



Annual Report of the State Audit Office of the Republic of Latvia 2016

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Dear reader!



Another stage in the work of the State Audit Office has come to a conclusion. Similar to preceding years, I would like to take a moment and look back at the achievements already attained, outlining the most significant points in the course of implementing the goals set forth in the vision

and mission of the institution, namely, to promote the effective use of funds, ensuring economic use thereof and the operation of State administration based on the achievement of particular results, to promote a fair and transparent decision-making process in the public sector, effective use of taxpayers' money, development of financial management and responsibility of officials.

In 2016, the State Audit Office focused on the development and enhancement of the initiatives commenced in the previous years, thereby both strengthening the capacity of the State Audit Office and raising the awareness of the State and local governments about such important matters as effective use of State and local government funds and sense of responsibility. The effectiveness audits conducted by the State Audit Office have become more extensive, including therein not only assessment of individual establishments or projects, but also systems important to the public in general, e.g., audits on ambulatory healthcare and sustainability of the pension system. The audit on the development of the Latvian court system and pre-trial investigation at the State Police is to be concluded soon. In the area of financial audits, we continued paying attention to compliance matters, assessing whether budget funds are used for their intended purpose and whether it is accomplished in a lawful and effective manner. The State Audit Office believes that such a systematic and all-inclusive approach offers an extensive information base to the executive power and the Parliament in improving the work of State administration.

Further evaluations are made and recommendations are provided to improve the ability of the State to manage its assets. The process of selling A/S "Citadele" was assessed in the reporting period, as a result of what significant deficiencies in the legal framework were discovered in respect of organising such multi-million deals. The operation of Riga East Clinical University Hospital was also assessed, as the result of what such problems as long-term inability

of the Ministry of Health to ensure effective supervision of the capital company and ineffective management of funds and resources at the hospital were discovered.

The three-year cycle stipulated in the Strategy of the State Audit Office has ended resulting in the achievement of the goal to conduct at least one audit within each local government. We are proud to see that the appreciation of our work is growing. Local governments are interested in improving their work and the State Audit Office offers the required support within the scope of audits, through participation in seminars and exchange of experience events. The most noteworthy audits of the previous year helped to identify areas which are to be improved in terms of the use of local government administrative resources while providing services to the local community and in terms of organising paid services. In order to help local governments improve both their accounting system and the aspects of legality and effectiveness in the use of funds, it is our plan to continue audits at local governments also in the future.

So that the society would benefit more from the audits conducted by the State Audit Office, a new practice was started back in 2016 — to create sectoral discussion papers, containing a summary of the conclusions and analyses of problem situations obtained in several audits. Up until now we have prepared two papers: "Human, Information Systems and State" and "State — Main Capitalist of Latvia". Such topics as State's progress in implementing ICT projects and administration of capital companies are analysed in the mentioned papers.

By consistently demanding evaluation of responsibility, the State Audit Office turned against dishonest or careless employees in State administration. By giving recommendations and supervising the introduction thereof, we are preventing recurrent errors at State and local government institutions, establishments, and capital companies. Even though mass media have occasionally reported on cases when after establishing potential violations of law the State Audit Office had addressed the Office of the Prosecutor, recommendations and successful introduction thereof in administration are also to be considered an important result of the work done by the State Audit Office. In the reporting period, audited entities had to introduce 533 recommendations, whereof 492 or 92.3 % recommendations have been introduced.

At the end of 2016, amendments to the State Audit Office Law were adopted in the second reading, thereby authorising the State Audit Office to impose recovery sanctions against officials if their unlawful deeds had caused losses to the State unless such sanctions had already been imposed by the direct supervisors of the mentioned officials.

Yet even prior to the adoption of the referred to amendments, the State Audit Office proceeded with its work to ensure the evaluation of violations and holding the guilty persons liable. For example, in 2016, law enforcement institutions were notified on 10 violations discovered in audits. At the end of 2016, 21 criminal proceedings were initiated based on violations identified during audits. The State Audit Office has also reported on violations to other responsible authorities, namely, the Procurement Monitoring Bureau was notified on eight violations identified in audits, the State Revenue Service was notified on five cases and the State Labour Inspectorate — on one case.

The award “Certificate of Appreciation” introduced by the State Audit Office in 2016 has been particularly valuable. Special achievements in the introduction of recommendations established during audits in audited entities and also the contribution of the collaboration partners of the State Audit Office are taken into account in granting the mentioned award. The local government of Bauska Municipality, Social Service of Rēzekne City, Foreign Investors’ Council in Latvia, State Border Guard of the Republic of Latvia and the Procurement Monitoring Bureau were the first who received the Certificate of Appreciation in 2016. Continuing the tradition, this year the Certificate of Appreciation will be awarded to the local government of Liepāja Municipality and the Competition Council for purposeful, responsible and professional collaboration with the State Audit Office and also to the Latvian Association of Chimney Sweeps and Latvian Umbrella Body for Disability Organisations SUSTENTO for purposeful and professional contribution during audits.

There is also a significant progress in expansion of collaboration. The State Audit Office of the Republic of Latvia has been capable of retaining its position among international supreme audit institutions (SAI). A representative of the State Audit Office has started working at the prominent International Organisation of Supreme Audit Institutions (INTOSAI) Forum for INTOSAI Professional Pronouncements (FIPP). FIPP is in charge of the quality of standards elaborated by INTOSAI and also gives guidelines to INTOSAI permanent committees for improvement of standards. FIPP participants are selected among the representatives of the supreme

audit institutions capable of making the greatest contribution in developing the field of audit at a high professional level. At the moment 15 representatives of the supreme audit institutions have been elected to FIPP. The State Audit Office was also elected to the Board of the European Organisation of Supreme Audit Institutions (EUROSAI).

It is a true pleasure to experience that countries which are only on their way to achieving compliance with International Standards on Auditing are even more frequently expressing the will to use the knowledge and experience of the State Audit Office of the Republic of Latvia. Thus, along with the previously launched projects which include SAI training sessions in Moldova, Ukraine, and Georgia within the scope of Eastern Partnership, the State Audit Office has been also selected as the provider of training to the Supreme Audit Institution of Serbia. Certain training projects have been implemented also in other countries.

We have informed the public on the outcome of audits by organising press conferences, through participation in analytical TV and radio broadcasts and also by giving interviews. The Day of Regional Media is a brand-new and successful initiative launched in the previous reporting period. Within the scope of the event, Auditor General and Members of the Council answer the questions prepared by the journalists of regional media. Auditor General has taken part in various events organised by non-governmental organisations, such as the conversation festival “LAMPA” and entrepreneur meetings organised by the Latvian Chamber of Commerce and Industry in Liepāja.

Taking into account the increasing demand expressed by the public regarding improvement of effectiveness within State administration, the ability to undertake new challenges and to introduce changes therein, in the future the State Audit Office is determined to keep strengthening its capacity in performing effectiveness and compliance audits which have become an essential support mechanism to the legislator and executive power to ensure lawful public administration which is based on the interests of the public. Also international experience shows that performance and compliance audits wherein possibilities to make the systems more effective and save resources may be applied more extensively by the legislator and executive power since they ensure a more significant long-term financial impact and sustainability of the systems.

I would like to express gratitude to the members of the Public Expenditure and Audit Committee of the *Saeima*, numerous State administration and non-

governmental institutions which have provided support during audits and also the audited entities for collaboration and the interest shown in improving the results and, of course, the staff, auditors and supporting personnel of the State Audit Office for their contribution to our achievements.

Best regards,
Auditor General, Chairperson of the Council
Elita Krūmiņa



Contents

1.1.	Vision, Mission, Values.....	8
1.2.	Legal Framework and Competence	8
1.3.	Structure.....	9
1.4.	Action Strategy.....	10
1.5.	Human Resources	11
1.6.	Funds.....	15
1.7.	European Social Fund Project.....	16
1.8.	Quality Management and Internal Control System	16
2.	Audit Work.....	20
2.1.	Organisation of Audit Work.....	20
2.2.	Audit Support Tools and Processes	25
2.3.	Results of Audit Work	27
2.3.1.	First Audit Department.....	27
2.3.1.1.	Foreign Affairs	27
2.3.1.2.	Culture.....	28
2.3.1.3.	Education, Science, and Sports.....	30
2.3.1.4.	Economics.....	30
2.3.1.5.	Transport and Communications.....	32
2.3.1.6.	Independent and Other Institutions	32
2.3.2.	Second Audit Department.....	34
2.3.2.1.	Defence	34
2.3.2.2.	Justice	35
2.3.2.3.	Interior.....	37
2.3.2.4.	Independent and Other Institutions	39
2.3.3.	Third Audit Department.....	41
2.3.3.1.	Welfare.....	41
2.3.3.2.	Healthcare.....	44
2.3.3.3.	Audits for Ensuring Prompt Response to Current Events in the Country	48
2.3.4.	Fourth Audit Department	52
2.3.4.1.	Agriculture, Fishery, and Forestry	52

2.3.4.2.	Environmental Protection and Regional Development.....	53
2.3.4.3.	Independent and Other Institutions	56
2.3.4.4.	Financial Management of the Public Sector	57
2.3.5.	Fifth Audit Department.....	61
2.3.5.1.	Local Governments	61
2.3.5.2.	Independent and Other Institutions	67
2.3.6.	Audit and Methodology Department.....	68
2.3.6.1.	Financial Management of the Public Sector	68
2.3.6.2.	Independent and Other Institutions	73
2.3.6.3.	Audit of Information Systems.....	73
2.4.	Implementation of Recommendations Provided as the Result of Audits.....	74
2.5.	Examining the Violations of Legal Norms Discovered during Audits	76
2.5.1.	Examining Violations at Law Enforcement Institutions	76
2.5.2.	Co-operation for the Exhaustive Examination of Violations.....	76
2.5.3.	Examination of Violations at Other Responsible Institutions	77
2.5.4.	Examination of Violations at Audited Entities and Their Higher Institutions	77
3.	International Co-operation.....	80
3.1.	Membership in International Organisations and Working Groups	80
3.2.	Co-operation with the Supreme Audit Institutions of Other Countries	84
4.	Communication of the State Audit Office	90
4.1.	Public Availability of Information	90
4.2.	Co-operation with the Saeima and the Cabinet	91
4.3.	Co-operation with Audited Entities.....	94
4.4.	Co-operation with Other Organisations.....	95
5.	Priorities for 2017.....	100

1.

Basic Information about the State Audit Office

1.1. Vision, Mission, Values

1.2. Legal Framework and
Competence

1.3. Structure

1.4. Action Strategy

1.5. Human Resources

1.6. Funds

1.7. Quality Management and
Internal Control System

1.8. European Social Fund Project

1. Basic Information about the State Audit Office

1.1. Vision, Mission, Values

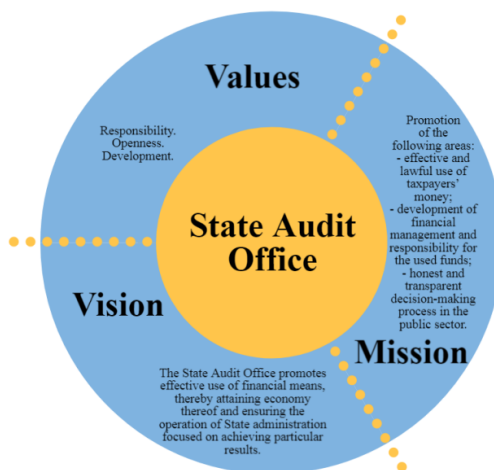


Figure 1. Vision, mission and values of the State Audit Office.

1.2. Legal Framework and Competence

Pursuant to the provisions laid down in the Constitution of the Republic of Latvia, the State Audit Office is an independent, collegial, supreme audit institution. The structure and competence of the State Audit Office is determined by the State Audit Office Law.

The work of the State Audit Office is governed by the State Audit Office Law and other internal regulations of the State Audit Office that have been approved by the Council of the State Audit Office.

The State Audit Office is a member of the International Organisation of Supreme Audit Institutions (INTOSAI) and European Organisation of Supreme Audit Institutions (EUROSAI), and documents of these organisations are binding to the State Audit Office. The State Audit Office is an active participant in the co-operation platform between the supreme audit institutions of the European Union (EU) Member States and the European Court of Auditors (ECA), where it is a member of the Contact Committee.

Pursuant to the Lima Declaration¹, Mexico Declaration² and United Nations Assembly Resolution³, supreme audit institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity, protected against outside influence and provided with funds necessary for performing their functions.

The objective of audits carried out by the State Audit Office is to ascertain whether the use of resources of the State and local governments is lawful, economical, productive, and effective, as well as to provide recommendations for eliminating the identified deficiencies.

Pursuant to the State Audit Office Law, the State Audit Office performs audits in conformity with International Standards on Auditing recognised in the Republic of Latvia. The State Audit Office performs audits in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) standards and International Federation of Accountants (IFAC) standards.

Any person who is acting with funds or property owned by the State and local governments, as well as persons organising State or local government procurements are subject to an audit by the State Audit Office. Only the *Saeima* is not subject to audits. In order to ensure the independence of the State Audit Office, the legislator has delegated it with the right to determine audited entities, as well as the time, type and objective of audits.

¹ Lima Declaration of Guidelines on Auditing Precepts: <http://www1.worldbank.org/publicsector/pe/befa05/LimaDeclaration.pdf>.

² Mexico Declaration on SAI independence: <https://www.nku.gov.sk/documents/10272/98330/Mexico+Declaration.pdf>.

³ UN General Assembly Resolution A/66/209 "Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions": http://www.intosai.org/fileadmin/downloads/downloads/0_news/2012/UN_Resolution_A_66_209_E.pdf.

UN General Assembly Resolution A/C.2/69/L.25/Rev.1 "Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions": <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N14/642/37/PDF/N1464237.pdf?OpenElement>.

1.3. Structure



Figure 2. Structure of the State Audit Office.⁴

⁴ The number of employees at the State Audit Office as at 30 December 2016.

The State Audit Office is comprised of Auditor General, Council of the State Audit Office, six audit departments and supporting units, which ensure organisational, financial, and economic activity of the State Audit Office.

Auditor General is appointed to the office by the *Saeima* in accordance with the procedures provided for in the rules of order of the *Saeima*. Members of the Council of the State Audit Office are approved by the *Saeima* for four years upon the recommendation of Auditor General. Auditor General and the members the Council of the State Audit Office may be approved to the office repeatedly, but for not more than two consecutive terms. Members of the Council of the State Audit Office after approval in the *Saeima* are appointed to the office of director of a State Audit Office audit department by Auditor General.



Figure 3. Council of the State Audit Office in November 2016 (from the left — Ilonda Stepanova, Zita Zariņa, Elita Krūmiņa, Inga Vārava, Ilze Grīnhofa, Inese Kalvāne, Edgars Korčagins).

Auditor General shall appoint to the office the heads of sectors of audit departments, audit personnel and employees of supporting structural units by concluding employment contracts.

1.4. Action Strategy

The strategic development, objectives and action directions of the State Audit Office in 2016 were laid down in the Action Strategy of the State Audit Office for 2014-2017 approved by the Council of the State Audit Office on 27 December 2013.

State Audit Office Action Strategy for 2014-2017

Action Directions	Goals
Support to the Saeima and executive power of the Republic of Latvia in the area of improving the administration of public sector; promoting effective use of funds in the interest of public.	<ul style="list-style-type: none"> Promotion of effective, lawful and economic administration of resources at the disposal of public institutions, implementation of programmes and achievement of goals in compliance with instructions given by the Government, State development priorities and public interests approved by the Saeima. Promotion of mutually coordinated and productive collaboration with audited entities, the Saeima, law enforcement institutions, and the society. Strengthening of supervision in the area of implementing the recommendations provided by the State Audit Office.
Ensuring sustainable development of the State Audit Office.	<ul style="list-style-type: none"> Improvement of the human resources management system, ensuring highly qualified and results-oriented motivation and attraction of staff. Guarantee of the preservation of a high-level work performance quality control principle on a daily basis in the work of the State Audit Office, ensuring improvement of the quality control system, transparent process supervision and continuous rationalisation of activities. Ensuring the compliance of the methodology applied in audits with International Standards on Auditing and best practice. Ensuring the implementation of a communication strategy, raising the awareness about the impact of the State Audit Office in forming public administration. Active co-participation in international activities, contributing to professional growth and improving the recognition of Latvia at an international level.
Improvement of effective work of the State Audit Office.	<ul style="list-style-type: none"> Implementation of effective administration of resources, increasing the performance quality and productivity and also improving the process standardisation. By making use of information technologies, to develop new and improve the current audit support and other function computer systems and also to ensure continuous operation of the information technologies system.

Figure 4. State Audit Office Action Strategy for 2014-2017.

Each year, the Council of the State Audit Office adopts an Action Plan in order to implement its Action Strategy. The Action Plan includes an audit plan, activities for achieving the goals and results of the Action Strategy for the current year, tasks for supporting units to be carried out during the reporting year, and the responsible structural unit designated for each activity, as well as deadlines, planned man-hours and the budget.

1.5. Human Resources

Result to be achieved in accordance with the Action Strategy.⁵

Taking into account the defined objectives of its activity, the State Audit Office employs the necessary number of employees with the required qualifications, providing that **the share of Senior State Auditors accounts for at least 20 %** of the total number of the audit personnel.

Fulfilled.

The goal has been defined to strengthen the capacity to carry out complex audits that add a significant value to the development of the State and improvement of the quality of State administration and the performance of which requires persons of the highest class and qualification, i.e., Senior State Auditors.

At the end of the reporting period, there were **180 staff positions** with 137 positions for audit personnel and 43 positions for supporting personnel. At the end of the reporting period, the State Audit Office employed 178 persons, including 135 audit personnel employees and 43 supporting personnel employees.

Compared to the total number of involved personnel, **the proportion of Senior State Auditors reached 23 %** or 31 employees.

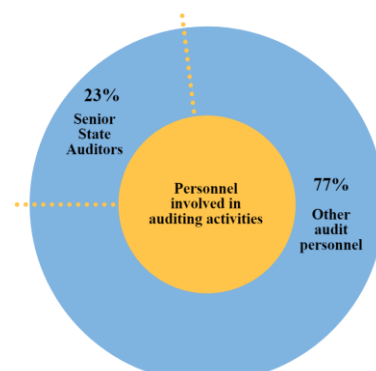


Figure 5. Structure of personnel involved in the audits of the State Audit Office.

⁵ The result must be achieved within each year of the Action Strategy.

In order to ensure the selection and employment of the required number of employees with the required qualifications, seven personnel selection competitions for vacant positions, inter alia, the positions of Information System Security Specialist, State Auditor, Head of the Sector, Information Systems Auditor, Editor and Public Relations Specialist were announced.



Figure 6. Staff of the State Audit Office, November 2016.

To encourage students to get interested in working at the State Audit Office, the State Audit Office once again participated in the event “Career Days” organised by the BA School of Business and Finance on 9 February 2016. During the event students were informed about the specific nature of the work at the State Audit Office and attendants were also informed on the possibility to apply for traineeship. Concurrently with the mentioned event, the State Audit Office welcomed three pupils within the scope of the event “Shadow Days” organised by Junior Achievement – Latvia, thereby improving the understanding of “shadows” about the work agenda of the staff of the State Audit Office — State Auditors.

On 30 September 2016, the State Audit Office welcomed 25 visitors within the scope of the event “Open Door Days”. The event “Open Door Days” is organised by the State Chancellery in collaboration with State administration institutions — on this day State administration institutions are open for visitors.

On 6 October 2016, students of the MA study programme “Public Administration” of the University of Latvia visited the State Audit Office in order to supplement their knowledge about the work performed by the State Audit Office and the challenges faced both by the employees working at the audit institution and State administration. Experience regarding development, challenges and communication with society as viewed by the State supreme audit institution was shared by Adviser to Auditor General in Strategic Issues M. Salgrāve, Adviser in Communication Issues I. Valdovskis, Manager of Policy Planning and Analysis Processes V. Stūris, and Senior State Auditor G. Krūmiņa.

Result to be achieved in accordance with the Action Strategy.⁶

The State Audit Office promotes the well-being of its employees by providing organised and qualitative work environment and congenial psychological microclimate; as the result, **the work environment satisfaction index is at least 2.5 and the employee turnover rate does not exceed 15 %.**

Fulfilled.

In 2016, the total **employee satisfaction index was 2.66 points.**

A study on employee satisfaction was conducted in 2016. Overall 100 employees or 61 % of the staff participated in the study. The total length of service at the State Audit Office exceeded three years to the majority of the staff participating in the study — 43 %.

On a scale of 1 to 3, the total employee satisfaction index in 2013 was 2.28 points, in 2014 — 2.52 points, in 2016 — 2.66 points. In the study the staff had highlighted several important fields, including their affiliation to the State Audit Office as an institution, and also reassured their loyalty to and understanding about the role of the State Audit Office in the State administration system and also readiness to broaden their knowledge to improve the overall work performance and trust of the society.

In 2016, the average number of employees was 171 persons. During the reporting period, 30 employees entered into employment relationships with the State Audit Office, whereas 25 employees terminated their employment relationships. In 2016, **the employee turnover rate was 14.62 %**, in 2015 — 15 %, in 2014 — 17 %.

Though in general the employee turnover rate at the State Audit Office has slightly decreased, it is still rather high due to the specific nature of work at the State Audit Office (the need for specific knowledge, skills and abilities in performance of the work of an auditor), work intensity (the ability to embrace a specific auditing sector within a short period of time and to comply with requirements laid down in International Standards on Auditing) and salary competitiveness. Attraction of highly qualified specialists and motivation thereof for work at the State Audit Office are essential to add an even more significant value to audits in order to ensure order within State administration and defend the interests of the public.

Result to be achieved in accordance with the Action Strategy.⁷

The State Audit Office shall carry out the structured planning and assessment of work performance, in order to achieve better work results of the institution by improving the individual performance of each employee. As the result of the performance assessment, usually **at least 35 % of employees receive grade A or A/B.**

Fulfilled.

The work of the State Audit Office employees is assessed on the basis of individual tasks determined for a particular employee and results achieved in the performance of these tasks, assessing employees in accordance with the assessment criteria confirmed for the relevant position and qualification level. The work is evaluated in accordance with five assessment categories: A and A/B (exceeds the requirements for the position), B (complies with the requirements), C (partly complies with the requirements) and D (does not comply with the requirements).

In total, 141 employees took part in the work performance assessment. As a result, **87 employees or 62 % received grade A or A/B.** 50 employees or 35 % received grade B, whereas four or 3 % of employees received grade C. After assessment, 16 employees of the audit personnel were awarded with a higher qualification level, and four employees were promoted and were granted a higher qualification level.

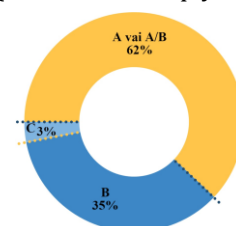


Figure 7. Work performance assessment.

⁶ The result must be achieved within each year of the Action Strategy; the satisfaction index is assessed once in two years.

⁷ The result must be achieved within each year of the Action Strategy.

Result to be achieved in accordance with the Action Strategy.⁸

Each and every State Audit Office employee demonstrates high-level work performance and **devotes at least 40 hours a year for professional development necessary** for fulfilling his/her work duties by taking part in training for promoting professional competence.

Fulfilled.

The training needs of employees are identified in the course of work performance assessment and they are closely linked with professional duties and are aimed at the attainment of the strategic goals of the institution. Individual task and professional growth files, work performance files are prepared for each employee. Information on the required training is also obtained from the training curricula and organisation quality assessment forms.

The State Audit Office has developed training programmes and practical tasks that are focused exactly on knowledge important in the work of an auditor or the relevant supporting personnel.

During the reporting period, the employees took part in **89 various promotional training sessions, courses and seminars**, of them **36 training sessions and seminars were held by the State Audit Office employees**. External training was ensured by specialists of the Latvian School of Public Administration, Public Procurement Bureau, Corruption Prevention and Combating Bureau and the Treasury, and also other providers of training services.

The State Audit Office is able to ensure the training of new employees regarding performance of financial audits, including the use of computer-assisted audit techniques, solely on the basis of its own resources.

Training sessions were organised in the area of topicalities in International Standards on Auditing, changes in the laws and regulations in the field of taxes, performance of financial audits, public procurement topicalities, use of MS Excel in audits, use of audit software, on prevention of the conflict of interest in the work of State officials, on creation of diagrams and text visualisation, on policy planning and supervision system, etc.

Result to be achieved in accordance with the Action Strategy.⁹

The officials and employees of the State Audit Office comply with the basic principles of professional ethics established in the Code of Ethics of the State Audit Office and general behavioural norms, thus promoting lawful and fair work for the benefit of the public, improving work culture at the institution and strengthening the confidence of audited entities and the public in the State Audit Office.

Fulfilled.

In strengthening the values of the State Audit Office, i.e., accountability, openness and development, a crucial role is attributed to the daily conduct of employees that is based on ethical attitude and activities; therefore, the Code of Ethics lays down five fundamental principles of ethics: honesty, objectivity, professional competence, confidentiality and professional conduct.

To help the officials and employees of the State Audit Office practically understand and observe the fundamental principles of conduct determined in the Code of Ethics in everyday work, the Handbook on the Code of Ethics of the State Audit Office has been developed.

The Ethics Commission has been established at the State Audit Office with the goal to strengthen the norms of professional ethics in accordance with the objectives and tasks of the State Audit Office and to promote the activity of the State Audit Office officials and employees pursuant to the requirements laid down in the Code of Ethics of the State Audit Office.

⁸ The result must be achieved within each year of the Action Strategy.

⁹ The result must be achieved within each year of the Action Strategy.

The fundamental principles of professional ethics determined in the Code of Ethics and **recommended behaviour models** referred to in the Handbook on the Code of Ethics **are particularly taken into consideration during the induction training of newly-hired employees** which includes also the organisation of a specialised seminar for newly-hired employees. Overall **four seminars were organised** to newly-hired employees in the reporting period.

Result to be achieved in accordance with the Action Strategy.¹⁰

The State Audit Office promotes further development of the auditor's profession **by organising debates on auditing standards in co-operation with professional associations once every year.**

Fulfilled.

On 11 November 2016, a round table discussion was held at the State Audit Office with participation of the representatives of the Latvian Association of Certified Auditors, Ministry of Finance, State Revenue Service, and the Treasury. The event was devoted to the discussion of issues arising in the auditing process, including cash deals and local governments, performance of annual reports, application of proper depreciation norms for buildings and structures, evaluation of long-term investments at the end of the year, and other important matters.

1.6. Funds

The total **budget** of the State Audit Office during the reporting year **amounted to EUR 5.5 million.**

Compared to 2015, based on the applications of new policy initiatives and administrative capacity strengthening measures for 2016 supported in previous years, it was planned to grant additional State budget funding in the amount of EUR 323 thousand to the State Audit Office to ensure audits in each local government at least once every three years, to carry out audits in response to topicalities in the State, to increase the number of performance audits, to take measures for the introduction of INTOSAI standards in public sector audits, to strengthen the legal framework in respect of the responsibility of officials regarding lawful and expedient use of resources, as well as to get ready for provision of two types of opinions as the result of annual financial audits — on correctness of accounting and compliance of transactions.

Table 1

Revenue and expenditure of the State Revenue Service			
Type of revenue and expenditure	Plan for 2016, EUR	2016 implementation, EUR	Plan for 2017, EUR
Resources for covering expenditure	5,568,909	5,535,221	5,917,307
Grants from general revenue	5,534,909	5,503,546	5,917,307
State budget transfers ¹¹	34,000	31,674	0
Total expenditure	5,568,909	5,535,221	5,917,307
Remuneration	4,493,961	4,462,927	4,675,217
Goods and services	980,588	978,248	1,043,430
Capital expenditure	92,618	92,612	196,918

¹⁰ The result must be achieved within each year of the Action Strategy.

¹¹ Transfer from the State budget programme 07.00.00 "Development Co-operation Projects and International Assistance" in accordance with Paragraph 2.5 of Cabinet Order No. 258 of 18 April 2016, Development Co-operation Policy Plan for 2016, for the project implemented by the State Audit Office for support to Georgia, Moldova, and Ukraine to strengthen the capacity of the Supreme Audit Institutions of these countries in creation of a transparent and efficient control system of public funds.

1.7. European Social Fund Project

Result to be achieved in accordance with the Action Strategy.¹²

The State Audit Office is implementing **projects and activities for strengthening its capacity** by attracting external funding for at least one project for the period of 2014-2017.

Fulfilled.

In 2015, the State Audit Office took part in the European Social Fund project 1DP/1.5.1.1.1./10/IPIA/CFLA/004/002 "Support for Implementing Structural Reforms in State Administration" organised by the State Chancellery as a co-operation partner by implementing the sub-activity "Strengthening the Capacity of the State Audit Office". The maintenance of the achieved results and integration thereof in daily work processes were ensured in 2016 — approval and application of a uniform visual identity approach for audit reports, ensuring the use of knowledge acquired in training sessions and international consultations in the audit process.

An independent audit was conducted in the reporting period and a positive audit report was received.

The study of the field and identification of potential support fields were performed on a regular basis as a result of what on 10 November 2016 the State Audit Office signed an Agreement No. 3.4.2.0/16/I/ on the implementation of the EU funds project "Professional Improvement of Auditors of the Public Sector in the Field of Business Environment Arrangement, Corruption Prevention and Reduction of Informal Economy" within the scope of Specific Objective 3.4.2 "Professional Improvement of State Administration in the Development of Better Legal Framework in the Field of Support of Small and Medium Enterprises, Corruption Prevention and Reduction of Informal Economy". The project was commenced in 2017 and it is planned to be implemented over a period three years.

1.8. Quality Management and Internal Control System

The quality management system of the State Audit Office has been developed on the basis of the Latvian standard LVS EN ISO 9001:2015 "Quality Management Systems. Requirements (ISO 9001:2015)". The work of the institution is defined in 22 descriptions of work processes, seven of which are principal activity processes, three are administration processes, and 12 are supporting processes.

The supervision of the activity is ensured by tasks integrated in the everyday activities (approval, co-ordination, work quality assessment, division of duties and responsibility) and by targeted control measures (quality control of the drafts of audit plans and reports, quality control of audits, assessment of audited systems, internal audit, compliance inspections).

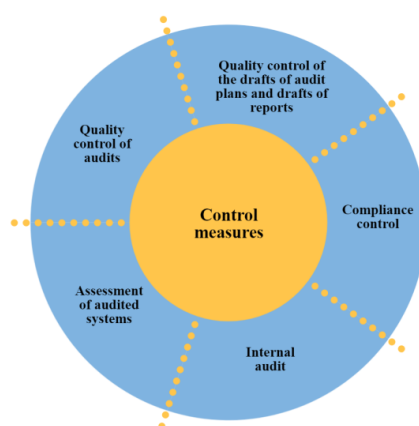


Figure 8. Measures for the supervision of the State Audit Office.

¹² The result must be achieved during the period of the Action Strategy.

Quality control of the drafts of audit plans and reports — to ensure the compliance of audits with International Standards on Auditing in the field of compliance¹³ and performance audits¹⁴, as well as good practice in performance of audits, impact of audits and increase the value of the attained results in accordance with the Action Strategy of the State Audit Office, to ensure the exchange of experience and also to promote a common approach in the evaluation of various horizontal matters and interaction among audit groups. Responsible entities:

- The lists of audit topics, as well as the drafts of plans and reports prepared by the audit groups of the State Audit Office are reviewed by a group of experts non-involved in audits which is composed of professionals with long-term experience in managing audits in public sector, elaboration of methodology and analysis of State policies, as well as in the field of investigation and legal proceedings. The group of experts evaluates the connection of the audit topic with international planning documents and also with the Sustainable Development Strategy of Latvia until 2030 and the National Development Plan until 2020. Upon evaluating the drafts of audit plans and reports, the group of experts takes into consideration the type of audit selected by audit groups and evaluates the compliance thereof with the selected topic.
- Legal Division, upon preparing opinions on the drafts of audit plans (except the drafts of financial audit plans), carries out an evaluation from legal aspect, examining whether the specified base of laws and regulations has been identified in compliance with the scope of audit, as well as whether the draft of the audit plan complies with the topic of the audit from legal aspect. While elaborating the draft of the audit report (all drafts of audit reports of the State Audit Office are subject to evaluation), the Legal Division examines whether all legal norms have been interpreted and applied adequately and gives recommendations for the improvement of the audit report from legal aspect.

Audit quality control — to gain assurance that the institution and its employees observe professional standards and provisions of laws and regulations, as well as to identify good practices and improvements necessary for audit methodology. The working group on the quality control of completed audits carries out the quality control of audits once a year.

Assessment of audited systems — to determine the impact of risk factors on the audit environment of the institution and to identify the systems to be audited first. The Auditor General, directors of audit departments, the Audit Committee and heads of structural units responsible for audited systems carry out the assessment of audited systems at least once in two years.

Internal audit — to provide the assessment of the internal control system in order to enhance the work of the internal control system. The Audit Committee carries out on average one or two internal audits a year.

Conformity checks — to provide the assessment of conformity of the work and quality management system of the State Audit Office to external and/or internal regulatory enactments, requirements for the quality management system, and international standards. The quality management system specialist carries on average five conformity checks a year.

Result to be achieved in accordance with the Action Strategy.¹⁵

The State Audit Office carries out high-level audits and **regularly performs the quality control of at least six completed audits annually**, ensuring quality control for completed performance, regulatory and financial audits, thus timely improving audit methodology and preventing identified deficiencies.

Fulfilled.

The State Audit Office performs audit quality control in accordance with the requirements of ISSAI 40 “Quality Control for Supreme Audit Institutions”¹⁶.

¹³ ISSAI 300, 3000, 3100 and 3200.

¹⁴ ISSAI 4000.

¹⁵ The result must be achieved within each year of the Action Strategy.

¹⁶ ISSAI 40 — Quality Control for SAIs.

A special working group is created for carrying out the quality control of completed audits. The goal of this group is to gain assurance that the employees of the State Audit Office observe professional standards and provisions of laws and regulations, as well as to define good practices and improvements necessary for audit methodology.

The following matters were subject to verification within the scope of quality control of audits concluded in the reporting period:

- provision of an opinion on the compliance of material transactions subjected to Financial Statement with laws and regulations, planning documents and nationally (or internationally) recognised practice — how the level of non-compliance has been evaluated in the case of compliance matters, taking into account the set forth compliance criteria and defined relevance;
- identification of performance criteria and co-ordination thereof with the audited entity in the planning stage of the audit and what information is used in defining performance criteria.

The following documents were inspected within the scope of the quality control of concluded audits:

- work documents of **four financial audits** — On Correctness of Preparation of Annual Reports for 2015 by the Ministry of Transport, Ministry of Welfare and Ministry of Environmental Protection and Regional Development, as well as On 2014 Annual Report of the Republic of Latvia On State Budget Execution and on Local Government Budgets;
- work documents of **two regulatory/performance audits** — “Implementation of Asylum Policy and Immigration Control” and “Expediency of the Use of Local Government Funds for Culture, Recreation and Sports Events and Compliance with Requirements of Laws and Regulations”.

Result to be achieved in accordance with the Action Strategy.¹⁷

The internal control system of the State Audit Office is effective and **may serve as a model for the organisation of work in State and local government institutions**, provision of internal audits, for the quality control of completed audits and implementation of recommendations provided after conformity checks within the determined deadlines in no less than 95 % cases.

Fulfilled.

Four conformity checks were performed in the reporting period — on the stock-taking of the financial year, issue and disposal of stationery, office and presentation supplies, management of information technologies related incidents and problems and handling of external incoming and outgoing documents, as well as one internal audit on personnel assessment and growth. As the result of conformity checks and internal audit, 13 recommendations were provided in total to structural units which were aimed at the improvement of internal processes.

In 2016, in total 17 recommendations had to be introduced by structural units. **All recommendations were implemented.**

¹⁷ The result must be achieved within each year of the Action Strategy.

2.

Audit Work

2.1. Organisation of Audit Work

2.2. Audit Support Tools and Processes

2.3. Results of Audit Work

2.4. Implementation of Recommendations Provided as the Result of Audits

2.5. Examining the Violations of Legal Norms Discovered during Audits

2. Audit Work

2.1. Organisation of Audit Work

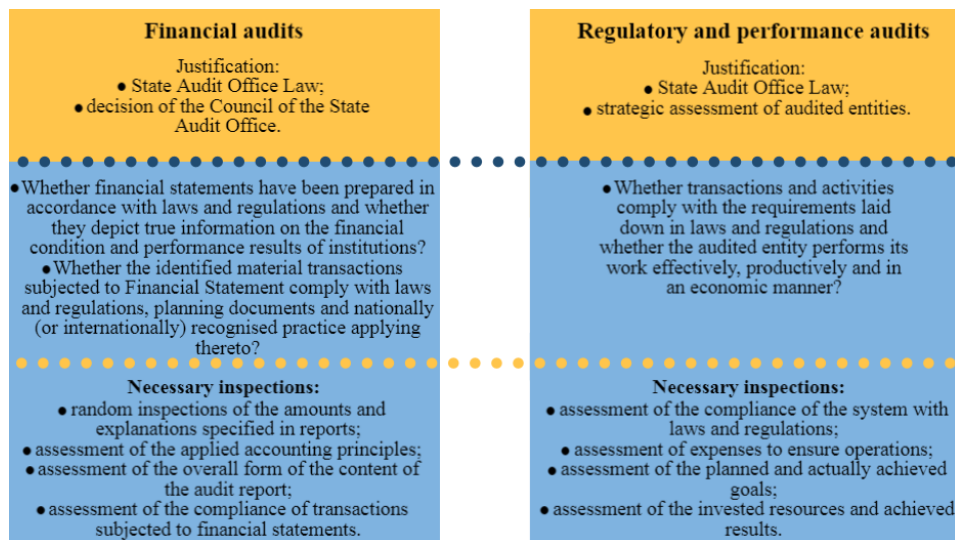


Figure 9. Audits of the State Audit Office.

Audit work was carried out in compliance with the Action Plan for 2016 approved by the Council of the State Audit Office.

The Action Plan defines a calendar period for each audit, dividing it into certain stages (planning, acquisition of evidence, and conclusion), defining man-hours and budget for each stage.

During 2016, **47 audits** were completed in total, including **27 financial audits** and **20 regulatory and performance audits**.

During 2016, **86 audit reports were prepared** in total as the result of audits, including 30 financial audits and 56 regulatory and performance audits.

Result to be achieved in accordance with the Action Strategy.¹⁸

In all cases in which material transactions subjected to Financial Statement have been identified during **financial audits** in accordance with criteria stipulated in methodology and co-ordinated by the Council of the State Audit Office, **the State Audit Office issues two types of opinions** — on correctness of financial statements of the institution and compliance of transactions of institutions.

Fulfilled.

As the result of financial audits on correctness of preparation of reports by ministries and central State institutions for 2015, **the State Audit Office has provided 26 opinions** on correctness of preparation of reports. **Financial audit “On Annual Report on the Execution of the State Budget and on Local Government Budgets of 2015 of the Republic of Latvia” — one opinion.** As the result of audits, overall 30 opinions were prepared whereof:

- 26 reports — on correctness of preparation of reports by ministries and central State institutions for 2015;
- one report — on an inspection carried out within the scope of a financial audit at the Ministry of Health on observance of rules for financing of residency;

¹⁸ The result must be achieved during the period of the Action Strategy.

- three reports — on 2015 annual report of the Republic of Latvia on State budget execution and on local government budgets whereof two reports were prepared on inspections carried out in two separate local governments.

Gradual transition to provision of two types of opinions as the result of financial audits was set as the priority in the Action Strategy of the State Audit Office for 2014-2017. Therefore the goal of financial audits is not only to gain assurance about correctness of preparation of annual reports by departments, but also to gain assurance that crucial transactions subject to inclusion in the financial statement, identified in departments, comply with laws and regulations, planning documents and nationally (or internationally) recognised practice that apply thereto.

During performance of audits of 2015 financial statements **it was decided to examine a total of 39 compliance matters within 21 departments**, as well as **one horizontal compliance matter was determined** and it was evaluated in all departments where such expenses were discovered (overall 17 departments) — **the use of funds granted for the purpose of ensuring the Latvian Presidency of the Council of the EU in 2015**.

An opinion was prepared on each examined compliance matter, thus altogether providing **56 opinions**: 41 unqualified opinions, seven qualified opinions, five adverse opinions, three disclaimers of opinions.

Three main causes of errors (non-compliance) were identified in the case of modified opinions: deficiencies in the definition or effective introduction of the action policy, crucial deficiencies in the internal control system, as well as deficiencies in the management of information and communication technologies.

The State Audit Office has been providing its opinion on expenses of the Latvian Presidency of the Council of the EU already since financial audits of 2013. The amount of funds examined in audits of reports of 2015 accounted to EUR 45.59 million. By randomly examining the used funds, deficiencies and inappropriate expenses were established in nine departments totalling more than EUR 179.08 thousand.

Result to be achieved in accordance with the Action Strategy.¹⁹

The State Audit Office allocates **30 % of audit resources for performance audits and regulatory audits with an expediency aspect**, ensuring gradual increase in resources (20 % in 2015; 25 % in 2016, and 30 % in 2017), thus promoting the lawful and expedient management of State and local government resources and increasing the quality of attainment of goals.

Fulfilled.

The duty to perform annual financial audits is stipulated in the State Audit Office Law. The audits carried out during the previous years have resulted in significant improvements: financial statements include accurate information, the putting in order of asset accounts has been facilitated, and comprehensive accounting policy has been implemented in many institutions.

Accurate financial accounting is significant; however, it is more important for the legislator and the public to gain assurance that the State administration and local governments comply with laws and regulations and dispose of taxpayers' money in an expedient manner and for the benefit of the public. Therefore, the State Audit Office strengthens the capacity of assessment of expediency issues with great determination. During the reporting period, **43.1 % of all the resources available for audits were invested in carrying out performance audits and regulatory audits with an expediency aspect**.

¹⁹ The result must be achieved during the period of the Action Strategy.

Result to be achieved in accordance with the Action Strategy.²⁰

Performance of audits in each local government at least once every three years, thereby ensuring timely and regular assurance of the society on the legality and expediency of the use of funds in resolving matters important for the inhabitants.

Fulfilled.

The State Audit Office has adopted **the Action Plan for Audits in Local Governments for 2014-2016**, based on which in the course of a three-year period at least one audit was carried out in each of 119 local governments.

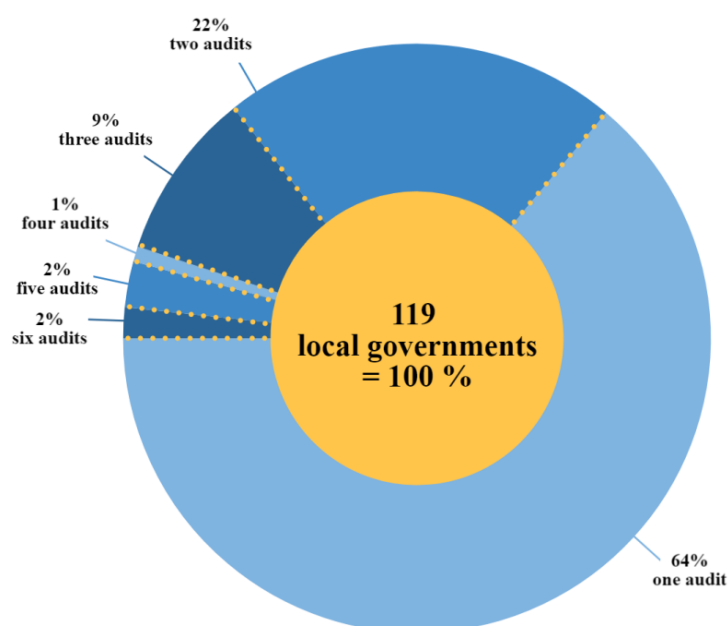


Figure 10. Audits performed in local governments within the period from 1 January 2014 to 31 December 2016.

An audit was performed at least once in each local government, thereby attaining the planned result. Seven *large* local governments (Daugavpils City, Jelgava City, Jūrmala City, Liepāja City, Ogre Municipality, Riga City, and Ventspils City) are included in the audit selection on a yearly basis.

Result to be achieved in accordance with the Action Strategy.²¹

To ensure the selection of topical audit topics, assessing risks arising from the use of funds and property of a public person, public interest and topical issues related to activity in the public sector, annually updating the strategic assessment of audited sectors.

Fulfilled.

In order to objectively define the topic and basis of audits, the reason behind the topicality of audits, whether processes essential to the public and also in the operation of the audited entity are to be examined, the strategic and risk assessments are updated in the reporting period.

²⁰ The result must be achieved within each year of the Action Strategy.

²¹ The result must be achieved within each year of the Action Strategy.

The State Audit Office is interested in more extensive involvement of the public in defining audit topics for the purpose of strengthening legal, expedient use of the funds and property of the public sector in compliance with the interests of the public, therefore collaboration partners were asked to submit their opinions on risks noticed within sectors and topical issues to be taken into consideration by the State Audit Office in the process of defining audit topics.

The State Audit Office completed regulatory, performance and regulatory/performance audits on such topics as the policy for the protection of cultural monuments, effectiveness of fire safety supervision, administration of national real estate used for the needs of the legal sector and healthcare system, ensuring of assistant services required to persons with disabilities, effectiveness of ambulatory healthcare, use of funds intended for the maintenance and renovation of streets and roads in local governments, ensuring of paid services of local governments to inhabitants, use of administrative resources of local governments, operation of AS "Daugavpils siltumtīkli" owned by the local government, action of the Freeport of Riga Authority attempting to prevent the violations established by the Competition Council, sale of State-owned capital shares of "Citadele banka", action of the Society Integration Foundation in allocating State budget funding to associations and foundations and control of the use thereof, introduction of recommendations at SIA "ZAAO", planning and use of funds intended for the reduction of climate change, etc.

Result to be achieved in accordance with the Action Strategy.²²

The auditors of the State Audit Office **allocate at least 80 % of their productive working time for audit work.**

Fulfilled.

The share of auditors' working time dedicated to audit work is calculated proportionally to the productive working time (total working time minus working time used for vacations and sick leave), which is the total number of man-hours spent for audit work and other direct work duties related to auditing (supervision of implementation of recommendations, co-operation with the *Saeima* committees, sector analysis, employee training, consultations, methodology development and updating, etc.).

During the reporting period, it was determined that auditors **dedicated 89 % of their working time to audit work.**

Result to be achieved in accordance with the Action Strategy.²³

The State Audit Office employees **ensure that at least 90 % of audits are completed within the planned deadline.**

Fulfilled.

During the reporting period, **96 % of audits were completed within the planned deadline.**

²² The result must be achieved within each year of the Action Strategy.

²³ The result must be achieved within each year of the Action Strategy.

Result to be achieved in accordance with the Action Strategy.²⁴

The State Audit Office ensures updating of audit methodology, standards and manuals not later than six months **after changes in International Standards on Auditing** in cases the referred to changes are important.

Fulfilled.

The State Audit Office audit methodology complies with ISSAI and is being updated after reviewing changes to the international standards. The conformity of audit methodology of the State Audit Office to international auditing standards has been approved by an international group of experts of supreme audit institutions, which carried out the assessment of work of the State Audit Office in 2015.

The updating process of financial audit performance methodology in accordance with changes introduced in International Standards of Supreme Audit Institutions (ISSAI) was commenced in 2016.

Result to be achieved in accordance with the Action Strategy.²⁵

The State Audit Office implements the INTOSAI audit standards in Latvia and the standards are developed pursuant to laws and regulations.

Measures are taken to attain the goal in 2017.

Taking into account that laws and regulations do not stipulate that ISSAI standards are binding to the public sector, the State Audit Office has undertaken responsibility for facilitating the introduction of these standards in Latvia. The measure is taken gradually and depending on the budget possibilities and human resources capacity of the State Audit Office.

On 15 December 2016, the *Saeima* adopted amendments to the Law On Sworn Auditors and also the State Audit Office participated in the elaboration thereof. Amendments to the Law define the competence of a state auditor to specify public sector auditing standards applicable in Latvia. The mentioned adjustments secure the legal framework to procedures by which the International Standards of Supreme Audit Institutions (ISSAI) are recognised in Latvia and also effective application thereof at State and local government institutions.

Considering the State Audit Office collaborates with sworn auditors of the private sector and relies on their work being done pursuant to ISSAI 1600²⁶ "Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)", amendments to the Law also clearly define the duty of sworn auditors to perform this work in accordance with the instructions of the State Audit Office. Furthermore, amendments to the Law also envisage involvement of the State Audit Office in controlling the work quality of sworn auditors and also the introduction of sworn auditor rotation, thereby restricting provision of auditing services at one and the same State or local government institution longer than six consecutive years.

It is planned to introduce amendments also to the State Audit Office Law. On 22 December 2016, the *Saeima* in the second reading adopted the draft law Amendments to the State Audit Office Law. The referred to draft law provides for new wording of Section 1, Paragraph three of the State Audit Office Law, whereby the State Audit Office will conduct audits not only in accordance with International Standards on Auditing recognised in Latvia, but also the International Standards of Supreme Audit Institutions recognised and approved by the International Congress of Supreme Audit Institutions determined by a state auditor.

²⁴ The result must be achieved within each year of the Action Strategy.

²⁵ The result must be achieved during the period of the Action Strategy.

²⁶ ISSAI 1600 — Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors).

2.2. Audit Support Tools and Processes

For the more effective performance of audits, the State Audit Office uses audit support tools that ensure the planning of working time and documentation of audit work, and assist in the supervision of implementation of audit recommendations, as well as ensure more efficient analysis of data accumulated in the State administration.



Figure 11. Audit support tools.

Considering the State Audit Office has started working on estimating the financial impact of the given recommendations, it was necessary to review both internal auditing processes and to introduce changes in the audit support tool — TeamMate. The tool has been upgraded to ensure a more complete collection of information and drafting of reports, improving the transparency of accounting the attained financial savings.

Result to be achieved in accordance with the Action Strategy.²⁷

The State Audit Office ensures that **information systems are available during working time at least 95 % annually.**

Fulfilled.

A new solution was introduced for the purpose of improving access to information systems. The new solution ensures continuous measurement and supervision of the performance of the technical resources of servers, centralised gathering of operating system errors of servers and sending of information to the responsible technical staff. The introduced solution will ensure timely identification of operating problems of technical resources and operating system and prevention thereof before they affect accessibility to information systems. Works for the improvement of the State Audit Office local computer network performance and accessibility were started in the reporting period and are continued in 2017.

The availability indicator of information systems was 98.89 %.

Result to be achieved in accordance with the Action Strategy.²⁸

The security of information technologies **complies with the standard of the best practices for information security for at least 80 %.**

Measures are taken to attain the result in 2017.

Amendments to the regulations regarding information technology security of the State Audit Office were elaborated in the reporting period; the mentioned amendments will supplement the approved regulations regarding security of information technologies with the requirements in respect of access to information systems, network and network equipment, computer systems, alterations, resources of information technologies, servicing of information technologies and maintenance contract and also physical and environment safety requirements.

²⁷ The result must be achieved within each year of the Action Strategy.

²⁸ Result to be achieved during the least year of the Action Strategy, i.e., in 2017.

In order to achieve the result, in 2017, regulations regarding information technology security will be improved and supplemented with the information technology security areas defined in the good practice standards of information technology security not yet contained in the regulations.

The work on collecting audit trails and improvement of the analysis system was continued in 2016, thereby ensuring connection of all servers, network devices, firewalls to ensure the collection of audit data from all technical facilities used to ensure the operation of infrastructure. Monitoring of audit trails and also identification and verification of potential security incidents are ensured on a regular basis.

Training sessions of the State Audit Office employees **were organised to raise the understanding of the staff about security matters of information technologies.**

Result to be achieved in accordance with the Action Strategy.²⁹

The **digital management of documents** specified in the descriptions of support work processes organised by the State Audit Office has been ensured, including preparation, co-ordination, approval, circulation, execution and storage.

Measures are taken to attain the result in 2017.

The electronic document management system is used to ensure document management at the State Audit Office for the purpose of more effective audit and support process organisation.

The work on creating constantly storable audit files in electronic form was commenced in the reporting period. The Action Plan for transition to creation of audit files and archiving thereof in electronic form was approved at the end of 2016. It is planned to implement the plan in 2017.

²⁹ Result to be achieved during the least year of the Action Strategy, i.e., in 2017.

2.3. Results of Audit Work

2.3.1. First Audit Department



Member of the Council of the State Audit Office since 8 September 2016

Director of the First Audit Department

Inese Kalvāne

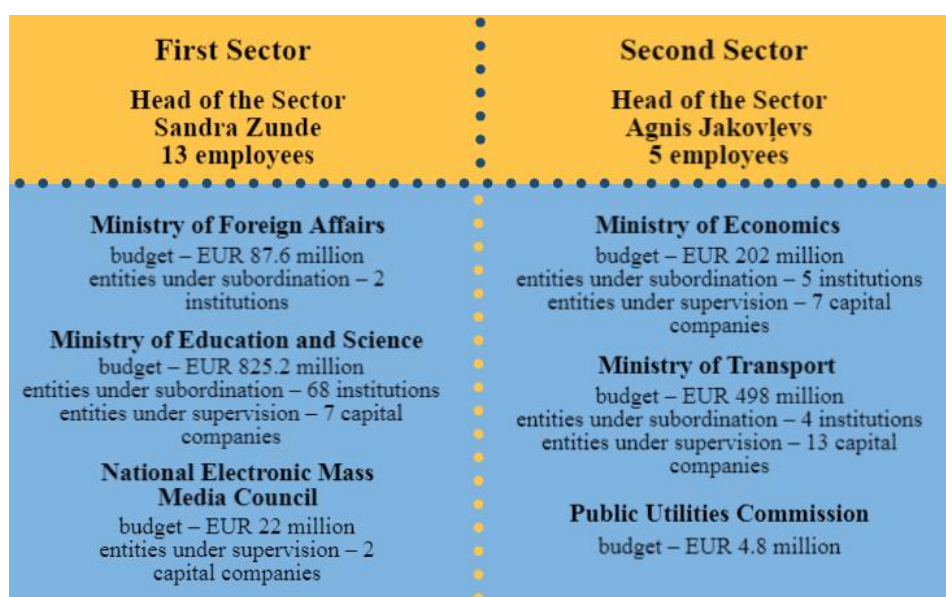


Figure 12. Employees of the First Audit Department³⁰ and audited entities.³¹

2.3.1.1. Foreign Affairs

Within the scope of the financial audit “**On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Foreign Affairs**”, the State Audit Office evaluated the process of preparing the annual report and also ensuring the compliance of material transactions subjected to Financial Statement in relation to the Latvian Presidency of the Council of the EU in 2015.

As the result of the audit on 2015 annual report, the State Audit Office issued an unqualified opinion to the Ministry of Foreign Affairs, based on the facts that 2015 report provided a clear and true idea about the financial position, the changes and results thereof in all the aspects, and it was prepared in compliance with the requirements of the applicable laws and regulations of the Republic of Latvia.

The audit did not reveal any violations of or non-compliance with the applicable laws and regulations that would have a significant impact on auditors’ opinion regarding compliance of the use of funds allocated to ensure the Latvian Presidency of the Council of the EU in 2015 with the applicable laws and regulations, planning documents and nationally (or internationally) recognised practice applicable thereto and also effective and expedient use of these funds in compliance with intended purposes.

³⁰ The number of employees at the State Audit Office as at 30 December 2016.

³¹ The Ministry of Culture was within the responsibility of the First Sector by 31 July 2016.

2.3.1.2. Culture

Within the scope of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Culture”**, the State Audit Office evaluated the process of preparing the annual report and also the compliance of two material transactions subjected to Financial Statement with laws and regulations. Auditors examined whether the funds allocated for creating the content of the centennial of the Republic of Latvia and the funds allocated for the purpose of the Latvian Presidency of the Council of the EU have been used for the intended purpose and in accordance with the procedures prescribed by the applicable laws and regulations. The audit was conducted at the Ministry of Culture and 10 institutions subordinate to the Ministry of Culture. Auditors relied on the work of a sworn auditor at three institutions subordinate to the Ministry of Culture — the Art Academy of Latvia, Latvian Academy of Culture, and Jāzeps Vītols Latvian Academy of Music.

In carrying out the audit on 2015 Annual Report of the Ministry of Culture, assurance was gained regarding correctness of accounting and preparation of an annual report, and an unqualified opinion was provided. The State Audit Office provided six recommendations to the Ministry of Culture.

Pursuant to Section 3, Clause 4 of the State Audit Office Law, the State Audit Office notified the Office of the Prosecutor General regarding violations of the laws and regulations discovered during the audit at the National Library of Latvia where 16 employees had received bonuses in the amount of EUR 11.8 thousand for assessment results prior to the end of assessment, thereby committing a breach of the laws and regulations which allow payment of a bonus once a year in accordance with the annual evaluation of the work and results attained by employees.

As the result of audits conducted annually, the State Audit Office discovers that the institutions subordinate to the Ministry of Culture conclude contracts or settle payments for services and goods without procurement procedures provided for in the regulatory enactment.

Also in 2015, the institutions subordinate to the Ministry of Culture settled payments of invoices for services in total amounting to EUR 194.7 thousand without organising the procurements provided for in the regulatory enactment. Violations have been encountered at the Ethnographic Open-Air Museum of Latvia, Specially Protected Cultural Monument — Turaida Museum Reserve, National Library of Latvia, Latvian National Museum of Art, Museum of the History of Riga and Navigation.

Procurements concerning the received services in total amount of EUR 194.7 thousand have not been organised.

The audit revealed that the Ethnographic Open-Air Museum of Latvia had violated the rules on the use of motor vehicles of the institution for personal needs. Due to the reason that it was impossible to calculate the amount of loss caused to the institution, the State Audit Office appealed to the Ministry of Culture to establish whether any loss had been caused to the Ethnographic Open-Air Museum of Latvia and also to consider the possibility of loss recovery.

As the result of the audit the State Audit Office did not discover any discrepancies in the use of funds intended for the creation of the content of the centennial of the Republic of Latvia. In order to gain assurance that only measures applicable to the creation of the content of the centennial of the Republic of Latvia are supported, the State Audit Office appealed to the Ministry of Culture to draft an action plan for the implementation of a culture programme for the centennial of the Republic of Latvia.

In 2016, the State Audit Office completed the legality audit entitled **“Does the Planned and Implemented Policy for the Protection of Cultural Monuments Ensures Preservation Thereof?”**.



Figure 13.³²

An audit was also conducted at the Ministry of Culture and the State Inspectorate for Heritage Protection (SIHP). The objective of the audit was to gain assurance whether the policy elaborated and implemented by the ministry and the SIHP in the field of the protection of cultural monuments is successive and sustainable, and whether it ensures preservation of cultural monuments in the field of the protection of cultural monuments.

The State Audit Office concluded that the State policy in the field of protection of cultural monuments was neither clearly defined nor consistently implemented. For this reason, the society may not be certain of the State cultural values not being lost over time. The respective conclusion is made based on deficiencies and ambiguity discovered as the result of the audit in the operation of the SIHP.

Despite the presence of an effective regulation of the SIHP, consistent observance thereof is not ensured. The internal regulations of the SIHP provide for an objective to study each cultural monument once every two years, yet this is not ensured. The right to delegate several functions concerning cultural monuments of national importance to local governments has not been used for several years. Although the SIHP has elaborated strict regulations in the field of the preservation of cultural monuments, the State Audit Office in its audit discovered deviation from the regulations in the action of the SIHP without any clear and understandable grounds. Consequently, the aforementioned does not give any persuasion of consistent observance of the elaborated regulations by the SIHP and therefore serves as basis to mistrust that all cultural monument owners would be treated equally by the SIHP.

The only direct State support granted by the SIHP to cultural monument owners is financing from the Preservation Programme which from 2013 to 2015 contained EUR 2.3 million. However, due to the reason that the Ministry of Culture, which is the supervisory body of the SIHP, has not defined any objectives of the programme, priority support measures and results to be attained, a total of EUR 610.6 thousand or 27 % from the financing granted to the Preservation Programme has been used by the SIHP to ensure its operation, instead of the preservation of cultural monuments and study thereof.

The possibilities of granting greater support to cultural monument owners for the purpose of fostering the preservation of monuments have been discussed since 2001. Yet cultural monument owners receive support rarely as cadastral value reduction is not applied to at least 505 cultural and historical monuments. At the same time, the support in the form of a real estate tax relief stipulated in laws and regulations is applied to cultural monument owners only in nine out of 119 local governments.

The SIHP has failed to submit information on at least 505 buildings to the State Land Service of Latvia, therefore cultural monument owners are compelled to settle real estate tax payments based on the entire cadastral value of the property.

Substantial funds were allocated to the preservation and improvement of cultural monuments from 2007 to 2013 within the scope of the EU Structural Funds and European Economic Area funding in total amounting to EUR 37.1 million. These funds were mainly used to preserve and improve the condition of three objects of national significance — Riga Cathedral, Literature and Music Museum and Latvian National Museum of Art. Meanwhile EUR 11.5 million available to the owners of other cultural monuments was allocated for the implementation of 32 projects.

As the result of the audit, the State Audit Office submitted 21 recommendations, suggesting to create an action strategy of the Ministry of Culture and the SIHP, including therein specific activities to be implemented and the

³² State Audit Office: Supervisor of Cultural Monuments Fails to Ensure Proper Protection of Cultural and Historical Heritage. Portal www.lsm.lv. Online: <http://www.lsm.lv/lv/raksts/kulturpolitika/kultura/valsts-kontrole-kulturas-piemineklu-uzraugs-nepietiekami-aizsarga-kulturvesturiskas-vertibas.a195427/>.

manner to measure the attained results. In addition, the State Audit Office encouraged to review the list of cultural monuments, assessing the compliance of the monuments included therein with the status of cultural monuments.

2.3.1.3. Education, Science, and Sports

Within the scope of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Education and Science”**, the State Audit Office evaluated the process of preparing the annual report at the Ministry of Education and Science (MoES) and 16 institutions subordinate to the MoES. Auditors relied on the work of a sworn auditor at five higher education institutions under the supervision of the MoES — University of Latvia, Riga Technical University, Ventspils University College, Rēzekne Academy of Technologies, Daugavpils University — and three institutions subordinate to the MoES — Professional Education Competence Centre “Ventspils Technical College”, Latvian Institute of Organic Synthesis, and Latvian Biomedical Research and Study Centre — and also assurance was gained regarding the compliance of material transactions subjected to Financial Statement with laws and regulations, planning documents and nationally (or internationally) recognised practice applying thereto. Overall two compliance matters were set forth within the scope of the financial audit — the compliance of the use of funds granted for the MoES State budget programme 09.00.00 “Sports” Sub-programme 09.04.00 “Sports Facilities” and ensuring of the Latvian Presidency of the Council of the EU in 2015 for the intended purpose thereof and in accordance with the procedures prescribed by laws and regulations.

In carrying out the audit on 2015 Annual Report of the MoES, assurance was gained regarding correctness of accounting and preparation of an annual report, and an unqualified opinion was provided. The State Audit Office provided six recommendations to the MoES.

The State Audit Office appealed to the MoES to take measures in order to ensure that institutions subordinate to the MoES would settle tax payments in the corresponding period and in accordance with the plans. In 2015, the total amount of advance tax payments of the MoES reached EUR 99.8 thousand. Advance payments were settled by the Latvian Language Agency, Latvian Academy of Sport Education, Liepāja Maritime College, University of Latvia, and Latvian Academy of Sciences.

Settlement of advance tax payments in the amount of EUR 99.8 thousand unforeseen in the applicable laws and regulations.

The State Audit Office established that, upon receiving additional funds for the new policy initiative to promote the motivation of educatees to study and urge them to engage in the social life of an educational institution and the use of funds, the MoES had not attained its goal and had not ensured the compliance of the additionally allocated funds of State stipends with the provisions laid down in Cabinet Regulation No. 740 of 24 August 2004, Regulations regarding Stipends.

Three of five vocational educational institutions included in the audit — Professional Education Competence Centre “Riga State Technical College”, Professional Education Competence Centre “Rēzekne Technical College”, and Riga Style and Fashion Vocational School — in December 2015, failing to observe the procedures prescribed by laws and regulations, paid out increased stipends from the State budget in the amount of at least EUR 104.1 thousand to educatees without good and excellent school results and not engaged in the social life of the educational institution.

The State Audit Office established that also in 2015 institutions subordinate to the MoES, without organising the procurements provided for in the regulatory enactment, settled the payment of invoices for services and goods in total amounting to EUR 20.2 thousand. Such violations were discovered by auditors at Professional Education Competence Centre “Smiltene Technical College” and Olaine College of Mechanics and Technology.

2.3.1.4. Economics

Within the scope of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Economics”**, the State Audit Office evaluated the process of preparing the annual report and also the compliance of material transactions subjected to Financial Statement with laws and regulations, including whether the aims set forth at the moment of requesting the relevant funds have been attained. Such measures implemented by the Ministry of Economics were included within the scope of audits as funding of the programme “First Housing” and maintenance of compulsory stocks of the State petroleum products. The use of funds allocated to the Ministry of Economics to ensure the Latvian Presidency of the Council of the EU was also examined.

As the result of the audit “On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Economics”, auditors gained assurance regarding correctness of accounting and preparation of an annual report, and an unqualified opinion was provided.

The State Audit Office issued a disclaimer of opinion on financing the “First Housing”. The Law On State Budget for 2015 and 2016 clearly states that State budget funds must be assigned in particular to financing the purchase of the first housing. Meanwhile as the result of the audit, the State Audit Office concluded that laws and regulations allow financing such measures that do not comply with the essence and meaning of the concept “First Housing”, therefore there is a risk that the guarantee system does not attain the goal for the allocation of funds set forth in the law.

The concept “First Housing” must be evaluated and additional criteria in respect of granting guarantees must be introduced.

In order to ensure legal precision in respect of the housing guarantee programme, the State Audit Office recommended the Ministry of Economics to introduce the use of a unified and clear title of the housing guarantee programme in laws and regulations and other documents within the scope of budget planning and execution process and also, taking into account the limited scope of the State budget, to evaluate the activity of the housing guarantee programme, as well as the conditions and criteria for the allocation of guarantees stipulated by the regulatory enactment.

In the reporting period, the following regulatory audit was conducted in the field of economics: **“Did the Sales Process of State-owned Capital Shares of Joint Stock Company ‘Citadele banka’ Ensure the Acquisition of Maximum Funds?”**.



Valsts kontrole kritizē «Citadeles» pārdošanas darījumu

Figure 14.³³

In the opinion of the State Audit Office, very important lessons may be learned both from the process of selling Joint Stock Company “Citadele banka” and “Parex banka” takeover and also subsequent deeds resulting therefrom.

In cases of concluding significant deals involving taxpayers’ money amounting to tens and hundreds of millions of euros and with significant impact on the national economy, the Government and the *Saeima* ought to create such legal framework which would ensure the observance of three basic principles:

- qualitative involvement of responsible authorities, including ministries of the relevant field, in preparing draft decisions, realising that the State will not be able to acquire turnkey solutions from consultants. The lack of legal framework enabled ministries and responsible authorities stand apart from evaluating the sales deal of Joint Stock Company “Citadele banka” on its merits, therefore the Government took its decisions practically only on the basis of recommendations provided by external consultants, whereas, for example, the opinion of the Bank of Latvia was not taken into consideration;
- establishing the responsibilities. A clear definition of the entity in charge of the elaboration of an action plan within the best interest of the State. Such responsible entities were not appointed in the sales process of Joint Stock Company “Citadele banka” due to the reason that the Government along with the Board of State Joint Stock Company “Privatisation Agency”, upon taking decisions of political importance, had guaranteed immunity in the case of occurrence of unfavourable consequences;
- independent supervision. It is not uncommon if the interests of various groups are represented in large-scale deals; however, a question remains: how to ensure the balance of these interests so that the State would benefit from any situation and the most favourable decisions in respect of taxpayers would be taken.

³³ State Audit Office Criticises the Sales Deal of “Citadele”. Portal www.ltv.lsm.lv. Available online at: <https://ltv.lsm.lv/lv/raksts/18.10.2016-valsts-kontrole-kritize-citadeles-pardosanas-darjumu.id82305/>.

2.3.1.5. Transport and Communications

Within the scope of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Transport”**, the State Audit Office evaluated the process of preparing the annual report and also the compliance of material transactions subjected to Financial Statement with laws and regulations, including whether the aims set forth at the moment of requesting the relevant funds have been attained. The measure Development of the Public Infrastructure at Ports implemented by the Ministry of Transport was included within the scope of audits and the use of funds allocated to the Ministry of Transport to ensure the Latvian Presidency of the Council of the EU was also examined.

As the result of the audit “On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Transport”, auditors gained assurance regarding correctness of accounting and preparation of an annual report, and an unqualified opinion was provided.

Furthermore, the State Audit Office was unable to obtain sufficient evidence and ascertain about the compliance of the use of State budget funds allocated for the development of public infrastructure of large ports with the intended purpose thereof. The legal norms contained in Cabinet regulations, State budget grants are to be allocated for “port basin and fairway depth deepening and depth maintenance works” and “development of public infrastructure related to port activity” are too vague and cannot be interpreted clearly. The aforementioned may allow funding of such activities that are implemented within the interests of certain commercial enterprises and inadequately with the principles on allocating State support. In addition, audit results also revealed that the Ministry of Transport had not taken the necessary measures to ensure legal precision in the referred to field, therefore as a matter of fact there is no control mechanism to determine the compliance of these funds — a disclaimer of opinion.

It is necessary to define specific port activity-related maintenance works of public infrastructure to be financed from State budget funds.

In order to ensure transparent use of the State budget grants in accordance with the intended purpose and to prevent the risk of providing State support, the Ministry of Transport must take the necessary measures to ensure the definition of port activity-related maintenance works of public infrastructure to be financed from State budget funds in laws and regulations.

2.3.1.6. Independent and Other Institutions

During the financial audit “On Correctness of Preparation of the Annual Report for 2015 by the National Electronic Mass Media Council”, assurance was gained regarding correctness of accounting and preparation of an annual report, and an unqualified opinion was provided. At the same time discrepancies without any impact on the annual report were discovered as the result of the audit, yet they are crucial by nature and important for the operation of the audited entity.

Advance payments for services provided in 2016 in total amounting to EUR 13.4 thousand settled by the National Electronic Mass Media Council (NEMMC) indicate to deliberate maximum use of the budget funds in the reporting year, thereby violating the basic principles of safe financial management and violating the requirements laid down in the Law On Budget and Financial Management regarding the use of State budget appropriations exclusively for the needs defined in the annual law on State budget.

The State Audit Office provided an adverse opinion on the NEMMC regarding the compliance of material transactions subjected to Financial Statement with laws and regulations, planning documents and nationally (or internationally) recognised practice. The NEMMC, failing to observe the provisions laid down in the Law On Budget and Financial Management, had not ensured reasonable control over the execution of the public order of the Latvian Television, which resulted in a failure to promote effective and expedient use of the allocated grants in the amount of EUR 2.1 million in accordance with the intended purpose.

The State Audit Office was unable to obtain sufficient evidence and ascertain about the use of grants allocated to the Latvian Radio in 2015 to ensure public service due to the reason that the NEMMC several times had extended the deadline for submission of the annual report of the Latvian Radio, thereby violating the provisions laid down in internal regulations of the NEMMC. A report on the execution of the Latvian Radio public order in 2015 was submitted by the NEMMC to the State Audit Office on 27 April 2016, therefore auditors were unable to verify the compliance of the use of State budget grants in the amount of EUR 2.5 million allocated to the Latvian Radio with the intended purpose.

The NEMMC does not ensure reasonable and timely control over the use of the public order grant.

As the result of the audit, the State Audit Office submitted five recommendations to the NEMMC; if the mentioned recommendations are introduced, State budget funds will be used reasonably and for covering planned obligations, the system of internal control and accounting control will be improved and also supervision of the use of State grants allocated to electronic mass media (including public media) will be improved.

During the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Public Utilities Commission”**, assurance was gained regarding the correctness of accounting and preparation of the annual report, and an unqualified opinion was provided.

2.3.2. Second Audit Department



Member of the Council of the State Audit Office since 16 May 2013

Director of the Second Audit Department

Ilze Grīnhofa

First Sector	Second Sector	Third Sector
Head of the Sector Iveta Ozoliņa 7 employees	Head of the Sector Kaiva Skalbiņa 7 employees	Head of the Sector Aelita Jaunroze 7 employees
Ministry of Defence budget – EUR 364.8 million entities under subordination – 5 institutions and National Armed Forces Corruption Prevention and Combating Bureau budget – EUR 4.9 million	Ministry of the Interior budget – EUR 337 million entities under subordination – 9 institutions entities under supervision – 1 capital company Office of the Prosecutor of the Republic of Latvia budget – EUR 23.7 million	Ministry of Justice budget – EUR 192.1 million entities under subordination – 12 institutions entities under supervision – 2 capital companies Supreme Court of the Republic of Latvia budget – EUR 5 million Constitutional Court of the Republic of Latvia budget – EUR 1.4 million

Figure 15. Employees of the Second Audit Department³⁴ and audited entities.³⁵

2.3.2.1. Defence

Within the scope of the financial audit “**On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Defence**”, the State Audit Office evaluated the process of preparing the annual report and also the compliance of material transactions subjected to Financial Statement with laws and regulations, including whether the aims set forth at the moment of requesting the relevant funds have been attained.

Increase in the amount of funds allocated to State defence has been voiced as the Government’s priority, and therefore it has increased remarkably since 2015 and this tendency will also continue in subsequent years. Taking into account the increase in financing and importance of effective use thereof in a long-term perspective, the use of financial means allocated for development priorities of the National Armed Forces (NAF) specified by the Ministry of Defence — development of the National Guard, mechanisation of infantrymen, development of intelligence, air space surveillance and anti-aircraft defence capabilities and ensuring the presence of the allies and also development of NAF infrastructure — were examined during the audit. The use of funds allocated to the Ministry of Defence to ensure the Latvian Presidency of the Council of the EU was also examined.

Upon examining the use of additionally allocated funds to the Ministry of Defence in 2015 for the purpose of NAF development priorities, no violations of or non-compliance with laws and regulations were discovered in the transactions selected for the audit and the State Audit Office provided an unqualified opinion.

As at the moment of preparing the audit report, most significant development activities in the field of defence were just started and most of work in implementing these activities and achieving the planned results will be continued

³⁴ The number of employees at the State Audit Office as at 30 December 2016.

³⁵ The Ombudsman’s Office was within the responsibility of the First Sector by 31 July 2016, whereas from 1 August 2016 — the Corruption Prevention and Combating Bureau.

in subsequent years. For this reason, in the audit auditors drew attention to the identified drawbacks, the prevention of which is an important precondition for ensuring effective use of State budget funds allocated to NAF development activities, including:

- necessity to prevent drawbacks in the material and technical supply and personnel qualification assessment system of the National Guard which could influence the fulfilment of tasks set forth for the development of the National Guard;
- necessity to improve air space defence and infantrymen mechanisation project management. The mentioned projects are quite extensive, long-term and focused on developing military capabilities; improvement of project management would ensure a more transparent implementation process thereof and all involved parties would have full understanding of the tasks to be completed and also would ensure internal supervision of the project progress;
- necessity to improve information circulation concerning the needs for the development of infrastructure, because at the moment of the performance of the audit it was impossible to obtain it effectively and the needs have not been summarised according to strategic and medium-term planning level which might cause a risk for timely planning and start of works related to the construction of infrastructure objects.

Drawbacks discovered during the audit which in the future might influence effective use of State budget funds.

In order to ascertain that activities implemented in the introduction of recommendations would not be only formal, within the scope of the audit auditors examined the progress of introducing recommendations at the Ministry of Defence and the NAF. It is a positive aspect that the Ministry of Defence has commenced the introduction of recommendations provided in the audit, thereby laying the basis for successful implementation of multi-million projects and effective use of funds in the future. Upon the introduction of recommendations, improvements were made in project management of defence capabilities development and creation of a training control system at the National Guard has been started, including the elaboration of criteria for assessment of the results achieved during training.

2.3.2.2. Justice

Within the scope of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Justice”**, the State Audit Office evaluated the process of preparing the annual report and also the compliance of material transactions subjected to Financial Statement with laws and regulations, including whether the aims set forth at the moment of requesting the relevant funds have been attained. The scope of audits included such activities implemented by the Ministry of Justice and institutions subordinate to the Ministry of Justice as the construction of a new prison in Liepāja, creation of a new department at Olaine prison (Addiction Centre), including construction and personnel training, renovation of the investigation isolation ward at Valmiera prison, implementation of the event “Promoting Alternatives to the Deprivation of Liberty” (including the electronic supervision of possible pilot projects), creation of a geospatial information system of the geospatial data (GIS) of the State Land Service, use of funds allocated additionally to the Data State Inspectorate and expenses for ensuring the Latvian Presidency of the Council of the EU.

An unqualified opinion was provided concerning the preparation of the annual report. During the audit, the quality of the financial statement of the ministry was improved since during the audit, errors for the total amount of EUR 228.5 thousand were corrected in the statement after remarks from auditors.

At the same time auditors discovered deficiencies in the application of the regulatory enactment in respect of a methodology to determine paid service rates at an institution subordinate to the Ministry of Justice — National Forensic Expertise Bureau. Similar drawbacks were identified also in preceding years, and recurrence thereof indicates to the failure of the Ministry of Justice to take the necessary measures to ensure that its departmental institutions would share common understanding about the application of the requirements laid down in the regulatory enactment upon setting the rates for paid services. The methodology introduced at the State Land Service to determine paid services, which has been elaborated along with the implementation of the recommendation given by the State Audit Office, may be mentioned as an example of good practice. Upon applying

the new methodology, a new service pricelist was elaborated and approved in 2015 at the Service, enabling increase in budget revenue in subsequent years by at least EUR 800 thousand a year.

Auditors did not discover any violations of or non-compliance with laws and regulations in the following activities: construction of a new prison in Liepāja, creation of a new department at Olaine prison (Addiction Centre), including construction and personnel training, renovation of the investigation isolation ward at Valmiera prison, implementation of the event “Promoting Alternatives to the Deprivation of Liberty” (including the electronic supervision of possible pilot projects) and expenses for ensuring the Latvian Presidency of the Council of the EU. As the result of the audit, an unqualified opinion was provided concerning these matters.

However, certain drawbacks were discovered during the audit which in the future might influence effective use of State budget funds:

- project management of infrastructure development at imprisonment places (project personnel, financial planning and risk management implementation) which might influence the attainment of goals set forth for infrastructure development projects;
- although in the reporting period the funds allocated to the project “Promoting Alternatives to the Deprivation of Liberty” (including the electronic supervision of possible pilot projects) have been used in accordance with the goal and the planned project activities, auditors still drew attention towards the fact that since November 2015, pursuant to contract provisions payments were settled for the use of 100 electronic supervision sets, though only 27 electronic supervision sets had been used per month until March 2016. If no additional measures are taken to increase the use of electronic supervision equipment, there is a risk of ineffective use of State budget funds in the future amounting to at least EUR 218 thousand.

If project management processes are not improved, there is a risk of ineffective use of State budget funds.

Upon examining the use of additionally allocated funds to the Data State Inspectorate, the State Audit Office was unable to obtain evidence and ascertain about the compliance of the use of financing allocated to the Data State Inspectorate in the amount of at least EUR 239 thousand (which is equal to 76 % of additionally allocated financing to ensure functions in 2015) for the intended purpose, because significant drawbacks within the system of internal control limited the traceability of these functions and financial means spent for these activities. As the result of the audit it was established that the internal control environment of the Data State Inspectorate has not been created in accordance with the requirements laid down in the regulatory enactment, including absence and approval of procedures for the implementation of important processes at the institution (for example, performance of examinations) that would ensure assurance that the deeds of the responsible employees of the institution are transparent, the implemented activities are successive, achievement of results is controlled, ensuring effective and expedient use of finances and other resources, also observing the principles of good administration. Taking into account significant drawbacks, the State Audit Office refused to provide an opinion on the compliance of the use of funds allocated to the Data State Inspectorate with the intended purpose.

There were also objections concerning the creation of GIS at the State Land Service. The State Audit Office provided a qualified opinion on this activity. Total costs of GIS creation reached to EUR 3.4 million and the information system was completed in 2015. Even though the State Land Service had taken important measures to introduce and start using GIS, the elaborated GIS functionality was used and e-services were working properly, the State Audit Office still drew attention to the circumstances which might leave a negative impact on the attainment of GIS creation goals. It is planned to launch the module for objects which have protection zones and restricted territories (Restricted Territories Information System, RTIS) within the scope of GIS starting from January 2018, but no data were registered in this module during the audit. Data are required to ensure comprehensive use of the information system, but auditors discovered that a detailed work plan to organise collaboration for the receipt of data necessary for RTIS from involved parties has not been elaborated, thereby causing a risk that comprehensive use of the module, including distribution of data, might not be started within the planned deadline.

As the result of the audit at the Ministry of Justice and institutions subordinate to the Ministry of Justice, the State Audit Office overall provided eight recommendations. Introduction of these recommendations will enable the

following: improvement of the internal control system of the Data State Inspectorate; the Ministry of Justice will define the basic principles applicable in the institutions subordinate to the Ministry of Justice for the purpose of determining and review of a pricelist for paid services; the National Forensic Expertise Bureau will review the rates of provided paid services; the principles for the management of projects in accordance with good practice will be elaborated at the Ministry, thereby enabling prevention of potential non-compliance risks in the implementation of development projects at imprisonment places; the application of electronic supervision to other groups of persons with imposed liberty restrictions will be evaluated.

2.3.2.3. Interior

Within the scope of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Ministry of the Interior”**, the State Audit Office evaluated the process of preparing the annual report and also the compliance of material transactions subjected to Financial Statement with laws and regulations, including whether the aims set forth at the moment of requesting the relevant funds have been attained. The following activities implemented by the Ministry and institutions subordinate to the Ministry were included within the scope of audits: purchase of motor vehicles at the State Fire and Rescue Service (SFRS); survey, demarcation, and arrangement of the State border of the Republic of Latvia and Russian Federation; ensuring the operation of the technical means intended for recording road traffic violations (photo radars); expenses related to certification services to ensure authentication; inclusion of an electronic signature and encryption certificates in the identification card (eID card); and expenses related to ensuring the Latvian Presidency of the Council of the EU.

As the result of the financial audit, the State Audit Office provided an unqualified opinion. The quality of the report drafted by the Ministry of the Interior is improving with every year, which is also testified by decrease in the number of errors discovered and corrected during the audit. Upon receipt of a reprimand from auditors within the scope of the audit, errors for the total amount of EUR 93 thousand were prevented (for comparison: EUR 12.6 million in the preceding year).

Upon evaluating the use of funds allocated for remuneration, violations of laws and regulations were discovered at the State Police³⁶ in respect of the calculation of remuneration for work to officials with special ranks. State Police officers who went on a business travel to provide support to Slovenian police for the purpose of ensuring public order received remuneration for work also for their rest days when their official duties were not fulfilled (in total EUR 23.7 thousand). The calculation of an unreasonable remuneration is caused by improper accounting of the working hours of command officers — the rest time of most of officers was accounted as a working time and therefore paid.

The matter on proper use of service motor vehicles is still quite topical at the State Police. State Police officers still do not ensure compliance with the procedures for the use of service motor vehicles, including the requirements concerning filling in waybills and route forms, fuel accounting and write off. The State Audit Office indicated to these drawbacks also within the scope of previous audits, concluding that it is possible to use motor vehicles not only for the fulfilment of service duties. In 2013 and 2014, State Police introduced several activities aimed at the arrangement and improvement of the internal control environment. Internal regulations were improved and a separate structural unit was established as of 1 July 2014 which is responsible of controlling the waybills of motor vehicles, route forms and odometer readings, parking of motor vehicles after the end of working hours and other matters. However, audit results show that control measures taken by State Police have failed to reach the set forth goal. There are still cases of motor vehicles being used even though their GPS does not operate properly and such action is strictly forbidden at State Police; travels have been specified in waybills and route forms on such days on which the motor vehicle has not been used according to GPS data, on some days the total indicated kilometrage reaches up to 714 km; routes specified in route forms differ considerably from GPS data or also no travel routes have been indicated in route forms, etc. State Police is recommended to continue improving the control environment in order to prevent violations in the use of motor vehicles and the risk of inadequate use of the State budget funds.

Auditors did not discover any violations of the legal provisions or inaccuracies in the following examined activities: purchase of SFRS motor vehicles; survey, demarcation, and arrangement of the State border of the

³⁶ Section 31, Paragraph three of the Law On the Career Course of Service of Officials with Special Service Ranks Working in Institutions of the System of the Ministry of the Interior and the Prisons Administration and Section 14, Paragraph ten and 10.1 of the Law On Remuneration of Officials and Employees of State and Local Government Authorities.

Republic of Latvia and Russian Federation; expenses related to ensuring the Latvian Presidency of the Council of the EU. The State Audit Office provided an unqualified opinion regarding the mentioned issues.

The State Audit Office provided a qualified opinion regarding State Police expenses to ensure the operation of photo radars.

Valsts kontrole kritizē fotoradaru ieviešanas procesu



Figure 16.³⁷

The State Audit Office believes that it must be assessed whether by applying the current solution, namely, ordering State Police to conclude a contract with the Road Traffic Safety Directorate (CSDD) on the delegation of the task of State administration in respect of the installation of photo radars and ensuring the operation thereof without involvement of the Ministry of the Interior and Ministry of Transport in the fulfilment of the task, it is possible to attain the goals set forth in the development planning documents concerning the control of speed limit on motor roads.

Audit results show that the contract concluded by State Police and CSDD on the delegation of the task of State administration in respect of the installation of photo radars and ensuring the operation thereof does not comply with the requirements laid down in laws and regulations due to the reasons that all significant conditions have not been contained therein. Thus, as a matter of fact it is not possible to assess effective fulfilment of the delegated task — no radar installation deadlines have been specified, settlement arrangements of the parties are controversial, no performance indicators concerning the fulfilment of the task have been specified and quality assessment criteria in respect of the fulfilment of the task are too vague.

The contract on the delegation of the task of State administration has been concluded without taking into consideration the requirements laid down in laws and regulations. The introduction of photo radars is not ensured within the estimated deadlines and extent, and the State is paying more than initially planned.

Although the introduction of photo radars is not ensured within the planned deadlines and extent, the service rendered by CSDD (payment for one radar day) is more expensive than initially planned, overall in 2015 exceeding the costs of contract amount by EUR 10 thousand, compared to the planned costs. Auditors noted that the contract did not contain any information on the depreciation of photo radars included in the price list of CSDD service, for example, accounting options and use thereof for the purchase of new radars or reimbursement in State budget if the delegation contract is terminated. It is also recommended to reassess whether by rendering the service to State Police, the guaranteed 10 % profit contained in CSDD service pricelist is to be considered as adequate.

The State Audit Office provided an adverse opinion regarding certification service expenses of the Office of Citizenship and Migration Affairs (OCMA) to ensure the inclusion of authentication, electronic signature and encrypting certificates within the identity card (eID card).

³⁷ State Audit Office Criticises the Process of Implementing Photo Radars. Portal www.nra.lv. Available online at: <http://nra.lv/latvija/172823-valsts-kontrole-kritize-fotoradaru-ieviesanas-procesu.htm>.

In the opinion of auditors, State budget funds allocated to OCMA (EUR 847 thousand in 2015, whereas in total EUR 4.3 million over a period of five years) for the purchase of certification services have not been used in accordance with the set forth goals — effective use of eID cards as the means of authentication and electronic signature in the communication of the population with State and local government institutions for the receipt of electronic services provided by them.

Investment of EUR 4.3 million in the development of the electronic tools of eID cards did not meet the expectations and cannot be regarded as effective.

Only 2 % of eID card users have used the features of the electronic signature included in the eID card, and out of 80 million e-signatures covered by the State, only 0.5 % has been used. Since there are other more convenient and less expensive options to access electronic services, people use the electronic features of eID cards very rarely. The latter is proven by the fact that after having used State-funded 120 units of time stamps included in eID cards, only 5 % of persons have continued using eID cards to create an electronic signature by purchasing additional time stamps.

As the result of the audit, in total nine recommendations were provided. The following is to be attained if the implementation thereof is ensured: assessment of the necessary action to prevent unlawful use of State budget funds in cases State Police officers are commanded abroad to provide support in joint operations with law enforcement institutions of EU Member States; assessment of the necessary actions to prevent violations of the rules of the use of service motor vehicles at State Police; assessment of the benefit from the use of authentication and electronic signature features contained in eID cards, and necessary actions to expand the possibilities of using the features contained in eID cards or assessment of the possibility to refuse from the allocation of financing from State budget funds to such all-inclusive functions; a proposal to the Cabinet to ensure assessment of the expediency of the financing model selected for the purchase of photo radars and also introduction of activities that would improve the supervision of the execution of the contract on the delegation of the task of State administration concluded between State Police and CSDD.

Examination of the results concerning the implementation of recommendations included in previous audits by the Provision State Agency (PSA) were also included within the scope of audits. Auditors established that control over the contract on the fulfilment and acceptance of survey and demarcation works at the State border of the Republic of Latvia and Russian Federation has been improved. The PSA has refused from collaboration with merchants unable to provide timely and high-quality works. By concluding new contracts and ensuring the fulfilment of a part of tasks through its own efforts, the PSA will save State budget funds in the amount of EUR 493.5 thousand.

Furthermore, by implementing recommendations aimed at preventing inexpedient use of State budget funds for relocation and storage of material evidence, seized property and motor vehicles seized within the scope of administrative violations' cases, the PSA took several measures, for example, found a way to store the seized property in its warehouses, as the result of what the amount of articles stored by merchants has decreased and therefore also the amount of funds used for this purpose has decreased by EUR 168 thousand in 2015, compared to 2014.

2.3.2.4. Independent and Other Institutions

In carrying out **the audit of 2015 Annual Report for the Constitutional Court of the Republic of Latvia, the Supreme Court of the Republic of Latvia and Ombudsman's Office**, auditors gained assurance regarding correctness of accounting and preparation of an annual report, and an unqualified opinion was provided. No violations of or non-compliance with laws and regulations were discovered during the audit at the Supreme Court of the Republic of Latvia upon assessing the use of State budget funds for the implementation of the activity "Strengthening the Administrative Capacity of the Supreme Court".

As the result of the financial audit **"On Correctness of Preparation of the Annual Report for 2015 by the Office of the Prosecutor"**, auditors gained assurance regarding the correctness of accounting and preparation of an annual report, and an unqualified opinion was provided.

In addition, the State Audit Office also examined the compliance of material transactions subjected to Financial Statement with laws and regulations, whether goals set upon applying for particular funding had been attained. The following activities were included within the scope of audit: material and technical provisions for the fulfilment of functions specified by the Office of the Prosecutor; expenses to ensure the Latvian Presidency of the

Council of the EU at the Office of the Prosecutor; and a project of an information system for the court system development.

Auditors did not discover any violations of the legal provisions or inaccuracies in the following examined activities: material and technical provisions for the fulfilment of functions specified by the Office of the Prosecutor and expenses to ensure the Latvian Presidency of the Council of the EU at the Office of the Prosecutor. The State Audit Office provided an unqualified opinion regarding the mentioned issues.

The State Audit Office provided a qualified opinion regarding the implementation of the project of the Information System of the Office of the Prosecutor (ISOP) due to the reason that although the elaboration of ISOP and e-service functionality was completed in October 2015, the use thereof was not started in 2016 as initially planned. The Office of the Prosecutor planned to start using the information system in 2017, but auditors concluded that in order to start using ISOP and e-services, amendments to laws and regulations are required, instructions for use must be prepared and training of personnel must be ensured that according to the initial plans had to be completed by the end of 2016.

The use of ISOP and e-services implemented within the scope of the ERDF project has not been launched according to the initial plans.

The State Audit Office also discovered drawbacks in the implementation of the system and information technology security management that might leave a negative impact on the attainment of ISOP creation goals, including the possibility that effective launch of the system could be also delayed due to the reason that all monitoring cases of criminal proceedings have not been entirely digitised as initially planned in the project, namely this process has been discontinued. Most of security management instructions and procedures provided for in the regulations of the Office of the Prosecutor and in external regulations have not been elaborated yet as well, including incomplete registration of personal data processing of natural persons.

Overall three recommendations were provided as the result of the audit. Successful implementation thereof would ensure the following: promoting the attainment of ISOP creation goals in respect of electronic access to documents and also the security of ISOP and of restricted access information to be processed in the electronic environment thereof and also data protection would be ensured.

2.3.3. Third Audit Department



Member of the Council of the State Audit Office since 21 February 2013

Director of the Third Audit Department

Inga Vārava

First Sector	Second Sector	Third Sector
Head of the Sector Ieva Pipiķe 8 employees	Head of the Sector Agnese Jaunzeme 7 employees	Head of the Sector Linda Freidenfelde-Purgaile 2 employees
Ministry of Welfare basic budget – EUR 595 million special budget – EUR 2367 million entities under subordination – 11 institutions entities under supervision – 1 capital company	Ministry of Health budget – EUR 806 million entities under subordination – 10 institutions entities under supervision – 13 capital companies	Audits on the compliance of separate transactions with the requirements laid down in laws and regulations (audits to ensure prompt response to current events in the country)

Figure 17. Employees of the Third Audit Department³⁸ and audited entities.

2.3.3.1. Welfare

Within the scope of the financial audit “**On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Welfare**”, the State Audit Office evaluated the process of preparing the annual report and also the compliance of material transactions subjected to Financial Statement with laws and regulations, including whether the aims set forth at the moment of requesting the relevant funds have been attained. The following activities implemented by the Ministry were included within the scope of audit: social rehabilitation services introduced as of 1 January 2015 and provided to adult persons who are victims of violence or who have committed violence; the use of funds intended for the administration of the Fund for European Aid to the Most Deprived; and expenses related to ensuring the Latvian Presidency of the Council of the EU.

As the result of the financial audit “On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Welfare”, the State Audit Office provided an unqualified opinion without emphasising any circumstances.

As the result of examining three crucial transactions subject to inclusion in the financial statement, a qualified opinion was provided regarding one of the mentioned transactions. Upon examining the social rehabilitation services introduced as of 1 January 2015 and provided to adult persons who are victims of violence or who have committed violence, auditors discovered significant, but not all-inclusive discrepancies in planning financing necessary for the services, the process of introducing the services and also the administration thereof.

Significant violations have been discovered in social rehabilitation services provided to adult persons who are victims of violence or who have committed violence.

The State Audit Office concluded that the measures taken by the Ministry of Welfare upon introducing the mentioned services have not been sufficient enough to ensure that the services were launched and ensured within the planned period and in the intended extent: Cabinet regulations regarding types and extent of services,

³⁸ The number of employees at the State Audit Office as at 30 December 2016.

conditions for the provision and administration thereof were adopted only a couple of days prior to the date for the launch of the services specified in the law³⁹, yet informative activities concerning the services were launched only after the introduction of the services, without ensuring access of the target group of the services and involved institutions (for example, the Police, Orphan's and Custody Court, etc.) to information on the introduced services and actual service providers.

Due to the presence of the referred to circumstances only a fifth of the total planned target audience received the service in the first year of the provision thereof, therefore only 16.7 % of EUR 554.5 thousand allocated within the scope of the new policy initiative has been used.

Furthermore, the Ministry of Welfare failed to ensure that State budget funds were used in accordance with the requirements laid down in laws and regulations. In total, at least EUR 3.9 thousand or 4 % of the actual service financing has not been used adequately in 2015 due to improper supervision of the service.

In order to ensure the prevention of the discovered discrepancies, the State Audit Office provided five recommendations to the Ministry of Welfare. Improvement of the procedures by which services are rendered and legal use of the State budget funds allocated for the provision of services would be ensured by implementing the relevant recommendations.

A large-scale performance audit entitled **"Effectiveness of the State Policy in Ensuring Sustainability of the Pension System"** was carried out in the field of welfare.



Figure 18.⁴⁰

The State Audit Office commends the work done by the Ministry of Welfare regarding the implementation of the pension reform and concludes that the decision taken over 20 years ago to establish a 3rd tier pension system based on fundamental principles of State social insurance has been correct.

By implementing the pension system, preconditions have been created for sustainability of the system, i.e., so that it would maintain stability regardless of economic and demographic changes and would ensure pensions both for current and future pensioners. The system has proven its stability by having overcome already two economic crises. Moreover, in order to ensure sustainability of the system Latvia has been able to make several significant decisions that at the same time were unpopular with the society: decisions regarding increase of the retirement age and minimum insurance period.

Yet not all plans made for the pension reform have come to pass. Due to the lack of financing in the State, it has not been possible to fully achieve the goal of the 1st tier pensions — to ensure that the minimum pension reaches 20 % of the average gross wages, thus decreasing the poverty risk for pensioners.

In 2015, 17.4 % of the persons received state retirement pension, the amount of which was smaller than the minimum pension amount planned in the Pension Reform Concept.

One of the main reasons for insufficient pension budget revenue for disbursement of higher pensions is the great number of persons who make decreased contributions or do not make any contributions at all. The payers of small contributions do not equally participate in the implementation of the solidarity principle; thus, the social security is not accrued in a sufficient amount, especially the future pension capital; therefore, in future other contributors will have to provide disbursement of the minimum pension for these persons. The State Audit Office invites to find solutions in order to make sure that the payers of small contributions equally participate not only in disbursement of pensions to current pensioners, but also in forming their own social security.

³⁹ Section 13, Paragraph one, Clause 3.¹ and Clause 11 of the Social Services and Social Assistance Law and Paragraph 17.¹ of Transitional Provisions.

⁴⁰ Is the State Policy for Ensuring the Sustainability of the Pension System Effective? Portal lrvk.gov.lv. Available online at: <http://www.lrvk.gov.lv/en/revizija/state-policy-ensuring-sustainability-pension-system-effective/>.

Since the introduction of the reform, it has been possible to achieve the goal of the 2nd tier pensions: without increasing the total rate of contributions for the state retirement pensions, redirect a part of contributions to the financial and capital market and thus achieve the increase of pension capital. However, the State Audit Office recommends to repeatedly review the procedures for the calculation of the 2nd tier pension funds administration which is set in the amount of 1 % of the assets value irrespective of the actual administration costs. According to the estimates of auditors, during the period from 2011 to 2015, the amount thereof has nearly doubled from EUR 12 million to nearly EUR 22 million. The State Audit Office invites to assess if administration costs increase proportionally to the growth of the asset value.

The State Audit Office invites to consider also a purposeful creation of a pension budget reserve or 'air bag' so that in future when the ratio of pensioners in relation to working people will increase, the system would be able to maintain stability and ensure disbursement of pensions in the accrued and granted amount. Furthermore, it is necessary to increase the trust level of the society.

When conducting the audit, the State Audit Office analysed also the area of service pensions and concluded that it does not comply with the nature of the Latvian pension policy. When granting service pensions, an equal attitude has not been ensured not only towards other working people, but also towards the recipients of service pensions themselves. The State Audit Office states that further advancement of new draft laws widening the range of persons receiving service pensions should not be permitted while a comprehensive systematic assessment of service pensions has not taken place, current goals and criteria for service pensions have not been defined, and already existing service pensions have not been reviewed, if necessary by implementing alternative compensation mechanisms.

In its audit, the State Audit Office has provided 12 recommendations to the Ministry of Welfare, and the Ministry has made a full commitment to implement these recommendations by 2022.

During the reporting period, it was continued to supervise the implementation of recommendations provided as the result of financial, regulatory and performance audits carried out in previous years in the field of welfare. The main focus was on the implementation of recommendations provided in the regulatory audit carried out in 2014 "Legality and Effectiveness of Social Assistance Provided by Local Governments", including the measures taken by 10 local governments in relation to the implementation of 96 recommendations within the scope of audit.

Upon implementing the recommendations provided by the State Audit Office:

- all 10 selected local governments have introduced the status of a low-income family (person) pursuant to the scope of this status, thereby ensuring that a family (person) whose income and material status are above the income level of an underprivileged family (person), yet is not sufficient to ensure the basic needs, had the right to qualify for the receipt of State guaranteed legal benefits intended for low-income families (persons), for example, in 2015 — application of a reduced electricity rate. It has been proposed that also other local governments which were not included in the selection would follow this example and review the aforementioned status;
- access to data from other State information systems and registers, for example, on real estate, motor vehicles owned by a family, subsidies granted by the Rural Support Service, etc., has been ensured to the social services of local governments if accessing the social aid administration application (SOPA) which is used for the accounting of social aid. As the result of the recommendation it has been achieved that the social service itself obtains information on the family income and material status, extracting these data from State registers and information systems accessible in SOPA, instead of ordering the person to submit various notices from different institutions;
- local governments have deactivated restrictions of the receipt of social aid if the person has changed his or her place of residence from another local government. For example, up until the audit conducted by the State Audit Office a family qualified for the receipt of a housing benefit or child birth benefit only if the respective person had been declared in the relevant local government at least for one year;
- the principle of the rule of law has been ensured in respect of the decision taken regarding provision of social aid, also preventing the situation of social aid being ensured to families who have submitted false information on their income and material status;
- the quality of binding regulations of local governments has been improved.

During the reporting period, estimates on the financial impact of the implementation of recommendations provided as the result of financial, regulatory and performance audits carried out in previous years in the field of welfare were also made. According to estimates, upon implementing the recommendations provided by the State Audit Office, State budget funds in the amount of at least EUR 374 thousand have been economised over a period from 2013 until 2016.

2.3.3.2. Healthcare

Within the scope of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Health”**, the State Audit Office evaluated the process of preparing the annual report and also the compliance of material transactions subjected to Financial Statement with laws and regulations. The following matters were examined within the scope of the audit: whether the Ministry of Health has elaborated an effective monitoring mechanism and complied with the requirements on the division of residents and the requirements for the rules on financing the residency concerning the repayment of State budget funds used for the training activities of residents if the resident has discontinued studies in residency or has not been employed in the medical treatment institution in line with laws and regulations for a definite period of time after residency. Furthermore, expenses to ensure the Latvian Presidency of the Council of the EU were also included within the scope of audit.

As the result of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Health”**, the State Audit Office provided an unqualified opinion, yet it emphasised circumstances in relation to accounting inconsistencies discovered in the audit of the State Sports Medicine Centre (SSMC). The audit revealed that the SSMC has not established such accounting system for the provided services and income which would ensure a possibility to effectively control and compare the provided paid services and the received income, thereby imposing a risk of errors in income accounting in respect of the rendered services.

Furthermore, the audit revealed that the SSMC, upon providing services with total value of EUR 4 thousand to employees, without demanding payment for these services, has provided additional remuneration-related benefits to the employees that are not provided for in the Law On Remuneration of Officials and Employees of State and Local Government Authorities and therefore are forbidden. The State Audit Office notified the Office of the Prosecutor General on this violation.

During the audit, the State Audit Office indicated to the violation of the fundamental principles of financial management at the Health Inspectorate based on the fact that advance tax payments, previously unplanned advance payments and payments for the receipt of services in subsequent periods in total amounting to EUR 171.1 thousand were settled in December 2015.

The results of the audit revealed imperfections in overtime work calculations of the State Emergency Medical Service (SEMS). The State Audit Office recommended that the Ministry in collaboration with the SEMS would elaborate a methodology for the calculation of overtime work of employees subjected to extended standard working hours with summary calculation of the worked hours, provided that overtime calculation is ensured, taking into account the requirements laid down in the Law On Remuneration of Officials and Employees of State and Local Government Authorities.

An adverse opinion was provided as the result of examining material transactions subjected to Financial Statement — compliance of the work of the Ministry of Health in ensuring the fulfilment of resident duties. The State Audit Office concluded that the Ministry has not established an effective supervision mechanism and has not taken into consideration the requirements contained in resident division and residency financing regulations in respect of repayment of State budget funds used for the training of residents.

Due to omission by the Ministry, State budget funds used to ensure the training of residents in the amount of EUR 0.9 million have not been retrieved from 124 persons who have not completed residency over a period of seven years (from 2009 until 2015).

Upon examining the second material transaction subjected to Financial Statement with laws and regulations — use funds allocated to ensure the Latvian Presidency of the Council of the EU — the State Audit Office provided a qualified opinion due to the reason that it was discovered that the Ministry of Health, National Health Service,

Health Inspectorate and VSCM had used EUR 4.4 thousand contrary to the intended purpose. Moreover, it was impossible to ascertain about whether the expenses of SEMS and VSCM in the amount of EUR 21.3 thousand had to be financed from the financial means intended for ensuring the Presidency.

In order to prevent the violations and non-compliance, the State Audit Office provided nine recommendations to the Ministry of Health. The following improvements will be ensured by implementing the mentioned recommendations: improvement of the process for monitoring paid services; adequate accounting of overtime work; and also ensuring the observance and fulfilment of the regulatory enactment regarding residency financing.

The performance audit **“Is the State Capable of Ensuring Effective Ambulatory Healthcare Services?”** was completed in 2016, and the audit report **“Is it Possible to Improve Ambulatory Healthcare Services in Latvia?”** was drawn up.



Figure 19.⁴¹

As the result of the audit, the State Audit Office came to the conclusion that the Ministry has not managed to ensure an effective healthcare system and advancement towards achieving the goal set forth by the Ministry — to ensure availability of timely, safe, high-quality and equal healthcare services, at the same time rationally using the available resources.

Upon evaluating the actual deeds of the Ministry in terms of introducing the measures included in policy planning documents in the field of ambulatory healthcare, it was concluded in the audit that many important matters had not been resolved for years or the measures taken did not achieve their goal.

Furthermore, auditors established that the Ministry of Health had not engaged actively in the promotion of common understanding about the scope of responsibilities and measures to be taken in improving the availability of healthcare services to the population as there is no definition of the notion “healthcare accessibility”.

Having examined the methodology for the assessment of the work of family doctors, it was concluded that it is not operating as initially planned and it is necessary to improve it. Since the introduction of the mentioned methodology, over a period of three years family doctors have not significantly improved the annual indicators of their work in terms of complying with the quality criteria as only six criteria out of 13 defined criteria have been attained.

The established system for financing family doctors does not motivate doctors to comply with the set forth quality criteria and to increase the work volume by providing services at their medical practice, because the additional payment for the assessment of the annual results of a family doctor constitutes less than 3 % of the total income of a family doctor.

The audit revealed that family doctors quite frequently do not provide simple services at their medical practice. It is to be noted that referral of patients to a specialist to ensure the service, which is part of the professional competence of family doctors, causes additional State budget expenditure as it is necessary to settle payments for such services.

⁴¹ Can Ambulatory Health Care System in Latvia Be Improved? Portal www.lrvk.gov.lv. Available online at: <http://www.lrvk.gov.lv/en/revizija/can-ambulatory-health-care-system-latvia-improved/>.

Within the scope of the audit the State Audit Office assessed whether the Ministry, having purchased healthcare services, including examinations, ambulatory services and services rendered by specialists, has acted rationally. According to the information obtained in the course of the audit, already for a long period of time State and local governments are compelled to subsidise medical treatment institutions in their ownership in order to ensure continuous fulfilment of the functions necessary to the State. At the same time resources of public medical treatment institutions are not used entirely and there is a probability of increasing the amount of provided ambulatory services.

For example, in 2015, the contributions of local governments to maintain their health treatment institutions reached EUR 3.1 million, whereas the State has taken over the fulfilment of obligations of medical treatment institutions subject to guarantees by granting EUR 3.9 million to cover the obligations in 2015.

As the result of the audit, 12 recommendations were provided to the Ministry of Health. The following improvements will be achieved by implementing the mentioned recommendations: improvement of the ambulatory medical treatment system, including the availability and quality of healthcare services provided by family doctors by rationally using the financial means allocated to ambulatory healthcare.

The expedience audit **“Has the Management of Riga East Clinical University Hospital Ensured Expedient Use of State Funds?”**.



Figure 20.⁴²

Upon performance of the audit to examine whether the management of Riga East Clinical University Hospital has ensured expedient use of State funds, the State Audit Office discovered deficiencies in all fields of operation subject to verification at the hospital, including disadvantageous collaboration with outsourced service providers, poor control of the concluded contracts and frequent lack of economic logics. The hospital has accrued loss in the amount of EUR 28 million, but there is no action plan based on actual calculations to improve the current situation.

In 2011, the rate for the provision of healthcare services at Riga East Clinical University Hospital was equated to the level of regional hospitals, without considering the fact that Riga East Clinical University Hospital also ensures medical treatment of complicated illnesses which is more expensive.

Even though the management of the hospital has addressed the Ministry of Health, asking to resolve the current situation, no changes have been introduced in the hospital rate policy. In addition, also the management of the hospital has not been able to optimise the work of the hospital in order to adjust to the situation.

As the result of the audit, the State Audit Office concluded that hospital premises with total area of 18.5 thousand square metres are not entirely used. Maintenance of temporarily unused premises has resulted in losses to the hospital in the amount of EUR 424 thousand annually. Already for a long period of time, the costs for the maintenance of premises without any purpose of use reach EUR 115 thousand annually. Furthermore, delay in taking a strategic decision on further use of unoccupied premises at the hospital “Linezers” will increase the losses of the hospital by additional EUR 200 thousand a year.

The State Audit Office evaluated the benefits of an outsourcing contract and the control over the execution thereof in such fields as microsurgery and laboratory examinations and also cleaning of premises and catering of patients.

Contrary to the calculated savings of financial means at the hospital in the amount of 22.3 % at the moment of outsourcing the cleaning services, the costs for cleaning premises in 2015, compared to 2014, have increased by

⁴² Is It Possible to Improve the Efficiency of the East Hospital? Portal lrvk.gov.lv. Available online at: <http://www.lrvk.gov.lv/en/revizija/possible-improve-efficiency-east-hospital/>.

20 % — nearly by half a million euro annually. The audit also revealed that in 2015, the hospital overpaid at least EUR 32.3 thousand for the outsourced service as it failed to ensure adequate control of the execution of the concluded contract.

The hospital has reduced costs by outsourcing catering services, yet there is still a substantial amount of losses. In 2015, the amount of losses reached EUR 1.3 million.

In 2015, the average actual costs of the hospital for catering services provided to a patient on a daily basis reached EUR 4.78, whereas the payment rate for catering of patients included in the tariff of the National Health Service — EUR 2.40.

Irrespective of the fact that the load of equipment installed at the hospital does not exceed 60 %, two outsourcing service providers have been involved in this field of operations. There is also disproportionate division of workload at the hospital laboratories. In the opinion of auditors, by reorganising the work and focusing examinations at the Centre for Laboratory Medicine and the Latvian Centre of Infectious Diseases and also by refusing from outsourcing services, the hospital would have a chance of improving the profitability of this service.

The Hand and Plastic Surgery Division at Riga East Clinical University Hospital is one of the leading and largest plastic surgery centres in the Baltic States; however, for a long period of time no solution has been found to ensure this service through its own efforts. As the result of the audit conducted in 2009, it was established that the hospital is thereby not using the opportunity of gaining profit through provision of profitable microsurgery services, whereas currently we can already refer to losses at least in the amount of EUR 190 thousand annually.

By implementing the recommendations provided by the State Audit Office, the hospital could considerably reduce the annual losses, but in order to ensure complete profitability, a more thorough involvement of the Ministry is necessary both in terms of assessing the compliance of rates with the specific nature of Riga East University Hospital and ensuring a more determined monitoring of the hospital as a capital company.

During the reporting period, it was continued to supervise the implementation of recommendations provided as the result of financial, regulatory and performance audits carried out in previous years in the field of health.

Upon examining whether the drawbacks and inconsistencies discovered in the performance audit “Information Systems in the Field of Healthcare”, the State Audit Office established that the Ministry of Health and the National Health Service have taken measures to enhance the implementation of recommendations, but at the moment the State Audit Office has not accepted any of the recommendations contained in the audit as entirely implemented.

There is still work ahead to ensure successful implementation and use of the e-health service which is being introduced by the Ministry of Health, because on 29 November 2016, amendments were introduced to Cabinet Regulation No. 134 of 11 March 2014, Regulations Regarding Unified Electronic Information System of the Health Sector, changing the date for the launch of the compulsory use of e-health information system to 1 September 2017. Thus, the deadline for the implementation of recommendations provided by the State Audit Office has been extended by the end of 2017.

In order to gain assurance on the implementation of the recommendations provided in the regulatory audit “Cost-effectiveness and Legality of Activities of the Blood Service and Circulation of Plasma Products”, in 2016, as the result of examinations it was established that out of 20 recommendations only eight recommendations have been implemented.

In 2016, several amendments were introduced to laws and regulations, defining the regularity of examinations conducted by the State Agency of Medicines regarding the compliance of the State Blood Donor Centre, Blood Preparation Departments and hospital blood banks with the requirements laid down in external regulations and also defining an obligation to the State Blood Donor Centre to ensure blood reserves and preparation of blood components not only for the needs of medical treatment institutions (transfusions), but also for the needs of creating blood products, thereby preventing inconsistencies discovered during the audit in respect of irregular performance of examinations by the State Agency of Medicines and in the future ensuring that components obtained in other countries are not used in the creation of plasma preparations or preparations created from components obtained in other countries are not purchased.

However, the State Audit Office concluded that the Ministry of Health and State Blood Donor Centre are still not ensuring reasonable and up-to-date blood and blood component accounting price calculation, therefore the deadlines for the introduction of several recommendations were extended by 1 July 2017.

2.3.3.3. Audits for Ensuring Prompt Response to Current Events in the Country

Result to be achieved in accordance with the Action Strategy.⁴³

In response to topical events in the country, it is planned to carry out at least four audits in order to prevent deficiencies in the activities of the public sector already in the progress in a timely manner.

Fulfilled.

In 2016, in response to topical events in the country, **three regulatory audits were completed and two regulatory audits were commended**, as well as monitoring of the implementation of the recommendations provided in audits of 2015 was ensured.

The main focus of the regulatory audit **“Measures Taken by the Freeport of Riga Authority to Eliminate Violations Discovered by the Competition Council”** was to carry out examinations of cases initiated by the Competition Council regarding the action of the Freeport of Riga Authority (FPRA), which prevented competitors to provide tugboat services in the territory of the Freeport of Riga. The purpose of the audit was to calculate the amount of expenses incurred to the FPRA as the result of the failure to eliminate the violations discovered by the Competition Council.

The audit revealed that the litigation process concerning decisions taken by the Competition Council has caused losses to the FPRA amounting to at least EUR 1.1 million, despite the fact that court rejected all FPRA claims, covering the penalties imposed by the Competition Council, and also settled the payments for legal services and consulting services. In addition, these are not the only expenses incurred to the FPRA due to the violation of the legal norms laid down in the Competition Law, because it is involved in five other legal proceedings with other tugboat service providers in the territory of the Freeport of Riga. During the audited period, the FPRA overall has paid out EUR 296 thousand to its law firm in order to ensure the representation of its interests in the mentioned legal proceedings. The State Audit Office considers that under the present circumstances there is also a potential risk of other legal proceedings in relation to other decisions taken by the Competition Council which in the future might cause additional expenses to the FPRA.

ENAP pēc VK secinājumiem sācis pārbaudi par pārkāpumiem Rīgas brīvastā

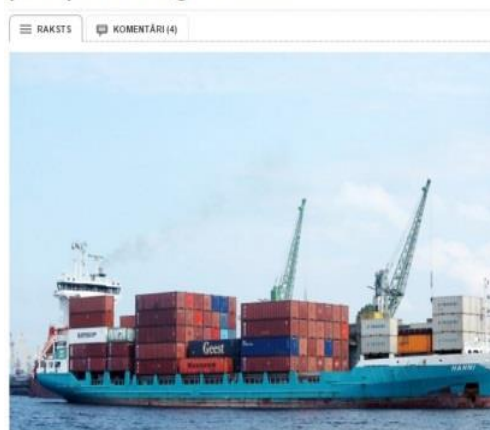


Figure 21.44

The FPRA and its subsidiary SIA “Rīgas brīvastas flote” has not been providing tugboat services at the Freeport of Riga since 1 February 2016, therefore the legal obligations imposed by the Competition Council have been fulfilled. However, upon evaluating the organisation of auctions, auditors concluded that the intended submission term specified for applicants — overall six working days — and placement of the information regarding the auction only on the website of SIA “Rīgas brīvastas flote” indicate to the risk of potential non-observance of the obligation of public persons stipulated in the law On Prevention of Squandering of the Financial Resources and Property of a Public Person, namely, property shall be alienated and transferred to the ownership or use of another person at the highest price possible.

Since there is no information on the deeds of the FPRA or the Ministry of Transport to find out which FPRA officials are to be held liable for violating the Competition Law and there is also no information on persons who took decisions on the initiation or continuation of legal proceedings, the State Audit Office provided one recommendation to the FPRA, encouraging to assess the expediency and legality of the decisions taken by

⁴³ The result must be achieved within each year of the Action Strategy.

⁴⁴ ECED has started an inspection at the Freeport of Riga based on SAO conclusions. Portal www.tvnet.lv. Available online at: http://www.tvnet.lv/zinas/latvija/612484enap_pec_vk_secinajumiem_sacis_parbaudi_par_parkapumiem_rigas_brivostas.

administration officials in relation to restricting the right of other market participants to provide tugboat services at the Freeport of Riga.

The goal of the regulatory audit **“Does the Society Integration Foundation Ensures Traceable Allocation of State Budget Funds to Associations and Foundations and also Control Over the Use Thereof?”** was to ascertain about whether the Society Integration Foundation (SIF) ensures a traceable process of the allocation of State budget funds and also supervision and control over the use of the allocated State budget funding.

Throughout the period from 2012 until 2015, SIF has allocated a total of EUR 1.87 million from State budget funds to project implementers within the scope of 15 support programmes, non-governmental organisations and other legal persons to ensure the implementation of 151 projects.

It is concluded as the result of the audit that not in all cases SIF managed to ensure equal approach in assessing project applications and the traceability of the decisions taken, thereby raising doubts about the validity of the decisions taken by SIF. Assessment errors identified in the audit have influenced the outcome of three project applications submitted within the scope of support programmes. If members of the selection committee had acted pursuant to internal rules, in the period from 2012 until 2015, SIF would not supported several projects with total value of EUR 36 thousand, allocating financing for the implementation of other projects instead.

Several unreasonably supported projects have been discovered.

VK konstatē nepilnības integrācijas fonda naudas sadalē – nepamatoti atbalstīti vairāki projekti



Figure 22.⁴⁶

The State Audit Office notes in the audit that SIF, when financing projects, does not ensure correct application of the rate of costs per one unit specified in the Financial Regulation of the European Parliament and of the Council⁴⁵. Although SIF is using the advantages offered by the Regulation of not checking the actual costs of financing recipients, but only checks the results of the project attained within the scope of a pre-defined financing level, SIF does not comply with the preconditions laid down in the Financial Regulation and has not ensured a pre-defined, fair, objective and provable calculation of costs per one unit.

Instead SIF approves the actual costs of each project implementer. By applying an improper method for the calculation of costs per one unit, SIF causes the risk of inexpedient and unreasonable use of State budget funds as it is impossible to gain assurance about whether the goal of the relevant programme has been attained with the lowest use of State budget funds.

Even though SIF is not obligated to examine the actual costs of project implementation if projects are financed by using the rate of costs per one unit, auditors carried out such checks on a random basis, discovering various discrepancies. At the same time, the following is to be noted: if project implementation contracts stipulate detailed reporting on each position of eligible project costs, providing supporting documents when providing the costs justification, SIF shall ensure the supervision and monitoring of the funds allocated by SIF.

Four recommendations were provided within the scope of the audit. The implementation of the mentioned recommendations will ensure the following: equal and traceable assessment process of project applications; proper application of the rate for costs per one unit; improved control over the use of funds; and supervision of the fulfilment of provisions laid down in the contracts on project funding. At the same time, the State Audit Office has appealed to SIF to consider the possibility of retrieving those State budget funds from project implementers that have not been used pursuant to the contract provisions and requirements laid down in laws and regulations.

⁴⁵ Regulation (EU, Euratom) No. 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No. 1605/2002.

⁴⁶ The State Audit Office discovers drawbacks in the distribution of the Society Integration Foundation funds — unreasonable support to several projects. Portal www.lsm.lv. <http://www.lsm.lv/lv/raksts/latvija/zinas/vk-konstate-nepilnibas-integracijas-fonda-naudas-sadale--nepamatoti-atbalstiti-vairaki-projekti.a201664/>.

The following regulatory audit was carried out: **“Compliance of Activities of the Local Government Joint Stock Company ‘Daugavpils siltumtīkli’ with Planned Goals and Requirements Set Forth in Laws and Regulations”**.

Valsts kontroles revīzijas rezultāti
“Daugavpils siltumtīklos”

Piektā diena, 13 jan 2017, 09:30

Versija drukāšanai



Figure 23.47

No inconsistencies were discovered in the audit on determining the rate of thermal energy services; however, assurance was not gained about the preservation of the stability of the rate of thermal energy in long-term perspective.

In the period from 2007 until 2012, local government Joint Stock Company “Daugavpils siltumtīkli” (“Daugavpils siltumtīkli”) concluded six contracts with merchants on the construction of thermal energy production facility, thereby every year reducing the volume of thermal energy produced by its own efforts. At the moment “Daugavpils siltumtīkli” produces only half of the necessary thermal energy volume, whereas the remaining volume is purchased from private merchants. Over a period of eight years, overall EUR 35.5 million has been paid for thermal energy to private merchants.

Upon examining contracts, auditors discovered numerous violations of procurement regulations, for example, “Daugavpils siltumtīkli” concluded a contract without applying the procurement procedures, indicated false information in procurement statements on the selection of thermal energy supply partners, announced that the procurement has been won by an applicant who did not comply with the requirements laid down in the procurement documents. Furthermore, throughout the period of validity of the contract, “Daugavpils siltumtīkli” allowed merchants to involve subcontractors, thereby allowing a situation that the contract is executed and income from thermal energy produced in cogeneration regime and also from electricity sold within the scope of the State mandatory procurement is gained by five other merchants which have not been selected in the open call for proposals.

Such action by “Daugavpils siltumtīkli” has resulted in an outcome that merchants have received a larger compensation for the produced thermal energy by using the advantages granted by the State to small electricity producers. For example, two merchants, which ensure electric power up to 4 MW for electricity sold within the scope of the State mandatory procurement, earned EUR 2.9 million in 2015. This is two times more than in case the contract was executed in accordance with the contract provisions — one merchant produces electric power of 8 MW. Although “Daugavpils siltumtīkli” receive electricity, which is produced by private merchants, for a price which is lower than the price of electricity produced by the company itself, the latter does not justify the action of “Daugavpils siltumtīkli”, thereby creating unreasonably favourable conditions and particularly favourable conditions for merchants.

The State Audit Office warns that these merchants will stop receiving State support for electricity produced within the scope of mandatory procurement in the period from 2019 until 2022, therefore the income of merchants will decrease considerably and it is possible that the execution of contracts concluded with “Daugavpils siltumtīkli” will no longer be profitable to them.

Neither “Daugavpils siltumtīkli”, nor Daugavpils City Council have managed to strategically assess future development perspectives to ensure continuous and high-quality thermal energy service to the residents, retaining the stability of the rate.

The State Audit Office provided four recommendations to “Daugavpils siltumtīkli” and also urged “Daugavpils siltumtīkli” to define development directions, long-term goals and also to review the structure of expenses in order to ensure effective use of funds and efficiency and economic justification of the costs included in the thermal energy rate. The mentioned activities are to be implemented in collaboration with Daugavpils City Council so that

⁴⁷ Results of the audit carried out by the State Audit Office at “Daugavpils siltumtīkli”. Portal www.lat.grani.lv. Available online at: <http://lat.grani.lv/society/9957-valsts-kontroles-revizijas-rezultati-daugavpils-siltumtiklos.html>.

in long-term perspective residents would be ensured with the best price for thermal energy services by taking into account the current situation and potential risks.

During the reporting period, supervision was carried out over the implementation of recommendations provided as the result of operating regulatory audits carried out during the previous year. The emphasis was on checking the implementation of recommendations provided in the regulatory audit "Determination of the Fee for the Administration and Management of Residential Buildings at SIA "Rīgas namu pārvaldnieks"" conducted in 2015. Within the scope of the audit, the State Audit Office provided 23 recommendations, whereof 17 recommendations were implemented in 2016.

Upon evaluating the information and documents submitted by SIA "Rīgas namu pārvaldnieks" (RNP), the State Audit Office established that the company created preconditions to ensure the implementation of recommendations provided as the result of the audit. For example, as the result of the audit it was discovered that precise and detailed information on the accrued savings is not provided to the owners of apartments — RNP has created a fund for the localisation and prevention of emergencies from the payments settled by owners (nearly EUR 1 million), but in the reports submitted to the owners of apartments the mentioned funds were specified by RNP as spent. After the introduction of the recommendation provided by the State Audit Office, in April 2016, the apartment residents were finally informed on the presence of such accrual and the amount of the accrued money as this information was specified in the report on the use of funds in 2015. Upon introducing the recommendation provided by the State Audit Office, in the reports on the use of funds in 2015, RNP had specified information on what amount of money from the balance of funds at the end of the period is actually applying to the accrual intended for repair works for subsequent periods.

2.3.4. Fourth Audit Department



Member of the Council of the State Audit Office since 26 March 2015

Director of the Fourth Audit Department

Ilonda Stepanova

First Sector	Second Sector	Third Sector
Head of the Sector Uldis Kalniņš 8 employees	Head of the Sector Aija Feldmane 6 employees	Head of the Sector Natalja Mihailova 8 employees
Ministry of Agriculture budget – EUR 546 million entities under subordination – 13 institutions entities under supervision – 5 capital companies	Ministry of Environmental Protection and Regional Development budget – EUR 238.6 million entities under subordination – 8 institutions entities under supervision – 3 capital companies and 5 planning regions	Ministry of Culture budget – EUR 134.9 million entities under subordination – 32 institutions entities under supervision – 16 capital companies
Central Land Committee budget – EUR 105 thousand	Cabinet budget – EUR 8.4 million	Ministry of Finance budget – EUR 1079 million entities under subordination – 6 institutions entities under supervision – 5 capital companies
Ombudsman's Office budget – EUR 1.4 million	Interdepartmental Co-ordination Centre budget – EUR 0.6 million	Chancery of the President of Latvia budget – EUR 3.2 million

Figure 24. Employees of the Fourth Audit Department⁴⁸ and audited entities⁴⁹.

2.3.4.1. Agriculture, Fishery, and Forestry

Within the scope of the financial audit “**On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Agriculture**”, the State Audit Office evaluated the process of preparing the annual report and also the compliance of material transactions subjected to Financial Statement with laws and regulations, including whether the aims set forth at the moment of requesting the relevant funds have been attained. Taking into consideration the fact that the Ministry of Agriculture administers EU “rural” funds and also State support to the industry, substantial financial resources are at the disposal of the Ministry that are not expected to decrease also in the upcoming years. Taking into account the amount of financial resources and the importance of effective use thereof in long-term perspective, the audit was focused on the examination of the use of funds allocated to the Ministry of Agriculture in 2014 for the purpose of implementing the policy initiative “Introduction of the Reform of the EU Common Agricultural Policy and Development of Customer-oriented Service Provision of the Ministry of Agriculture and Institutions Subordinate to the Ministry of Agriculture for 2014-2020” and also for the boiler house of the Latvia University of Agriculture and reconstruction of treatment plants. The use of funds allocated to the Ministry of Agriculture to ensure the Latvian Presidency of the Council of the EU was also examined.

As the result of the financial audit “On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Agriculture”, the State Audit Office issued an unqualified opinion, based on the facts that the report provided a

⁴⁸ The number of employees at the State Audit Office as at 30 December 2016.

⁴⁹ The Corruption Prevention and Combating Bureau was within the responsibility thereof by 31 July 2016, whereas the Ministry of Culture and the Ombudsman's Office — from 1 August 2016.

clear and true idea about the financial position, the changes and results thereof in all the aspects, and it was prepared in compliance with the requirements set forth in laws and regulations of the Republic of Latvia.

However, auditors noted that the Ministry has not taken into account the requirements set forth in the Law On Budget and Financial Management regarding the use of State budget appropriations solely for the needs contained in the annual law On State Budget, because in September 2015, the Ministry had settled an advance payment in the amount of EUR 131.4 thousand which was not initially included in the procurement procedure, introducing amendments to the procurement contract on the following day after signing thereof. In total, EUR 87.6 thousand of the advance payment settled by the Ministry of Agriculture applied to the services provided in 2016.

In 2015, the Ministry, by settling advance payments in the amount of EUR 131.4 thousand, whereof EUR 87.6 thousand applies to 2016, has violated the requirements laid down in the regulatory enactment governing the field of procurements and also has used the budget funds inadequately — contrary to the appropriations provided for in the annual budget.

Upon examining material transactions subjected to Financial Statement, auditors did not discover significant inconsistencies in the course of the audit.

Yet inconsistencies were identified in the calculation of remuneration and related payments at the Rural Support Service and the Food and Veterinary Service. The audit also revealed inconsistencies in the procurement organisation procedures and the control over the organisation of procurements at the Ministry of Agriculture and the Latvia University of Agriculture. Uneconomical use of funds upon purchasing work garments non-compliant to laws and regulations and also inconsistencies in the internal control environment in respect of the use of service motor vehicles were discovered at the State Technical Supervision Agency. The application of cost classification contrary to the requirements laid down in the regulatory enactment⁵⁰ was discovered at the Ministry of Agriculture and the Rural Support Service.

As the result of the audit, the State Audit Office provided 12 recommendations through the implementation of which the following will be ensured: promotion of the use of budget funds only for covering obligations planned within the annual budget law; remuneration and calculation of related payments at the Rural Support Service and the Food and Veterinary Service will be ensured in accordance with the requirements laid down in laws and regulations; procedures for the organisation of procurements and control over the organisation thereof will be improved at the Ministry and the Latvia University of Agriculture; expenses in the annual report of the Ministry of Agriculture and the Rural Support Service will be indicated in accordance with the codes of economic classification laid down in laws and regulations; uneconomical use of funds will be prevented at the State Technical Supervision Agency; the internal control environment in respect of the use of service motor vehicles will be improved; and the procedure for the elaboration and testing of information systems will be improved at the Rural Support Service.

The Ministry of Agriculture informed that the respective recommendations have been implemented. Auditors of the State Audit Office will gain assurance on the introduction of recommendations in the financial statements of 2016 and 2017.

2.3.4.2. Environmental Protection and Regional Development

Within the scope of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Environmental Protection and Regional Development”**, the State Audit Office evaluated the process of preparing the annual report and also the compliance of material transactions subjected to Financial Statement with laws and regulations, including whether the aims set forth at the moment of requesting the relevant funds have been attained. The audit of the Ministry of Environmental Protection and Regional Development (MoEPRD) included the activities implemented within the scope of the new policy initiative “Use of Nature Capital in Promoting Green National Economy” and expenses related to ensuring the Latvian Presidency of the Council of the EU.

As the result of the financial audit “On Correctness of Preparation of the Annual Report for 2015 by the MoEPRD”, the State Audit Office provided an unqualified opinion also emphasising circumstances.

⁵⁰ Annex to Cabinet Regulation No.1031 of 27 December 2005, Regulations Regarding the Classification of Budgetary Costs in Compliance with Economic Categories.

In December 2015, the MoEPRD settled an advance payment in the amount of EUR 12.2 thousand for a service which is received in 2016 and also the State Environmental Service has not used EUR 102.8 thousand for the intended purpose — for the implementation of the control of the construction process of structures related to radiation safety and monitoring functions —, thereby violating the requirements laid down in the Law On Budget and Financial Management.

Upon examining material transactions subjected to Financial Statement, auditors did not discover significant inconsistencies in the course of the audit.

Overall five recommendations were provided in the financial audit whereof four have been implemented in 2016. Recommendations were provided for the purpose of promoting the use of budget funds only for covering obligations contained in the annual budget law to ensure the performance of the functions of the State Environmental Service within the scope of the allocated financing and also to ensure that traffic signs at the National Botanic Garden would be completed in accordance with the requirements laid down in internal regulations and expenses would be indicated in accordance with the codes of economic classification laid down in laws and regulations.

In 2016, the State Audit Office completed the performance audit **“Are Funds Intended for Reducing Climate Changes Planned and Used in an Effective Manner and in Accordance with Requirements Set Forth in Laws and Regulations?”**.

The MoEPRD has failed to elaborate a high-quality action policy to tackle climate change, since, despite the fact that the climate policy covers almost all sectors of national economy, no liability is determined for each ministry in the attainment of the common goal of the climate policy, including the liability of the Ministry of Environmental Protection and Regional Development for the administered contribution of the Climate Change Financial Instrument and the Auctioning Instrument of Emission Allowances with the total financing of EUR 254 million.

It has been concluded as the result of the audit that financial means in the amount of EUR 31.9 million, granted to the Auctioning Instrument of Emission Allowances, have not been invested in effective activities. Thus — projects with the greatest capacity of emission reduction are not supported.

The MoEPRD is constantly delaying policy planning and elaboration of documents related to the introduction thereof, for example, the Ministry:

- still has not developed a low-carbon emission development strategy, repeatedly postponing development deadlines determined in both the Environmental Policy Guidelines for 2014-2020 and the Government Action Plans, as well as the Action Plans of the MoEPRD for 2014, 2015 and 2016;
- still has not developed a conceptual report on ensuring the fulfilment of goals related to the reduction of potential greenhouse gas emissions of Latvia for a period from 2020 to 2030 in breakdown by sectors, which should include assessment on the effectiveness of current emission-reducing activities of sectors, as well as the costs and benefits of emission-reducing activities implemented in the sectors of national economy (deadline set by the Cabinet: 31 July 2016);
- has repeatedly postponed the development of the operation strategy of the Auctioning Instrument of Emission Allowances specified in both an informative report submitted to the Cabinet and the Action Plan of the MoEPRD for 2015, which would specify certain priority activities to be supported, approving it only during the audit;
- has failed to prepare an informative report on the assessment of fulfilment of obligations related to the reduction of greenhouse gas emissions and CO₂ attraction for 2016.

In developing the regulations of project competitions of the Auctioning Instrument of Emission Allowances, the Ministry has failed to set the selection of projects reducing greenhouse gas emissions as a priority, since only a small number of project assessment criteria is related to the assessment of reduction of greenhouse gas emissions.

Problems have been established also in the planning of funds of the Auctioning Instrument of Emission Allowances, since they are not used for the designated purpose, i.e. reduction of climate changes. The planned funds of EUR 68.9 million have been systematically used even for expenses non-related to the reduction of climate changes since 2013.

Figure 25.⁵¹

In general, the competitions of the Climate Change Financial Instrument are implemented successfully. It has been concluded as the result of the audit that the total CO₂ emission decrease specified in project applications is exceeded by 13 %. However, in assessing each project individually, it has been established that on average 19 % of implemented projects together fail to reach the planned decrease in CO₂ emissions by 64,878 tonnes. Taking into account calculations performed by scientists on the environmental impact caused by one tonne of CO₂, auditors have calculated that the reduction of environmental harm in the amount of at least EUR 1.9 million has not been ensured within the period from 2011 to 2015.

Overall the State Audit Office provided ten recommendations to the MoEPRD in order to promote the planning of a targeted climate policy and to prevent the use of funds for inappropriate purposes.

Upon organising the financing competitions for the Auctioning Instrument of Emission Allowances, priority support activities and minimum indicators for emissions reduction must be specified prior to the organisation of AIEA financing competitions.

The implementation of recommendations contained in the performance audit entitled “Compliance of the Organisation of Municipal Waste Management with the Planned Goals and Requirements Set Forth in Laws and Regulations” was ensured at SIA “ZAAO”.

In 2014, the State Audit Office carried out the performance audit entitled “Compliance of the Organisation of Municipal Waste Management with the Planned Goals and Requirements Set Forth in Laws and Regulations”. SIA “ZAAO”, which ensures the management of municipal waste in 28 local governments, was one of the companies included within the scope of the audit.

Overall two recommendations were provided to SIA “ZAAO”. By implementing the mentioned recommendations, the charging of a landfill tariff for the actual volume of waste and charging of a natural resources tax only for the disposed waste would be ensured. The goal of this audit (post-review) was to gain assurance whether the recommendations provided by the State Audit Office have been implemented.

Figure 26.⁵²

As the result of the post-review, it was established that by implementing the recommendations provided by the State Audit Office, SIA “ZAAO” per one cubic metre of municipal waste has reduced the following:

- the tariff for the municipal waste disposal in landfill sites on average by EUR 1.85 by lowering the price from EUR 5.52 down to EUR 3.67;
- natural resources tax on average by EUR 0.62 by lowering the price from EUR 1.40 down to EUR 0.78.

The total charge for the management of municipal waste was not reduced.

Having studied the working papers submitted by SIA “ZAAO” and based on a random assessment of the eligibility of costs contained in the calculations of SIA “ZAAO”, auditors did not come across the inclusion of unreasonable

⁵¹ Are Funds Intended for Reducing Climate Changes, Administered by the Ministry of Environmental Protection and Regional Development, Planned and Used in an Effective Manner and in Accordance with Requirements Set Forth in Regulatory Enactments? Portal www.lrvk.gov.lv. Available online at: <http://www.lrvk.gov.lv/en/revizija/funds-intended-reducing-climate-changes-administered-ministry-environmental-protection-regional-development-planned-used-effective-manner-accordance-requi/>.

⁵² Is the charge for household waste management calculated by SIA “ZAAO” traceable? Portal www.lrvk.gov.lv. Available online at: <http://www.lrvk.gov.lv/en/revizija/charge-household-waste-management-calculated-sia-zaa0-traceable/>.

costs in the payment calculation which would influence the amount of charge. At the same time, the State Audit Office notes that SIA “ZAAO” expenses related to collective activities and safe driving training do not qualify for inclusion in waste collection and transportation charge.

Upon implementing the recommendations provided by the State Audit Office, SIA “ZAAO” has defined a recalculation coefficient in compliance with the actual situation both for the landfill tariff and natural resources tax.

Overall two recommendations were provided during the audit. By implementing the mentioned recommendations, a traceable process for the calculation of service charges will be ensured. Furthermore, expenses unrelated to waste management will not be included in the charge.

2.3.4.3. Independent and Other Institutions

As the result of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Chancery of the President of Latvia”**, an unqualified opinion was provided. In addition, also such aspects as material transactions subjected to Financial Statement were assessed during the financial audit, namely, equipment restoration and purchase transactions for the Forecastle of Riga Castle. It was concluded that in 2015, the Chancery of the President of Latvia had not performed all planned purchase transactions as compared to the planned financing in the amount of EUR 4.9 million, in 2015, the State Audit Office conducted equipment restoration and purchase transactions in total value of EUR 1.3 million. The unused financing is included in 2016 State budget for other equipment and furniture purchase transactions at Riga Castle.

As the result of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Department ‘Cabinet’”**, the State Audit Office provided an unqualified opinion. The compliance of four material transactions subjected to Financial Statement with laws and regulations, planning documents and nationally (or internationally) recognised practice applying thereto was assessed during the audit. An unqualified opinion was provided on a transaction subjected to Financial Statement — implementation of the re-emigration measures in relation to attraction of the graduates of Latvian nationality for the work in the public institutions of direct administration, communication with the people residing abroad and willing to return to Latvia.

A qualified opinion was provided regarding two transactions subjected to Financial Statement due to the following reasons:

- the State Chancellery had not ensured that EUR 101 thousand or 15 % of the financing allocated in 2015 to ensure the Latvian Presidency of the Council of the EU would be used for the designated purpose — implementation of activities within the scope of the Latvian Presidency of the Council of the EU;
- deadlines for the implementation of “Creation of Unified Portal for the Development and Co-ordination of Draft Legislation” were delayed. The funds granted for the implementation of the project was not used entirely in 2014 and only 34 % of the planned funds were used in 2015 which indicates to the risk of a failure to implement the project. In addition, there is a risk of conducting purchase transactions with potential incompatibility with further purchase transactions resulting from the lack of project management and unstructured project implementation, consequently causing the risk of inexpedient use of the State budget funds.

As the result of the audit, an adverse opinion was provided in relation to one transaction subjected to Financial Statement — the new policy initiative “Assessment of the Competitiveness of Latvia and Supervision (Monitoring) System Thereof” applied by the State Chancellery was not implemented in 2015. Furthermore, out of EUR 306.2 thousand intended for the implementation of the new policy initiative, only EUR 284.9 thousand had been used to finance other activities, whereas EUR 21.3 thousand remained unused in 2015.

The new policy initiative was not implemented. The allocated funds were redirected for other activities.

Three opinions concerning compliance matters were provided as the result of the audit. Implementation of the mentioned recommendations will ensure the following: the purchased X-ray Baggage Inspection Equipment will be placed into service and used; planning, administration and supervision of the project “Creation of Unified Portal for the Development and Co-ordination of Draft Legislation” will be ensured in compliance with the principles of

best practice; and regulations of the State Chancellery regarding budget planning and request of financing for new policy initiatives will be improved.

As the result of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Interdepartmental Co-ordination Centre”**, the State Audit Office provided an unqualified opinion. In addition, the compliance of material transactions subjected to Financial Statement with laws and regulations, planning documents and nationally (or internationally) recognised practice applying thereto, i.e., whether the financial resources allocated for the implementation of the new functions of the Interdepartmental Co-ordination Centre — to ensure co-ordination of and supervision over the administration of State capital companies and State capital shares — have been used in accordance with the defined goal and the assigned tasks have been completed within the set forth deadlines.

A positive opinion was provided on the examined transaction subjected to Financial Statement, but with emphasis on circumstances, because the Interdepartmental Co-ordination Centre had not entirely fulfilled the requirements set forth in the Law On Governance of Capital Shares of a Public Person and Capital Companies.

Overall one recommendation was provided during the audit. The administration of capital companies and State capital shares would be improved by implementing the mentioned recommendation.

An unqualified opinion was provided as the result of the following financial audits: **“On Correctness of Preparation of the Annual Report for 2015 by the Corruption Prevention and Combating Bureau”** and **“On Correctness of Preparation of the Annual Report for 2015 of the Central Land Committee”**.

2.3.4.4. Financial Management of the Public Sector

Within the scope of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Finance”**, the State Audit Office evaluated the process of preparing the annual report and also the compliance of material transactions subjected to Financial Statement with laws and regulations, including whether the aims set forth at the moment of requesting the relevant funds have been attained. Such activities implemented by the Ministry of Finance and institutions subordinate to the Ministry of Finance were included within the scope of audits as Implementation of Measures to Combat Informal Economy at the State Revenue Service, project of the State Joint Stock Company “Valsts nekustamie īpašumi” entitled “Locating the Corruption Prevention and Combating Bureau in Appropriate Premises”, and expenses related to ensuring the Latvian Presidency of the Council of the EU.

As the result of the financial audit “On Correctness of Preparation of the Annual Report for 2015 by the Ministry of Finance”, an unqualified opinion was provided.

An unqualified opinion was provided regarding the following transactions subjected to Financial Statement: project of the State Joint Stock Company “Valsts nekustamie īpašumi” entitled “Locating the Corruption Prevention and Combating Bureau in Appropriate Premises” and ensuring the Latvian Presidency of the Council of the EU for 2015.

Meanwhile an adverse opinion was provided on the following transactions subjected to Financial Statement: implementation of the new policy initiative to combat informal economy at the State Revenue Service (SRS):

- in 2014 and 2015 there was no effective development planning document wherein the goals and results to be achieved in the field of combating informal economy would be defined;
- SRS managed to absorb funds in the planned amount only in respect of remuneration-related expenses, whereas the absorption of funds, which would ensure more effective work of customs control posts, was delayed which indicates to a failure to effectively implement the most essential measures to combat informal economy;
- at least 17 % of the funds allocated for the remuneration of SRS employees to conduct activities aimed at combating informal economy was not used in compliance with the goal approved by the Cabinet;

Implementation of measures to combat informal economy at SRS is not organised systematically and effectively.

- even though it was not possible to specify what part of tax revenue increase would be applicable to the measures to combat informal economy, the forecast State budget revenue was specified as the only performance indicator of the new policy initiative measures, therefore it was not possible to evaluate the impact of the invested funds on combating informal economy.

As the result of the audit, overall four recommendations were provided to the Ministry of Finance. The implementation of the mentioned recommendations will ensure the following: a list of necessary customs technical equipment will be defined in accordance with the specifics of the customs control posts; validity of additional payments to be granted for personal contribution of work and quality will be reassessed; performance indicators defined for measures to combat informal economy will be reviewed.

In 2016, the following regulatory/performance audit was carried out: **“Effectiveness of Operation of SIA “Veselības aprūpes nekustamie īpašumi” in Administering National Real Estate Used for the Needs of the Health Care System”**.

Upon recommendation of the Ministry of Health, SIA “Veselības aprūpes nekustamie īpašumi” (SIA “VANĪ”) was established in 2008 as a capital company owned by VAS “Valsts nekustamie īpašumi” (VAS “VNĪ”). The goal of the establishment was to ensure the preservation, maintenance, and development of a single health care system infrastructure pursuant to the specific of health care institutions.

The operations of SIA “VANĪ” have not been effective — tenants of premises, including State budget institutions, have unreasonably overpaid EUR 115.1 thousand and losses in the amount of EUR 50.4 thousand have incurred to SIA “VANĪ”.

As the result of the audit it was concluded that over a period of eight years of the operation of SIA “VANĪ”, only 19 % of all health care system real estate properties, including one hospital and other properties — administrative buildings, had been administered. Consequently, it was concluded that SIA “VANĪ” has not justified the goal of its establishment as the administration of office buildings does not require a specific approach, for example, hospitals and other health care institutions. Furthermore, by incorrectly calculating the rent charge, the capital company failed to receive income in the amount of EUR 30.3 thousand, whereas tenants of premises have unreasonably overpaid EUR 115.1 thousand. Auditors concluded that errors were made while defining the rent charge of premises for the total instead of rented area of the real estate, thereby imposing equal principles for defining the rent charge and also requesting tenants of premises to cover expenses non-compliant with the contracts and laws and regulations, for example, adding a 10 % profit and overhead expenses to State budget institutions.

VAS “VNĪ” is the only holder of SIA “VANĪ” capital shares, yet it has not ensured responsible supervision thereof — operative and budget plans of SIA “VANĪ” had not been approved on time, performance indicators of operations and the compliance thereof with the strategy of SIA “VANĪ” had not been analysed. In 2012, VAS “VNĪ” took a decision on the reorganisation of the capital company, but the deadline of reorganisation was extended multiple times. In 2015, in which VAS “VNĪ” already decided on the termination of the business activity of SIA “VANĪ”, it had not prepared an economical justification for the liquidation of the capital company.

Audit Report by the State Audit Office

“Establishment, Activities, and Liquidation of SIA “Veselības aprūpes nekustamie īpašumi”



2006

The Cabinet approves the concept for equal administration and management of the State real estate.

Goal:

common, effective, transparent system which liberates State institutions from functions non-characteristic to them.

2008

Upon initiative of the MoH, VAS “VNĪ” establishes a subsidiary — SIA “VANĪ”.

Goal:

common health care system infrastructure compliant with the specifics of the operations of health care institutions.

2012

VAS “VNĪ” takes a decision on the reorganisation of SIA “VANĪ”, extending the deadline several times.

2015

VAS “VNĪ” takes a decision on the termination of the operations of SIA “VANĪ”.

2016

Termination of the operations of SIA “VANĪ” and reorganisation of SIA “VANĪ” by merging it with VAS “VNĪ”.

Abbreviations

Cabinet	– Cabinet of the Republic of Latvia
SIA “VANĪ”	– SIA “Veselības aprūpes nekustamie īpašumi”
SRS	– State Revenue Service
SAO	– State Audit Office
MoH	– Ministry of Health
VAS “VNĪ”	– VAS “Valsts nekustamie īpašumi”

Conclusions of SAO audit conducted in 2016

SIA “VANĪ” administered 19 % of all real estate properties in the area of health care system:



administrative buildings
+
separate management services per hospital

SIA “VANĪ” calculated the rate for the rent of premises **contrary to the provisions laid down in laws and regulations**:

revenue in the amount of at least
EUR 30,276
has not been acquired

tenants have overpaid at least
EUR 115,120

The board of SIA “VANĪ” has not ensured **control over the accounting of financial means**:

a fine imposed by SRS in the amount of
EUR 50,349

litigation expenses in the amount of
EUR 5324*

VAS “VNĪ” has not ensured adequate **supervision of the capital shares** owned by it at SIA “VANĪ”.

VAS “VNĪ”, upon taking a decision on the reorganisation of SIA “VANĪ”, **failed to prepare an alternative evaluation**.



VAS “VNĪ”, upon taking a decision on the termination of the operations of SIA “VANĪ”, **did not conduct a cost-benefit analysis**.



Within the scope of the process of terminating the operations of SIA “VANĪ”, the observance of provisions laid down in the Labour Law **has not been ensured upon terminating legal employment relationship** with employees.



Recommendations of the SAO to VAS “VNĪ” and implementation deadlines

02.01.2018.

Review of the scope of services defined in the contracts concluded by SIA “VANĪ” and ensure the compliance thereof with the requirements set forth in Cabinet regulations.

02.01.2018.

Ensure that the rate of rent for real estate properties taken over from SIA “VANĪ” would be calculated in accordance with the requirements set forth in laws and regulations.

02.01.2018.

Assess the extent of losses caused by SIA “VANĪ” due to the fine imposed by SRS and the fine for delay.

03.07.2017.

Since the Cabinet has taken a decision regarding the reorganisation or liquidation of two other subsidiaries of VAS “VNĪ”, VAS “VNĪ” **must take proper measures** to ensure the observance of the requirements set forth in the Labour Law.

* The litigation process continues, since the decision taken by SRS on the imposition of a fine has been contested.

Figure 27. Information chart of the regulatory/performance audit “Effectiveness of Operation of SIA “Veselības aprūpes nekustamie īpašumi” in Administering National Real Estate Used for the Needs of the healthcare System”.

As the result of the audit, overall four recommendations were provided to VAS “VNĪ”. The following will be ensured by implementing the mentioned recommendations: compliance of the scope of services specified in administration, management and rent contracts with the requirements laid down in Cabinet regulations;

observance of the requirements set forth in Cabinet Regulation No. 515 of 8 June 2010, Regulations Regarding Procedures for Renting Property of Public Persons, Methodology for Determining Rent Charge and Standard Conditions for Rent Contracts; measures will be taken to ensure assessment of losses caused to SIA "VANĪ", which, probably, have incurred due to fines and penalties calculated by SRS in total amounting to EUR 50.4 thousand; observance of the requirements laid down in the Labour Law will be ensured during the reorganisation of two subsidiaries of VAS "VNĪ".

The parallel regulatory/performance audit **"Contribution of the European Union Structural Funds to the Europe 2020 Strategy in the Field of Education"** was carried out in 2016 within the scope of the Working Group on Structural Funds VII of the EU Contact Committee in collaboration with the supreme audit institutions of 12 countries.

The parallel audit was carried out for the purpose of finding out how to ensure more effective introduction of Europe 2020 Strategy in EU Member States and what is the meaning of the initially achieved results.



Figure 28.⁵³

It was concluded as the result of the audit that in general the work performed by the MoES in preparing the 8th priority axis "Education, Skills and Lifelong Learning" of the Operational Programme "Growth and Employment" has been sufficient, yet the following deficiencies were established in certain cases:

- a detailed evaluation of needs has not been ensured in the course of defining several specific support goals, thereby raising doubts about purposeful and effective use of the funds allocated within the scope of the EU Structural Funds;
- the needs of target groups which require support have not been taken into consideration in determining nearly half of performance indicators.

The auditors of the State Audit Office presume that problems related to the lack of education quality, equal access and link with the labour market identified in the Operational Programme "Growth and Employment" might remain unresolved.

Furthermore, the State Audit Office did not have a possibility to assess the performance indicators of projects provided for in the programme, because only two projects had been approved by the middle of 2016 which consequently causes a risk of a failure to achieve the planned financial, outcome and performance indicators in the interim assessment period of EU Structural Funds, i.e., in 2018.

Overall two recommendations were provided to the MoES as the result of the audit: to review the actions to be supported to ensure that identified problems are resolved, and to specify a detailed justification for the specific support goals and calculation of financing.

⁵³ Parallel regulatory and performance audit on "Contribution of the Structural Funds to the Europe 2020 Strategy in the Area of Education". Portal www.lrvk.gov.lv. Available online at: <http://www.lrvk.gov.lv/en/revizija/parallel-regulatory-performance-audit-contribution-structural-funds-europe-2020-strategy-area-education/>.

2.3.5. Fifth Audit Department



Member of the Council of the State Audit Office since 21 December 2015

Director of the Fifth Audit Department

Edgars Korčagins

First Sector	Second Sector	Third Sector
Head of the Sector Terēze Mazbērziņa 6 employees	Head of the Sector Elita Andruce 6 employees	Head of the Sector Oskars Erdmanis 6 employees
Annual Report of the Republic of Latvia on State Budget Execution and on Local Government Budgets as part of the annual reports of local governments local government budget expenses – EUR 2.2 billion assets of local governments – EUR 8.5 billion	Local governments, institutions and agencies of local governments, capital companies established by local governments, derived legal persons of the public law Society Integration Foundation budget – EUR 8.2 million	Local governments, institutions and agencies of local governments, capital companies established by local governments

Figure 29. Employees of the Fifth Audit Department⁵⁴ and audited entities.

2.3.5.1. Local Governments

In the part on annual reports of local governments of the financial audit “On 2015 Annual Report of the Republic of Latvia on State Budget Execution and Local Government Budgets” (Annual Report) the State Audit Office examined whether the main report of the State provides true information on what and how is owned by local governments and also the debt commitment thereof. True and complete information is a precondition for full-fledged administration of the public property, care for the preservation, development and use thereof within the interests of the society. Since the quality of reports drafted by local governments is influenced also by the information on all real estate properties in the territory of the State available in State regions, the audit focused on the examination of whether the information available in registers complies with quality, topicality and clarity criteria and also whether the laws and regulations governing the accounting of real estate do not unnecessarily encumber the work of local governments.

Overall 29 local governments out of 119 local governments were included within the scope of the financial audit in order to gain assurance on the compliance of preparation of parts of local government reports with the requirements set forth in laws and regulations.

- six local governments of republican cities (Daugavpils, Jelgava, Jūrmala, Liepāja, Riga, and Ventspils City local governments);
- 23 local governments of municipalities (local governments of Aizkraukle, Aizpute, Ādaži, Babīte, Dagda, Grobiņa, Iecava, Ikšķile, Ilūkste, Kandava, Lielvārde, Līvāni, Ludza, Ogre, Olaine, Preiļi, Priekule, Salacgrīva, Smiltene, Stopiņi, Valka, Vecumnieki, and Ventspils municipalities).

⁵⁴ The number of employees at the State Audit Office as at 30 December 2016.

The total amount of balance assets of local governments included in the audit selection by 31 December 2014 was EUR 5.8 billion, i.e., 68 % of total assets of all local governments, and the total amount of expenses of the cash flow statement was EUR 1.4 billion, i.e., 61 % of total expenses of all local governments.

The State Audit Office, pursuant to ISSAI 1600 “Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)”, used the work of sworn auditors concerning all reports for 2015 by local governments and also carried out additional audits at selected local governments regarding important matters of the Annual Report.

In carrying out the audit, the State Audit Office faced significant restrictions of the scope for carrying out the conformity verification of assets:

- information on transport structures specified in the accounting records and annual report of a local government in the amount of EUR 598.9 million could not be compared to the Lists of Roads and other registers;
- one local government had not ensured the comparison of the accounting records of transport structures with total value of EUR 70.8 million with the Lists of Roads and other registers, therefore the value of transport structures could be adjusted;
- information on transport structures specified in the accounting records and annual report of a local government in the amount of EUR 45.2 million could not be compared to the Lists of Roads and other registers; furthermore, transport structures the total area of which is by 837,097 m² less have been specified in accounting data;
- it was impossible to determine the value of 50 transport structures that had been specified in accounting records and the balance item “Land, buildings and structures” at the end of the reporting year with total value of EUR 0;
- it is not possible to determine the value of the reserves of four developed mineral deposits with the total area of 306 240 m³ specified in accounting records and the balance item “Biological and underground assets” at the end of the reporting year with total value of EUR 0, and the value of the reserves of two mineral deposits specified in the accounting records, the value of forest stands with the total area of 1901 ha (including forest stands with the total area of 61 ha have been specified in the value of EUR 0), the value of biological assets located in parks and squares with the total area of 9032 ha;
- the final stock-taking for 2014 had not been completed or had been carried out partly at 24 or 55 % selected local governments, stock-taking report had not been completed or had been carried out partly at 22 local governments;
- during the audit, responsible employees of local governments were unable to present to auditors the documents attesting the accounting value of long-term investments for assets with the value of EUR 19.6 million which did not provide a possibility to carry out the conformity verification of assets specified in the report of 2015;
- the State Audit Office cannot provide an opinion regarding the assets in the amount of EUR 17.5 million at the beginning of the year and in the amount of EUR 18.3 million at the end of the year specified in accounting records and the balance item “Land, buildings and structures” of 2015 report.

The State Audit Office was unable to obtain credible, sufficient and appropriate evidence on the potential impact or absence thereof on the Annual Report concerning the transaction concluded by the former Chairman of Lielvārde Council J. Āboliņš by signing a document on behalf of the Council of Lielvārde municipality — bond/promissory note in the amount of EUR 200 million.

The amount of long-term investments at the beginning of the reporting year was unjustifiably increased by at least EUR 77 million, while at the end of the reporting year — at least EUR 73.4 million. Also information indicated on liabilities was not true and comparable, since Riga City local government specified liabilities in the amount of EUR 321.9 million contrary to the economic essence of the transaction as long-term debts to suppliers and contractors, and failed to specify a loan of EUR 571.5 million in the annex to the report.

In the opinion of the State Audit Office, the said deficiencies are caused by the inability of the heads of several local governments to ensure appropriate internal control environment, unwillingness to act pursuant to requirements set forth in laws and regulations or deficiencies in laws and regulations; moreover, the work of certified auditors is insufficient in some cases.

The users of public registers do not have access to high-quality, topical and clearly understandable information on all real estate properties in the territory of Latvia which consequently influences the quality of information specified in the Annual Report.

In turn, deficiencies in the process of consolidation of the part on the annual reports of local governments organised by the State Treasury result in the necessity to use the minority principle in the process of consolidation because complete exclusion of mutual transactions and balances of the subjects involved in consolidation is not ensured. The user of the Annual Report is not ensured with sufficient provision of explanations regarding items indicated in the Annual Report and no application of equivalent accounting principles is ensured in the accounting of subjects involved in consolidation.

The partial elimination of errors promoted by recommendations provided by the auditors of the State Audit Office during the audit is assessed positively — properties belonging to local governments in total value of EUR 24.9 million were registered in accounting records, immovable properties that did not belong to local governments were de-registered and the unjustifiably increased value of properties was reduced by EUR 78 million; 50 transport structures, six underground assets, including four underground assets with the total value of natural resources in the amount of 306,240 m³, 154 forest stands with total area of 1901 ha and other biological assets in the amount of 9032 units were registered in accounting records with the value of EUR 0.

Overall impact of corrected errors on the results of the implementation of local government budgets is equal to EUR 53.2 million.

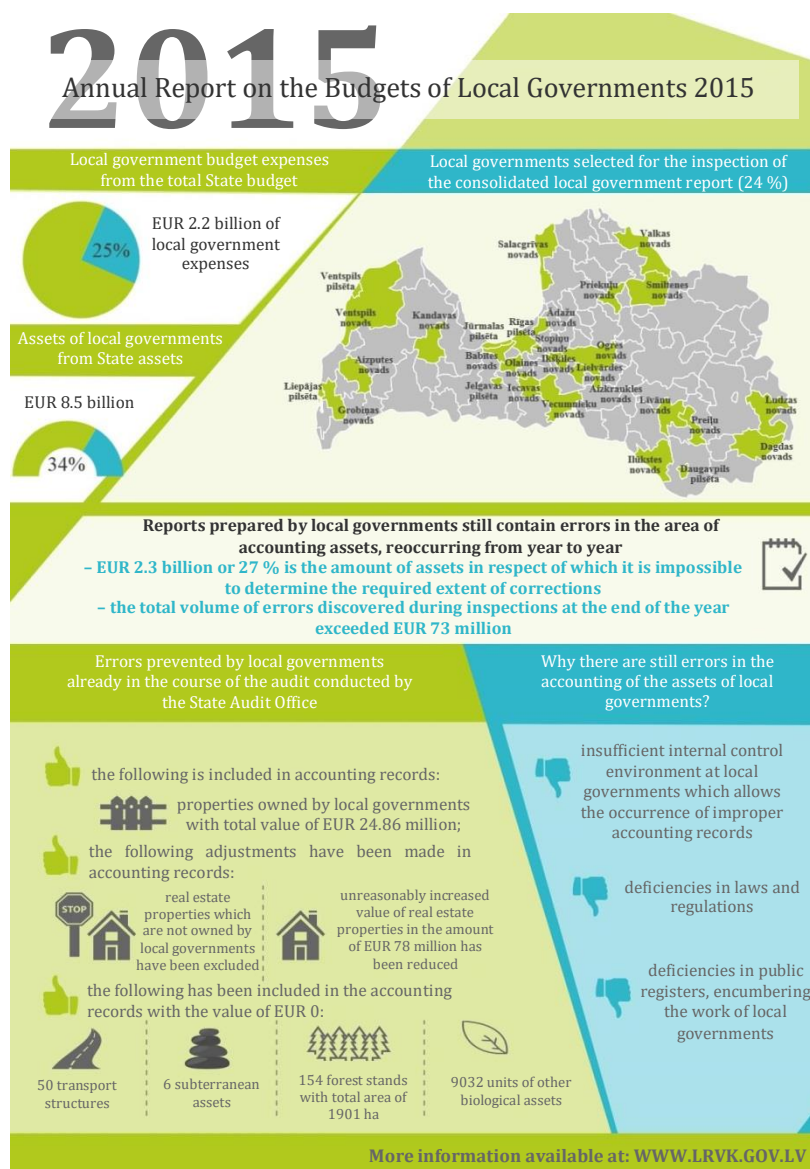


Figure 30. Information chart of the financial audit “On 2015 Annual Report of the Republic of Latvia on State Budget Execution and on Local Government Budgets” as part of the annual reports of local governments.

In total, 24 recommendations were provided as the result of the audit. By implementing these recommendations, the quality of the Annual Report will be improved, effective introduction of the internal control system at local governments will be fostered, provision of up-to-date information to the society regarding latest information contained in State registers regarding all real estate properties in the territory of the State, objects thereof, parts of land units and owners thereof, legal possessors, users, leaseholders will be enhanced, a type of legalisation will be defined for real estate without available documents certifying ownership rights.

Within the scope of regulatory/performance audit entitled **“Is the Use of Property and Financial Means by Local Governments Effective and Economic in Ensuring Paid Services to Residents in Compliance with the Functions Thereof?”**, the State Audit Office examined nine local governments (local governments of Aknīste, Alsunga, Alūksne, Balinava, Cibla, Rauna, Sēja, Rugāji, and Vainode municipalities) in terms of the way local governments had been using the property and financial means in the period from 1 January 2014 until 31 March 2016 in ensuring paid services to residents in compliance with the functions thereof, effectiveness and economy.



Figure 31.55

As the result of the audit it was concluded that none of nine local governments included within the scope of audit, upon providing paid services, had ensured proper action in organising services and defining costs which are the main preconditions to calculate economically justified costs of services and payments, including:

- the accounting of costs has not been arranged according to the types of services which would ensure precise calculation of the service costs;
- costs related to service provision are not justified with documented calculations wherein the resources involved in the provision of each service, costs and the scope thereof in the provision of services would be defined that would ensure adequate calculation of the payment for services;

- in cases the calculations of costs have been prepared, it is impossible to identify the costs specified therein and it is also impossible to check the justification thereof.

Local governments lack a joint approach and methodology in defining the price of provided services as the charge imposed on service recipients for the provision of certain services does not cover expenses, therefore the provision of services is subsidised from the budget of the local government, for example:

- the price of catering services provided at educational institutions at all audited local governments is considerably lower (up to four times) than overall costs of the service provision, therefore the recipients of these services gain additional benefit, whereas expenses are covered from the total budget of the local government, thereby preventing a possibility to use these funds for the implementation of other functions within the interest of all residents of the administrative territory;
- the income of several local governments for the provided water management services during the audited period did not cover the costs related to the service provision included in the tariff in total exceeding EUR 319.9 thousand.

On the contrary, the price defined by local governments for other paid services occasionally is higher than expenses — thus, the recipients of services are overpaying, while the local government is gaining profit, for example, the recipients of thermal energy (heat supply) services, hotel services and also rent of fitness facilities in Sēja municipality have overall overpaid EUR 13.6 thousand.

It was established that in all (nine) audited local governments there had been cases of the misuse of power by persons involved in the process of collecting payments for the provided services, as they had unilaterally determined the price of the provided services to be applied to service recipients.

In total, EUR 180.5 thousand has been charged during the audited period without any legal justification (Council decision).

Local governments, without assessing the necessity of services, their impact on the business environment and competition, have engaged in commercial activities and provision of various services (irregular carriage of passengers, hotel services, catering services, etc.) which do not result from the autonomous functions of local governments.

⁵⁵ Is the Use of Property and Financial Means by Local Governments Effective and Economic in Ensuring Paid Services to Residents in Compliance with the Functions Thereof? Portal lrvk.gov.lv. Available online at: <http://www.lrvk.gov.lv/revizija/page/3/>.

In 2016, within the scope of the performance audit **“Are the Administrative Resources of Local Governments Being Used Productively and Economically in Order to Ensure the Implementation of the Functions Thereof?”**, the State Audit Office examined 11 local governments (local governments of Beverīna, Daugavpils, Gulbene, Jaunpiebalga, Madona, Mazsalaca, Naukšēni, Rēzekne, Rucava, Varakļāni, and Zilupe municipalities) about whether their administrative resources had been used in a productive and economic manner while implementing the functions thereof in the period from 1 January 2015 until 30 June 2016.



Figure 32.⁵⁶

It has been concluded as the result of the audit that local governments had ensured the provision of public services to residents, yet not always it was ensured with the lowest possible costs and through optimal use of resources, therefore it is necessary and possible to significantly improve the action of local governments in organising and providing services.

The main drawbacks in the work of local governments are as follows: local governments are not sufficiently assessing the actual needs of residents for the services of local governments and also do not ensure proper accounting of their actions and the costs caused by service provision and do not analyse them. Therefore neither the local government nor residents are aware of what services are necessary and what is the price of each service.

Residents ought to be informed on whether disproportionate administrative resources of the local government are not used for the organisation of services (remuneration of employees, costs related to rent of premises, transport and fuel, communications, stationery, etc.), redirecting only a small part of funds for the content and quality aspects.

One of the main causes of this situation is the formal attitude towards the planning process as documents do not specify what particular actions in the field of improving the service must be accomplished and which institution of the local government should have such responsibility in the respective calendar year, therefore it is not possible to identify the necessary funds for the completion of these tasks. Only fulfilling the activities of local governments, accounting and analysis of the provision of services and support processes, it is possible to obtain information necessary to decision-makers in the process of organising, providing and improving the service.

Local governments have not used the support of responsible institutions and their recommendations regarding improvement of services and the latest and most progressive methods for improving their activity to make services cheaper both to residents and local governments. Thus, the increase in costs is covered by the residents of local governments from their taxes.

Work organisation of local governments promotes provision of services in person instead of fully using online opportunities. The receipt of services in person is less convenient and is more expensive.

Even though the Council of Europe accents the form of collaboration or joint action as one of the most essential tools for improving one's activity and urges to expand the collaboration of local governments considerably, local governments are not adequately using this tool in service provision. According to the estimates of auditors, upon establishing collaboration institutions in the field of construction monitoring, expenses of small-size local governments may be reduced by up to three times in ensuring services.

Auditors together with experts calculated that a contemporary approach in administering real estate tax and fully-fledged use of the information systems could reduce the costs of three local governments by up to EUR 75 thousand annually.

⁵⁶ Do local governments provide services to residents for reasonable cost? Portal www.lrvk.gov.lv. Available online at: <http://www.lrvk.gov.lv/en/revizija/local-governments-provide-services-residents-reasonable-cost/>.

Upon examining the service provision and support processes implemented at 11 local governments, it was established that the organisation of the work of local governments may be improved by applying various all-inclusive process analyses and improvement methods. Auditors drew the following conclusions in the processes examined at 11 local governments:

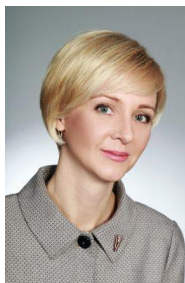
- unproductive activities which do not create an added value;
- unnecessary preparation, multiplying, circulation and storage of documents;
- incompletely used information systems at the disposal of local governments.

Upon assessing the possibilities for centralised accounting organisation at the local government with several municipalities, it has been concluded that the local government might economise at least EUR 43 thousand annually.

2.3.5.2. Independent and Other Institutions

As the result of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Society Integration Foundation”**, the State Audit Office provided an unqualified opinion. As the result of the audit, no recommendations were provided to the Society Integration Foundation.

2.3.6. Audit and Methodology Department



Member of the Council of the State Audit Office since 21 December 2015

Director of the Audit and Methodology Department

Zita Zariņa

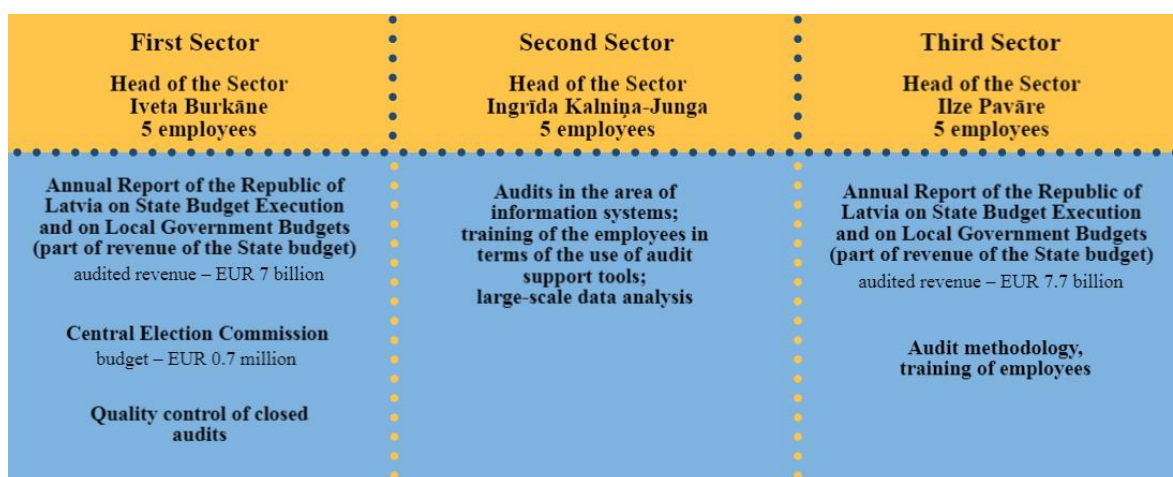


Figure 33. Employees, audited entities and competence areas of the Audit and Methodology Department.⁵⁷

2.3.6.1. Financial Management of the Public Sector

During the reporting year, the financial audit **“On 2015 Annual Report of the Republic of Latvia on State Budget Execution and Local Government Budgets”** (Annual Report) was carried out.

The primary task of the State Audit Office, in carrying the audit of the Annual Report, is to gain assurance regarding the correctness of preparation of the report; however, there are two significant characteristics in 2015 Annual Report which differentiate it from the audits conducted in the previous years:

- provision of two opinions⁵⁸ — since 2015, the goal of financial audits is not only to gain assurance about correctness of preparation of annual reports by departments, but also to gain assurance that material transactions subjected to Financial Statement (compliance matters), identified in departments, comply with laws and regulations, planning documents and nationally (or internationally) recognised practice applying thereto;
- up until now, expressing an opinion on correctness of preparation of the Annual Report, the State Audit Office also provided evaluation on various matters related to strategic and financial management, mostly related to the budget management system. Recommendations were also provided to eliminate the discovered discrepancies. However, these recommendations have not been implemented yet, therefore the State Audit Office decided that in the future the budget management system will be assessed within the scope of performance audits. In 2016, the State Audit Office commenced the performance audit “Effectiveness of the Budget Management System: Part 1 — Effectiveness Assessment of the Budget Planning Cycle”.

⁵⁷ The number of employees at the State Audit Office as at 30 December 2016.

⁵⁸ Information in Sub-clause 2.1.

The following conclusions were drawn as the result of the audit of the Annual Report: although errors in accounting matters at ministries and central State institutions decrease every year and the quality of financial accounting improves in general, still, in assessing the preparation of the Annual Report, the State Audit Office establishes significant deficiencies, therefore a qualified opinion is to be provided regarding the Annual Report.

A qualified opinion
+ restrictions of the scope have been specified
+ circumstances have been highlighted
+ other significant conclusions have been specified

A qualified opinion was provided due to the following reasons:

- incorrectly specified liabilities — the local government of Riga in its annual report has incorrectly specified its liabilities — contrary to the nature of the transaction, they have been specified as a debt to suppliers and contractors, instead of a long-term loan;
- unjustifiably increased value of assets — in some annual reports of local governments, the value of long-term investments in selected local governments at the beginning of the financial year was unjustifiably increased by at least EUR 77 million, while at the end of the financial year — at least by EUR 73.4 million.

furthermore, it was indicated to the following restrictions of the scope of audit:

- since tax revenues are still not indicated according to the accrual principle, i.e., 1) the Annual Report specifies no information about taxes in the composition of receivables or payables; 2) since 2009, the Ministry of Finance still failed to ensure the arrangement of the duty administration system, therefore the information specified in 2015 Annual Report about revenues from duties is incomplete; moreover, there is a risk that duties are not collected and recorded in full, the State Audit Office is unable to express an opinion on tax revenues and fullness of revenues from duties;
- in some annual reports of local governments, the total amount of assets, for which it is impossible to determine the necessary scope of improvements, is EUR 2.3 billion or 27 % of the total value of local government assets of EUR 8.5 billion. It does not mean that the assets of such amounts were indicated in the report erroneously; however, neither as the result of inspections conducted by certified auditors, nor with the State Audit Office carrying out appropriate audit procedures, it was possible to determine what the amount of necessary improvements was in relation to these assets.

In addition, the State Audit Office in its opinion accented circumstances, because both assets and potential liabilities were discovered due to which significant events after the balance sheet day have occurred. As the result of co-operation of State Audit Office auditors and the State Treasury, improvements were introduced to the State consolidated accounting balance sheet as at 31 December 2015, creating reserves in the amount of EUR 30.9 million and recognising short-term accrued liabilities in the amount of EUR 7 million for executing the court ruling (Supreme Court ruling on payment for overtime work and additional payments for night work of specific groups of officials employed in the institutions subordinate to the Ministry of the Interior and the Ministry of Justice) and reducing the value of assets (the amount of accruals has been increased in respect of the claim against AS "KVV Liepājas metalurģis"); likewise, additional information was provided in balance sheet explanations of the Annual Report.

The State Audit Office has been assessing matters concerning the management of capital companies and payments for the use of the State capital during Annual Report audits for several years now. The following has been established within the framework of the audit:

- the created system of administration of payments for the use of the State capital fails to ensure that the State budget receives all revenues due thereto during the relevant period;
- the duty of subsidiary capital companies of State capital companies to make payments to their parent capital companies is not regulated by laws and regulations;
- there is still no logical and traceable relation between the duty of capital companies to make dividend payments into the State budget, Cabinet decisions to leave dividends at the disposal of capital companies and decisions on the allocation of financing to capital companies in the form of loans, subsidies or investments,

therefore in its opinion the State Audit Office also drew attention towards these findings.

Upon assessing the matter on the compliance of the audit of the Annual Report — expenses related to the Latvian Presidency of the Council of the EU — the State Audit Office, concluded that ministries and central State institutions have taken into account the findings of previous audits (EUR 179.1 million, i.e. 0.43% of the used financing, were recognised as inexpediently used within the framework of 2015 financial audits) and risks specified in previous audits of the State Audit Office in relation to the increase in the amount of inexpediently used funds, thus, have not occurred.

State budget revenue was also examined within the scope of the Annual Report, establishing that all tax and duty revenues transferred to State budget accounts in 2015 were appropriately accounted and recorded in the revenues part of the Annual Report according to the cash flow principle, i.e. it indicated all the cash actually received over a year, as stipulated by the requirements set forth in the regulatory enactment.

It was noted in the report that in the field of State budget revenues, in the opinion of the State Audit Office, there are still several fundamental problems:

- introduction of the accrual principle — just as in previous years, the State Audit Office is unable to provide an opinion on the fullness of tax revenues, since the accrual principle, stipulating that the Annual Report must specify all revenues due to the State, including non-received revenues or tax debts, and all amounts due to taxpayers (overpaid taxes), which are to be refunded to a taxpayer upon the request thereof, has not been introduced in tax accounting. However, it is to be admitted that over recent years, the Ministry of Finance, in co-operation with SRS and the State Treasury, has carried out many activities to implement the accrual principle for State budget revenues by 2021. To promote the full collection of State budget revenues and disclosure of full and correct information in the Annual Report, the Ministry of Finance had undertaken to carry out necessary activities already in 2006, yet the deadlines for the implementation of recommendations were repeatedly postponed. As the result of the audit carried out by the State Audit Office in 2013, the Ministry of Finance undertook to ensure the accounting of State budget funds in accordance with the accrual principle and to stipulate the duty administration process in laws and regulations by 15 January 2021. According to the information provided by the Ministry of Finance, on 14 January 2015, the accrual principle management committee of the ministry approved the Plan of Measures for Introducing the Accrual Principle in the Accounting of Revenues, which included the organisational structure of measures, the scenario, work expenses, their implementation deadlines and institutions responsible for plan implementation activities;
- development of the tax policy — although this matter was not assessed individually in the audit; however, it is to be emphasised that the tax policy had not been developed yet as at August 2016, therefore tax legislation often changed without the transition period. It hinders the planning of business in the long-term, as well as causes additional expenses for taxpayers, who have to adjust to changes within short terms;
- non-recoverable tax debt continues to increase, therefore the total tax debt as at 1 January 2016 exceeded 1/6 of the State budget revenues. Causes for the low level of collected taxes had not been assessed in full and it is necessary to take into account that the elimination of causes requires time; hence, actual decrease in the non-recoverable tax debt is most likely expected only several years later.

Since the accrual principle has not been fully introduced in the accounting of taxes, the information specified in the Annual Report about tax revenues is incomplete — State (local government) duties and stamp duties administered by ministries and relevant local governments in total form the revenues of the consolidated general budget in the amount of EUR 138.4 million; however, the State Audit Office has been indicating that there is a risk that duties are not collected and accounted in full since 2006 already.

Miljoni plūst garām valsts kasei ⁽¹⁾Figure 34.⁵⁹

In the audit, it was established that at least EUR 1.4 – 1.9 million had not been collected for the toll for the use of motorways; likewise, it is impossible to gain assurance that all appropriate revenues were received from the duty for the examination of documents necessary for requesting visas, residence permits or the status of a permanent EU citizen in the Republic of Latvia and associated services.

The tax administration system is complex and fragmented — at the moment of preparation of the audit report, the amounts of State duties and payment procedures were determined by seven laws and over 100 Cabinet regulations, yet the administration process of State duties involved 32 institutions, 97 sworn bailiffs and 107 sworn notaries.

Laws and regulations stipulate procedures according to which the administrator of a duty must gain assurance regarding the payment of the duty, yet fail to determine how the administrator must account tax revenues and prepare reports on tax revenues and applicable allowances, reliefs and refunds of overpaid amounts.

Tax control activities — tax control — is implemented by carrying out data conformity checks, inspections, observations, thematic inspections, in-depth inspections and tax audits. The optimal type of tax control is selected, analysing information obtained about taxpayers — assessing the data credibility of reports and declarations and analysing the risk. A tax audit is one of the most important methods of tax control.

In the audit, it was assessed whether SRS audit records allowed for tracing the audit process and making of conclusions, as well as assessed whether the performance of data conformity checks of customs declarations had been improved after the recommendation of the State Audit Office in 2011.

SRS has developed internal regulations to ensure the high-quality progress of the tax audit process. However, in practice, SRS employees fail to observe requirements set forth in these laws and regulations in full. Based on audit records only, a qualified third party is unable to gain full understanding about the precise audit process and follow the entire logical chain from the evidence obtained in the audit to a decision adopted on the result of the audit.

SRS still fails to ensure that data conformity checks of customs declarations are conducted for declarations with the highest risk of tax payment evasion, since declarations are still selected for a check according to the subjective opinion of an SRS employee. Substantiation for selecting any particular transaction cannot be traced, since it is not documented; moreover, process expenses for collecting one euro (EUR 0.7) and the duration of the process, which sometimes exceeds one year, do not suggest the purposeful actions of SRS to achieve the best result with the smallest amount of resources.

Corruption risk management — in the audit, it has been concluded that in 2016 SRS introduced minimal requirements recommended by the Corruption Prevention and Combating Bureau for risk management; however, activities carried out are not systematic (risk assessment for process and employees is carried out separately from each other), thought-through (rotation procedures are being developed before sensitive positions are considered) and fails to ensure the reduction of corruption risks, since the fixed level of risk is initially set without any convincing substantiation.

Refund of overpaid taxes — one of crucial tax administration matters important for taxpayers is the refund of overpaid taxes. In the audit, inspections have been carried out regarding the ensuring of relevant processes and deficiencies have been established in relation to the timely refund of overpaid personal income tax (PIT) and overpaid value added tax (VAT).

⁵⁹ Millions go by the State Treasury. Portal www.la.lv. Available online at: <http://www.la.lv/miljoni-plust-garam-valsts-kasei/>.

Delaying the deadline for the refund of overpayments, SRS had not increased the amount to be refunded according to the conditions prescribed in laws and regulations, thus causing a risk that complaints might be filed against the State budget for the total amount of EUR 173 thousand. Moreover, in 2015, SRS unjustifiably refunded EUR 88.9 thousand (extrapolated value) to taxpayers.

As the result of the audit it was concluded that SRS has not ensured equal attitude towards taxpayers and has not refunded EUR 57.1 million on time (EUR 14.2 million of PIT and EUR 42.9 million of VAT).

The following risk was also specified in the report: in 2017, SRS will not be able to cover PIT overpayments, taking into account that the number of income declarations submitted in 2017 will increase at least by half, compared to changes in the provisions for the application of the non-taxable minimum.

However, it is to be noted that SRS has commenced several incentives to make the process of overpayment refund more effective.

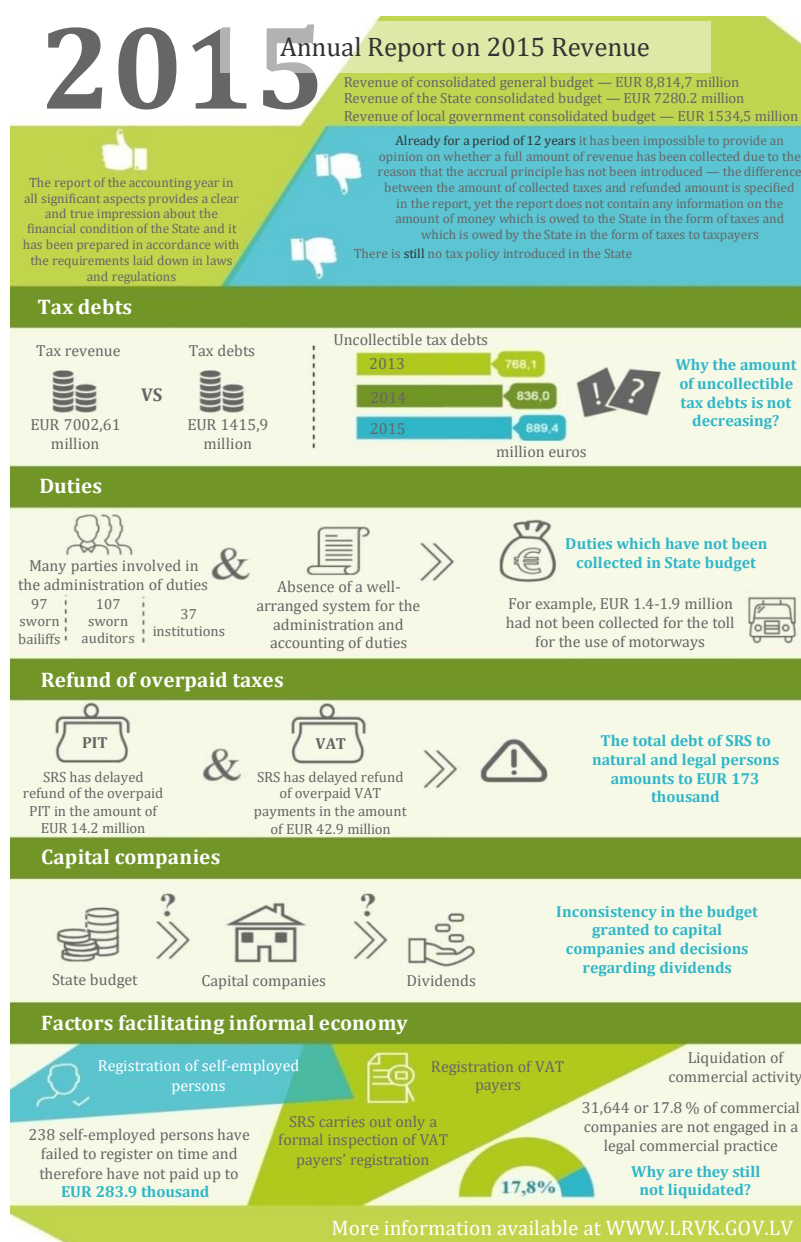


Figure 35. Information chart in the revenue part of financial audit
“On 2015 Annual Report of the Republic of Latvia on State Budget Execution and on Local Government Budgets”.

Overall the State Audit Office provided 19 recommendations in respect of the Annual Report and in respect of the section on budget revenue whereof the most significant part is formed by recommendations to prevent drawbacks in the section on State budget revenue. Most important recommendations in respect of the Annual Report in general are to specify the actions to be implemented in order to improve the quality of the Annual Report section on events after the balance sheet date and to ensure the disclosure of the entire essential information and also in relation to the section on budget revenues in the Annual Report, to disclose full information on State budget revenues, to improve the process of tax control activities and management of corruption risks, ensuring consistent activities in co-operation with taxpayers.

2.3.6.2. Independent and Other Institutions

Within the framework of the financial audit **“On Correctness of Preparation of the Annual Report for 2015 by the Central Election Commission”**, the State Audit Office discovered no errors in accounting and no deficiencies in the internal control system, therefore a positive opinion was provided.

The compliance matter concerning the compliance of the procurement and implementation of the Signature Collection System with laws and regulations, planning documents and nationally (or internationally) recognised practice applying thereto was assessed during the audit. Even though the audit did not reveal any violations of or non-compliance with laws and regulations, auditors drew attention towards specific drawbacks in administering the project of the Signature Collection System, without documenting the testing of several system deliverables and without ensuring the administration of IT security environment in compliance with the requirements laid down in the Law On State Information Systems and Personal Data Protection Law.

2.3.6.3. Audit of Information Systems

Taking into account that the elaboration of several large-scale information systems has been completed, information system administrators assessed the implementation of systems and commencement of operations. The financial audit focused on assessing the elaboration and implementation of the Information System of the Office of the Prosecutor, GIS of the State Land Service and also the Signature Collection System of the Central Election Commission. The use of some functionalities was not launched at institutions, thereby influencing the achievement of goals set forth for the creation of systems and the return from invested resources. Apart from this, it was established that an adequate administrative environment, including legal framework, has not been created for the protection of systems and data included therein. The provided recommendations will contribute to faster implementation of systems and a better arranged administrative environment.

Performance of improvements within information systems was assessed at the State Rural Service subjected to the Ministry of Agriculture, in return providing a recommendation to define criteria for more effective use of budget funds and to consider the necessity of changes in accordance with operative priorities of the institution and the available financing.

Basic control mechanisms within the accounting system were assessed at the Ministry of Environmental Protection and Regional Development, in return providing recommendations for improvements in the administration of users' access and system updates.

The performance audit entitled **“Is State Administration Effectively Handling the Accrued Information?”** was commenced in 2016. Within the scope of the audit, it will be analysed at several departments and local governments whether State institutions, local governments and institutions subordinate thereto demand notices or information from the population which is already at the disposal of other institutions.

2.4. Implementation of Recommendations Provided as the Result of Audits

Result to be achieved in accordance with the Action Strategy.⁶⁰

The audited entities, pursuant to agreed terms, have implemented at least 85 % of recommendations provided by the State Audit Office.

Fulfilled.

In the conclusion of audits, the State Audit Office provides recommendations without any directly definable financial impact (arrangement of the internal control system, improvement of the legal framework of the relevant fields, improvement of State and local government real estate and capital administration, observance of laws and regulations in public procurements), and recommendations with definable financial impact (reduced State and local government budget expenses and increased revenue, prevention of illegal advance tax payments and also payments for services and goods, an arranged accounting system for State and local government assets).

During the reporting period, the audited entities **had to implement 533 recommendations in total, 492 or 92.3 %** of which were implemented, 30 recommendations or 5.6 % were at the stage of implementation, no implementation was commenced for two recommendations or 0.4 %, and nine recommendations or 1.7 % lost their topicality.

Table 2

Status of the State Audit Office recommendations to be implemented in 2016 (by 30.12.2016).

Sector/area	Recommendations to be implemented in 2016	Completely implemented		Initiated		No implementation commenced	Lost topicality
	(number)	(number)	(%)	(number)	(%)	(number)	(number)
Defence	9	9	100				
Foreign Affairs	2	2	100				
Economics	4			3	75		1
Interior	26	25	96.2				1
Education, Science, and Sports	36	34	94.4	2	5.6		
Culture	17	17	100				
Welfare	91	91	100				
Agriculture, Fishery, and Forestry	41	37	90.2	4	9.8		
Independent and Other Institutions	26	25	96.2	1	3.8		
Public Sector Funding	85	72	84.7	6	7.1	1	6
Regional Development and Local Governments, E-administration	116	110	94.8	5	4.3	1	
Justice	8	8	100				
Transport and Communications	25	25	100				
Healthcare	31	23	74.2	7	22.6		1
Environmental Protection	16	14	87.5	2	12.5		
TOTAL	533	492	92.3	30	5.6	2	9

⁶⁰ The result must be achieved within each year of the Action Strategy.

Result to be achieved in accordance with the Action Strategy.⁶¹

As the result of implementing the recommendations provided by the State Audit Office, the following is achieved or is planned to be achieved: increase in the amount of savings and/or income in the budgets of the State and local governments and their capital companies; prevention of illegal and inexpedient expenses and also financial corrections — by investing EUR 1 in ensuring the work of the State Audit Office, a return of at least EUR 5 is achieved (the principle of 1:5).

Measures are taken to attain the goal in 2017.

During the reporting period, the development of the methodology of financial impact assessment was transferred for pilotage in order to ensure the calculation of the amount of State budget funds saved as the result of implementing the recommendations provided by the State Audit Office and the amount of prevented inexpedient expenses in 2017.

⁶¹ Result to be achieved during the least year of the Action Strategy — in 2017.

2.5. Examining the Violations of Legal Norms Discovered during Audits

2.5.1. Examining Violations at Law Enforcement Institutions

The State Audit Office Law stipulates that the State Audit Office has the duty to inform law enforcement institutions about the discovered violations of legal norms.

In 2016, law enforcement institutions were informed about **violations discovered during 10 audits** (five regulatory/performance audits, one regulatory and four financial audits).

The Office of the Prosecutor was informed about discovered violations of legal norms at State and local government institutions, establishments, and capital companies, for example, payment of remuneration and bonuses, disbursement of stipends, real estate alienation, rent calculations, etc.

In three cases, the State Audit Office reported the possible non-observance of the Law On Prevention of Conflict of Interest in Activities of Public Officials to the Corruption Prevention and Combating Bureau.

During the reporting period⁶²:

- agreement confirmed by court between a public prosecutor and the accused regarding punishment for the misappropriation of funds of a local government;
- there are seven cases being examined in the court of the first instance — six cases concerning the abuse of authority and one case concerning the omission of the State official;
- there is one case being examined in the court of appeal concerning the abuse of authority;
- there is one case being examined in the court of cassation concerning the abuse of authority;
- within the scope of criminal proceedings, eight persons have been transferred for criminal prosecution for the abuse of authority and misappropriation.

At the end of 2016, **21 criminal proceedings were initiated based on violations identified during audits** (15 criminal proceedings in the State Police, one — KNAB, one — Internal Security Bureau and four — Office of the Prosecutor).

2.5.2. Co-operation for the Exhaustive Examination of Violations

Result to be achieved in accordance with the Action Strategy.⁶³

The State Audit Office **improves co-operation with law enforcement institutions** by organising meetings with the representatives of the State Audit Office and law enforcement institutions at least once in six months in order to identify factors delaying the examination of cases, assess results, as well as agree on the possibility of initiating the examination of cases, if significant violations have been discovered.

Fulfilled.

In 2015, the State Audit Office **monitored the progress of examining the discovered violations** at law enforcement institutions, including the assessment of information received from law enforcement institutions, and in the event, in the opinion of the State Audit Office, decisions adopted by law enforcement institutions contained no sufficient grounds or violations had not been verified sufficiently, the State Audit Office submitted complaints regarding adopted decisions to a higher official.

The State Audit Office submitted two complaints regarding seven decisions adopted by law enforcement institutions on refusal to initiate criminal proceedings, as the result of what the decision on refusal to initiate criminal proceedings was not cancelled, because no significant harm was caused and a criminal offence did not occur.

The State Audit Office submitted 23 complaints regarding 15 decisions adopted by law enforcement institutions on the termination of criminal proceedings, as the result:

⁶² Information as at 30 December 2016.

⁶³ The result must be achieved within each year of the Action Strategy.

- in one case the complaint is being reviewed;
- in four cases the complaints have been upheld and criminal proceedings were reopened;
- in other cases the complaints have been rejected, since law enforcement institutions failed to determine the constituent elements of a criminal offence, for example, no significant harm was established, because the material loss suffered was below five minimum monthly salaries in the State or another interest and right defended by law had not been violated, or there was no intention to squander the person's property.

During the reporting year, the representatives of the State Audit Office met with the representatives of the Office of the Prosecutor and State Police to discuss the progress of investigation of particular violations discovered by the State Audit Office.

Problems related to holding officials criminally liable for the violations of legal norms established within the scope of audits conducted by the State Audit Office were discussed during the meeting of the Public Council of the State Audit Office.

2.5.3. Examination of Violations at Other Responsible Institutions

In 2016, the State Audit Office **informed the Procurement Monitoring Bureau about potential violations discovered within the framework of eight audits** in the field of public procurements: On the basis of the information sent by the State Audit Office, 19 cases of administrative violations, which still continue, were commenced⁶⁴.

The State Audit Office **reported five times to the State Revenue Service** regarding the discovered irregularities regarding the accounting of cash, use of supporting documents of transactions and calculation of the value added tax and transfer thereof into State budget. On the basis of the information sent by the State Audit Office, administrative liability and a fine were imposed on two officials. Furthermore, in two cases the established administrative violation was deemed negligible, thereby releasing two officials from administrative liability and a verbal warning was given.

In one case the State Audit Office **reported to the State Labour Inspectorate** regarding potential violation of legal norms in the field of legal employment relationship. After examination, administrative liability and a fine were imposed on one official.

2.5.4. Examination of Violations at Audited Entities and Their Higher Institutions

Upon the initiative of the State Audit Office, since 11 April 2014, the Law On Prevention of Squandering of the Financial Resources and Property of a Public Person determines that if violations of this Law have been detected by the State Audit Office upon performing an audit, the audited entity or its higher institution or official shall inform the State Audit Office regarding the results of evaluating the liability of the persons referred to in Paragraph one of this Section within five months after the decision of the State Audit Office on approving the audit report has entered into effect.

In fulfilling the duty determined in the Law, the audited entity or its higher institution or official must determine persons guilty of violations discovered during the audit and assess whether there are grounds for imposing disciplinary and civil liability thereon. Results of assessing the liability of persons must be reported to the State Audit Office.

The State Audit Office monitored that information regarding the results of assessment of the liability of persons would be provided within the period set in the Law and the liability of persons would be assessed, including by sending letters and reminders on provision of information, repeatedly requesting to conduct assessment, publishing the information on the website.

During the reporting year, **inspections on 29 audits carried out by the State Audit Office were performed in audited entities and their higher institutions**. As the result of examinations, legal employment relationship of three employees was terminated, a reprimand was expressed to one official and three employees, whereas reproof was expressed to 13 employees, and a warning was given to seven officials and six employees.

⁶⁴ Information as at 30 December 2016.

In certain cases only, audited entities and their higher institutions proposed compensating losses caused as the result of illegal actions of persons, for example, an agreement was reached with the guilty parties to compensate EUR 377 for the unjustified payment of dismissal benefits; an agreement was concluded with the employee having committed the violation to compensate EUR 2.7 thousand for the caused losses; an agreement was concluded with former and present local government employees regarding repayment of EUR 43.1 thousand for the unlawful transfer of financial means to natural persons; an agreement was reached with a merchant regarding the repayment of unreasonably received funds for the service in the amount of EUR 7.5 thousand, etc.

The State Audit Office discovered these deficiencies in assessing the liability of persons for violations discovered in audits:

- not in all cases it is ensured that responsible persons are determined and the liability of persons is assessed;
- institutions hesitate to carry out assessment of the liability of persons having committed a violation which has been established within the scope of the audit, therefore many cases result in the entering into effect of a limitation period for imposing disciplinary liability on persons;
- in many cases the possibility of addressing the guilty parties to compensate the incurred losses is not considered;
- institutions lack a single approach to assessing the liability of persons;
- institutions are confusing the assessment of the liability of persons having committed the violations discovered within the audit of the State Audit Office with the implementation of recommendations provided as the result of the audit.

During the meeting of the Public Expenditure and Audit Committee of the *Saeima* on 1 June 2016, the State Audit Office informed on the discovered problems in relation to the violations identified during the audits carried out by the State Audit Office and the assessment of the liability of persons having committed these violations at ministries. The Committee ordered the State Chancellery to submit unified methodological instructions (guidelines) for the assessment of the liability of officials based on the violations discovered in the audits conducted by the State Audit Office.

As the result of co-operation of the State Chancellery and the State Audit Office, **Guidelines for the Assessment of the Liability of Officials Employed in State Administration were elaborated.**

3.

International Co-operation

**3.1. Membership in International
Organisations and Working
Groups**

**3.2. Co-operation with the Supreme
Audit Institutions of Other
Countries**

3. International Co-operation

3.1. Membership in International Organisations and Working Groups

Result to be achieved in accordance with the Action Strategy.⁶⁵

The State Audit Office **takes active part in activities organised by the Contact Committee of the Supreme Audit Institutions of the EU and INTOSAI/EUROSAT for achieving their common goals**, as well as in strengthening auditing and institutional capacity.

Fulfilled.

The State Audit Office has contributed to the achievement of the goals set forth by international organisations and has used the opportunity to raise its capacity by engaging in the activities of international organisations.

INTOSAI is an independent international organisation of supreme audit institutions. It was established in 1953 and serves as a forum for strengthening the area of public sector audits, professional development of supreme audit institutions, as well as for the mutual exchange of knowledge and best practices. The organisation has a special consultative role in the United Nations Economic and Social Council (ECOSOC). In order to ensure that INTOSAI goals are achieved, the regional organisations of supreme audit institutions have been established, meetings of permanent committees and working groups, as well as other events are regularly taking place and a congress is organised once every three years. INTOSAI includes supreme audit institutions of 194 countries and the State Audit Office has been its active member **since 1994**.

In December 2016, **representatives of the State Audit Office participated in the XXII. World Summit of Supreme Audit Institutions or INTOSAI Congress** which is organised once every three years by INTOSAI and which was held in United Arab Emirates.



Figure 36. Participants of INTOSAI Congress.

Within the scope of the Congress, the heads of supreme audit institutions **approved the latest versions of the International Standards of Supreme Audit Institutions (ISSAI)** and decided on important matters influencing further work of the supreme audit institutions.

During the Congress, the results of INTOSAI international work groups were approved, solutions for topical problems faced by supreme audit institutions were initiated and also agreements on preventive measures to be taken to reduce future challenges were reached.

EUROSAT is a regional organisation of INTOSAI, which was established in 1990 and currently includes supreme audit institutions of 49 European countries and the ECA. The State Audit Office joined EUROSAT **in 1995**. The main

⁶⁵ The result must be achieved within each year of the Action Strategy.

goal of the organisation is to promote professional co-operation between European supreme audit institutions, support the exchange of information and documents, promote the research of public sector audits, stimulate the creation of academic positions in this area and achieve unified audit terminology.

In September 2016, the third **experience exchange seminar of EUROSAI Member State experts on audits in local governments took place** in Lithuania. Overall 60 participants representing the supreme audit institutions of 24 countries, including the Member of the Council of the State Audit Office E. Korčagins and the Head of the Sector of the Fifth Audit Department O. Erdmanis, took part in the seminar.

The goal of the meeting was international experience exchange in audits conducted within local governments. Matters concerning local governments are not only within the range of priorities of the Supreme Audit Institution of Latvia, but also many other supreme audit institutions.

During the meeting, the **Working Group on Local Government Audits** was established, defining such goals as the exchange of the best practice and experience, optimisation of the auditing system at local governments and improvement of auditing methodology to ensure overall improvement of the financial administration at local governments, effective use of auditing resources and the quality of audits.

At the seminar, the representatives of the State Audit Office presented the new approach for the performance of risk analysis in the field of local governments and headed the discussion on innovative ways for the performance of risks analysis in the relevant field.

The Contact Committee is an autonomous and independent union for the heads of supreme audit institutions of the EU and the ECA with a goal to strengthen the EU financial management and good administration. The State Audit Office has been the member of the Contact Committee **since 1 May 2004**.

In January 2016, representatives of the ECA gathered together **at the meeting of the Contact Committee management group** in Bratislava, Slovakia.



Figure 37. "Troika" Meeting.

During the **"Troika" meeting** ("Troika" — supreme audit institutions of the EU which co-ordinate the work of all 29 supreme audit institutions of the EU within a certain period of time), which was held in October 2016 in Bratislava, specialists in matters of international co-operation M. Sološenko and E. Jansons together with representatives of the ECA and the Supreme Audit Institution of Slovakia discussed future meetings of the Contact Committee, including organisational matters and potential topics of the meeting seminar.

In April 2016, the State Audit Office organised and managed the **meeting for the communications coordinators of the Contact Committee** with participation of 58 delegates of 37 supreme audit institutions, including the ECA and SIGMA (OECD) representatives. Preparatory work for the next Contact Committee meeting was discussed, including the selection of the main topic for the meeting — EU energy policy and climate. In addition, the following topics were also included in the meeting: challenges faced by the EU Banking Union and the European Strategic Investment Fund (so-called "Juncker Plan"), potential support to the supreme audit institutions of Georgia, Moldova, and Ukraine, the most appropriate way for the exchange of information on audits conducted within the context of the EU was selected and also reports prepared by the working groups of the Contact Committee were presented.

In October 2016, the **Annual Meeting of the Contact Committee of the Heads of Supreme Audit Institutions of the EU** took place in Bratislava, Slovakia. Representatives of the State Audit Office also participated in the mentioned meeting.

The Contact Committee meeting was devoted to the EU energy policy and climate matters, emphasising to participants the increasing importance of the topic, thereby appealing to Member States to consider possibilities of conducting joint audits on topicalities in the field of energy and climate matters and also to share their experience on audits within the scope of the mentioned fields.

E. Korčagins, Member of the Council of the State Audit Office, delivered a presentation on the audit conducted by the State Audit Office of the Republic of Latvia.

Result to be achieved in accordance with the Action Strategy.⁶⁶

The State Audit Office takes **part in at least three international events for the exchange of experience among working groups**, including areas such as performance, environmental and information technology auditing.

Fulfilled.

The staff of the State Audit Office is engaged in the work of international audits and working groups of international audit organisations, shares its experience, knowledge and provides professional support to other supreme audit institutions, at the same time enhancing professionalism and gaining experience.



Figure 38. Participation of the State Audit Office in international working groups.

⁶⁶ The result must be achieved within each year of the Action Strategy.

Representatives of the supreme audit institutions of all three Baltic States met at the State Audit Office in January 2016 to discuss the Rail Baltica project.

At the meeting, Auditor General of Lithuania A. Dulkys and Adviser to Auditor General of Estonia U. Lee presented the particulars of the contracts of each state and deadlines for project implementation. The main risks of the project and environmental risk assessment were the main topics for discussions at the meeting.

It was decided to sign a Memorandum of Understanding and to establish **a working group** within the scope of which experts would share the information at the disposal thereof **concerning the progress of the implementation of the Rail Baltica project.**

In June 2016, a meeting devoted to the Rail Baltica project took place in Vilnius with the participation of representatives of the State Audit Office A. Jakovļevs and M. Sološenko. In co-operation with colleagues from the supreme audit institutions of Lithuania and Estonia, the potential risks of the project and possibilities of carrying out a joint project audit were discussed at the meeting. At the meeting, auditors heard out the information of the joint undertaking of the Baltic States AS "RB Rail" regarding the progress of the project.

A gathering devoted to the Rail Baltica project was also organised within the scope of the Annual Meeting of the Contact Committee of the Heads of Supreme Audit Institutions of the EU in Bratislava. As the result, a Memorandum of Understanding was signed between the Baltic States and an operative working group was established to ensure the monitoring of the project.



Figure 39. Auditor General E. Krūmiņa at the moment of signing a Memorandum of Understanding together with colleagues of the Baltic States.

During the gathering, the heads of the supreme audit institutions of Latvia, Lithuania, and Lithuania and also Poland and Finland, which are engaged in the project as observers, provided their vision on further collaboration, accenting the importance of preventive measures to display the potential risks of the project.

3.2. Co-operation with the Supreme Audit Institutions of Other Countries

Result to be achieved in accordance with the Action Strategy.⁶⁷

The State Audit Office **provides professional support to and shares its experience with other supreme audit institutions within the framework of bilateral/multilateral co-operation or as a part of separate projects** by organising training for at least two supreme audit institutions.

Fulfilled.

Auditor General E. Krūmiņa: "Throughout the period after the restoration of independence, the State Audit Office has been subjected to a serious process of changes — once being a post-Soviet finance inspectorate and eventually transforming into a contemporary audit institution which works in line with international auditing standards. This is exactly why the State Audit Office now is a highly demanded provider of support among those supreme audit institutions which at the moment undergo this transformation process."

In January 2016, Auditor General E. Krūmiņa met the **ECA President V. Caldeira** in Luxembourg. During the meeting they discussed topical collaboration-related matters of supreme audit institutions, inter alia, potential topics of joint audits, including audits on the energy Union policy and fiscal policy of Member States, potential co-operation of the supreme audit institutions of the EU with the supreme audit institutions of associated members of the EU and also updating of auditing standards of the public sector.

A meeting of the supreme audit institutions of EU candidate and potential candidate countries was held at the State Audit Office in April 2016. Overall, 18 delegates representing 13 countries/institutions took part in the meeting. The following topics were discussed at the meeting: topicalities in the information exchange network of candidate countries; the project of a parallel performance audit; independence of supreme audit institutions; the content and wording of an auditor opinion; and also relationship of supreme audit institutions with parliaments.

In May 2016, the Member of the Council of the State Audit Office E. Korčagins participated in the **conference "Strengthening Parliamentary Oversight and the Role of the Supreme Audit Institution for Improving the Management of Public Finance" hosted by the Delegation of the EU to the Republic of Moldova and the Audit Chamber of the Republic of Moldova** which took place in Chisinau.



Figure 40. The Member of the Council of the State Audit Office E. Korčagins at the conference hosted by the Audit Chamber of the Republic of Moldova.

The Member of the Council of the State Audit Office participated in the panel discussion of the conference regarding strengthening parliamentary oversight and collaboration of the parliament with the supreme audit institution, presenting information on the experience of the State Audit Office in collaboration with the Public Expenditure and Audit Committee of the *Saeima*. A discussion on building the regulatory base to ensure

⁶⁷ The result must be achieved within each year of the Action Strategy.

independent and effective work of the supreme audit institution was also organised within the scope of the conference.

Auditor General E. Krūmiņa and Adviser to Auditor General in Strategic Issues M. Salgrāve took part in the **international conference “Response of Supreme Audit Institutions to Global Challenges”** held in June 2016, in Oslo, Norway. Conference participants shared their experience with the contribution of supreme audit institutions in strengthening democracy, strategic development of the public sector, advantages of jointly completed audits by supreme audit institutions and specific audit-related matters. At the same time, the 200th anniversary of the Supreme Audit Institution of Norway was also celebrated, therefore conference participants were honoured also by the presence of the His Majesty King Harald V of Norway, Prime Minister E. Solberg and the members of the Norwegian Parliament.

Taking into account the experience of the State Audit Office in the field of control over public resources, the State Audit Office multiple times has been invited to participate in the implementation of development co-operation activities together with the supreme audit institutions of Ukraine, Georgia, and Moldova.

On 2 June 2016, **Auditor General E. Krūmiņa signed a contract with the Ministry of Foreign Affairs regarding the implementation of the development co-operation project to increase the capacity of the supreme audit institutions of Ukraine, Moldova, and Georgia as part of the integration process in ISSAI**, ensuring involvement in the achievement of the goals set forth within the scope of the Development Co-operation Policy Plan of Latvia.



The project enabled continuation of the initiatives started by the State Audit Office and provision of support to the supreme audit institutions of Moldova, Ukraine, and Georgia. The implementation of the development co-operation project was completed by the end of 2016 (funds necessary for the implementation thereof were granted from the Development Co-operation Policy Plan for 2016 administered by the Ministry of Foreign Affairs).

Auditor General E. Krūmiņa had a **meeting with the Chairperson of the newly formed National Anti-corruption Bureau of Ukraine N. Korchak** in October 2016, in the premises of the State Audit Office. The meeting was arranged upon initiative of the management of Ukrainian National Agency for Prevention of Corruption. Potential ways for making the collaboration among anti-corruption institutions and supreme audit institutions more effective were discussed during the meeting and also work organisation mechanisms of institutions were analysed.

In October 2016, Auditor General E. Krūmiņa together with the Head of Infringement Evaluation Division A. Ērglis and Audit Result Analysis and Improvement Process Manager L. Dimante visited the **Supreme Audit Institution of Ukraine**. The meeting was organised within the scope of the **project “Implementation of the development co-operation project to increase the capacity of the supreme audit institutions of Ukraine, Moldova, and Georgia as part of the integration process in ISSAI”**.

A presentation on the work of the State Audit Office, institutional system, organisation of the auditing process and implemented international co-operation activities was delivered at the meeting. In addition, there was also the exchange of experience in matters concerning the work of the Supreme Audit Institution of Ukraine.

Both parties came to an agreement that the management of the Supreme Audit Institution of Ukraine will visit the forum of the supreme audit institutions of the EU Eastern Partnership to be organised in Latvia, whereas representatives of the State Audit Office will visit Ukraine to give a seminar on performance audits.

The training session organised by the State Audit Office at the Supreme Audit Institution of Ukraine was concluded in November 2016.



Figure 41. Members of the Council of the State Audit Office I. Grīnhofa and I. Vārava with representatives of the Supreme Audit Institution of Ukraine.

The State Audit Office provided support to the Supreme Audit Institution of Ukraine in strengthening the professional capacity thereof, ensuring the implementation of activities aimed at enhancing the implementation of recommendations provided by international donors and experts in Ukraine, thereby bringing the Supreme Audit Institution of Ukraine nearer the application of the International Standards of Supreme Audit Institutions (ISSAI).

On 14 December 2016, **the heads and representatives of the supreme audit institutions of Ukraine, Moldova, Georgia, and the Kingdom of Sweden** visited the forum of the supreme audit institutions of the EU Eastern Partnership organised in Latvia. During the visit guests also had a meeting with State President and Minister for Foreign Affairs and they also participated in a meeting of the Public Expenditure and Audit Committee of the *Saeima*. The forum was also attended by the management of the Supreme Audit Institution of the Kingdom of Sweden, which has been a long-term co-operation partner of the State Audit Office in providing support to the supreme audit institutions of Moldova and Georgia.

The State Audit continued to actively work on increasing the capacity of the supreme audit institutions of the EU Eastern Partnership's partners to pave their way to a complete integration of international standards in their work. **The State Audit Office elaborated a specialised training course which is based on a thorough study of the needs of Moldavian colleagues and co-ordinated with the provisions laid down in the International Standards of Supreme Audit Institutions (ISSAI).**

In November 2016, the State Audit experts implemented a training programme in two areas — financial audit and information and communications technology audit.



Figure 42. Representatives of the State Audit Office during the meeting.

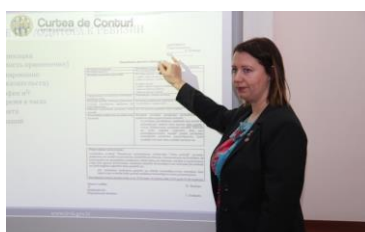


Figure 43. Head of the Sector of Audit and Methodology Department I. Kalniņa-Junga during the training.



Figure 44. Senior State Auditor of the Fifth Audit Department G. Krūmiņa during the training.

Representatives of the State Audit Office gave an in-depth training course on the following topics: audit on the reports of the state and local government budget execution, financial audit and International Standards on Auditing, practical aspects of financial audit and information and communications technology audit given that

national expenditure gradually increases particularly in the implementation of different information and communications technology projects.

In June 2016, five representatives of the State Audit Office — the Head of the Sector of Audit and Methodology Department I. Burkāne, Information Systems Auditor of Audit and Methodology Department L. Nagle, Audit Result Analysis and Improvement Process Manager L. Dimante, the Head of the Sector of the Fifth Audit Department T. Mazbērziņa, and Auditor of the Second Audit Department L. Reine — visited the **Supreme Audit Institution of Georgia** in Tbilisi in order to discuss financial audit-related matters. Training in Georgia was organised by the Supreme Audit Institution of the Kingdom of Sweden.

In November 2016, **representatives of the supreme audit institutions of Latvia, Georgia, and Moldova had a meeting** within the framework of the co-operation project in Sweden. The main focus of the seminar was on financial audits, including consolidated financial statements and budget execution reports and also advantages and drawbacks of combining compliance and financial audits. Several practical sessions were also organised.

In response to the invitation by the **Chairman of the Supreme Audit Institution of the Kyrgyz Republic U. Maripov**, Auditor General E. Krūmiņa visited Kyrgyzstan in September 2016 in order to discuss further collaboration possibilities of both institutions, including potential support provided by the State Audit Office to Kyrgyz colleagues. Auditor General also had a meeting with the heads of territorial structural units of the Supreme Audit Institution of the Kyrgyz Republic. Currently the Supreme Audit Institution of the Kyrgyz Republic is going through the process of change as the result of what the institution intends to become an audit institution which operates in compliance with the International Standards of Supreme Audit Institutions.

The following matters were discussed during the visit: compliance of the laws and regulations governing the operation of supreme audit institutions with independence requirements of the supreme audit institution; strategic and operational planning of the audit institution; optimal structure of the institution; audit methodologies and quality control of audits; and also challenges related to internal and external communication.

The heads of supreme audit institutions came to an agreement that the State Audit Office will consider the possibility of providing support to the Supreme Audit Institution of the Kyrgyz Republic in any of the described fields.

In November 2016, representatives of the **Audit Chamber of the Republic of Tajikistan and Ministry of Finance of the Republic of Tajikistan** visited the State Audit Office within the scope of a one-week training session. The aim of the visit was to familiarise with the work of the State Audit Office in order to introduce the best practice in Tajikistan.



Figure 45. Representatives of the State Audit Office, Audit Chamber of the Republic of Tajikistan and Ministry of Finance of the Republic of Tajikistan.

In addition, the guests also had a meeting with representatives of the Ministry of Finance and the Latvian Association of Local Governments.

During the visit to Latvia, representatives of the Audit Chamber of the Republic of Tajikistan and Ministry of Finance of the Republic of Tajikistan familiarised with the methodology applied in financial, performance and compliance audits carried out by the State Audit Office, discussed local government audits as one of the potential development possibilities, financial discipline and implementation of recommendations provided as the result of audits at State and local government institutions.

Several experts of the State Audit Office met the guests and shared their experience. The training visit was organised within the scope of the World Bank project devoted to modernisation of the administration of public resources of the State.

Result to be achieved in accordance with the Action Strategy.⁶⁸

The State Audit Office **carries out at least one parallel audit annually** in co-operation with other supreme audit institutions.

Fulfilled.

Two audits regarding the implementation of parallel audits were included in the agenda of the State Audit Office in 2016:

- **Regulatory/performance audit “Contribution of the European Union Structural Funds to the Europe 2020 Strategy in the Field of Education”** within the scope of the parallel audit of the Contact Committee Working Group on Structural Funds “Contribution of the Structural Funds to the Europe 2020 Strategy in the Areas of Education and Employment”⁶⁹;
- **Performance audit “Effectiveness of the Budget Management System: Part 1 — Effectiveness Assessment of the Budget Planning Cycle”** within the scope of the parallel audit of the fiscal policy information exchange network of the Contact Committee “Underlying Exposures Related to Sustainability of Public Funds”.

⁶⁸ The result must be achieved within each year of the Action Strategy.

⁶⁹ Information on audit results is specified in Sub-clause 2.3.4.4.

4.

Communication of the State Audit Office

- | | |
|--|--|
| 4.1. Public Availability of Information | 4.3. Co-operation with Audited Entities |
| 4.2. Co-operation with the <i>Saeima</i> and Cabinet | 4.4. Co-operation with Other Organisations |

4. Communication of the State Audit Office

4.1. Public Availability of Information

Result to be achieved in accordance with the Action Strategy.⁷⁰

The State Audit Office provides comprehensive and clear information useful for a particular target audience regarding the tasks of the State Audit Office and its activity in general and explains its role in the life of the country and every individual. Opinion polls show that **over 50 % of inhabitants of Latvia trust** the work of the State Audit Office.

Measures are taken to attain the result in 2017.

In order to ensure the highest possible audience reach in respect of the presentation of the work done by the State Audit Office and conclusions drawn as the result of audits, in the reporting period the State Audit Office improved the audience reach index through the diversification of information carriers and also through the expansion and intensification of collaboration with mass media.

A new practice was introduced in respect of information carriers — the graphic presentation of the summaries of audit reports have become easily perceivable and understandable. The use of information charts in the provision of information was developed and public communication was simplified by depicting information in an easy to understand manner in mass media saturated with information. Press releases are now translated also in Russian, thereby reaching direct accessibility to this part of audience.

In the course of expanding communication, closer collaboration with regional mass media was developed, in particular in cases audits were carried out at local governments and the conclusions drawn as the result of the audit affect the population of the respective local governments.

The presence in television both in news broadcasts and analytical broadcasts was increased, ensuring regular reporting on the work of the State Audit Office and the conclusions drawn as the result of audits.

Overall three meetings of the Public Council of the State Audit Office were organised in the reporting period. The following issues were among the topics discussed at the meetings: draft law “Amendments to the State Audit Office Law”; recommendations for matters to be examined in the course of separate audits; the process of drafting 2017 State budget; collaboration with law enforcement institutions, etc.

Result to be achieved in accordance with the Action Strategy.⁷¹

The State Audit Office **actively and regularly co-operates with the central and regional mass media** and organises meetings with mass media representatives at least once in a quarter.

Fulfilled.

The State Audit Office shall publish an opinion of a completed audit and an audit report after it has entered into effect. The State Audit Office also prepares press releases on audit results. After audits important for the public are completed, press conferences are organised as well.

During the reporting period, **32 press releases** on audits results **were prepared** and **three press conferences were organised**. Information on audits conducted by the State Audit Office was delivered on a regular basis and it was also published in regional press editions.

In response to invitations by mass media, Auditor General E. Krūmiņa and Members of the Council of the State Audit Office participated in the following interviews, television and radio broadcasts: “Viens pret vienu”, “Rīta Panorāma”, “900 sekundes”, evening news broadcasts at LTV, LNT and TV3, “Krustpunktā”, “Razvorot”, etc.

⁷⁰ Result to be achieved during the least year of the Action Strategy — in 2017.

⁷¹ The result must be achieved within each year of the Action Strategy.

Figure 46.⁷²

The officials of the State Audit Office prepared articles for both electronic portals and printed editions, for example, on the role of the supreme audit institution at State companies (*EUROSAI Magazine*), on ways to prevent squandering of the financial resources and property of the State and local governments (*INTOSAI Journal*), on the implementation of the e-health project in Latvia (*PM World Journal*), and on project management for the development of ports in Latvia (*PM World Journal*).

Result to be achieved in accordance with the Action Strategy.⁷³

The State Audit Office **involves the public in the provision of information** regarding possible violations and deficiencies in the activity of State and local government institutions and capital companies, and the State Audit Office website includes information regarding the commenced performance and regulatory audits.

Fulfilled.

The State Audit Office website includes a section on initiated audits and thereby the State Audit Office purposefully addresses the public, inviting to provide useful information according to the topic of the audit.

For example, in 2016, the State Audit Office commenced the performance audit entitled “Is State Administration Effectively Handling the Accrued Information?” and urged the society to get involved by sharing experience on information and documents requested from State institutions, local governments and their institutions.

The State Audit Office receives approximately 600 letters from the population annually. The information specified in the letters is assessed as one of the criteria in planning audits to ensure prompt response to current events in the country.

4.2. Co-operation with the *Saeima* and the Cabinet

Result to be achieved in accordance with the Action Strategy.⁷⁴

The State Audit Office **strengthens co-operation with the committees of the *Saeima***, including the Public Expenditure and Audit Committee, in order to promote the lawful and expedient use of budget funds, increase the responsibility of officials and employees for violations discovered during audits and facilitate the elimination of discovered deficiencies by taking part and providing information on at least 30 sittings of the *Saeima* committees annually.

Fulfilled.

The State Audit Office collaborates with the committees of the *Saeima* to ensure the review of various matters. For example, collaboration with State Administration and Local Government Committee and Legal Committee was ensured within the scope of “Amendments to the State Audit Office Law” and “Amendments to the Law On Sworn Auditors”. On 3 March 2016, Auditor General E. Krūmiņa and Member of the Council of the State Audit Office

⁷² Role and importance of Supreme Audit Institutions in auditing state-owned enterprises (Case of Latvia). Portal www.eurosa.org. Available online at: http://www.eurosa.org/handle/404?exporturi=/export/sites/eurosa/.content/documents/magazines/Eurosa22_en.pdf#page=95.

⁷³ The result must be achieved within each year of the Action Strategy.

⁷⁴ The result must be achieved within each year of the Action Strategy.

I. Grīnhofa participated in the discussion “Legality in Insolvency — For Healthy Development” organised by the *Saeima* in collaboration with the Foreign Investors’ Council in Latvia and Latvian Chamber of Commerce and Industry.

During the reporting period, the State Audit Office participated in meetings of the Public Expenditure and Audit Committee of the *Saeima*, informing about the audits of financial statements of ministries and central State institutions for 2015, about the results of the performed regulatory, performance and regulatory/performance audits, about the implementation of recommendations provided as the result of audits conducted in previous years, about the prepared discussion papers “Human, Information Systems and State” and “State — Main Capitalist of Latvia” and also about international co-operation of the State Audit Office.

The State Audit Office informed the Public Expenditure and Audit Committee of the *Saeima* also on the results of implementing Section 15, Paragraph two of the law On Prevention of Squandering of the Financial Resources and Property of a Public Person⁷⁵ in practice and the results of collaboration between the Office of the Prosecutor of the Republic of Latvia and State Police.

Result to be achieved in accordance with the Action Strategy.⁷⁶

The State Audit Office **has informed the Public Expenditure and Audit Committee of the *Saeima* about the results** of regulatory and performance **audits**, as well as financial audits (where significant violations were discovered) and **recommendations provided as the result of the audits** by preparing reports on the implementation of audit recommendations during the previous year in accordance with the deadline defined by the decision of the Public Expenditure and Audit Committee of the *Saeima*.

Fulfilled.

During the reporting period, the State Audit Office informed about the following at **46 sittings of the Public Expenditure and Audit Committee of the *Saeima***:

- about the audits of the financial statements of ministries and State institutions for 2015;
- about the audit of On Annual Report on the Execution of the State Budget and on Local Government Budgets of 2015 of the Republic of Latvia;
- about the results of 17 regulatory, performance and regulatory/performance audits;
- about the implementation of recommendations provided as the result of audits carried out during five previous years;
- overall implementation of the recommendations provided by the State Audit Office and also recommendations provided during audits and implementation thereof (summarising analysis).

Result to be achieved in accordance with the Action Strategy.⁷⁷

Once a year, the State Audit Office prepares information for the *Saeima* and the public regarding the implementation results of the recommendations provided during audits and the financial impact of the recommendations.⁷⁸

Fulfilled.

In November 2016, Auditor General E. Krūmiņa gave a presentation entitled “**Implementation of Recommendations Provided in Audits of the State Audit Office**” and addressed to the Public Expenditure and Audit Committee of the *Saeima*. The aim of the presentation was to inform on the nature of supervision in

⁷⁵ If infringements of this Law have been discovered by the State Audit Office during the audit, the audited entity or its higher institution or official informs the State Audit Office on the results of assessing the liability of the persons referred to in Paragraph one of this Section within a period of five months after the decision of the State Audit Office regarding approval of the audit report has become effective.

⁷⁶ The result must be achieved within each year of the Action Strategy.

⁷⁷ The result must be achieved within each year of the Action Strategy.

⁷⁸ After improvement and approval of the methodology for determining the financial impact.

implementing recommendations, progress in implementing recommendations, examples for the impact of provided recommendations and also recommendations provided as the result of the audits on the On Annual Reports on the Execution of the State Budget and on Local Government Budgets of the Republic of Latvia carried out in the previous years.

The content of the presentation is available to the public on the website of the State Audit Office, section “Audits” — “Audit Reports”.

Result to be achieved in accordance with the Action Strategy.⁷⁹

The State Audit Office **improves co-operation with the Prime Minister and other ministers** by organising meetings on important issues in the sectors once a year, if necessary.

Fulfilled.

The management of the State Audit Office met with the ministers of sectors at least once during the reporting period, informing the political management of the sector about the most significant discovered problems, progress of implementation of audit recommendations, positive examples of implementation of recommendations, strengths and weaknesses in the sector and other issues related to the administration of the sector.

On 12 August and 1 December 2016, Auditor General E. Krūmiņa had a **meeting with Prime Minister M. Kučinskis** to discuss matters concerning further collaboration and the priorities of subsequent years.

On 10 September 2016, Auditor General E. Krūmiņa, Members of the Council of the State Audit Office I. Grīnhofa and E. Korčagins participated in the **seminar “Improvement of Legislative Process”** organised by the Committee for Improvement of Legal Environment formed by State President R. Vējonis.

On 14 December 2016, Auditor General E. Krūmiņa had a **meeting with State President R. Vējonis**.



Figure 47. Auditor General E. Krūmiņa during the meeting with State President R. Vējonis.

The meeting was organised within the scope of the forum of the supreme audit institutions of the EU Eastern Partnership.

⁷⁹ The result must be achieved within each year of the Action Strategy.

4.3. Co-operation with Audited Entities

Result to be achieved in accordance with the Action Strategy.⁸⁰

The State Audit Office **develops co-operation with the directors of audited entities**, thus promoting improvements in the internal control systems of audited entities. The results of surveys conducted by the State Audit Office show that at least **60 % of directors of audited entities have the understanding of the State Audit Office goals, tasks, and contribution** to improving the internal control systems of institutions.

Fulfilled.

In developing co-operation with audited entities, the representatives of departments, meeting with the leading officials of sectors, provided information and discussed the goals and progress of audits, problems identified during the audit and harmonised the schedules for the implementation of recommendations.

Pursuant to the Action Plan for 2017 of the State Audit Office, the next survey of audited entities is scheduled to take place in 2017. Results of the previous survey were compiled in 2015, showing that the goals, tasks, and contribution of the State Audit Office are understood by 90 % of the heads of audited entities.

The State Audit Office has introduced an award — a Certificate of Appreciation. The granting of the mentioned certificate is prescribed by special procedures applied to assess the contribution of audited entities and collaboration partners of the State Audit Office in terms of achieving the goals set forth by the State Audit Office, including the assessment of collaboration with the State Audit Office during the performance of audits.



Figure 48. Auditor General E. Krūmiņa presents the award — Certificate of Appreciation.

The State Audit Office decided to grant the Certificate of Appreciation to five institutions: **Procurement Monitoring Bureau, local government of Bauska Municipality, Social Service of Rēzekne City, State Border Guard of the Republic of Latvia, and Foreign Investors' Council in Latvia**. Certificates of Appreciation were presented during a press conference devoted to the discussion of the results of the State Audit Office in 2015 which was organised in June 2016.

Such Certificates of Appreciation for successful co-operation will be awarded by the State Audit Office also in the future.

⁸⁰ The result must be achieved within each year of the Action Strategy; the survey of audited entities is carried out once in two years.

On 25 November 2016, **an off-site sitting of the meeting of State secretaries** was organised at the State Audit Office. The following matters were included in the agenda of the event: presentations and discussions on improving collaboration between the State Audit Office and audited entities thereof; draft law “Amendments to the State Audit Office Law”; small and effective State administration; communication strategy of the State Audit Office; and other mutually topical matters (including performance criteria, collaboration of auditors and reliance upon the work of other auditors).

Result to be achieved in accordance with the Action Strategy.⁸¹

The State Audit Office **develops co-operation with internal auditors** and in assessing the internal control system of audited entities during the audits, it takes into account the performance of the structural units of internal audits.

Fulfilled.

To strengthen co-operation, report on the work done, outline future tasks and share experience, **an annual meeting of representatives of the State Audit Office and internal auditors of State administration** was organised on 14 June 2016 in the premises of the State Audit Office. Auditor General E. Krūmiņa familiarised participants with topical events, whereas Member of the Council of the State Audit Office Z. Zariņa presented the overall results of the work of the State Audit Office in 2015 and also the results of audits carried out at ministries and central State institutions.

Taking into account the questions asked by internal auditors regarding the implementation of Section 15, Paragraph two of the Law On Prevention of Squandering of the Financial Resources and Property of a Public Person in practice, the Head of Infringement Evaluation Division A. Ērglis gave an evaluation on collaboration with audited entities in respect of assessing the liability of officials and also informed on future activities to promote the assessment of the liability of officials in accordance with the Law in respect of unlawful and inexpedient use of the financial resources and property of a public person discovered by the State Audit Office.

The State Audit Office has been assessing compliance matters within the scope of financial audits since 2015. The Head of the Sector of the Audit and Methodology Department I. Pavāre familiarised those present with theoretical and practical aspects in assessing compliance matters and also provided information on the goals of the State Audit Office and practical implementation thereof by changing the format of audit reports, at the same time paying attention to the opinion of internal auditors regarding perceptibility of the new format audit reports.

Meanwhile, the Head of Internal Audit Policy Planning Division of the Internal Audit Department of the Ministry of Finance V. Gurkovska, presenting the results of an internal audit, particularly accented the necessity to strengthen the collaboration between the State Audit Office and internal auditors throughout all auditing stages and also purposeful collaboration in the field of training, thereby enhancing the formation of common understanding about the auditing process.

4.4. Co-operation with Other Organisations

In January 2016, Auditor General E. Krūmiņa participated in a press conference organised by the **Society for Openness “Delna”** during which those present were familiarised with the annual Corruption Perceptions Index (which contains information on Latvia as well) compiled by the global civil society organisation leading the fight against corruption — Transparency International.

⁸¹ The result must be achieved within each year of the Action Strategy.

In February 2016, Member of the Council of the State Audit Office E. Korčagins participated in the **sitting of the members of the Association of Executive Directors of Latvian Local Governments**.



Figure 49. Member of the Council of the State Audit Office E. Korčagins in the sitting of the members of the Association of Executive Directors of Latvian Local Governments.

A representative of “Latvijas Valsts meži” (Latvia’s State Forests) G. Ašmanis and a representative of KNAB I. Nolle participated in the event. Member of the Council of the State Audit Office provided information on most essential recommendations provided as the result of the audits conducted by the State Audit Office in respect of improving the work of local governments, audit conclusions regarding the necessity to improve budgetary link with State and local government goals set forth in development planning documents and also emphasised the importance of creating the internal control system to improve the operation of local government institutions and timely identification and prevention of various inconsistencies.

E. Korčagins urged the executive directors of local governments to support the alterations initiated by the State Audit Office within laws and regulations in order to ensure the application of the International Standards of Supreme Audit Institutions (ISSAI) in the audits of the public sector.

In March 2016, the Head of the Sector of the Fifth Audit Department O. Erdmanis took part in a video conference **organised by the Latvian Association of Local Governments** which was devoted to the topic “Administration of Capital Companies”. Representatives of the local governments of Daugavpils and Jelgava participated in the event.



Figure 50. The Head of the Sector of the Fifth Audit Department O. Erdmanis at a video conference organised by the Latvian Association of Local Governments.

The State Audit Office had carried out substantial audits at the mentioned local governments regarding the compliance of the commercial activity of the local government with the requirements laid down in laws and regulations, effectiveness of the administration process of capital companies and also the action of capital companies owned by local governments in respect of lawful and expedient use of financial means. The goal of the mentioned video conference was not only to give presentations on topical matters in the administration of capital

companies, but also to show the invisible part to a broader public, namely, the collaboration between the State Audit Office and local governments in the implementation of audit recommendations.

On 12 October 2016, the State Audit Office in co-operation with the **Latvian Association of Local Governments** organised a discussion on local governments to recall the audit conducted at local governments "Assessment of Software Administration in Local Governments and Educational Institutions of Local Governments". Upon concluding the audit, the State Audit Office did not gain assurance on safe and responsible administration of information technologies (IT) at local governments.

Currently the situation has improved significantly whereof the State Audit Office has ascertained by following the implementation of recommendations at 14 local governments where such examinations were carried out.

The main goal of the discussion was to find out how local governments have managed to eliminate the drawbacks discovered during the audit, to identify the problems faced by local governments in the process of solving these drawbacks and what were the most time-consuming tasks and how local governments have handled them.

After the meeting, representatives of the State Audit Office admitted that irrespective of the size of the local government, problems to be solved in the field of IT are quite similar. Of course, there are various financial options and they may be solved with proper capacity; however, the State Audit Office commends the work of local governments of having studied their information and communication technologies environment, are aware of the weaknesses and risks thereof and are taking systematic measures to introduce improvements.

Specialists of the State Audit Office in collaboration with **Riga Graduate School of Law took part in the implementation of an Advanced Programme in European Law and Economics for Eastern Partnership Region and Central Asia**. Apart from representatives of the State Audit Office, the teaching staff of the Latvian Institute of International Affairs, University of Latvia, Stockholm School of Economics in Riga, and the European Institute of Public Administration also co-participated in the implementation of the aforementioned study programme. The programme is funded by the Government of Latvia. Target countries included in the programme are specified for each year of the programme and the following countries were included in the programme in 2016: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kazakhstan, Kyrgyzstan, Kosovo, Macedonia, Montenegro, Moldova, Serbia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Audit Result Analysis and Improvement Process Manager L. Dimante participated in the **annual international conference "Audit, Taxes and Accounting 2016"** where she presented the report "Challenges Identified by the State Audit Office in the Area of Improving the Work of Local Governments".



Figure 51. Audit Result Analysis and Improvement Process Manager L. Dimante at the annual international conference.

Organisers of the conference, Riga Manager School, highly appreciated the contribution of L. Dimante in the work of the conference. Summary of the questionnaires of the conference participants shows that the report of the expert of the State Audit Office has received a very high evaluation.

In order to increase the benefit from the information and knowledge gained as the result of audits conducted by the State Audit Office, **the State Audit Office has introduced a new practice — drafting of discussion papers.** These documents summarise the facts identified in the audits of the State Audit Office in areas where systemic, long-term drawbacks are observed that are beyond the competence of separate audited entities.

The goal of discussion papers, by using the knowledge of the State Audit Office, is to prepare recommendations for the improvement of the reviewed areas at a national level and to propose a broader discussion between the involved and interested parties — executive power, non-governmental sector, academic environment, entrepreneurs, representatives of the society, legislator.

The first such type of discussion paper, which was devoted to the field of information and communication technologies (ICT), **“Human, Information Systems and State”**, was published in collaboration with the State Chancellery in March 2016.

The topic of the first discussion paper was defined by the growing role of the area of ICT in developing effective State administration focused on public interest and also the immense knowledge base gained by the State Audit Office in the course of conducting performance and regulatory audits in the area of implementing ICT projects at the Ministry of Health, State Revenue Service, State Archive of Latvia, Office of Citizenship and Migration Affairs, Ministry of the Interior and also within the scope of the E-administration project. The paper features a summary of the most significant problems faced by the State in the area of implementing ICT projects and puts forward proposals for improvement of the situation, at the same time involving in the process of finding solutions a broader range of institutions and interested parties.

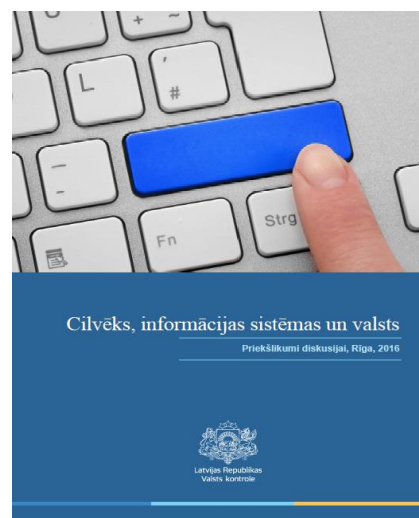


Figure 52. Discussion paper “Human, Information Systems and State”.



Figure 53. Discussion paper “State — Main Capitalist of Latvia”.

The second discussion paper was devoted to the field of administering capital companies owned by the State and local governments — **“State — Main Capitalist of Latvia”**.

Capital companies owned by State and local governments have a crucial role in the national economy of Latvia. In total, 78 thousand people, i.e., a tenth of the total labour force, are employed by over 670 companies which either directly or indirectly belong to the State or a local government. In addition, significant financial indicators indicate to the role of capital companies in national economy. For example, turnover of capital companies owned by the State exceeded EUR 3.4 billion in 2015, making a profit of EUR 164 million. Total value of the assets of capital companies owned by the State exceeded EUR 8 billion in 2015, and this capital is to be regarded as an investment of the society in national entrepreneurship. For this reason, the State Audit Office believes that good administration of public capital companies is very important; moreover, they ought to attain the set forth goals and bring return on the invested capital and ensure social benefits to the society.

5.

Operations Priorities in 2017

5. Priorities for 2017

- **State Audit Office Action Strategy for 2018-2021.**

The year 2017 draws the conclusion for the Action Strategy of the State Audit Office for 2014-2017. Upon assessing the execution of the Action Strategy in the previous years and taking into account national economic processes and development directions, interest of the society, experience gained in international activities and also results obtained in the strategic assessment of audit areas, the State Audit Office intends to elaborate a medium-term policy document, defining the action directions of the State Audit Office, goals and results to be achieved in the upcoming four years to ensure further development of the State Audit Office.

- **The leading role of the State Audit Office in the adaptation of international auditing standards of the public sector and their application in Latvia.**

International practice and INTOSAI auditing standards emphasise increasingly greater differences between approaches to the audits of the public and private sector. In the private sector, the emphasis is put on the correct accounting of transactions, ensuring assurance to the user of the report on the financial position of the company, while in case of State and local government institutions, a much greater attention is paid to the legality and expediency of transactions.

The State Audit Office already carries out audits pursuant to INTOSAI auditing standards, yet it is crucial to attain the application thereof in the entire public sector.

In the reporting year, along with the adoption of amendments to the law On Sworn Auditors at the *Saeima* that were initiated by the State Audit Office, a legal obligation was included in the legal framework in respect of sworn auditors who are now also obligated to ensure performance of financial audits in public sector (State and local governments) in compliance with INTOSAI standards.

INTOSAI standards are applicable in the entire public sector as of financial audits of 2017. Therefore the State Audit Office intends to elaborate training programmes in 2017 and to organise training of sworn auditors, representatives of local governments and other audited entities. The planned training themes: methodology for financial, compliance and performance audits; assessment of policy initiatives in the public sector; assessment of information and communication systems; promotion of good administration in financial management of the public sector; audits at capital companies owned by State and local governments; methods for risk analysis and techniques in the process of audit work, etc.

- **Capacity Building for Performance Audits**

The conclusions drawn as the result of audits suggest that expediency of expenses is a challenge in the public sector. Performance audits are an internationally-recognised criterion of professionalism of the supreme audit institutions.

Therefore the State Audit Office in compliance with international standards is working on the improvement of the methodology of performance audits and also will continue the work on capacity building to assess expediency aspects in audits.



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