



The use of additional funding allocated to the Ministry of the Interior for the purchase of personal protective equipment and disinfectants

Audit interim report



Latvijas Republikas
Valsts kontrole

Rīga 2020

Audit interim report

The use of additional funding allocated to the Ministry of the Interior for the purchase of personal protective equipment and disinfectants

17 August 2020.

Inspections carried out and an interim report drafted within the framework of the financial audit “On the accuracy of the 2020 annual report of the Ministry of the Interior” (Audit schedule No 2.4.1-12/2020 of the Second Audit Department of the State Audit Office of 8 May 2020) and Sub-paragraph c), Paragraph 3, Section 3 of the State Audit Office Law.

The cover design includes a photo from the website <http://depositphotos.com>, *Challenge success concept*, Author *georgejmlittle*, ID 58065143

Why have we drafted this interim report?

Since International Standard on Auditing (ISA) 701, Communicating key audit matters in the independent auditor's report¹, the State Audit Office is required to assess the need to include key audit matters in the audit opinion on the financial statements.

For the purposes of those standards, key audit matters are matters that, in the auditor's professional judgment, are significant in the context of the audit of the financial statements of the reported period that one reports to the management of an audited entity and that have been the focus of the auditor's attention. There is no separate opinion on the key audit matters issued.

The information provided on key audit matters serves as additional information for potential users of the financial statements. It helps apprehend both matters that the auditor has identified as significant in the professional judgment and the audited entity and the areas where the management of the audited entity has made significant judgments while drafting the audited financial statements. This information may also serve as a basis for potential users to communicate further with the management of the audited entity about specific aspects of governance, audited financial statements, or audits performed.

The solidity and actual spending of the requests for additional funds allocated to address the consequences of COVID-19 are the key audit matter, which is crucial in all financial audits on the accuracy of the drafting of the annual consolidated financial statements for 2020 of the ministries and central governmental agencies.

In 2020, COVID-19 pandemic affected Latvia like the rest of the world. The Cabinet of Ministers adopted a decision² on declaring a state of emergency on 12 March 2020, and the state of emergency continued until 9 June 2020. The extraordinary circumstances caused by COVID-19 affected the daily lives of the government, the public, and everyone both during and after the emergency. The new conditions required the ability to react and adapt quickly, as well as caused deviating from the usual order. Under the new conditions, the institutions should have been able to coordinate their activities more intensely and to co-operate with each other by avoiding legal formalism and the departmentalism to ensure the functioning of the state and the protection of each individual in emergency conditions³.

Overcoming the COVID-19 pandemic and dealing with its consequences have required significant funds from the state budget. Since the declaration of the state of emergency, the Cabinet of Ministers has made decisions in connection with overcoming the crisis caused by COVID-19 and eliminating its consequences on the allocation and reallocation of state budget funds for the implementation of basic functions for 806,907,224 EUR in total by 30 June 2020 and has examined proposals for reallocation of funds for the implementation of projects and measures co-financed by European Union policy instruments and other foreign financial assistance for 496,000,000 euros⁴. The State Audit Office pays special attention to assessing the spending of state budget funds allocated for overcoming the COVID-19 pandemic, preventing, and mitigating its consequences.

Between 12 March 2020 and 30 June 2020, the Cabinet of Ministers has granted 3,064,728 euros to the Ministry of the Interior for overcoming the COVID-19 pandemic, preventing, and

mitigating its consequences additionally including the funding allocated⁵ to the Ministry of the Interior on 20 March 2020, which did not exceed 474,025 euros, to cover expenses incurred during the COVID-19 outbreak by the subordinate institutions of the Ministry of the Interior (the Information Centre of the Ministry of the Interior, the State Police, the State Fire and Rescue Service, the State Security Service, the State Border Guard, the Office of Citizenship and Migration Affairs, the Provision State Agency, and the Internal Security Bureau) and State-owned Limited Liability Company *Iekšlietu ministrijas poliklīnika* (Out-patient clinic of the Ministry of the Interior) for the purchase and transportation of disposable personal protective equipment and disinfectants.

In its turn, on 6 April 2020, funding was granted⁶ to the Ministry of the Interior which did not exceed 2,590,703 euros for providing bonuses to the officials of subordinate institutions of the Ministry of the Interior from 12 March 2020 to 31 May 2020 who have been directly involved in the prevention of the consequences of COVID-19 for working in high-risk and increased workload conditions in the situation of public health threat of COVID-19 outbreak and to mitigate the consequences.

To provide information on the key audit matter raised in the financial audit “On the accuracy of the 2020 annual report of Ministry of the Interior”, that is, the use of the additional funds allocated to mitigate the consequences of COVID-19, the State Audit Office performed an audit and drafted this interim report on the actual spending of the funding of 474,025 euros allocated to the Ministry of the Interior for the purchase of disposable personal protective equipment and disinfectants.

There will be a separate interim report drafted on the actual spending of the funding allocated to the Ministry of the Interior for the bonuses to the officials of subordinate institutions who have been involved in the prevention of the consequences of COVID-19.

Summary

When examining the use of additional funding allocated to the Ministry of the Interior from the budget program “Contingency Funds” for the purchase of personal protective equipment, disinfectants, and their packaging during the audit, the auditors could not assess whether the supplier selection process met pre-defined criteria understandable to all parties involved. Only during the coordination of the interim report, the Ministry of the Interior did inform the State Audit Office about the set criteria (the potential supplier responded to the offer immediately, offered a reasonable price, short delivery times, and did not request prepayment) and the position regarding documentation of procurement progress (ensuring protection of the employees urgently was more significant than specific documentation of each activity). However, when assessing the documents provided by the audited entities, that is, the Provision State Agency and the State Police, and the information provided by their officials, the auditors could not be confident that they had used any criteria in selecting potential cooperation partners and evaluating the submitted tenders, as one had documented the tender assessment process only partially. Consequently, not all decisions made in the process of purchasing personal protective equipment are traceable, and one cannot consider the procurement process as a whole cannot be transparent.

At the same time, the auditors verified that the procurements were made in late March and early April 2020, when there was a limited supply of personal protective equipment and disinfectants on the market and under conditions of urgency by concluding contracts on the purchase of personal protective equipment necessary for the subordinate institutions of the Ministry of the Interior in a short period of time (from three to nine days). The initiative of the Ministry of the Interior to process 22 tons of confiscated alcohol-containing liquid stored in the Provision State Agency into a disinfectant has also facilitated the supply of the necessary disinfectants to the officials directly involved in limiting the spread of COVID-19.

The Provision State Agency, the State Police, the State Fire and Rescue Service, the State Border Guard, the Information Centre of the Ministry of the Interior, and the Office of Citizenship and Migration Affairs were among the authorities whom the Cabinet of Ministers permitted⁷ to waive the requirements of the Public Procurement Law in procurements required for limiting the spread of the COVID-19 outbreak, and to request the necessary financial resources from the state budget program “Contingency Funds” during the emergency. The subordinate institutions of the Ministry of the Interior carried out the purchases of personal protective equipment, disinfectants, and their packaging at the beginning of the emergency until the Ministry of Defence (National Defence Military Facilities and Procurement Centre) took over⁸ the management and centralised procurement of the state material reserves of personal protective equipment and disinfectants related to the COVID-19 crisis. The subordinate institutions of the Ministry of the Interior have spent 258,036 euros for this purpose out of the earmarked⁹ 474,025 euros in total.

In response to the COVID-19 outbreak and the related public health crisis and national deviations from the usual standards, the European Commission allowed deviations from the

usual procurement practices. For example, the communique of the European Commission of 1 April 2020 allows the Member States to take a flexible approach to emergency and urgency procurement by shortening procedural time limits, using closed procedures, without imposing procedural restrictions, and even using previously unconventional techniques such as telephone, E-mail or personal communication, etc.¹⁰

Non-application of the Public Procurement Law means that there is no need to apply the procedures, deadlines, and other provisions specified in this Law and that one can base the procurement process on fast and urgent action by subordinating the actions to the circumstances of the emergency. At the same time, the non-application of the Public Procurement Law does not release or abolish the scope of rights and obligations of the public sector for the handling of state budget funds and property. Officials must still comply with all applicable laws and regulations, including the Law on the Prevention of the Waste of the Funds and Property of a Public Entity, the Law on Prevention of the Conflicts of Interest in the Activities of Public Officials, the Law on International and Latvian National Sanctions, and other laws and regulations. Without applying the Public Procurement Law, a contracting authority had to create a system that would prevent risks related to the potential conflict of interest, inefficient handling of state budget funds, as well as other undesirable and inappropriate actions of the public sector. This means that even in the processes of “preferential procurement”, one cannot lack documented and traceable assessment and understanding that the best offer should be selected in a procurement or the most appropriate offer in the essential interests of the state and public in this case.

The audit did not find that the Ministry of the Interior and its subordinate institutions had established special procedures, tender assessment criteria for the procurement of goods and services necessary to limit the spread of the COVID-19 outbreak, as the tender assessment process in the audited institutions such as the Provision State Agency and the State Police was documented only partly. Although the internal regulation¹¹ of the Provision State Agency on procurement in the institution also provides procedures for procurement when it is necessary to eliminate the situation arising from extraordinary circumstances and the provisions of the Public Procurement Law do not apply, the auditors did not obtain evidence that this procedure has been followed.

As one did not define the expected action of those institutions regarding the documentation of the preferential procurement process and the decision-making on the choice of tender, the auditors could not obtain sufficient assurance that there were any criteria used to select potential suppliers and assess the tenders submitted, id est, whether one assessed the tenders only as per offered prices or took other criteria into account as well (for instance, volume of supply, type and terms of delivery, absence of tax debts, etc.). There is also no assurance that one has acted to address the risks of a potential conflict of interest.

During the coordination of this draft interim report, the Ministry of the Interior explained¹² that the Ministry of the Interior had set the following major criteria for emergency procurement such as the potential supplier responded to the tender immediately, offered a reasonable price and short delivery times, and did not require prepayment. The Ministry of the Interior also stated, “the work should be continued in an emergency situation as well [...] therefore the urgent protection of employees was more important than the specific documentation of each activity.” However, the auditors cannot obtain sufficient confidence from the documents assessed during

the audit that the criteria set by the Ministry of the Interior have been applied in the selection of potential suppliers and assessment of the submitted tenders.

One has established simultaneously that the Provision State Agency was able to conclude contracts on the purchase of personal protective equipment required by the subordinate institutions of the Ministry of the Interior within very short deadlines (within three to nine days) and most goods were received within the terms stipulated, that is, in 10 to 25 calendar days.

The Minister of the Interior had stipulated that any purchases made without the application of the Public Procurement Law could be made only with the written approval of the Minister of the Interior. The auditors were not convinced of the purpose of this control mechanism, as it was not clear from the available documents what information one should agree with the Minister. For example, when requesting approval from the Minister's Office, the Provision State Agency sent an offer from a potential supplier (Brief Ltd) and indicated that the Latvian Federation of Security and Defence Sector had recommended the supplier. Information on whether there were other offers and why the particular offer was selected, delivery time, or other information was not requested and provided for approval. In its turn, the State Police coordinated the expected volumes of goods and potential costs, but it did not request an approval to enter into a contract with a specific tenderer.

While reviewing the information of tender submission, the auditors detected that probably consultations with Brief Ltd (company number 40103935776), with whom the Provision State Agency concluded a contract, on the supply of personal protective equipment had already started before the invitation was sent because an employee of the Provision State Agency had made a mistake and had provided an inaccurate E-mail address when sending the invitation to this economic operator. Hence, the company could not have received that invitation at all. The supplier sent his tender to the Director of the Provision State Agency instead of the E-mail indicated in the invitation, while the Director of the Provision State Agency asked the Minister of the Interior for approval to sign a contract with the specific supplier the following day after sending the invitation after receiving the tender from Brief Ltd and not waiting the answers from all the economic operators invited. Although other offers received already after contracting Brief Ltd exceeded the offer of Brief Ltd in terms of price and probably would not change the decision on the choice of the supplier, the auditors consider that the supplier selection process has not been transparent.

In addition to the above, the auditors found that the institutions of the Ministry of the Interior had incurred expenditure of at least 233,422 euros in other goods and services related to the implementation of additional security measures (protective barriers, safety glass, and access control system installation) and more intensive cleaning of the premises in order to limit the spread of the COVID-19 outbreak by 30 June 2020. The mentioned expenses are covered within the existing budget because the Ministry of Finance did not support¹³ the allocation of additional funding from the contingency fund to cover those expenses.

One must note at the same time that the amount of state budget spending required for the Ministry of the Interior (and other sectors) to purchase disinfectants was reduced by the proposal of the Ministry of the Interior to recycle 22 tons of confiscated alcohol-containing liquid stored in the Provision State Agency into hand and surface disinfectant. According to the calculations of the Ministry of the Interior, it saved the state budget more than 300,000 euros. In addition,

according to the Ministry of the Interior, disinfectants were supplied both the subordinate institutions of the Ministry of the Interior and the National Armed Forces, the Ministry of Agriculture, the Ministry of Economics, the Ministry of Culture, the Ministry of Foreign Affairs, vocational training institutions, and local and regional governments.

Recommendations and proposals of the State Audit Office

The State Audit Office does not provide a recommendation to the Ministry of the Interior taking into account the initiated measures¹⁴ to establish state material reserves, from whose stocks the institutions subordinated to the Ministry of the Interior will also receive personal protective equipment, disinfectants, and other goods required during the emergency.

References

¹ The International Organisation of Supreme Audit Institutions (INTOSAI) also uses International Standards on Auditing for the financial audits; hence the latter are binding on the State Audit Office, which conducts audits in accordance with international standards on public sector auditing.

² Cabinet Order No 103 “On Declaring a State of Emergency” of 12 March 2020.

³ Communication of the President of Latvia No 8 “Basic Principles of Activities of State Constitutional Bodies in an Emergency Situation” of 23 March 2020.

⁴ Informative report of the Ministry of Finance on reallocation of the financing from the EU Structural Funds and the Cohesion Fund and solutions for mitigating the consequences of COVID-19, reviewed by the Cabinet Meeting on 19 May 2020.

⁵ Section 2 of Cabinet Order No 118 of 20 March 2020 “On the Allocation of Financial Resources from the State Budget Program “Contingency Fund” (in the wording in force until 14 July 2020).

⁶ Cabinet Order No 181 of 16 April 2020 “On the Allocation of Financial Resources from the State Budget Program “Contingency Fund”.

⁷ Sub-paragraph 4.14 of Cabinet Order No 103 “On Declaring a State of Emergency” of 12 March 2020 (valid until 9 June 2020) (in the wording of Cabinet Order No 105 of 14 March 2020, the wording of Cabinet Order No 115 of 19 March 2020, the wording of Cabinet Order No 119 of 25 March 2020, and the wording of Cabinet Order No 161 of 7 April 2020). It was first included on 14 March 2020, after which it was amended several times by supplementing the list of institutions.

⁸ Sub-paragraph 4.54.³ of Cabinet Order No 103 “On Declaring a State of Emergency” of 12 March 2020 (valid until 9 June 2020) in the wording valid since 2 April 2020.

⁹ Cabinet Order No 181 of 16 April 2020 “On the Allocation of Financial Resources from the State Budget Program “Contingency Fund”.

¹⁰ European Commission Communique of 1 April 2020 “European Commission’s guidance on how to use public procurement regulation in the event of a COVID-19 crisis emergency (2020/C 108 I/01), [https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1589535358624&uri=CELEX:52020XC0401\(05\)](https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1589535358624&uri=CELEX:52020XC0401(05)), viewed on 21 April 2020.

¹¹ Internal Regulation of the Provision State Agency No 4/2018 “Procedures for Planning and Organising Procurements” of 15 March 2018.

¹² Letter of the Ministry of the Interior No 1-76/2005 “On additional information on the use of additional funding allocated to the Ministry of the Interior for the purchase of personal protective equipment and disinfectants” of 14 August 2020.

¹³ Letter No 12/A-2/2833 of the Ministry of Finance of 26 May 2020 on the draft Cabinet Order to the Ministry of the Interior.

¹⁴ COVID-19 Infection Prevalence Management Act; Cabinet Regulation No 380 “On the Resources Required for Ensuring Epidemiological Safety of Priority Institutions and Institutions Included in the List of Needs” of 9 June 2020 (valid since 13 June 2020).