

**VIIth CONFERENCE OF EUROSAI - OLACEFS  
COUNTRY PAPER PREPARED BY THE  
NATIONAL AUDIT OFFICE OF LITHUANIA**

**Sub-Theme I: Enhancing Stakeholder Confidence: Auditing Management Integrity,  
Accountability and “Tone at the Top”**

**Role of the National Audit Office of Lithuania in enhancing public sector  
accountability**

The mission of the National Audit Office of Lithuania (NAOL) as the Supreme Audit Institution is to promote an efficient management of the State property. The main objective of the NAOL in 2011-2015 period is to enhance public audit impact. NAOL will seek to turn public audit into the basis for the rise of public sector accountability and efficient use of the State property and funds, while providing the opinion of the NAOL, which is referred to when making decisions important to the State. The following are the key measures, implementing which the NAOL will aim to enhance public audit impact:

- *Improvement of public audit process.* In order to ensure the focus of public audit, it is necessary to strengthen the process of drafting public audit programme, to find ways to provide answers to the public on the management of the State resources, as well as to shape recommendations on how to resolve issues identified during audits in high quality and in a quick manner.
- *Dissemination of public audit results.* It is very important to disseminate best practice identified during public audits to public sector entities, as well as to point out systemic errors in order to prevent their recurrence. In order to raise the confidence in the NAOL and public audit results, it is necessary to inform the public and audited bodies about the role of the Supreme Audit Institution, audit techniques applied, as well as public audit impact and added-value as widely as possible.
- *Development of communication and cooperation.* It is important to further strengthen and develop mutual cooperation with the Parliament of the Republic of Lithuania, the Government, law enforcement and other public sector institutions via monitoring of implementation of management decisions taken on the basis of public audits and sharing of the accumulated information.

### **Role of the NAOL in assessing management integrity and accountability, including the risk of fraud and corruption**

NAOL performs financial, regularity and performance audits. All of these audits somehow cover management integrity, accountability and „tone at the top“. Obviously, the key focus on these issues is placed on financial and regularity audits, which are conducted together. During such audits internal control and risk of fraud and corruption in audited entities is assessed. Regularity audit conducted by the NAOL is essentially a compliance audit, however, it does not cover the concept of propriety, which means general principles of sound public sector finance management and conduct of public sector officers. In regularity audit, the NAOL gives an opinion on the management, use and disposal of the State funds and property, as well as on the use for the purposes set by the law.

Financial and regularity audits of the NAOL include the assessment of internal control system based on the COSO model. One of the components of the assessment of internal control environment is the management attitude and style of work. The way of thinking of the management, their attitude towards organization's activities, risks, control, accounting, accountability, etc. differ to some extent. Various philosophies of activity have a huge impact on internal control of an organization. Rules of ethics and conduct, which are conveyed and implemented by managers create values of integrity and ethics, which in turn reduce the inclination of the staff to act improperly, illegally, and in an unethical way. Another element of internal control environment, which is assessed during the audit is organizational structure. A well-developed organizational structure should ensure the following:

- A successful planning, implementation, accounting and control of all transactions and processes;
- Uniform distribution of functions among all units and staff of an organization;
- Appropriate separation of functions and respective determination of responsibility.

Responsibility for the property of an organization or for any area of activity should be distributed to several staff members. For example, one person should not be at the same time responsible for the property and manage its accounting. Internal control of the property protection will be ensured if a person responsible for the protection of the property will provide data and documents to another person managing the property accounting. A manager should ensure that his staff not only know their rights, but their duties as well. A manager should establish a procedure for organization of work and control, and to introduce it to all the staff members. A manager of an audited entity should ensure that heads of certain units do not fall under the authority of each other, and would be directly accountable to him and his deputy responsible for the supervised area. An

appropriate organizational structure ensuring a relevant distribution of functions and responsibilities should ensure a sound accountability as well.

A sound accountability is also created by control procedures introduced in an organization, which are aimed at preventing, finding and correcting errors and fraud, as well as at ensuring that the aims of an organization are achieved. Assessment of an efficiency of control procedures during financial and regularity audits includes the assessment of an efficiency of procedures related to accountability.

In 2012, financial (regularity) audits assessed internal control in audited entities: in 8 per cent of audited entities internal control was assessed as weak, in 67 per cent – as satisfactory, as good – in 25 per cent of audited entities; no audited entity was assessed as having a very good internal control. Similar situation was found in 2011. It should be pointed out that most audit recommendations concern the internal control: in 2011, 49 per cent and in 2012 – 42 per cent of all the issued recommendations concerned the internal control. It shows that in order to improve the understanding of public sector entities and ensure the implementation of given recommendations internal control will remain the focus of the NAOL for several upcoming years.

Planning stage of financial and regularity audit involves the assessment of the risk of fraud and corruption. Under the International Standards on Auditing, an auditor has to assess the risk of fraud, but not corruption. However, corruption has a great significance in the public sector, therefore financial and regularity audits of the NAOL assess the risk of corruption as well.

Conducting an audit, an auditor should take into consideration the fact of the probability of fraud and corruption in an audited entity. The aim of an audit is not to disclose fraud and corruption, except for cases when a probability to disclose a material fraud is fairly high (if the fraud exists at all). Nonetheless, auditors should assess the risk of fraud and corruption. Prevention and disclosure of fraud and corruption, as well as maintenance of an effective internal control system is the concern of managers of an institution, and not that of auditors. Auditors are not responsible for fraud prevention, however, audit may have an impact on and reduce the amount of fraud instances.

In terms of audit, corruption is often an activity identification of which is not facilitated by direct evidence or transactions, which would be registered in accounting documents of an audited entity. It means that if there are allegations of corruption risk or that the risk is indicated by some factor, the management of an audited entity and auditors should pay particular attention to that.

The audit also assesses the performance of rights and duties by the management of the State and municipal institutions and other staff conducting prevention of corruption and its control in institutions following the legislation valid in the Republic of Lithuania.

Disclosing fraud in the public sector, auditors usually pay more attention to fraudulent information emerging due to misappropriation of property; however, it is equally important to take into account the fraudulent drawing up of financial statements, since the management of institutions and bodies often disregard control procedures, which may be effective and ensure a proper drawing up of financial statements.

Even if an audit is properly planned and prepared, the risk exists that some material fraudulent information may remain undetected. Audit procedures may be ineffective, and an intentional corruption, which was concealed by one or several conspired managers, staff members or third parties, or which is related to counterfeit documentation may remain undetected by an auditor.

An auditor plans the nature, timing and scope of audit procedures to be performed taking into consideration the identified risk of fraud and corruption.

If fraud is disclosed or if information implying fraud is received, an auditor should immediately notify the management of an audited entity (if the integrity of the management is beyond doubt) and respective law enforcement institutions – a Prosecutor's Office. If there are allegations that the management or staff who play an important role in internal control could have taken part in the fraud, an auditor should immediately notify those, who are assigned the management functions. The NAOL may not refuse to continue the audit, therefore an impact on audit opinion is considered.

### **Introduction of sound principles of ethics and development of efficient ethical control measures in the NAOL**

This section will shortly present the introduction and following of principles of ethics in conducted audits of the NAOL.

Seeking to encourage the confidence in public audit, the NAOL should be ethical and lead by example other public sector organizations. Following of principles and rules of service ethics, proper conduct of NAOL officers builds confidence in the quality of their work and institution represented by them. Therefore NAOL officers should meet particularly high professional competence and also service ethics and moral requirements. As well as every INTOSAI member, the NAOL follows principles approved by INTOSAI: INTOSAI Code of Ethics (ISSAI 30). For that the NAOL has approved the Code of Ethics of Officers of the Republic of Lithuania, which lays down service and professional conduct principles and rules for officers of the NAOL and staff members of the NAOL involved in public audit, as well as regulates the conduct of officers during the service hours and after the service hours. The Code also defines general principles of service

and special professional ethics, relationships among officers and responsibility for violations of service ethics. The Code was drawn up and approved in 2002 on the basis of the Law on National Audit Office, Law on Civil Service, Law on Public Administration, Law on the Adjustment of Public and Private Interests in the Civil Service, Code of Ethics approved by INTOSAI, Code of Professional Ethics of Lithuanian auditors, as well as general ethics.

In order to encourage ethical conduct and to demonstrate the importance of ethics in the Office, in February 2012 the NAOL organized an examination of the Code of Ethics of officers of the NAOL, which saw the participation of 22 officers of the NAOL. Participants of the examination had to answer in written 25 questions of a test, which were made up not only on the basis of the Code of Ethics of the NAOL, but also on the basis of the Law on National Audit Office, Law on Civil Service, Law on Public Administration, Law on the Adjustment of Public and Private Interests in the Civil Service, as well as other legislation relevant to auditors.