

IV EUROSAI/ARABOSAI Joint Conference

Importance of specifying the boundaries and targets of external and internal public financial control in improving public financial management

One of the most important principles of democracy is accountability for the use of public funds. Generally, taxpayers want to know if the government uses cash assets legally or if the State Budget is used economically and effectively, what value was created for money spent; if public servants and officials adequately perform the functions entrusted to them. According to the Law on Internal Control and Internal Audit, in Lithuania financial control is a part of the system of internal control, which allows to ensure the legality of a public entity's business activities and the conformity with sound financial management principals: economy, efficiency, effectiveness and transparency.

To ensure this the State establishes public financial management and control system in which public sector entities and external audit function have their own responsibilities, rights and obligations.

Legislation of the National Audit Office of Lithuania (NAOL)

The constitutional duty of the NAOL is to supervise the lawfulness of the management and use of State property and the execution of the State Budget. This provision is enforced in independent public audit. According to the Law on NAOL, NAOL is a supreme public audit institution accountable to the Parliament. The main goals of the NAOL are as follows:

- to supervise the lawfulness and effectiveness of the management and use of the State property and execution of the State Budget;
- to promote positive and effective public audit impact on public finance management and control system and on public management oriented towards results and public needs.

This is achieved through carrying out financial (regularity) and performance audits (the NAOL carries out audits since 2002) and issuing of recommendations.

The mission of the National Audit Office of Lithuania 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 seeks to turn public audit into the basis for the rise of public sector accountability and efficient use of State property and funds while providing the opinion of the National Audit Office, which is referred to when making decisions important to the State.

Legislation of public sector entities

The legislation (Law on the Budget Structure) stipulates that public sector entities (budget appropriation managers) must:

- use the allocated appropriations for the implementation of programmes of the establishment led by them, distribute them for the purpose of implementation of programmes among subordinate budgetary establishments and other entities which are eligible for budget funds under the laws regulating their area of management or under the Government resolutions adopted in compliance with directly applicable EU legal acts and treaties stipulating the procedure for administering financial support granted to Lithuania by the European Union or individual states;
- in accordance with the procedure and within the time limits laid down by the Law on Financial Statements of the Public Sector of the Republic of Lithuania, submit sets of reports;
- ensure the legitimacy, cost-effectiveness, efficiency and effectiveness of the implementation of programmes and use of the allocated appropriations.

Make the public financial management effective

A manager of a public entity establishes and maintains financial control of the entity. A positive attitude towards the significance of financial control in the public sector is significantly increased compared to previous years, relevant changes in the financial field are felt.

Each public sector entity is obliged to establish the regulation on financial control, and these rules must designate persons responsible for the *ex-ante*, *current* and *follow-up financial control*. Financial control rules must be consistent, effective and practicable. Most of the financial control rules have been drawn up taking into account the nature of the entity's activities and characteristics, organizational structure, operational risks, accounting and information system, asset protection status.

Ex-ante financial control is a control done in adoption or rejection of decisions relating to financial resources, the use of the assets, and liabilities to third parties. This control reveals the expediency of the project, commitment or transaction if there are enough funds for a particular purpose. Chief accountant is responsible for ex-ante financial control. Entity's manager adopts the decision only when it is approved by a person responsible for ex-ante financial control. Ex-ante financial control function must be separated from the decision initiation and execution.

Current financial control – control performed during usage of financial resources, the purpose of which is to ensure that decisions on financial resources, assets and liabilities to third parties are adequate and timely, the funds and material assets are used for their intended purpose, properly safeguarded and accounted for. Current financial control must be carried out continuously.

Follow-up financial control – control after the usage of the funds, during which the actions performed are examined. Its purpose is to check the legality and intended use of funds

and material goods, if there has been no legislation, violations of executive orders and abuses. The follow-up financial control envisages measures for weaknesses identified.

Implementing its mission to promote an efficient management of the State property the NAOL conducts financial, regularity and performance audits. Financial audit means the evaluation of the data of sets of annual consolidated financial statements and reports on the implementation of the budget of an audited entity, as well as the giving of an independent opinion on these matters. Regularity audit means the assessment of legality of the management, use, and disposal of the State funds and property and the assessment of their use for the purposes set by the law, as well as the giving of an independent opinion on these matters. Each year the NAOL gives opinion on State Budget, State consolidated financial statements.

According to the international standards on audit, the NAOL's each financial and regularity audit of the entity evaluates its internal control system, and financial control also as part of it. As audit results are findings and recommendations, it is quite important to mention that about 40% of recommendations given to entities after conducting financial and regularity audits are related to internal control. Thus there still are issues of proper internal control, including financial control, in the public sector.

In order to make the public financial management effective there is a need of close cooperation and support of all the parties (public sectors entities and external audit).