Standard Summary Project Fiche for the Transition Facility

1. Basic Information
   1.1 CRIS Number: **2005/017-494-02-02**
   1.2 Title: **Modernisation of the public sector accounting system**
   1.3 Sector: Public Administration, Public Finance and Customs
   1.4 Location:
      Accounting Methodology Department, Ministry of Finance, Lithuania
      Information Technology Department, Ministry of Finance, Lithuania

2. Objectives
   2.1 Overall Objective(s):
      The overall objective of this **1.95** million euro institution-building project, of which **0.31** million euro is provided as national co-financing, is to modernise the public sector accounting system in complying with EU *acquis* and international standards.

   2.2 Project purpose:
      The following project purposes are identified:
      - To improve the quality of financial management and control in the public sector while preparing the legal basis for the reform.
      - To prepare a feasibility study for necessary IT system development solutions.

   2.3 Justification
      In its Comprehensive Monitoring Report on Lithuania’s Preparations for Membership (2003) the European Commission commended Lithuania for “essentially meeting the commitments and requirements arising from the accession negotiations in the areas of public internal financial control”. Yet, it concluded that, “in the area of public internal financial control administrative capacity needs further strengthening”.

3. Description
   3.1 Background and justification:
      Before becoming a member of EU Lithuania in the area of accounting and financial control has put framework and implementing legislation in place which is in line with EU *acquis*. The provisions of the Accounting Law state that profit seeking companies prepare their financial statements according to Business accounting standards which are in line with International Accounting Standards and EU *acquis*, and budget entities (entities, which are, financed from state and municipalities budgets) prepare their financial statements according to the Accounting Standards for Budget Financed Entities which should be aligned with International Public Sector Accounting Standards.

      The majority of Business Accounting Standards were approved at the beginning of 2004 and now together with the Accounting Law, Financial Statements Law and Consolidated
Financial Statements Law form an accounting legislative basis for private sector enterprises and government business entities.

However, the situation regarding accounting adequacy in the public sector (which includes all line ministries; government agencies (ministries and government agencies hereinafter also called budget entities; whole of Government accounts and public entities), especially in budget entities and other state controlled entities is much more complex. The basic issues related to accounting in the public sector are following:

Budget entities prepare their financial statements applying modified cash basis. Accounting rules are not up to date and vague, there are issues that are not defined and regulated at all;

There are no approved accounting rules for municipalities which still prepare their accounts on cash basis applying old instructions. Uniformity of accounting principles applied can not be guaranteed;

Accounting regulations for government accounts, EU structural funds and monetary funds require improvements;

Accounting for some assets is incomplete because of lack of clear accounting rules related with recognition and measurement requirements;

Consolidation of accounts at government level is performed using financial reports, prepared on different basis. Consolidation procedures are not described;

Accounting software used by the entities of various legal forms and at various levels in the public sector are different, IT system adequacy is not tested.

The above issues cause following weaknesses for accounting information users:

The decisions are taken based on accounting information, which is not complete and therefore its reliability is insufficient;

The essential feature of financial statements to provide true and fair view is not met by the financial statements of entities in the public sector;

Lack of qualitative and reliable accounting information impedes reinforcement of public internal financial control;

Absence of approved accounting rules, accounting procedures and adequate IT systems causes a range of risks related with accounting data adequacy.

The Lithuanian Accounting Law was amended to include requirement for accounting standards prepared in accordance with International accounting standards and International public sector accounting standards. The Ministry of Finance has already started preparation the modernisation of the public sector accounting system. It has contracted consultants to make analysis of the current situation and prepare terms of references for the next stage of modernization. The analysis shows that now existing accounting related legal basis should be improved and accounting standards and manuals have to be created. As other EU members have already some experience in the modernization process, that experience would be very helpful whilst performing it in Lithuania.

In pursuing achievement of the established objective to reform public sector accounting system which helped to improve public internal financial control and based on the practices in certain EU countries in a field of modernisation of accounting systems, the proposed development and implementation of accounting system reform transferring accounting from modified cash basis to accrual basis together with supporting IT system
improvement will create conditions for more efficient public sector management, better allocation and use of resource and improved accountability of a government as a whole.

Accounting information and financial reporting standardization are very important to improvement and strengthening of operating and strategic management. At the same time qualitative accounting and financial information could contribute to improving of financial control at various levels of public sector.

3.2 Linked activities:

- PHARE LI 00/IB-FI-05 “Budget Management and Financial Control”. The project lasted from April 2002 to July 2003. Its objective was to support the Lithuanian authorities in implementing the Acquis communautaire in the field of budget management and financial control by assisting those authorities in drafting and revising appropriate legislation, regulations, manuals and training modules to be used throughout the Lithuanian public administration.

- LI2002/000-601.06.03.06TwL “Strengthening institutional capacities of the Accounting Institute of the Republic of Lithuania in complying with EU Acquis provisions concerning accounting improvement”. The project completed in July 2004. Its objective was to harmonise national legislation concerning the operations of the Accounting Institute of the Republic of Lithuania in the field of accounting policy administration with EU Acquis and to reform administrative structures and operations of the Accounting Institute of the Republic of Lithuania in order to ensure effective control over the implementation of EU-excepted standards.

- In September 2004, the Ministry of Finance of the Republic of Lithuania signed a technical assistance contract, which was financed from the national funds. According to this contract consultants prepared a report analysing the existing system of state and municipalities regarding budget accounting, other resource accounting and financial reporting. The analysis was performed at various levels of public sector: budget entities, municipalities, treasury and monetary funds. Based on performed analysis the consultants accordingly formulated technical plan for further actions to be taken in order to reform public sector accounting system. The report and technical plan agreed were provided in the end of December 2004. Based on this report the Ministry of Finance of the Republic of Lithuania intends to prepare the conceptual plan for the modernisation of public sector accounting system.

- 5th annual OECD Public sector accrual symposium held on 28 February-1 March 2005 in Paris. Discussed accrual accounting practices used in OECD countries, exposure drafts of new international public sector accounting standards, etc.

3.3 Results:

- National Public Sectors Accounting Standards developed in accordance with International Public Sector Accounting Standards and EU Acquis requirements;

- Instructions regarding transition from modified cash basis accounting to accrual basis, accounting manuals and other necessary documentation in order to ensure effective implementation of the reform ready;

- Training of accounting experts on implementation of transition to newly developed accounting standards;
Feasibility study for creation of unified and/or centralised IT system with conformed accounting software packages performed.

3.4 Activities:

Technical assistance contract 1:

- Prepare drafts of Lithuanian Public sector accounting standards (not less than 24);
- Review operational procedures/methods and available resources of state and municipal institutions, agencies, State Treasury department and develop proposals for improving accounting and reporting administration;
- Prepare drafts of accounting manuals, instructions and other documentation (at least 5 manuals for various public sector levels);
- Analyse training needs, develop training schemes;
- Prepare training materials and manuals;
- Provide training of new accounting standards to the accountants of the budget entities, managing appropriations;

Technical assistance contract 2:

- Analyse existing IT system and accounting software capacities at all public sector levels;
- Prepare feasibility study report.

The technical assistance form has been chosen, as the consultants should possess a strong working knowledge of local specifics of the public sector, international accounting standards and local legal environment. The project should be carried out with the help of 2 technical assistance contracts:

Contract 1 - regarding preparation of documentation and training estimated to require 0.72 MEUR. The number of STEs required might vary depending on the consultations with the contractor. The exact number will be indicated during the inception phase.

Contract 2 – regarding IT system feasibility study in the Lithuanian public sector estimated to require 1.23 MEUR. The number of STEs required might vary depending on the consultations with the contractor. The exact number will be indicated during the inception phase.

All consultants should have an established track record and experience in successfully implementing relative projects at corporate and public sector entities in Lithuania and at international level.

3.5 Lessons learned:

The experience gained from the implementation of PHARE project LI 00/IB-FI-05 “Budget Management and Financial Control” has been used while preparing this Project fiche.

One of the components of this Phare project was designated to bookkeeping and accounting in the public sector. Emphasis was made to reclassification of revenue and expenditures according EU-adopted COFOG and ESA 95 guidelines. The adjusted classification of revenue and expenditure will be used for linking it with chart of accounts in improving accountability in the public sector in Lithuania.
4. **Institutional Framework**

In Lithuania accounting matters are coordinated by the Ministry of Finance, which also determines the main accounting guidance in accordance with Lithuanian legislation, EU acquis, International Financial Reporting Standards and International Public Sector accounting standards. The execution of the functions of methodological guidance in the area of accounting and audit lies within the responsibility of the Accounting Methodology Department, which consists of two divisions: Accounting and Audit Division (3 specialists and the head of the division) and Budget Entities Accounting Division (1 specialist and the head of the division). Accounting Methodology Department is headed by the department director.

The project part regarding accounting standards, manuals and other accounting instructions, also regarding training will be implemented under the coordination of the Accounting Methodology Department. The project part regarding IT system feasibility study will be implemented jointly under the coordination of the Information Technology Department and Accounting Methodology Department.

Information Technology Department, employing total of 17 specialists, consists of 3 divisions: IT Infrastructure Division (6 specialists and the head of the division), Information System Division (3 specialists and the head of the division) and State Budget, Accounting and Payment System Division (4 specialists and the head of the division). Information Technology Department is headed by the department director.

Ministry of Finance will initiate establishment of advisory group, which experts will be selected on the basis of possessing the necessary expertise of Lithuanian legislation, EU acquis, international accounting standards and experience in the field of accounting.

The Ministry of Finance will establish a steering committee involving senior managers from all stakeholder groups. Project Steering Committee meetings will be held not less than once per quarter. Representatives of the NAC (National Aid Co-ordinator) and Central Project Management Agency (CPMA) will take part in the meetings as observers.

5. **Detailed Budget**

<table>
<thead>
<tr>
<th>€M</th>
<th>Transition Facility Support</th>
<th>Co-financing</th>
<th>Total Cost (TF plus Co-financing)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Investment Support</td>
<td>Institution Building</td>
<td>Total Transition Facility (=I+IB)</td>
</tr>
<tr>
<td>Technical assistance (accounting standards, instructions, etc. and training)</td>
<td>-</td>
<td>0.72</td>
<td>0.72</td>
</tr>
<tr>
<td>Technical assistance (Feasibility study of IT systems in the public sector)</td>
<td>-</td>
<td>0.92</td>
<td>0.92</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td><strong>1.64</strong></td>
<td><strong>1.64</strong></td>
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</tbody>
</table>

(*) all the co-financing is joint co-financing and will be provided from the state budget. The requested sum will be earmarked for the beneficiary institution in its budgetary appropriations for the years 2006-2007. In the case where
the final overall cost is lower than foreseen in the project fiche, the National Public and Transition Facility Co-financing are reduced proportionally so as to maintain the agreed rate of co-financing. (***) private funds, FIs loans to private entities.

6. Implementation Arrangements

6.1 Implementing Agency

The Implementing Agency is the Central Project Management Agency (CPMA). The CPMA will be responsible for tendering and contracting:

**PAO:**
Mr. Aloyzas Vitkauskas
Director of CPMA
J. Tumo Vaizganto str. 8A /2,
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Fax: +370 5 2514401

The responsibility for Project preparation, implementation and control will be given to beneficiary institution – Ministry of Finance.

**SPO:**
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Fax: +370 5 212 5282
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e-mail: i.simonyte@finmin.lt

**Project Coordinators:**
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Fax: +370 5 239 9261
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e-mail: d.seredokaite@finmin.lt

**Contact Person:**
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Head of the Accounting and Audit Division of Accounting Methodology Department of the Ministry of Finance
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Fax: +370 5 239 9261
Lithuania
e-mail: p.svorošovičienė@finmin.lt

6.2 Twinning

N/A
6.3 Non-standard aspects

The project will be implemented following EDIS rules.
6.4 Contracts
There will be two contracts in this project with the following values (MEUR):
Technical assistance contract (accounting standards, instructions, etc. and training) – 0.72;
Technical assistance contract (IT system feasibility study in the Lithuanian public sector) – 1.23, including 0.31 of national co-financing.

7. Implementation Schedule

<table>
<thead>
<tr>
<th>Component</th>
<th>Start of Tendering</th>
<th>Start of Project Activity</th>
<th>Project completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical assistance contract (accounting standards,</td>
<td>4Q/2005</td>
<td>1Q/2006</td>
<td>4Q/2008</td>
</tr>
<tr>
<td>instructions, etc. and training)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>systems in the public sector)</td>
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</tbody>
</table>

8. Sustainability
In order to ensure sustainability and successful achievement of guaranteed results, the project will be implemented with active participation of the staff from Accounting Methodology Department, which will be strengthened by recruiting 3 additional employees, and Information Technology Department.
On the basis of feasibility study of IT systems in the public sector Lithuania will continue modernisation process.

9. Conditionality and sequencing
The Ministry of Finance will prepare modernisation plan which will be provided to the Government for approval. Modernisation plan will provide the general concept of the public sector accounting system’s reform, will define the objectives, possible issues and activities to be performed during the reform process. The course of this project will depend upon the Governments decision whether to approve all details of the planned activities. Annex on preparatory works was not considered to be necessary, as the plan is not approved yet.
The project will be implemented according the schedule provided in Annex 2.

The key milestones in this project are:
⇒ TA1 tenders launched, contract signed;
⇒ TA2 tender launched, contract signed;
⇒ National Public Sectors Accounting Standards developed;
⇒ Feasibility study of IT systems in the public sector;
⇒ Training of accounting experts on implementation of transition to newly developed accounting standards carried out.
ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format (compulsory)
2. Detailed implementation chart (compulsory)
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period) (compulsory)
**LOGFRAME PLANNING MATRIX FOR**  
*Project: Modernisation of the public sector accounting system*

<table>
<thead>
<tr>
<th>Programme name:</th>
<th>2005 Transition Facility</th>
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</thead>
<tbody>
<tr>
<td>Contracting period expires:</td>
<td>4Q/2007</td>
</tr>
<tr>
<td>Disbursement period expires:</td>
<td>4Q/2008</td>
</tr>
<tr>
<td>Total Budget:</td>
<td>€ 1,950,000</td>
</tr>
<tr>
<td>Transition Facility Budget:</td>
<td>€ 1,640,000</td>
</tr>
</tbody>
</table>

## Overall Objective
Modernise public sector accounting system in complying with EU Acquis and international practices.

## Objectively Verifiable Indicators
Public sector accounting system corresponds to EU practices in the fields of accounting credibility and financial reports transparency and comparability by the end of 2008.

## Source of Verification
- European Commission Report;
- Implementation status reports for JMC.

## Project Purpose
- To improve the quality of financial management and control in the public sector while preparing legal basis for the reform.
- To prepare feasibility study for necessary IT system development solutions.

## Objectively Verifiable Indicators
- Developed National Public sector accounting standards approved and comply with International Public sector Accounting Standards by the 2009;
- Necessary supplementary regulations aligned with the EU Acquis by the end of 2008;
- 5 accounting manuals and instructions prepared by the end of the project;
- Feasibility study of IT system in the public sector performed by the middle of ITA contract.

## Source of Verification
- Publication of the National public sector accounting standards;
- Methodology and procedures documentation;
- Training material and manual;
- Feasibility study report;
- Implementation status reports for JMC;
- SMSC monitoring reports.

## Results
- National Public Sectors Accounting Standards developed in accordance with International Public Sector Accounting Standards and EU Acquis requirements;
- Instructions regarding transition from modified cash basis accounting to accrual basis, accounting manuals and other necessary documentation in order to ensure effective implementation of the reform ready;
- Training of accounting experts on implementation of transition to newly developed accounting standards;
- Feasibility study for creation of unified and/or centralised IT system with conformed accounting software packages performed.

## Objectively Verifiable Indicators
By the end of the project:
- Not less than 24 National Public Sectors Accounting Standards developed;
- 5 accounting manuals and instructions prepared;
- About 300 accounting related personnel from the Ministry of Finance and other state and municipal institutions trained;
- 1 feasibility study report prepared.

## Source of Verification
- Publication of the National public sector accounting standards;
- Methodology and procedures documentation;
- Training materials;
- Training evaluation report;
- Feasibility study report;
- Implementation status reports for JMC;
- SMSC monitoring reports;
- Project progress and final report.

## Assumptions
- Trained staff can be retained;
- Inter-institutional co-operation;
- Changing technological environment.

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Prepared by the Ministry of Finance 29/04/05
<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
<th>Preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technical assistance contract 1:</strong></td>
<td>Technical assistance contract on preparation of standards, accounting manuals and instructions; Technical assistance contract on feasibility study of IT systems in the public sector.</td>
<td>• Adequate and sufficient staff recruited;</td>
<td>• Approved modernisation plan</td>
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<tr>
<td>• Prepare drafts of Lithuanian Public sector accounting standards;</td>
<td>Technical assistance contract on preparation of standards, accounting manuals and instructions; Technical assistance contract on feasibility study of IT systems in the public sector.</td>
<td>• Inter-institutional co-operation</td>
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<tr>
<td>• Review operational procedures/methods and available resources of state and municipal institutions, agencies, State Treasury department and develop proposals for improving accounting and reporting administration;</td>
<td>Technical assistance contract on feasibility study of IT systems in the public sector.</td>
<td>• Availability of suitable contractors.</td>
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<tr>
<td>• Prepare drafts of accounting manuals, instructions and other documentation;</td>
<td>Technical assistance contract on feasibility study of IT systems in the public sector.</td>
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<td>• Analyse training needs, develop training schemes;</td>
<td>Technical assistance contract on feasibility study of IT systems in the public sector.</td>
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<td>• Prepare training materials and manuals;</td>
<td>Technical assistance contract on feasibility study of IT systems in the public sector.</td>
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<td>• Provide training of new accounting standards to the accountants of the budget entities, managing appropriations;</td>
<td>Technical assistance contract on feasibility study of IT systems in the public sector.</td>
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<td><strong>Technical assistance contract 2:</strong></td>
<td>Technical assistance contract on feasibility study of IT systems in the public sector.</td>
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<tr>
<td>• Analyse existing IT system and accounting software capacities at all public sector levels;</td>
<td>Technical assistance contract on feasibility study of IT systems in the public sector.</td>
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<tr>
<td>• Prepare feasibility study report.</td>
<td>Technical assistance contract on feasibility study of IT systems in the public sector.</td>
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### Detailed Implementation Chart for the Project

#### Year

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<td><strong>Implementation</strong></td>
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**Technical assistance contract (accounting standards, instructions, etc. and training)**

**Technical assistance contract (Feasibility study of IT systems in the public sector)**
### Annex 3

**Cumulative Contracting and Disbursement Schedule (Transition Facility Contribution only)**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th></th>
<th>2006</th>
<th></th>
<th>2007</th>
<th></th>
<th>2008</th>
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<tbody>
<tr>
<td></td>
<td>30/09</td>
<td>31/12</td>
<td>31/03</td>
<td>30/06</td>
<td>30/09</td>
<td>31/12</td>
<td>31/03</td>
<td>30/06</td>
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<tr>
<td><strong>Contracting</strong></td>
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<tr>
<td>Technical assistance contract (accounting standards, instructions, etc. and training)</td>
<td>-</td>
<td>-</td>
<td>0,72</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Technical assistance contract (Feasibility study of IT systems in the public sector)</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>0,92</td>
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<tr>
<td><strong>Total contracting (cumulative)</strong></td>
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<td>-</td>
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<tr>
<td><strong>Disbursement</strong></td>
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<tr>
<td>Technical assistance contract (accounting standards, instructions, etc. and training)</td>
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<td>-</td>
<td>0,144</td>
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<td>0,144</td>
<td>0,144</td>
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<td>Technical assistance contract (Feasibility study of IT systems in the public sector)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0,184</td>
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<tr>
<td><strong>Total disbursement (cumulative)</strong></td>
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<td>0,144</td>
<td>0,328</td>
<td>0,328</td>
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<td>1,28</td>
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