



Legality of payments made by the Rēzekne Technical School

Rīga 2025

Interim audit report



Latvijas Republikas
Valsts kontrole

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

“Legality of payments made by the Rēzekne Technical School”

Financial audit on the accuracy of the annual consolidated financial statement of the Republic of Latvia for 2025.

Auditing was carried out by Ms Ieva Majore, Senior State Auditor of the Second Sector of the Financial Audit Department, Ms Sandra Zunde, Head of the Sector, and Ms Ilze Bādere, Director of the Financial Audit Department based on the audit schedule of the Financial Audit Department of the State Audit Office No 2.4.1-95/2025 of 14 April 2025.

The interim audit report takes effect at the moment of the decision of the Financial Audit Department of the State Audit Office of Latvia on the approval of the interim audit report.

The cover design includes a photo from the website *KHUNKORN*, *canva.com*.

Why have we drafted this interim report?

Following Paragraph 1, Section 3 of the State Audit Office Law of Latvia and the Work Plan 2025 of the State Audit Office of Latvia, a financial audit was initiated on the accuracy of the annual consolidated financial statement of the Republic of Latvia for 2025 (hereinafter referred to as ACFS 2025) on 14 April 2025. To ensure the achievement of the goal of this audit, that is, to verify whether the ACFS provided a clear and true picture and has been drafted in accordance with the requirements, the audit sample included state institutions to be audited, including the institution subordinate to the Ministry of Education and Science, Vocational Secondary Education Institution “Rēzekne Technical School” (hereinafter referred to as the Rēzekne Technical School).

While performing audit procedures at the Rēzekne Technical School regarding settlements of accounts with service providers, facts were identified that indicated potential fraud, that is, intentional falsification of payment documents with the aim of transferring funds to third parties. On 28 August 2025, detailed information about the identified facts was sent to the Ministry of Education and Science, the State Police and the Prosecutor’s Office of Latvia while the information is disclosed in a summarized form in this interim report.

Since the International Standard on Auditing¹ stipulates that if an auditor has identified that fraud has occurred or has obtained information indicating possible such activities, the auditor shall promptly inform the persons entrusted with the primary responsibility for the prevention and detection of fraud about such cases. The State Audit Office Law of Latvia establishes the obligation to report to state institutions on findings affecting the activities of these institutions, as well as to report to law enforcement institutions on violations of legal norms identified during the audit and to monitor the progress of their examination².

Since the audit report on the consolidated financial statements will be drafted and made public only in November 2026, but potential illegal activities have already been identified now, this interim report has been elaborated.

Payments made by the Rēzekne Technical School to service providers

The planned expenses of the Rēzekne Technical School are 4,773,668 euros in 2025 that is 5% more than the previous year while the total balance sheet was 14,309,071 euros at the beginning of 2025. The expenses for remuneration of 3,447,803 euros and student scholarships of 480,471 euros constituted the most significant part of the expenditure. In their turn, expenses for payment of various services are planned to be 385,190 euros in 2025.

The Rēzekne Technical School performs accounting in the resource management and accounting program Horizon (hereinafter referred to as the Horizon). Payment orders are prepared in Horizon, then they are exported to the State Treasury system, where the chief

accountant of the Rēzekne Technical School signs them with a second signature and the director of Rēzekne Technical School approves them with a first signature. On average, 951 payments per month are made at the Rēzekne Technical School.

The head of the institution is responsible for the development, implementation and maintenance of an accounting control system in order to prevent violations in the preservation of the institution's property and fraud, as well as errors or inconsistencies in the institution's accounting documents³.

To control the accuracy of the institution's financial accounting and the accuracy of tax calculations, the head of the institution may provide for regular checks of supporting documents and accounting registers to obtain assurance that:

- The information contained in the supporting documents is true and the monetary valuation of the business transactions is correct;
- All business transactions relating to the reporting year are confirmed by supporting documents and are indicated in the accounting registers and financial statements for this reporting year⁴.

The auditors performed in-depth analytical procedures to verify all account payments of the Rēzekne Technical School, including checking the match of a payee's name and an account number (IBAN).

By distorting information in payment documents with the aim of transferring funds to third parties, financial resources in the amount of at least 54,000 euros might have been defrauded from the budget of the Rēzekne Technical School. The possibility of making payments to persons who were not entitled to receive them is related to the lack of checking a name, surname / name of a recipient of the payment against the specified recipient's account number (IBAN⁵).

When checking the prepared and made payments during the audit, it was established that payments were made from the accounts of the Rēzekne Technical School to one account number by indicating four different recipients (service providers) (See Table 1).

In several identified cases, the same invoice was paid twice by the Rēzekne Technical School by transferring money to the accounts specified in the invoices and service contracts once and to another account the second time, the ownership of which is unknown to the auditors of the State Audit Office of Latvia.

In total, the Rēzekne Technical School has made potentially illegal⁶ payments in the amount of at least 54,268 euros from 2019 to 2025 (See Table 1).

Table 1

Transfers made by the Rēzekne Technical School to accounts whose ownership is unknown to the auditors of the State Audit Office of Latvia from 1 January 2019 to 8 August 2025, in euros

Recipient's bank account No	Name of recipient	2019	2020	2021	2022	2023	2024	2025	TOTAL
LV82XXXX	SIA "C"	-	1,016	339	-	-	-	-	1,355
05510010XXXXX	SIA "A"	-	-	1,597	-	-	-	-	1,597
	SIA "B"	-	249	748	-	-	-	-	997
	SIA "D"	1,484	4,780	4,236	-	-	-	-	10,500
LV81XXXX	SIA "C"	-	-	254	736	581	871	-	2,442
05510009XXXXX	SIA "A"	-	-	532	823	1,452	1,712	1,765	6,285
	SIA "B"	-	-	-	361	361	272	871	1,865
	SIA "D"	-	-	1,115	7,500	6,903	7,616	5,879	29,014
LV25XXXX	SIA "D"	-	-	213	-	-	-	-	213
05510313XXXXX									
	TOTAL	1,484	6,046	9,035	9,419	9,296	10,472	8,515	54,268

What potentially illegal payments have been discovered?

When analysing the payments made by the Rēzekne Technical School, the audit found the following:

- ❖ Double payment of invoices when the same invoice issued by SIA A, SIA B and SIA C was paid twice, as the payment was transferred to the commercial bank account numbers specified in the company's invoices and contracts for the first time but the payment was transferred to account No LV81XXXX05510009XXXXX for the second time, whose ownership is unknown to the auditors of the State Audit Office of Latvia. For example, invoice of SIA A in the amount of 355 euros was paid on 21 January 2025 by transferring money to the account specified in the service provider's contract and the aforementioned invoice, but this same invoice was paid again on 31 January 2025 by transferring money to account No LV81XXXX05510009XXXXX, whose ownership is unknown to the auditors of the State Audit Office of Latvia.
- ❖ The payment order indicated the same name of the recipient of the money, but different account numbers when payment for the services provided by SIA D was made to four different accounts: to the account specified in the contract concluded between the Rēzekne Technical School and SIA D and to accounts No LV81XXXX05510009XXXXX (29,014 euros from 2021 to 2025), LV82XXXX05510010XXXXX (10,500 euros from 2019 to 2021) and LV25XXXX05510313XXXXX (213 euros in 2021), the ownership of which is unknown to the auditors of the State Audit Office of Latvia (See Table 1).
- ❖ Mismatch of banking details in invoices:
 - During the audit, the Rēzekne Technical School submitted both invoices from SIA D to the auditors of the State Audit Office of Latvia, which indicated the account number mentioned in the contract, and invoices with account No

LV81XXXX05510009XXXXX, which was not indicated in the contract between the Rēzekne Technical School and SIA D, but to which the Rēzekne Technical School made transfers in the total amount of 8,515 euros in 2025. This account number was also indicated when making payments to other service providers (SIA A, SIA B and SIA C);

- The contract concluded between the Rēzekne Technical School and SIA D stipulates that the service provider shall send invoices (electronically prepared invoices are valid without a signature) to the e-mail address of Rēzekne Technical School or submit them to the Rēzekne Technical School together with the deed of delivery and acceptance. The service shall be received after both parties sign the deed of delivery and acceptance;
- The auditors of the State Audit Office of Latvia were submitted invoices indicating the account number mentioned in the contract, and these invoices were accompanied by corresponding mutually signed deeds of delivery and acceptance. In their turn, mutually signed deeds of delivery and acceptance were not submitted for the invoices indicating an account not mentioned in the contract concluded between the Rēzekne Technical School and SIA D (whose ownership is unknown to the auditors of the State Audit Office of Latvia).
- ❖ Inconsistency of information in the submitted and retrieved account statements, that is, the bank account number of the service provider indicated in the payment order differed from the State Treasury system in the account statement of 9 May 2025 sent by the accountant of the Rēzekne Technical School and retrieved by the auditors of the State Audit Office of Latvia. The account statement sent by the accountant contained the account number of the service provider, which was indicated in the concluded contract and invoice, but the account statement retrieved by the auditors of the State Audit Office of Latvia contained an account number whose ownership was unknown to the State Audit Office of Latvia. The above, in the opinion of the State Audit Office of Latvia, indicates the intention of the employees of the Rēzekne Technical School to hide the true information.
- ❖ During the audit, following the requests of the auditors of the State Audit Office of Latvia for information and clarifications regarding these transactions on 8 August 2025, corrections were made in the Horizon accounting system. Using the username and password of the accountant of the Rēzekne Technical School, the bank account numbers of the service providers in the payment records and customer cards were changed.

Why were such payments possible?

The Rēzekne Technical School prepared and approved payment orders in which the account number (IBAN) did not match the name of the recipient. When receiving such a payment, the account number (IBAN) was decisive in the recipient's bank and therefore, the funds were received by the specified account holder in a situation where these parameters did not match.

According to the information provided by the Ministry of Finance, this situation will be slightly improved taking into account Regulation 2024/886⁷ of the European Parliament and of the Council (hereinafter referred to as the Regulation), which obliges payment service providers to provide a service for checking the account number of recipient (IBAN) and the name or first and last name of the recipient starting from 9 October 2025, thus a payer will have the opportunity to receive a check result of the recipient before signing or authorising the payment and make appropriate changes to the payment order before submitting the payment for execution, and fraud cases will be prevented if the payer does this before signing the payment. If the payer ignores the check result of the recipient, the risk of fraud will remain⁸.

On 27 August 2025, the State Treasury of Latvia informed state institutions that made payments via the State Treasury about the implementation of the requirements of the Regulation while drawing attention to the fact that the responsibility for payments in which there were parameter mismatches would be borne by the customers, namely, state institutions themselves. However, there is still a risk that if these parameters do not match, the payment will be possible.

The State Treasury of Latvia will ensure that⁹:

The check result with icons and explanatory text about the prepared payment orders will be indicated:

It matches: the recipient's first name, last name / name matches the registered information on account holder;

It matches partially: the recipient's name first name, last name / name matches the registered information on account holder partially, the account holder's first name, last name / name will be indicated to verify the accuracy of the details;

It mismatches: the recipient's first name, last name/ name does not match the registered information on account holder;

Impossible to verify it was impossible to verify the recipient's first name, last name/ name.

Payments with the verification statuses "It matches partially", "Mismatches", "Impossible to verify" will be possible to return for correction and continue signing the remaining payments. As a result of the verification, payments with the statuses "It matches partially", "Mismatches", "Impossible to verify" are not removed from the set of to be signed automatically, and the client, state institution, assumes responsibility for this. In these cases, there is a risk that the payment may be received by another recipient or the payment may be returned back from the recipient's credit institution.

The mutual settlement comparison between the Rēzekne Technical School and business partners/service providers conducted at the end of 2024 did not reveal any potential irregularities because the Rēzekne Technical School did not compare the turnover of mutual transactions with business partners but only the surplus. Hence, the duplicate payments were not indicated and detected/discovered in the reconciliation statements.

What action followed the auditors' findings?

Following the auditors' questions and the requested information on the payments made, the State Audit Office of Latvia received an explanation from the Principal of the Rēzekne Technical School¹⁰, which indicated that the accountant was suspended from performing her duties without retaining her salary until the facts were clarified. The Principal of the Rēzekne Technical School informed the auditors of the State Audit Office of Latvia that she had filed a complaint with the State Police of Latvia regarding the violations found.

On 27 August 2025, detailed information on the facts found was sent to the Ministry of Education and Science, the State Police and the Prosecutor's Office of Latvia.

After the State Audit Office of Latvia sent information¹¹ to the Ministry of Education and Science about the findings at the Rēzekne Technical School, the Ministry of Education and Science made public information that the Principal of the Rēzekne Technical School was suspended temporarily.

On 10 September 2025, the State Audit Office of Latvia was informed that a criminal proceeding had been initiated by the Rēzekne Regional Department of the Criminal Police Bureau of the Latgale Regional Administration of the State Police of Latvia for the elements of the criminal offence provided for in Part Three, Section 177 of the Criminal Law of Latvia (fraud on a large scale or in an organized group).

Recommendations

The recommendation is not made because:

- ❖ The requirements of the Regulation oblige a payment service provider, and therefore also the State Treasury of Latvia, to provide customers with a verification service of recipient so that customers can reduce the risk of possible fraud or errors in the information entered in a payment order in the result of using the recipient verification service;
- ❖ The State Audit Office of Latvia has requested¹² the Ministry of Education and Science to inform about the actions taken by the ministry in connection with the information provided regarding the findings at the Rēzekne Technical School.

References

- ¹ ISSAI 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
- ² Paragraph 4, Section 3 of the State Audit Office Law of Latvia.
- ³ Article 98 of Cabinet Regulation No 877 "Accounting Regulations" of 21 December 2021.
- ⁴ Article 100 of Cabinet Regulation No 877 "Accounting Regulations" of 21 December 2021.
- ⁵ An internationally recognized account number system that identifies the beneficiary's account uniquely.
- ⁶ Parts Two, Three and Four, Section 6 of the Accounting Law and Part One, Section 2 of the Law on Prevention of Squandering of Funds and Property of a Public Entity.
- ⁷ Regulation (EU) 2024/886 of the European Parliament and of the Council of 13 March 2024 amending Regulation (EU) No 260/2012 and (EU) 2021/1230 and Article 5c of Directives 98/26/EC and (EU) 2015/2366 on instant credit transfers in euro (available: <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32024R0886>, resource viewed on 11 September 2025).
- ⁸ Letter No 1.2-8/15-2/2897 of the Ministry of Finance of 29 September 2025.
- ⁹ E-mail letter of the State Treasury of Latvia to users of the e-service payments of 27 August 2025.
- ¹⁰ Explanation of the Principal of Rēzekne Technical School of 22 August 2025.
- ¹¹ Letter No 6-2.3.1.1e-K/61-IP of the State Audit Office of Latvia to the Ministry of Education and Science of 27 August 2025.
- ¹² Letter No 6-2.3.1.1e-K/61-IP of the State Audit Office of Latvia to the Ministry of Education and Science of 27 August 2025.