

TASK FORCE ON MUNICIPALITY AUDIT

STRATEGIC GOAL II:

“Making the external municipal auditing system more efficient”

Activity 2.1.

EXTERNAL AUDIT SYSTEM OF MUNICIPALITIES

Name of the country: Lithuania

Name of SAI: National Audit Office of Lithuania

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Methods and sources of information used in preparing this information (e. g. legal acts, statistical databases, literature, interviews, internet etc.): National legislation, databases of Statistics Lithuania.

Definitions of terms and abbreviations used in this document:

Local government (local authority)¹ – public institution with legal personality, part of the State structure, below the level of central government and accountable to citizens. These units are usually composed of a legislative body (council or assembly) and an executive body (the Mayor or executive officer), directly or indirectly elected or selected at local level. The term encompasses different tiers (levels) of government, e.g. villages, municipalities, districts, counties, provinces, regions, etc. In this document, this term also refers to joint municipalities and municipal corporations.

Municipal audit institution (municipal auditor) – institution established or auditor appointed (elected) by local authority in order to conduct external audit of local government and related entities (e.g. municipality, municipality owned enterprises or other entities of local government). This term also applies to audit institutions established by counties or other regional divisions, if the country has two levels of local government (municipal and regional).

Municipality owned enterprise – corporate entity recognised by national law as an enterprise, and in which the local authority exercises ownership (joint stock companies, limited liability companies and partnerships limited by share etc.).

Private auditors – auditors from the private sector, financed from the public budget and appointed to audit local authorities (counties, municipalities, municipality owned enterprises or other entities of local government).

¹ According to the EU definition included in the Communication “[Empowering Local Authorities in partner countries for enhanced governance and more effective development outcomes](#)” COM(2013) 280.

Regional audit institution – audit institution established by governmental institution or regional parliament in order to conduct audit of local authorities (counties, municipalities, municipalities’ owned enterprises or other entities) in the specified region.

SAI – Supreme audit institution.

TFMA – the Task Force on Municipality Audit, established within European Organisation of Supreme Audit Institutions (EUROSAI) in the 44th EUROSAI Governing Board meeting in Luxembourg in June 2016 in order to create an open platform for sharing the best practice and experience among SAIs. TFMA focuses on audit of various tiers of local government, including municipalities as the closest to citizens.

The information provided in this document will be used as part of the comprehensive overview of external audit systems of local authorities existing in all TFMA member states. In order to reveal fair and full view of external audit system in every country, please describe various aspects of external audit system (listed below) in detail.

I. GENERAL INFORMATION

(All TFMA members are asked to provide information for this part)

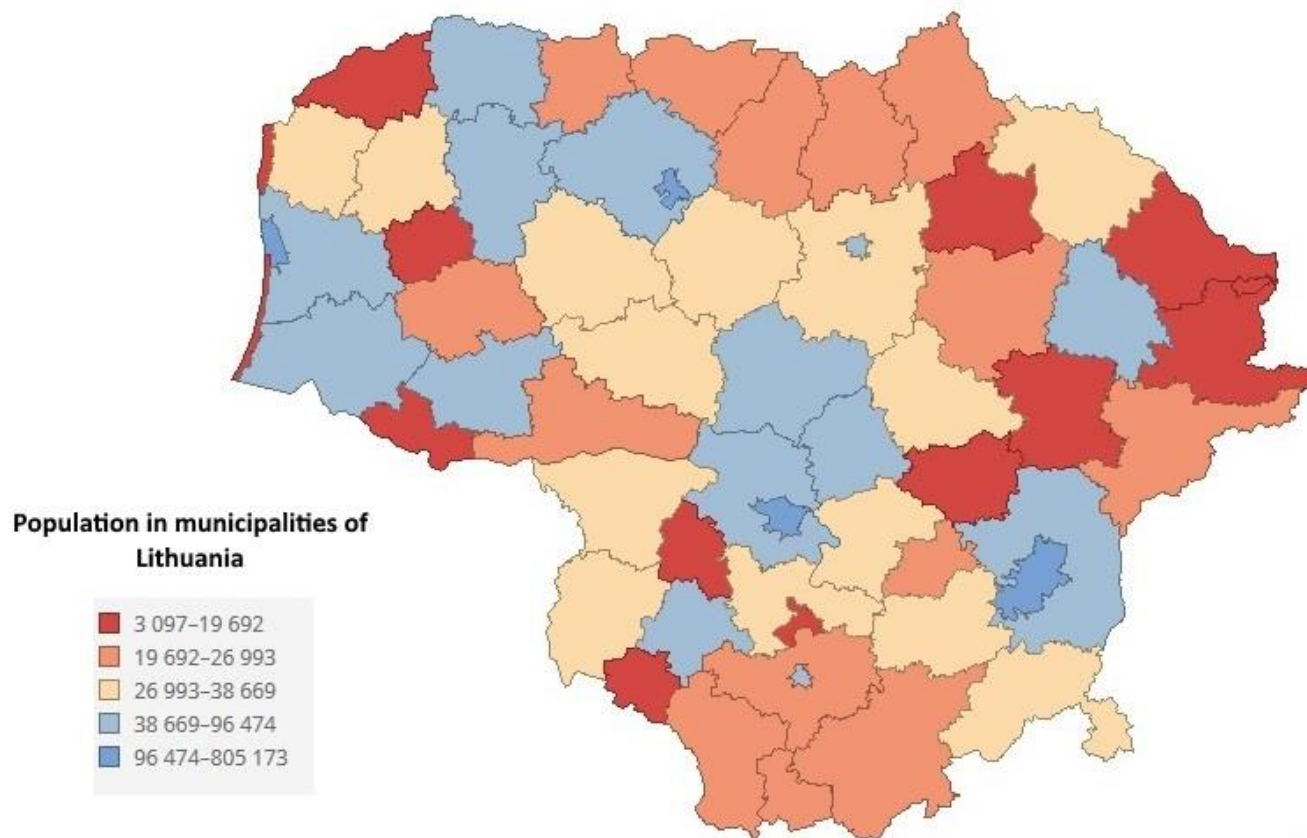
1. Describe the territorial and administrative divisions and the system of local authorities in your country:

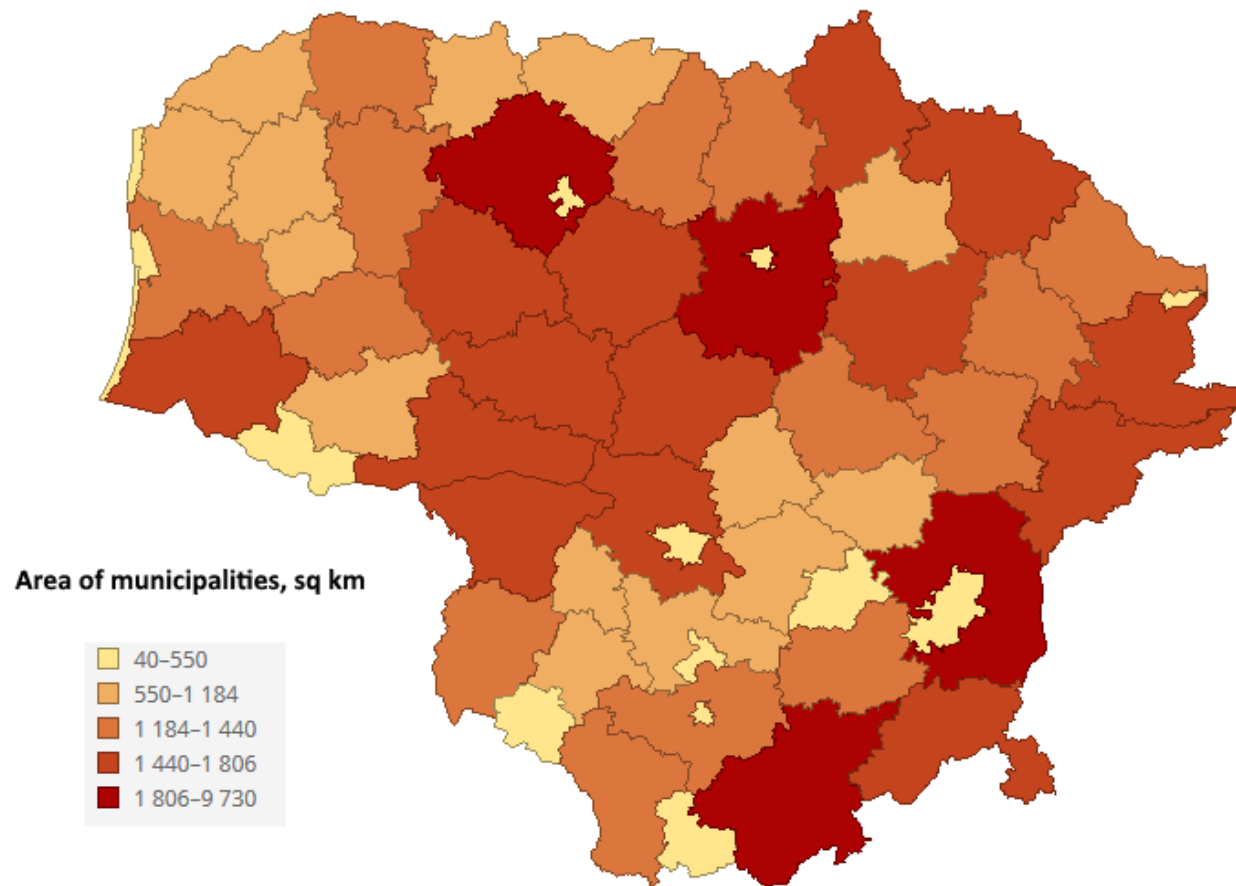
1.1. What are the types (tiers) of local authorities (regions, counties, municipalities or other), their number?

In Lithuania, there is only one tier of local government – municipality. Lithuania’s territory is divided into 60 municipalities (7 city municipalities and 53 district ones).

1.2. Please provide main statistical data about size and population of local authorities, preferably on the map of your country or in the table.

Population of Lithuania is 2 847 904 (as of 2017-01-01), total size – 65 286 km². Municipal statistical data is provided below.





1.3. What are the main activities (spheres of public services) and responsibilities of each type of local authority (regions, counties, municipalities or other)?

According to discretion to take decisions, in national legislation the functions of municipalities are divided into independent and State (delegated by the State to municipalities) functions. Municipalities exercise their activities independently in the following main spheres:

- ✓ Municipal budget
- ✓ Local fees and charges
- ✓ Management of municipal property

- ✓ Organization of education (partly)
- ✓ Social services
- ✓ Culture
- ✓ Primary healthcare
- ✓ Territory planning
- ✓ Environment
- ✓ Transport, local roads
- ✓ Supply of heat and drinking water, waste management
- ✓ Development of business and tourism

However, independent functions are also regulated by law, this means that municipalities are not absolutely independent in any respective area.

Municipalities are also responsible for the following State functions:

- ✓ Civil, fire protection
- ✓ Organization of education (partly)
- ✓ Organization of the secondary health care
- ✓ Implementing labour market policy measures
- ✓ Calculation and payment of social benefits and compensations
- ✓ Other

Municipalities receive special grants from the State budget for implementation of the State functions and they are bound to use them in accordance to their purpose.

1.4. What is the structure of local authorities, main legislative and executive bodies (council, mayor etc.)?

Municipal institutions responsible for the implementation of the right to self-government are:

- 1) **The Municipal Council** – a representative institution of the municipality that possesses the rights and duties of local government and public administration. It is the main legislative and decision-making body. The Municipal Council consists of representatives of the municipal community – members of the Municipal Council (councilors) who have been democratically elected by direct suffrage. Number of councilors in every municipality varies from 15 to 51, depending on the number of residents.
- 2) **The mayor** – head of municipality, elected by residents of municipality in direct suffrage for a period of the powers of the municipal council. The mayor chairs Municipal Council meetings.
- 3) **The director of the municipal administration** – an executive institution of the municipality, who possess the rights and duties of public administration. The director of the municipal administration is appointed by the Municipal Council, subordinated to it, accountable

to the Municipal Council and the mayor. He/she is directly and personally responsible for the implementation within the territory of the municipality of the laws, decisions of the Government and the Municipal Council.

1.5. Describe the formation principles of the legislative and executive bodies (council, mayor, executive committee etc.) – are they elected in public elections or appointed, for what period of time?

The members of Municipal Council are elected for a four-year term by universal and equal suffrage, in a secret ballot at direct elections.

The mayor – since 2015 mayor is elected by direct universal suffrage for four years.

The director of the municipal administration is appointed by the Municipal Council.

1.6. What are sources of revenue of the local government (taxes and charges, grants from the State budget, others)?

Legal acts of Lithuania set the following types of revenue for local authorities:

- 1) Tax revenue comprised of taxes assigned to local authorities and a part of common taxes set by law (Personal income tax, land, property taxes);
- 2) Non-tax revenue received from the property of a local authority, local charges, fines, and other non-tax sources;
- 3) Subsidies and grants of the state budget (for the implementation of the State functions).

Each municipality has its own independent budget, while the central government plays an important role in planning municipal revenue. First, it regulates planning and use of special targeted grants, secondly, it imposes rules regarding calculation and allocation of Personal income tax among municipalities (actually it regulates the amount of Personal income tax transferred to each municipality), it also compensates the decrease in municipal revenue and imposes borrowing limits.

Total amount of planned revenue in all 60 municipalities of Lithuania for the year 2017 is 2,5 billion Euros (in 2016 municipal budgets comprised 2,7 billion Euros).

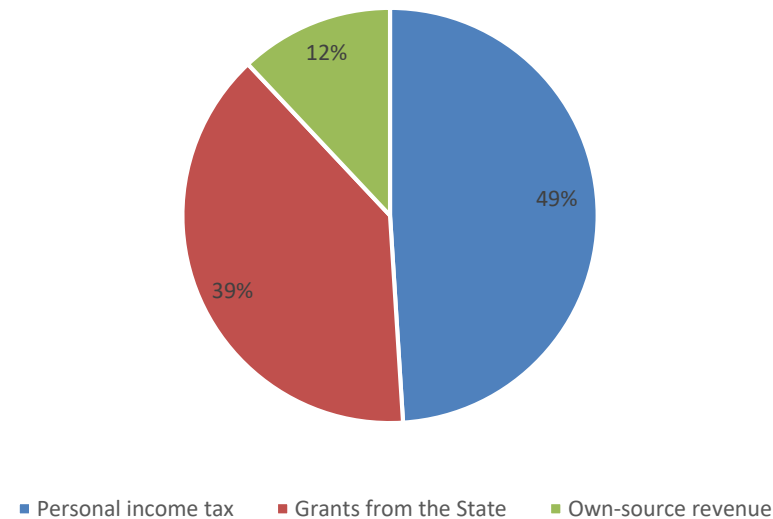
- If possible, please specify what percentage of total budget revenue of local authority comes from grants from the State budget?
For the year 2017 annual plan of grants from the State budget constitutes 39% of total municipal revenue (in 2016 – 37%).
- If possible, please specify what percentage of total budget revenue of local authority comes from own-source (e. g. taxes, local fees etc.) and other revenue?

Projected revenue from the Personal income tax for the year 2017 constitutes 49% of total municipal budget revenue. In Lithuania, local government (municipalities) has no freedom in imposing this tax, incomes from this tax are distributed between State and municipalities' budgets in proportions set by the law.

Planned amount of own-source municipal revenue for the year 2017 is 12% of total municipal budget revenue. This amount includes various taxes, set (imposed) by municipalities or assigned to municipal budgets by law (e. g. land, property taxes, taxes for various services, local fees, etc.) and other non-tax municipal revenue (e. g. fines, rents, revenue of municipal budgetary establishments). The amount of this revenue depends mostly on the decisions of municipalities, that's why we can call them own-source revenue.

The chart below illustrates the total projected municipal budget revenue for the year 2017.

Municipal budget revenue structure



1.7. What types of entities are established by local authorities (e.g. municipality owned enterprises, public institutions, municipal corporations etc.)?

By law municipalities may establish:

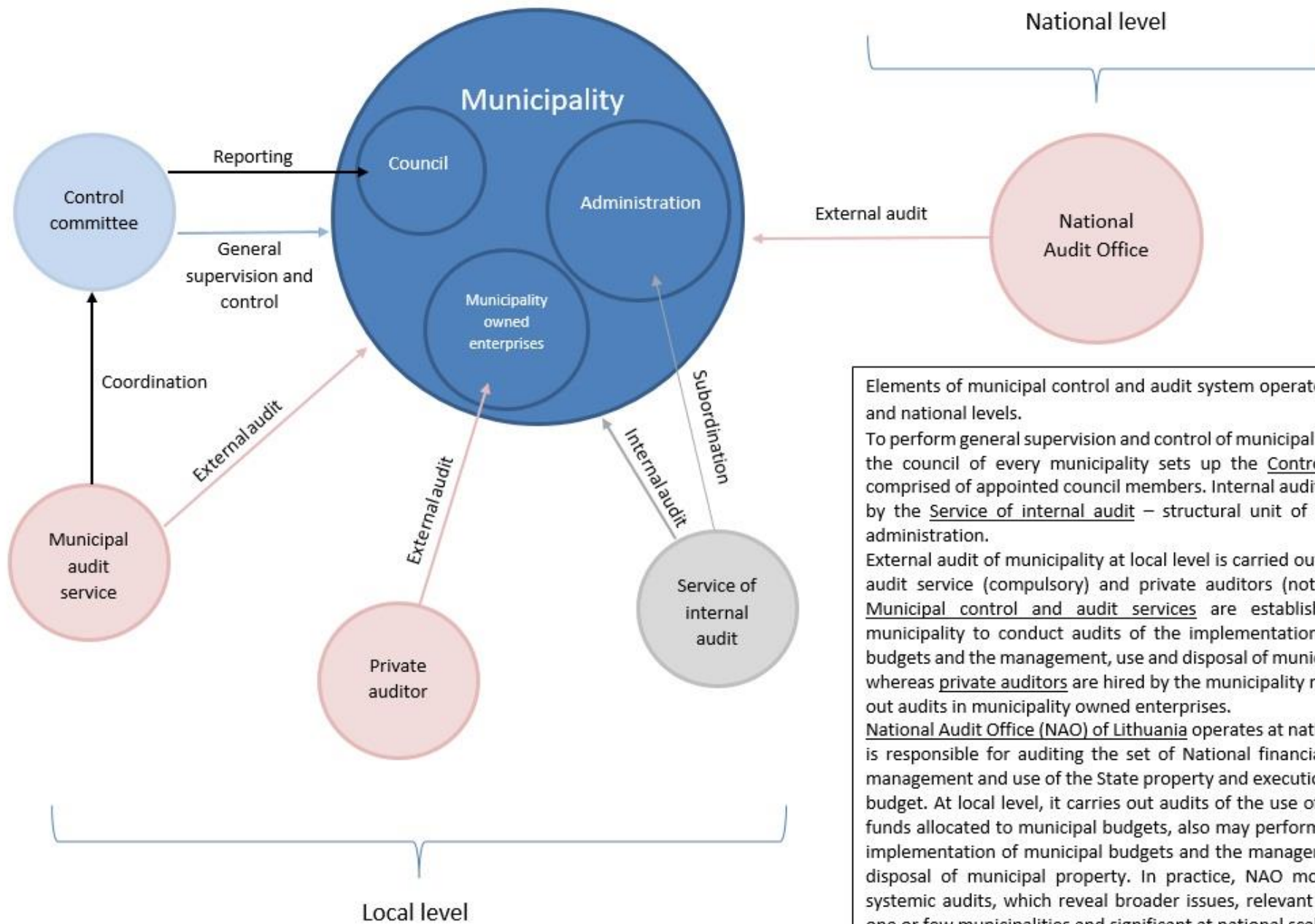
- ✓ Municipality owned enterprises (joint stock companies, limited liability companies and partnerships limited by share);

- ✓ Public institutions (a non-profit organisations, established to serve public interest in performing social, educational, healthcare, scientific, cultural, sport or any other analogous activities);
- ✓ Budgetary institutions (public entities that perform municipal functions).

2. Describe the legal framework of audit and control system at local authorities, i.e. how it is organized and which entities (institutions, departments or other) participate in it:

2.1. Please provide illustrations or schemes how the internal and external audit system of local authorities is organized and which entities participate in it.

The following scheme illustrates entities participating in the municipal control, internal and external audit system.



Elements of municipal control and audit system operate both at local and national levels.

To perform general supervision and control of municipal management, the council of every municipality sets up the Control committee, comprised of appointed council members. Internal audit is carried out by the Service of internal audit – structural unit of the municipal administration.

External audit of municipality at local level is carried out by Municipal audit service (compulsory) and private auditors (not compulsory). Municipal control and audit services are established in every municipality to conduct audits of the implementation of municipal budgets and the management, use and disposal of municipal property, whereas private auditors are hired by the municipality mostly to carry out audits in municipality owned enterprises.

National Audit Office (NAO) of Lithuania operates at national level and is responsible for auditing the set of National financial statements, management and use of the State property and execution of the State budget. At local level, it carries out audits of the use of State budget funds allocated to municipal budgets, also may perform audits of the implementation of municipal budgets and the management, use and disposal of municipal property. In practice, NAO mostly performs systemic audits, which reveal broader issues, relevant to more than one or few municipalities and significant at national scale.

2.1.1. Is there an audit (control) committee within local authority? If yes, what are its functions and role in audit system at local level?

According to the law, each municipality shall set up a Control committee. The Control committee shall be set up of at least three councilors by the decision of the Municipal Council. The Control committee preliminary considers issues submitted to the Municipal Council and presents conclusions and proposals, controls the observance of laws and implementation of decisions of the Municipal Council and the mayor, ensures that the control system in municipality operates effectively and the results of the supervision are being implemented.

Main responsibilities of the Control committee are mostly related with the functions of Municipal control and audit service (detailed information about the Municipal control and audit services is provided in chapter II), such as:

- ✓ To submit findings to Municipal Council regarding results of the activities of the Municipal control and audit service;
- ✓ To consider a draft action plan of the Municipal control and audit service for next year and submit proposals to this plan;
- ✓ To consider a report prepared by the Municipal control and audit service regarding the implementation of the action plan;
- ✓ To propose to the Municipal Council to carry out independent audit of the use of municipal property and funds, and the activities of a municipality, submit its conclusions regarding the audit results.

2.1.2. How internal audit system of local government is organized? What is its relationship with external audit system?

In every municipality, there is a Centralised service of internal audit of a municipality – a structural unit of the municipal administration, set up to perform an audit in the municipal administration, administrating entities of a municipality or other public legal persons of a municipality; the service is subordinated and accountable to the director of the municipal administration. Internal auditors present reports of the carried-out audits and formulate recommendations to the director of the municipal administration and the heads of the auditees. The latter must make decisions regarding the implementation of internal audit recommendations.

The internal audit service shall operate in compliance with an annual action plan of the internal audit service, which is coordinated with the director of the municipal administration. The action plan of the internal audit service is submitted to the Municipal control and audit service (institution that carries out external audit of municipality) with the purpose of mutual coordination of activities. The said action plan shall be also submitted to the National Audit Office of Lithuania.

When conducting an audit, the Municipal control and audit service have the right to make use of the audit reports and work documents of the municipal centralized internal audit service, which are necessary to carry out internal control evaluation, if the auditee and the purposes coincide.

2.1.3. How external audit system of local government is organized? What entities participate in it (SAI, regional/municipal audit institutions, private auditors etc.)?

External audits of local government are conducted by:

- ✓ The National Audit Office of Lithuania;

- ✓ 60 Municipal control and audit services (one for each municipality) - entities who supervise whether the municipal property and state property managed by the right of trust is managed and used in a legal, effective, economical and efficient manner, as well as the implementation of a municipal budget and the use of other monetary resources;
- ✓ Private auditors.

3. Was any analysis, audit or other research of the external audit system of local government in your country carried out (by SAI, other institutions or organizations)? If yes, please outline main findings of such research.

By law, NAO of Lithuania is obliged to carry out annual external review of Municipal control and audit services. The review carried out in 2017 showed that an increasing number of Municipal control and audit services are capable of maintaining a rather high quality of financial audits, however the majority of services fail to perform performance audits, which best help to evaluate if the municipality assets and funds are used and managed effectively and economically. NAO of Lithuania submitted the recommendations and urged Municipal control and audit services to conduct performance audits.

4. Describe if there are any ongoing changes or plans to improve existing external audit system of local government in your country.

In May 2017, the Parliament of Lithuania formed a Working group comprised of Members of the Parliament, the aim of which is to prepare proposals for the improvement of existing external audit system of municipalities in Lithuania.

II. ROLE OF MUNICIPAL AUDIT INSTITUTIONS IN EXTERNAL MUNICIPALITY AUDIT

(Please provide information for this part if external audit of local government is carried out by audit institutions established by municipalities or by municipal auditors in your country. If there are no municipal audit institutions, skip questions 5-8 and move to the chapter III)

General information

5. Provide the legal framework and general information about municipal audit institutions:

5.1. How many municipal audit institutions operate as external auditors of local authorities (municipalities) in your country?

In Lithuania, there are 60 Municipal control and audit services (one for each municipality).

5.2. Does municipal audit institution cover only one local authority (e.g. one municipal audit institution for one municipality) or more (e. g. municipal audit institution conducts audits in few municipalities)?

One municipal audit institution (Municipal control and audit service) carries out audits only in one municipality (the one, where this service is established).

5.3. Which authority:

- establishes these institutions?

Municipal control and audit services are budgetary institutions, established by the Municipal Council of each municipality.

- appoints heads?

Head of the Municipal control and audit service (municipal controller) is appointed to his position by Municipal Council by competition in the manner prescribed by the Law on Civil Service.

- employs staff?

Municipal controller employs staff of the Municipal control and audit service.

- provides funding?

The Municipal Council sets in the municipal budget the amount of appropriations allocated for the Municipal control and audit service.

5.4. Which authority is this audit institution accountable to? How is the accountability organized (by submitting annual reports etc.)?

Municipal control and audit service is accountable to the Municipal Council. Municipal control and audit service shall annually submit a report on the activities of the municipal control and audit service to the Municipal Council. The annual report is first submitted to the Control Committee. After reviewing the report on the implementation of the Municipality's control and audit service plan, the Control Committee prepares and submits conclusions to the Municipal Council, which decides upon the approval of the report.

5.5. What is the structure of municipal audit institution (head, governing board etc.) and approximate number of staff (auditors)?

The head of the Municipal control and audit service is municipal controller. He/she employs staff (civil servants or employees working under the employment contract). In most municipalities, Municipal control and audit services are rather small, with only 2-3 auditors (including municipal controller), in a few bigger city municipalities number of employed auditors varies between 7-15.

The mandate

6. Define the mandate of municipal audit institution prescribed by law according to each type of audit:

Financial audit

6.1. May municipal audit institution carry out financial audits in local authorities?

Yes.

6.1.1. If yes, please describe:

- What types of local government entities institution may audit (including municipality-owned enterprises and other entities) according to the law?

According the Law on local self-government, audits are carried out in the municipal administration, entities administrated by the municipality, municipality owned enterprises and public institutions controlled by the municipality.

- What is the scope (subject-matter) of this audit (municipal (local) budget execution, financial statements, use and management of state grants, local governments funds and assets etc.)?

Annually, by 15 July, Municipal control and audit service is legally bound to prepare and submit to the Municipal Council an opinion on the set of consolidated statements of the municipality. Municipal control and audit services also carry out financial audit of the municipal budget execution statements.

- What types of documents audit institution prepares for reporting the result of financial audit (audit report, opinion etc.)? What are the entities these documents are submitted to?

For reporting the results of financial audits, Municipal control and audit services submit the opinion to the Municipal Council and auditees (municipal administration, municipality owned enterprises etc.).

- Does municipal audit institution provide recommendations after the audit? To which entities they are addressed?

Yes, recommendations may be submitted to the municipal administration, entities administrated by the municipality, municipality owned enterprises and public institutions controlled by the municipality (auditees).

Compliance audit

6.2. May municipal audit institution carry out compliance audits in local authorities?

In the Law on local self-government compliance audits are not distinguished as a separate type of audits performed by Municipal control and audit services. However, the law states that Municipal control and audit services are obliged to supervise whether the municipal property and state property managed by the right of trust is managed and used in a *legal*, effective, economical and efficient manner, as well as the implementation of a municipal budget and the use of other monetary resources. For this reason, Municipal control and audit services assess compliance issues, however mostly within the financial or performance audits.

6.2.1. If yes, please describe:

- What types of local government entities institution may audit (including municipality-owned enterprises and other entities) according to the law?

Audits are carried out in the municipal administration, entities administrated by the municipality, municipality owned enterprises and public institutions controlled by the municipality.

- What is the scope (subject-matter) of this audit (municipal (local) budget execution, financial statements, use and management of state grants, local governments funds and assets etc.)?

See 6.2.

- What types of documents audit institution prepares for reporting the result of compliance audit (audit report, opinion etc.)? What are the entities these documents are submitted to?

Results are introduced in the audit reports and in some cases also in the opinions.

- Does municipal audit institution provide recommendations after the audit? To which entities they are addressed?

Yes, recommendations may be submitted to the municipal administration, entities administrated by the municipality, municipality owned enterprises and public institutions controlled by the municipality (auditees).

Performance audit

6.3. May municipal audit institution carry out performance (value for money) audits in local authorities?

Yes.

6.3.1. If yes, please describe:

- What types of local government entities institution may audit (including municipality-owned enterprises and other entities) according to the law?

Audits are carried out in the municipal administration, entities administrated by the municipality, municipality owned enterprises and public institutions controlled by the municipality.

- What is the scope (subject-matter) of this audit (municipal (local) budget execution, financial statements, use and management of state grants, local governments funds and assets etc.)?

Municipal control and audit services supervise management of municipal property and state property managed by the right of trust, use and management of state grants and other local government's funds.

- What types of documents audit institution prepares for reporting the result of performance audit (audit report etc.)? What are the entities these documents are submitted to?

Audit findings are presented in the audit report.

- Does municipal audit institution provide recommendations after the audit? To which entities they are addressed?

Yes, recommendations may be submitted to the municipal administration, entities administrated by the municipality, municipality owned enterprises and public institutions controlled by the municipality (auditees).

Other audits

6.4. What other types of audits municipal audit institution may carry out in local authorities? Please describe their scope and auditees.

There are no other types of audits.

Quality control

7. Is there a practice of external evaluation of municipal audit institutions quality control systems in order to improve it (i.e. is there a legal requirement to appoint entities to conduct external review, do municipal institutions initiate peer reviews and invite other institutions/entities for this task on voluntary basis etc.)? Please shortly describe.

By law, NAO of Lithuania is obliged to carry out annual external review of Municipal control and audit services (for more information, see question 18.). Municipal control and audit services do not initiate peer reviews or any other evaluations.

Other functions and products

8. Describe what additional functions (other than auditing) are exercised by municipal audit institutions in local (municipal) sphere and what documents the institution prepares implementing these functions (e.g., an opinion for the draft budget, the findings necessary for municipality to take decisions, regarding taking-out loans, landscape reviews, briefings, overviews etc.)? Are these functions imposed by legal acts or are they carried out upon the initiative of the institution itself? Please fill this information in the table.

Additional function	Description of the product (document)	Addressed to	Whether it is prescribed by law
To prepare and submit to the Municipal Council the findings necessary to take decisions, regarding the use by the municipality of bank credits, taking-out and granting of loans, provision of guarantees to creditors for loans taken out by municipality owned/controlled enterprises.	Document with appropriate findings (e. g. Municipal Council can make decision to take loans only if Municipal control and audit service stated that borrowing limits will be not exceeded).	Municipal Council	Yes
To prepare and submit to the Municipal Council the findings necessary to take decisions, providing the grounds to the Municipal Council for approval of	Document with appropriate findings (e. g. Municipal Council can make decision to arrange concessions procedures only after it received conclusions from Municipal control	Municipal Council	Yes

conditions of tendering for the award of the concession and the principal terms and conditions of the concession contract; draw up an opinion for the final draft of the concession contract, if the Municipal Council has set out the phases of tendering before the signing of the concession contract.	and audit service approving such decision).		
To prepare and submit to the Municipal Council the conclusions necessary for the Municipal Council to approve terms and procedures of public procurement as well as principal conditions of a contract of partnership with private entities.	Document with appropriate findings	Municipal Council	Yes
To prepare and submit to the Municipal Council the findings necessary to take decisions, regarding the economic and financial position of debtors and the debtors the fulfilment of whose commitments are guaranteed by the State, as well as regarding the funds borrowed in the name of the State, the granted loans and the provision of state guarantees, use of loans according to the target purpose, and the repayment of loans.	Document with appropriate findings	Municipal Council	Yes

III. ROLE OF PRIVATE AUDITORS IN EXTERNAL MUNICIPALITY AUDIT

(Please provide information for this part if private auditors participate in external audit system of local government in your country. If private auditors do not conduct external audits at local level, skip questions 9-12 and move to the chapter IV)

9. Provide general information about appointment of private auditors:

9.1. Which entity and how selects/appoints private auditors on municipal level?

Municipality hires private auditors by public procurement procedures. Private auditors mostly are appointed to carry out audit of annual financial statements of municipality owned enterprises when it is required by law. Additionally, municipalities may hire private auditors to conduct external performance audit of municipality owned enterprises if they decide it is necessary for some specific purposes.

9.2. Which budget is used for auditors' remuneration?

Mostly remuneration for auditors is paid from the funds of municipality owned enterprises.

9.3. Are there special requirements (qualification etc.) for private auditors related to public sector audit?

No.

10. Describe the scope of audit performed by private auditors in municipalities:

10.1. What types of local government entities private auditor may audit (including municipality-owned enterprises and other entities)?

Private auditors may be appointed to audit municipality owned enterprises, public institutions etc.

10.2. What types of audit may be carried out (performance, financial, compliance etc.)?

Mostly financial audit.

10.3. What is the subject-matter of each type of audit (municipal budget execution, financial statements, use and management of municipal assets etc.)?

In most cases financial statements of municipality owned enterprises.

11. What types of documents private auditors prepare for reporting the results of audit (audit report, opinion etc.)? What are the entities these documents are submitted to?

Private auditors mostly prepare opinion on financial statements of municipality owned enterprises addressed to municipality and audited entity.

12. Describe to which entities recommendations can be directed after audit.

Municipality, municipality owned enterprises etc.

IV. ROLE OF REGIONAL AUDIT INSTITUTIONS (NOT UNDER SAI) IN EXTERNAL MUNICIPALITY AUDIT

(Please provide information for this part if regional audit institutions participate in external audit system of local government in your country. If there are no regional audit institutions, skip questions 13-16 and move to the chapter V)

There are no regional audit institutions in Lithuania.

General information

13. Describe the legal framework and general information about regional audit institutions:

13.1. How many regional institutions operate as external auditors of municipalities in your country?

13.2. How many local authorities are covered by each regional audit institution?

13.3. Which authority:

- establishes these institutions?

[Redacted]

- appoints heads?

[Redacted]

- employs staff?

[Redacted]

- provides funding?

[Redacted]

13.4. Which authority is the institution accountable to? How is the accountability organized (by submitting annual reports etc.)?

[Redacted]

13.5. What is the structure of regional audit institution (head, governing board etc.) and approximate number of staff (auditors)?

[Redacted]

The mandate

14. Define the mandate of regional audit institution prescribed by law in auditing local authorities according to each type of audit:

Financial audit

14.1. May regional audit institution carry out financial audits in local authorities?

[Redacted]

14.1.1. If yes, please describe:

- What types of local government entities institution may audit (including municipality-owned enterprises and other entities) according to the law?
- Is financial audit carried out annually in all local authorities of the region or only in selected ones?
- What is the scope (subject-matter) of this audit (municipal (local) budget execution, financial statements, use and management of state grants, local governments funds and assets etc.)?
- What types of documents audit institution prepares for reporting the result of financial audit (audit report, opinion etc.)? What are the entities these documents are submitted to?
- Does regional audit institution provide recommendations after the audit? To which entities they are addressed?

Compliance audit

14.2. May regional audit institution carry out compliance audits in local authorities?

14.2.1. If yes, please describe:

- What types of local government entities institution may audit (including municipality-owned enterprises and other entities) according to the law?

- What is the scope (subject-matter) of this audit (municipal (local) budget execution, financial statements, use and management of state grants, local governments funds and assets etc.)?

[Redacted]

- What types of documents audit institution prepares for reporting the result of compliance audit (audit report, opinion etc.)? What are the entities these documents are submitted to?

[Redacted]

- Does regional audit institution provide recommendations after the audit? To which entities they are addressed?

[Redacted]

Performance audit

14.3. May regional audit institution carry out performance (value for money) audits in local authorities?

[Redacted]

14.3.1. If yes, please describe:

- What types of local government entities institution may audit (including municipality-owned enterprises and other entities) according to the law?

[Redacted]

- What is the scope (subject-matter) of this audit (municipal (local) budget execution, financial statements, use and management of state grants, local governments funds and assets etc.)?

[Redacted]

- Describe performance audits according the audit scope:

- audits that cover one topic in all local authorities of the region or in several of them (horizontal audit)?

[Redacted]

- audits which scope is limited to one local authority (municipality)?

[Redacted]

- other?

[Redacted]

- What types of documents audit institution prepares for reporting the result of performance audit (audit report etc.)? What are the entities these documents are submitted to?

[Redacted]

- Does regional audit institution provide recommendations after the audit? To which entities they are addressed?

[Redacted]

Other audits

14.4. What other types of audits regional audit institution may carry out in local authorities? Please describe their scope and auditees.

[Redacted]

Quality control

15. Is there a practice of external evaluation of regional audit institutions quality control systems in order to improve it (i.e. is there a legal requirement to appoint institutions to conduct external review, do regional institutions initiate peer reviews and invite other institutions for this task on voluntary basis etc.)? Please shortly describe.

[Redacted]

Other functions and products

16. Describe what additional functions (other than auditing) related to municipalities are exercised by regional audit institutions? What documents do institutions prepare implementing these functions (for example, an opinion for the draft budget, the findings necessary for municipality to take decisions, regarding taking-out loans; landscape reviews, briefings, overviews etc.)? Are these functions imposed by legal acts or are they carried out upon the initiative of the institution itself? Please fill this information in the table.

Additional function	Description of the product (document)	Addressed to	Whether it is prescribed by law

V. ROLE OF SAI IN EXTERNAL MUNICIPALITY AUDIT
(All TFMA members are asked to provide information for this part)

The mandate

17. Define the mandate of SAI prescribed by law in auditing local authorities according to each type of audit:

Financial audit

17.1. May SAI carry out financial audits in local authorities?

Yes.

17.1.1. If yes, please describe:

- Whether financial statements of municipalities are prepared on accrual basis, on cash basis or on modified cash basis? Please describe what accounting framework is used (International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS), generally accepted accounting principles (GAAP)?

In 2010, Lithuanian public sector (including municipalities) underwent an accounting reform – transition from the modified cash basis to full accrual accounting based on IPSAS. As a result, the National Public Sector Accounting Standards were adopted by national legal act. Financial statements of municipalities are now prepared on accrual basis. However, municipal budget execution statements are prepared on modified cash basis.

- Whether municipal financial statements are consolidated at national level and audited?

Yes. Financial statements of all 60 municipalities are consolidated into the set of National financial statements. By law, SAI is responsible for auditing the set of National financial statements. Municipality financial statements are audited by the Municipal control and audit services. Therefore, trying to avoid a duplication of work, SAI uses audit results of Municipal control and audit services in carrying out annual audit of set of National financial statements. SAI performs an audit of the National financial statements in accordance with International Standard on Auditing 600 (ISA 600, Special considerations – Audits of Group Financial Statements (Including the Work of Component auditors)). According to this standard SAI cooperates with the Municipal control and audit services and uses their audits results, some procedures may be performed solely by SAI or together with the Municipal control and audit services.

Municipal budget execution statements are not consolidated at national level. By law, SAI may perform audit of the execution of municipal budget in accordance with the scope of public audit set by the SAI in the annual Audit plan, but in current practice SAI does not audit execution of municipal budgets. Municipal budget execution is audited by the municipal control and audit services.

- What local government entities SAI may audit (including municipality-owned enterprises and other entities) according to the law?

SAI may perform financial audits in municipalities, municipal institutions, their monetary funds, municipality owned enterprises and other legal entities, to which the municipal institution has allocated funds or transferred property. SAI performs audits in these local government entities in accordance with the scope of public audit set by the SAI in the annual Audit plan. These local government entities can also be audited by the municipal audit institutions.

- Is the financial audit carried out annually in all local authorities or only in selected ones? If possible, enumerate what is the approximate number of audit entities in these audits per year.

Municipal financial statements of each municipality are audited annually by the Municipal control and audit services. By law, SAI may decide to audit the financial statements of certain municipalities, but there is no such practice.

- What is the scope (subject-matter) of this audit (municipal (local) budget execution, financial statements, use and management of state grants, local governments' funds and assets etc.)?

As mentioned previously, SAI performs only an audit of the set of National financial statements, which includes municipal financial statements.

- What types of documents SAI prepares for reporting the result of financial audit (audit report, opinion etc.)? What are the entities these documents are submitted to?

The results of the audit of National financial statements are presented in the audit report and the opinion is issued. These documents are submitted to the Parliament, the Ministry of Finance and other institutions for which the conclusions were formulated and /or recommendations were submitted.

- Does the SAI submit opinion and/or audit report on financial statements of local authorities?

No, separate opinion on financial statements of a single municipality is not submitted by SAI. It is the competence of Municipal control and audit services.

- To which entities SAI can propose recommendations after the audit (municipalities, counties, ministries etc.)?

After the audit of the set of National financial statements, SAI proposes recommendations to the Ministry of Finance, which is responsible for the set of National financial statements, also to municipalities and other central government institutions, whose financial statements are included in the set of National financial statements.

Compliance audit

17.2. May SAI carry out compliance audits in local authorities?

Yes. The law on National Audit Office does not distinguish compliance as a separate type of audit, however it states that SAI supervises the lawfulness and effectiveness of the management and use of the state property and the use of state budget funds allocated to municipal

budgets. SAI may also audit municipal budget execution, local governments' funds and assets if this is established by the SAI in the scope of public audit in the annual Audit plan.

In the current practice, SAI carries out compliance audit together with the financial audit of the consolidated state budget execution statements and evaluates the use of State grants allocated to municipalities. The opinion on compliance isn't provided. Earlier, in the period of 2012-2015, SAI performed compliance audits in municipalities separately from financial audit. The aspects of compliance are also evaluated in conducting performance audits in municipalities.

17.2.1. If yes, please describe:

- What local government entities SAI may audit (including municipality-owned enterprises and other entities) according to the law? If possible, enumerate what is the approximate number of audit entities in these audits per year.

SAI may perform audits in municipalities, municipal institutions, municipality-owned enterprises and other legal entities (public or private), to which the municipal institution has allocated funds or transferred property. SAI performs audits in these local government entities in accordance with the scope of public audit set by the SAI in the annual Audit plan.

- What is the scope (subject-matter) of this audit (municipal (local) budget execution, use and management of state grants, local governments' funds and assets etc.)?

SAI supervises the use of state grants and state property managed by municipalities, but also audit municipal budget execution, local governments' funds and property.

- What types of documents SAI prepares for reporting the result of compliance audit (audit report, opinion etc.)? What are the entities these documents are submitted to?

SAI presents audit results in the audit report, while opinion on compliance isn't provided. The report is submitted to the audited entity.

The report of financial audit of consolidated state budget execution statements, which includes results of the use of state grants, is submitted to the Audit Committee of the National Parliament.

- To which entities SAI can propose recommendations after the audit (municipalities, counties, ministries etc.)?

SAI can propose recommendations to municipalities, their institutions and other central government institutions (e. g. ministries), for which the conclusions were formulated.

Performance audit

17.3. May SAI carry out performance (value for money) audits in local authorities?

Yes.

17.3.1. If yes, please describe:

- What local government entities SAI may audit (including municipality-owned enterprises and other entities) according to the law? If possible, enumerate what is the approximate number of audit entities in these audits per year.

SAI may carry out performance audits in municipalities, municipal institutions and their monetary funds, municipality-owned enterprises and other legal entities (public or private), to which the municipal institution has allocated funds or transferred property. SAI performs audits in these local government entities in accordance with the scope of public audit set by the SAI in the annual Audit plan. In fact, SAI doesn't carry out performance audits regarding only one local authority. SAI carries out audits that cover one topic in all local authorities of the country or in several of them (horizontal audits). Such audits also include central government institutions, which are forming the policy in the certain area related to the audit topic.

- What is the scope (subject-matter) of this audit (municipal (local) budget, use and management of state funds allocated to local authority, local governments' funds and assets etc.)?

The scope depends on audit topic, objectives and includes certain activities, processes in local authorities related to use and management of municipal funds and assets, implementation of functions, provision of services etc.

- Describe performance audits according to the audit scope:
 - audits that cover one topic in all local authorities of the country/region or in several of them (horizontal audit)?

SAI carries out audits that cover one topic in all local authorities of the country or in several of them (horizontal audits). For example, audit on access to social housing or management of municipalities-owned enterprises.

- audits which scope is limited to one local authority (municipality)?

SAI has the mandate, but in practice does not perform such audits.

- other?

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- Does SAI have a mandate to audit effectiveness, efficiency and economy (3E) of using local governments' funds and assets?
Yes, SAI evaluates activities of local government entities (including those related to the use of local governments' funds and assets) in terms of economy, efficiency and effectiveness (3E).
- What types of documents SAI prepares for reporting the result of performance audit (audit report etc.)? What are the entities these documents are submitted to?
SAI presents audit results in the audit report, which is submitted to the audited entity and other institutions for which the conclusions were formulated and / or for which recommendations were submitted. The audit report is also submitted to the Audit Committee of the Parliament.
- To which entities SAI can propose recommendations after the audit (municipalities, counties, ministries etc.)?
SAI can propose recommendations to municipalities, their institutions and to other central government institutions, which are forming the policy in the certain area (e. g. ministries, the Government of the Republic of Lithuania).

Other audits

17.4. What other types of audits SAI may carry out in local authorities? Please describe their scope and auditees.

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Other functions and products

18. Describe what additional functions (not directly related to audit) in the local (municipal) sphere are exercised by SAI and what documents SAI prepares implementing these functions (e.g., developing audit methodologies for regional/municipal auditors, carrying out external review of regional, municipal auditors' audit quality, organising trainings, preparing landscape reviews, briefings, overviews etc.)? Are these functions imposed by legal acts or are they carried out upon the initiative of the institution itself? Please fill this information in the table.

Additional function	Description of the product (document)	Addressed to	Whether it is prescribed by law
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<p>Developing audit methodologies for municipal auditors</p>	<p>According to the law, SAI approves methodology (Public Auditing Requirements, Financial Audit Manual, Performance Audit Manual) and municipality auditors apply it in the same way as SAI. SAI also shares the good methodology practice and provides the methodological support to municipality auditors if needed.</p>	<p>Municipal audit and control services</p>	<p>Yes</p>
<p>Carrying out external review of municipal auditors' audit quality</p>	<p>According to the law, SAI carries out an external review of Municipal control and audit service's audit quality every year. The external review includes an assessment of the quality control system developed by the Municipal control and audit service and the quality of the audits. The Municipal control and audit services are selected for review at least every 6 years. The external review is carried out according to the approved review plan. For example, in 2017, SAI randomly selected and carried the external review in 15 (out of 60) municipality audit institutions. The results of the external review and suggested recommendations are presented in the review report, which is submitted to the Municipal control and audit service. After completing all planned reviews of Municipal control and audit services, SAI prepares a summary report of reviews with the</p>	<p>Reports of reviews are submitted to Municipal control and audit services. Summary report of reviews is submitted to the Audit Committee of the Parliament, to the Association of Municipal control and audit services and publicly available</p>	<p>Yes</p>

	recommendations to the Municipal Association of Municipal control and audit services.		
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VI. ROLE OF OTHER AUDITORS IN EXTERNAL MUNICIPALITY AUDIT

(Please provide information for this part if there are other auditors or audit entities, not listed in chapters II-V, which participate in external audit system of local authorities in your country (e. g. ministries if they may conduct audits in local authorities))

19. Describe the mandate of audit entity and its role in the audit of local authorities.

There are no other municipal auditors in Lithuania.

VII. RELATIONSHIP BETWEEN AUDIT INSTITUTIONS

(All TFMA members are asked to provide information for this part)

20. Describe relationship between the SAI and other audit institutions that carry out audits in local authorities (regional/municipal auditors, internal, private auditors etc.):

20.1. Whether the functions of audit institutions are strictly separated, or is there an overlap in competencies and possibility of duplication of work? Please describe.

Financial statements. Municipal financial statements of each municipality are audited by the municipal control and audit services. However, these statements are consolidated at national level and constitute a part of National financial statements, auditing of which is the responsibility of the SAI.

Budget execution. SAI is in charge of auditing the State budget execution. State grants given to municipalities at the same time are the part of municipal budgets, which are audited by municipal control and audit services.

Thus, municipality budget and municipality financial statements being a part of local level overlap with corresponding elements of the national level. This preconditions the overlap in competencies of audit institutions: SAI and Municipal control and audit services.

20.1.1. Do other auditors carry out financial audits in local authorities (municipalities) as well as SAI?

Yes. As it was mentioned in 17.1, financial audit of the particular municipality is carried out by Municipal control and audit services.

- If yes, may the financial audit of the same municipality be carried out by the SAI and by another auditor?

Municipal control and audit services submit an opinion on financial statements of a particular municipality, whereas SAI conducts audit of the consolidated set of National financial statements. In auditing set of National financial statements, SAI performs some audit procedures in municipalities and uses audit results of Municipal control and audit services.

- Describe cooperation between SAI and other auditor in such case.

In financial audit, SAI and Municipal control and audit services cooperate in 4 areas:

- ✓ Use of common methodology applied to financial audit (Public Auditing Requirements, Financial Audit Manual approved by SAI).
- ✓ Exchange of risks. Municipal control and audit services share with SAI various risks related to financial statements of municipalities, budget etc.
- ✓ Coordination of strategies. In some cases (e.g. in the audit of public debt) SAI and Municipal control and audit services coordinate strategies with each other, auditors communicate and agree to include particular topics in their annual audit plan, set the audit period and date for the submission of results.
- ✓ Cooperation in particular audit. Cooperation in financial audit is organized according to ISA 600.

For more information about cooperation with Municipal control and audit services, see 20.2 and 20.3.

- Was there any situation when SAI and other auditor expressed different opinions on the same matter? How was that situation solved?

No, because SAI does not submit opinion on financial statements of particular municipality, it is the competence of Municipal control and audit services.

20.2. Describe how the SAI cooperates with other audit institutions that carry out audits in local authorities (regional/municipal auditors, internal, private auditors etc.): objectives and forms.

SAI cooperates mainly with Municipal control and audit services in the spheres of financial (compliance) audits. If needed SAI provides consultations, methodological help and exchange the information with Municipal control and audit services in other types of audits too.

Cooperation forms are:

- ✓ Use of common methodology. According to the Law, SAI is responsible for the preparation of methodology and municipal control and audit services apply it in their practice as well as SAI. SAI has approved Public Auditing Requirements, Financial and Performance Audit Manuals and some other methodological documents.
- ✓ Exchange of risks. Risks provided by Municipal control and audit services enable SAI to identify the significant systemic problems in the public sector and plan future actions appropriately.
- ✓ Coordination of strategies. By law, SAI and Municipal control and audit services are not required to coordinate strategies with each other, but similarities in the audit scope provide a room for cooperation. In order to organize work more effectively, SAI initiated annual coordination of strategies in some areas. That means that each year SAI communicates with Municipal control and audit services and agree that they will include particular topics in their annual audit plan, set audit period and date for the submission of results.
- ✓ Cooperation in particular audit. It is organized according to ISA 600.

Also, there is an agreement initiated by the SAI among 5 parties: The NAO of Lithuania, the Association of Municipal control and audit services, the Lithuanian chamber of auditors, the Association of internal auditors and the Ministry of Finance. Due to this agreement, the Guidelines on internal control for the public sector have been developed. Implementing this agreement, annual meetings are organized and exchange of useful information is maintained.

20.3. Does the SAI and other audit institutions cooperate by using each other's work in audits of municipalities?

- If such cooperation exists, describe how it is organized (according to ISA 600 or else).

As it was mentioned, legally SAI and Municipal control and audit services are not bound to cooperate and use each other's work, however our institution initiated cooperation agreements in 2011 in order to avoid duplication of activities, to cover a wider scope simultaneously and to exploit resources more efficiently while performing financial (compliance) audits.

Since the year 2015 cooperation agreements have no longer been signed, since it has become a common practice to cooperate.

Cooperation in financial audit is organized according to ISA 600: SAI and Municipal control and audit services coordinate group audit strategy, determine the type of work that will be performed by Municipal control and audit services as component auditor and SAI, after completion of audit procedures, SAI evaluates the sufficiency and appropriateness of audit evidence obtained by Municipal control and audit services and uses the results of their work.

20.4. Does your SAI have any examples of successful cooperation with other auditors that can be used as the best practice? If yes, please describe.

Cooperation with Municipal control and audit services (described in 20.1-20.3) is very beneficial as it lets us avoid duplication of work, effectively exchange information, increase coverage of risks related to municipalities, identify the significant systemic problems in the public sector and respond to them appropriately. Both sides benefit from such cooperation, since not only SAI uses the work of Municipal control and audit services, they also receive valuable findings from SAI. Cooperation also gives an opportunity for professional development.

20.5. What are the obstacles your SAI faces concerning the cooperation with other auditors (in respect of audit of local authorities)?

Though cooperation with Municipal control and audit services is a rather smooth process, sometimes difficulties appear regarding the sufficiency and appropriateness of audit evidence obtained by Municipal control and audit services. The cooperation with SAI is not compulsory, it is based on the initiative of Municipal control and audit services, moreover, professional competence of Municipal control and audit services is not the same in all municipalities. For these reasons, in some cases audit procedures are performed solely or with the assistance of SAI. Latest external review of Municipal control and audit services showed that not all the services are able to ensure the sufficient quality of audits.

20.6. If your SAI has no relationship with other audit entities, would it be useful, in your opinion, to initiate such cooperation in the future?

As it was mentioned, currently SAI cooperates with Municipal control and audit services mainly in financial audits. At the moment, Municipal control and audit services rarely conduct performance audits, while in our opinion, it would be useful to cooperate also in this field. Using each other's work and/or carrying out joint performance audits in the future could bring more benefits and added value to municipalities and the whole public sector.

21. Describe relationship between other (regional, municipal, private) audit institutions, excluding SAI:

21.1. Describe how these institutions cooperate with each other: objectives and forms (if this information is available to your SAI).

SAI of Lithuania has no information about cooperation between other audit institutions.

21.2. Is there any joint organization of the municipal/regional audit institutions established (association, society etc.)? What is its purpose? Is this institution supervising the quality of members' audit performance? Does it prepare methodology etc.?

Since 1998 the Association of Municipal control and audit services has been established. This organization unites Municipal control and audit services of all 60 municipalities. Its aim is to properly represent their members and defend their interests, to seek the independence of municipal audit services, to enable members of the association to raise qualifications, to deepen knowledge and practical skills for the implementation of external audit functions in municipalities. Association of Municipal control and audit services does not evaluate quality of members' audit performance (annual external review of municipal control and audit services is carried out by SAI of Lithuania) and has not prepared a separate methodology for auditing municipalities (municipal control and audit services are using methodology prepared by SAI). However, it organizes trainings and seminars for municipal control and audit services, spreads the best practice and contributes to the improvement of audit quality in municipalities.