



**The use of funding allocated to the Ministry of Welfare  
for the payment of bonus to downtime benefit for each dependent child and  
downtime support benefit, and bonus to downtime support benefit**

Interim report

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## Interim report

**The use of funding allocated to the Ministry of Welfare for the payment of bonus to downtime benefit for each dependent child and downtime support benefit, and bonus to downtime support benefit.**

One can find the date in the document time stamp and the document number in a text file.

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 Welfare” (Audit schedule No 2.4.1-18/2020 of the Third Audit Department of the State Audit Office of 18 May 2020) and following Sub-paragraph c), Paragraph 3, Section 3 of the State Audit Office Law.

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## Why have we drafted this interim report?

Since International Standard on Auditing (ISA) 701, Communicating key audit matters in the independent auditor's report<sup>1</sup>, has taken effect, 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 decision to declare the emergency on 12 March 2020, and the state of emergency continued until 9 June 2020<sup>2</sup>. 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 cooperate 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 conditions<sup>3</sup>.

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 1,021,912,416 euros in total by 30 September 2020 and has examined proposals for reallocation of funds for the performance of projects and measures co-financed by European Union policy instruments and other foreign financial assistance for 496,000,000 euros<sup>4</sup>. 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.

The Cabinet of Ministers<sup>5</sup> has allocated additional financial resources of 56,472,783 euros to the Ministry of Welfare for overcoming, mitigating, and preventing the consequences of COVID-19

crisis to provide 11<sup>6</sup> activities between 12 March 2020 and 30 September 2020. The audit plans to inspect the spending of the funds allocated for nine<sup>7</sup> activities.

To provide information on the key audit matter raised in the financial audit “On the accuracy of the 2020 annual report of the Ministry of Welfare”, that is, the solidity and actual spending of the requests for additional funds allocated to address the consequences of COVID-19, the State Audit Office performed an audit and drafted this interim report **on the actual spending of the funding allocated to the Ministry of Welfare (State Social Insurance Agency) for two activities - payment of bonus to downtime benefit for each dependent child and downtime support benefit and bonuses thereto, wherefore the Ministry of Welfare received additional funding of 6,262,028 euros in total from the state budget program 02.00.00 “Contingency funds”**.

There is separate interim report drafted on the use of additional funding allocated for the payment of extraordinary bonus to national family benefit for a disabled child, and increased childcare benefit for a child aged one and a half to two years on 5 November 2020.

Separate interim reports will be prepared on the funding allocated to the other four activities.

## Summary

From 12 March 2020 until the end of the emergency, the Ministry of Welfare had to ensure two new types of support, that is, bonus to downtime benefit of 50 euros for each dependent child and downtime support benefit, and bonus thereto related to the management, mitigation, and prevention of the COVID-19 crisis.

One had estimated that 12,908,752 euros would be needed in total to provide those activities, wherefrom the Cabinet of Ministers delegated<sup>8</sup> the Ministry of Finance to allocate 6,262,028 euros to the Ministry of Welfare (State Social Insurance Agency) from the state budget program 02.00.00 “Contingency funds”. The rest of the estimated funding was planned to be provided only if the previously allocated financing would have been used.

The provision of both benefits including the payment of support and safeguarding the necessary improvements in the Social Insurance Information System (SIIS), which administers all benefits and state pensions granted by the State Social Insurance Agency (hereinafter - SSIA), **actually required 3,277,882 euros<sup>9</sup> or only one-fourth of the estimated funding**, where:

- ❖ Bonuses to downtime benefit for each dependent child of 1,589,224 euros. One anticipated 3,917,120 euros for this support;
- ❖ Downtime support benefit and bonus thereto for each dependent child of 1,688,658 euros while one had projected 8,991,632 euros initially.

The uncertainty of the estimates used affected the non-execution of the planned funding, as it was not possible to predict the number of beneficiaries, the duration of the aid disbursement, or the funding required for the disbursement of the support precisely at the time the estimates had been made.

As additional funding from the state budget program 02.00.00 “Contingency Funds” was allocated to the Ministry of Welfare (SSIA) in instalments and the Ministry of Welfare did not request all the estimated funding and the additional funding stipulated under the Cabinet Orders<sup>10</sup>, there were 1,442,209 euros not used from the actually allocated funds before 31 August 2020. According to

the SSIA's explanation, the funding granted but not used will be transferred back to the state budget under statutory provisions<sup>11</sup>.

Although the audit identified deficiencies in the planning of the necessary funding, **the audit has verified that the allocated funding for the provision of both activities**, payment of a bonus of 50 euros to downtime benefit for each dependent child and downtime support benefit and bonuses thereto, **has been used following laws and regulations**<sup>12</sup>.

**In addition, the auditors point out that it is unclear why the Cabinet of Ministers chose to establish four different services, id est, downtime benefit, bonus to downtime benefit of 50 euros for each dependent child, downtime support benefit if an individual is not eligible for downtime benefit or if the granted downtime benefit is less than 180 euros, and a bonus to downtime support benefit for each dependent child, by entrusting their administration to two institutions, the State Revenue Service (hereinafter - SRS) and the SSIA.**

The SSIA uses the data of the SRS on granted and/or declined downtime benefits and on the dependent children of those individuals for granting bonuses to downtime benefit and downtime support benefit and bonus thereto. In fact, the SSIA grants only an additional amount of support to those individuals.

The auditors consider that ordering the SRS to administer those benefits would have been more productive (*achieve the same result with fewer resources*) by including them in the content of downtime benefit. It means that if an individual has a dependent child, one should increase the amount of downtime benefit by 50 euros per child and should define that the minimum amount of the downtime benefit was 180 euros per month rather than pay the difference between those amounts as a separate benefit.

Generating a separate service to provide support of 180 euros to those individuals who had been denied the downtime benefit was unnecessary as well because a self-employed or an employer did not meet the criteria provided for in the Cabinet Regulation<sup>13</sup>.

Inclusion of those types of support in the downtime benefit would have saved the state budget funds for 30,649 euros at least required for the establishment of separate services in the Social Insurance Information System (SAIS). The resources of the SRS and SSIA would also be saved because the SRS would not have to transfer the information on the recipients of downtime benefits and/or refusals to grant downtime benefits at its disposal to SSIA regularly while the SSIA would not have to spend resources on benefit administration and disbursement thereof.

When one had included bonus for each dependent child and downtime support benefit in the downtime benefit, then in cases when an employer or a self-employed had claimed the downtime benefit unreasonably, the employer or self-employed would be obliged to repay not only the downtime benefit<sup>14</sup> but also bonus for each dependent child and downtime support benefit.

According to the information provided by the SRS, unduly granted downtime benefit for a total amount of 170,444 euros has been reimbursed for 536 individuals until 16 September 2020, of which:

- ❖ Taxpayers have paid refunds for 312 individuals of 104,638 euros voluntarily without the SRS request;
- ❖ There is a refund of unduly granted downtime benefit paid for 224 individuals of 65,806 euros at the SRS request.

For the same period, 132 individuals out of the total number also received a bonus for a dependent child of 5,577 euros in total while 38 individuals also received a downtime support benefit of 1,692 euros in total.

During the audit, the SRS provided information that they began an in-depth analysis of the justification for the downtime benefit regarding other 322 individuals before 15 September 2020. Of those analysed, 63 individuals have also received a bonus for a dependent child totalling 4,468 euros, and 23 individuals have also received downtime support benefit totalling to 934 euros.

As the Cabinet Regulation<sup>15</sup> does not envisage the obligation of the SSIA to claim and the duty of an individual to repay the received downtime benefit and bonus thereto for a dependent child, the SSIA does not act and does not plan to act regarding recovery of the disbursed bonuses to downtime benefit and downtime support benefit.

## Proposal to the Cabinet of Ministers

For safeguarding the efficient use of state financial resources, when introducing new types of support and determining which state institution to entrust the administration of newly introduced support in the future, one shall assess what data will be needed to grant support and which state institution will be able to provide the support most productively, that is, *by achieving the same result with fewer resources* and preventing that the administration of one type of support is divided among several state institutions.

## References

<sup>1</sup> 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.

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

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

<sup>4</sup> 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.

<sup>5</sup> Cabinet Order No 141 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 1 April 2020, Cabinet Order No 175 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 9 April 2020, Cabinet Order No 178 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 16 April 2020, Cabinet Order No 236 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 30 April 2020, Cabinet Order No 238 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 5 May 2020, Cabinet Order No 276 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 20 May 2020, Cabinet Order No 277 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 20 May 2020, Cabinet Order No 368 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 30 June 2020, Cabinet Order No 399 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 30 July 2020, Cabinet Order No 472 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 26 August 2020, and Cabinet Order No 575 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 29 September 2020.

<sup>6</sup> To cover the expenses of local and regional governments in the amount of 50% for the payment of crisis benefit, continued parent benefit, extraordinary payment of downtime benefit for each dependent child, downtime support benefit, and extra downtime benefit for each dependent child, payment of unemployment benefit, to provide the functionality of the Social Insurance Information System (SIIS), to pay the extraordinary bonus to national family



benefit for a disabled child, to increase the amount of the childcare benefit for a child aged one and a half to two years, to pay the young specialist benefit to prevent COVID-19 spread and mass infections, and reduction of morbidity risk in the state social care centres subordinated to the Ministry of Welfare, and to increase the number and amount of scholarships for first-level professional higher education (college) students at the State Agency for Social Integration and raise the minimum wage rate for teachers of the State Agency for Social Integration to 790 euros (as of 1 September 2020).

<sup>7</sup> To cover the expenses of local and regional governments in the amount of 50% for the payment of crisis benefit, continued parent benefit, extraordinary payment of downtime benefit for each dependent child, downtime support benefit, and extra downtime benefit for each dependent child, payment of unemployment benefit, to provide the functionality of the Social Insurance Information System (SIIS) to pay the extraordinary bonus to national family benefit for a disabled child, to increase the amount of the childcare benefit for a child aged one and a half to two years, to pay the young specialist benefit and to prevent COVID-19 spread and mass infections, and reduction of morbidity risk in the state social care centres subordinated to the Ministry of Welfare.

<sup>8</sup> Cabinet Order No 178 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 16 April 2020 and Cabinet Order No 236 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 30 April 2020.

<sup>9</sup> A total of 3,256,671 euros has been spent from the state budget program 02.00.00 “Contingency Funds” and 21,211 euros from the funding already allocated to the Ministry of Welfare according to the Law on the State Budget for 2020.

<sup>10</sup> Cabinet Order No 178 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 16 April 2020 and Cabinet Order No 236 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 30 April 2020.

<sup>11</sup> Section 50 of Cabinet Regulation No 1220 “Procedures for Granting and Executing Allocations” of 28 December 2010.

<sup>12</sup> Section 17<sup>1</sup> of Cabinet Regulation No 165 “Regulations on employees affected by the COVID-19 crisis who qualify for downtime benefit and distribution of late tax payments in terms or deferral for a period of up to 3 years” of 26 March 2020 (effective from 10 April 2020); Section 14<sup>1</sup> of Cabinet Regulation No 179 “Regulations on downtime benefit for self-employed affected by the spread of COVID-19” of 31 March 2020 (effective from 24 April 2020); and Cabinet Regulation No 236 “Regulations on downtime support benefit for employees and self-employed affected by the spread of COVID-19” of 23 April 2020.

<sup>13</sup> Section 12 of Cabinet Regulation No 165 “Regulations on employees affected by the COVID-19 crisis who qualify for downtime benefit and distribution of late tax payments in terms or deferral for a period of up to 3 years” of 26 March 2020; Section 10.16, 10.16<sup>1</sup>, and 10.17 of Cabinet Regulation No 179 “Regulations on downtime benefit for self-employed affected by the spread of COVID-19” of 31 March 2020.

<sup>14</sup> Section 15 of Cabinet Regulation No 165 “Regulations on employees affected by the COVID-19 crisis who qualify for downtime benefit and distribution of late tax payments in terms or deferral for a period of up to 3 years” of 26 March 2020; Section 12 of Cabinet Regulation No 179 “Regulations on downtime benefit for self-employed affected by the spread of COVID-19” of 31 March 2020.

<sup>15</sup> Cabinet Regulation No 165 “Regulations on employees affected by the COVID-19 crisis who qualify for downtime benefit and distribution of late tax payments in terms or deferral for a period of up to 3 years” of 26 March 2020; Cabinet Regulation No 179 “Regulations on downtime benefit for self-employed affected by the spread of COVID-19” of 31 March 2020; and Cabinet Regulation No 236 “Regulations on downtime support benefit for employees and self-employed affected by the spread of COVID-19” of 23 April 2020.