



The use of funding allocated to the Ministry of Welfare
to co-finance the crisis benefit paid by local and regional governments

Interim report

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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 report¹, 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 drafting 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 2020². 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 and 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 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 1,096,294,453 euros in total by 6 November 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 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.

The Cabinet of Ministers⁵ 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 11⁶ activities between 12 March 2020 and 6 November 2020. The audit plans to inspect the spending of the funds allocated for nine⁷ 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 for co-financing crisis benefit paid by local and regional governments, wherefore the Ministry of Welfare received additional funding not exceeding 2,160,000 euros from the state budget program 02.00.00 “Contingency funds”**.

There are separate interim reports drafted on the use of additional funding allocated for the payment of continued parent benefit, extraordinary bonus to national family benefit for a disabled child, increased childcare benefit for a child aged one and a half to two years, bonus to downtime benefit of 50 euros for each dependent child, and downtime support benefit and bonus thereto on 5 November 2020.

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

Summary

Aiming to provide support to those citizens whose income was not sufficient due to the established restrictions to ensure even basic needs and who were not entitled to other types of support introduced by the state during the emergency declared, there was a crisis benefit introduced from 22 March 2020. The granting of the benefit was entrusted to municipal social services providing that the state ensured local and regional governments with a targeted grant to co-finance benefit expenses of 50% of the benefit sum paid to an individual, but not more than 40 euros per person per month and an additional 50 euros per child.

The Ministry of Welfare estimated that co-financing benefit expenses of local and regional governments would require 4,312,800 euros. The Cabinet of Ministers delegated⁸ the Ministry of Finance to allocate additional funding of 2,160,000 euros to the Ministry of Welfare from the state budget program 02.00.00 “Contingency funds”. One planned to grant the rest of the estimated funding only if the previously allocated financing would have been used.

In fact, out of 4,312,800 euros envisaged in the Law⁹, only 342,957 euros or 8% of the estimated funding has been used to co-finance the crisis benefit from 14 March 2020 to 31 July 2020.

The uncertainty of the estimates used affected the non-execution of the planned funding, as it was not possible to predict the number of actual beneficiaries and the amount of crisis benefit. It was up to local and regional governments to determine its amount, but not all local and regional governments had set it in such a way as to use the opportunity to receive the maximum amount of the targeted grant from the state, that is 14 local and regional governments¹⁰ had set the amount of the benefit less than 80 euros.

Although the audit has verified that the additional funding allocated from the state budget program 02.00.00 “Contingency funds” has been used according to its purposes, that is, for supporting the population by indemnifying the consequences caused by the COVID-19 crisis, the auditors conclude that people with an equal income level were not able to receive equivalent support, as local and regional governments had determined the amount of the benefit between 30 euros and 150 euros per month and the social services approached the provision of that support differently.

To assess an individual's right to the benefit, the Social Services of  ekava and Sigulda Regions carried out a detailed assessment of each individual's social situation. They also verified the genuineness of the information provided by the individual in the national registers available to the local or regional government and provided support only to those individuals, who had lost their income or whose income decreased significantly due to the COVID-19 crisis. In its turn, the  rgļi Regional Social Service granted the benefit without a detailed assessment of the individual (family) social situation by supporting those who had incurred additional expenses but whose income had not changed.

In addition, 35 local and regional governments¹¹ did not grant this type of support to residents by justifying that the population had no interest in it and needed other types of assistance (such as psycho-emotional support) or did not qualify for support. Nine local and regional governments¹² out of thirty-five had not provided information to their communities on the newly introduced type of support at all by not determining the benefit either in the binding regulations or by a Council decision.

According to the auditors, the regulation included in the Law on Social Services and Social Assistance¹³ allowed for different approaches of local and regional governments in providing support, which provided that the benefit was granted within the crisis benefit provided for in Section 35.2 of the Law. However, the auditors point out that this benefit is granted for a different purpose and does not provide for assessing family (individual) income. Namely, the purpose of the benefit is to support families (individuals), for example, after a fire if a family member has a serious illness, to deal with cases related to domestic violence, etc. In such cases, the justification for not assessing family income is logical.

In its turn, in connection with an emergency declared in the country, the benefit is aimed at providing support if a family is unable to earn an income due to the emergency and is not entitled to other types of state support such as unemployment benefit, downtime benefit, or downtime support benefit. Therefore, without assessing income, including not checking whether an individual does not receive the types of support granted by the State Revenue Service and the State Social Insurance Agency, it is impossible to ascertain that the family is in a situation when they are unable to meet basic needs.

Moreover, although the Ministry of Welfare had also developed guidelines for local and regional governments on how to safeguard granting the benefit and called on local and regional governments *to gather evidence providing statements of an individual concerning his or her eligibility for a benefit and carry out performance considerations*, followed by a call to assess the information available in national registers, those guidelines did not provide for a specific and common view that local and regional governments should assess income definitely.

Since the state of emergency was declared repeatedly from 9 November 2020 and the Ministry of Welfare plans to reimburse the local and regional governments for the expenses for granting the crisis benefit once again, the State Audit Office informed the Ministry of Welfare about the findings of the inspections already before the preparation of this draft interim audit report on 13 November 2020 by calling on the Ministry of Welfare to improve the legal framework and determine specific actions that local and regional governments should take so that the benefit would be granted following its purpose and uniform criteria.

Although the Ministry of Welfare does not plan to amend the Law¹⁴ to address the shortcomings identified in the audit, it has improved the guidelines for granting benefits significantly in cooperation with the State Audit Office by supplementing them with specific instructions to local

and regional governments to address deficiencies identified by auditors. Therefore, the audit does not provide recommendations.

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 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.

⁶ 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).

⁷ 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.

⁸ Cabinet Order No 141 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 1 April 2020.

⁹ Section 37 of the Transitional Provisions of the Law on Social Services and Social Assistance.

¹⁰ Aknīste Region, Alūksne Region, Amata Region, Cēsaine Region, Durbe Region, Ērgļi Region, Gulbene Region, Kandava Region, Madona Region, Mārupe Region, Mērsrags Region, Skrīveri Region, Valka Region, and Ventspils City.

¹¹ Although 39 local and regional governments had not requested a targeted grant from the Ministry of Welfare to compensate for the expenses of the benefits, 4 local and regional governments granted the benefit by financing it only from the municipal budget.

¹² Aloja Region, Brocēni Region, Dagda Region, Mālpils Region, Rucava Region, Skrunda Region, Vārkava Region, Viesīte Region, and Zilupe Region. Although Rugāji Regional Government had not ensured the availability of information on the newly introduced support, it had granted the crisis benefit to three individuals, but it had not requested the Ministry of Welfare to co-finance the benefit expenses.

¹³ Section 37 of the Transitional Provisions of the Law on Social Services and Social Assistance.

¹⁴ Section 37 of the Transitional Provisions of the Law on Social Services and Social Assistance.