. The results of the quality review and its follow-up should be documented in the file.	Implemented	
10.	Audit reports should always explicitly take into account the replies of the auditees and - in the case of reports on subordinate agencies - be addressed to the ministries responsible.	Implemented	
11.	The NAOL should seek to strengthen the relationship with the Seimas by organising more formal and informal events. This could include annual conferences, regular exchanges of views on accountability issues, discussions of their respective work programmes and strategies, and special presentations to explain the NAOL's role and working methods to new Members of the Committee.	Implemented	





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