



Ministry of Finance  
Republic of Latvia

TSI-2023-IntControlAudit-LV-IBA


Further development of Internal Control System  
and Internal Audit in the public administration  
of the Republic of Latvia – Phase II

# Performance Audit Concepts

Forum of State Control and Internal Audit Units

Riga, 10. December 2025

Markus Erlmoser

 Federal Ministry of Finance | Chief Audit Executive



This project is  
funded by the EU





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# The 8 Performance Audit Concepts

## 6 Municipal Merger Concepts

**01** Organisational Structures

**02** IT System Landscape

**03** Human Resources Management

**04** Citizen Services (One-Stop-Shop)

**05** Financial Management

**06** Strategic Management

## 2 Central Gov. Concepts

### Procurement

#### Centralized Procurement

Efficiency and compliance in ministry-level purchasing.

### Education

#### Vocational Education

Effectiveness of reform implementation in the Ministry of Education.



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# Key Methodological Principles



## NO Checklists

We focus on professional judgment  
and context-specific analysis, not  
rigid templates.



### Flexible Approaches

Methodology adapts to specific  
organizational circumstances and  
constraints.



### Standard Methods

All methods are directly sourced  
from the Latvia PA Guidelines.



### Evidence-Based

Findings derived from data analysis,  
document review, and observation.



### Interview Guides

Detailed guidance for structured  
interviews with different stakeholder  
groups.



### 3 E's Focus

Strict focus on Economy, Efficiency,  
and Effectiveness (not compliance).



### Team-Oriented

Designed for multidisciplinary audit  
teams to ensure objectivity.

# Detailed Example

## Concept 01

# Efficiency of Organisational Structures After Municipal Mergers

## Why This Example?

- Represents the core municipal merger challenges
- Demonstrates the practical application of the methodology
- Illustrates the necessity of a team-based approach
- Shows flexibility and context-specificity

## The Challenge

Municipal mergers offer considerable potential for **synergy effects** and efficiency gains.

However, there is a significant risk that old structures are adopted without reflection, leading to **duplicate hierarchies** and inefficiencies.

This audit assesses whether the organizational reform has actually achieved the desired outcomes versus just changing the map.



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# Organisational Structures: What We Audit

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## Area 01

### Structural Efficiency

Does the new structure minimize resource use while maximizing effect? Are there unnecessary hierarchical levels slowing down operations?

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## Area 03

### Optimization Potential

Where are the duplicate structures? Which communication channels are inefficient or redundant?

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## Area 02

### Management Effectiveness

Do structures create **clear responsibilities**? Are decision-making processes efficient and transparent?

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## Area 04

### Adaptability

Can the structure respond to changing requirements? Is it flexible enough to handle future challenges?

# Organisational Structures: How We Audit

## Main Question 1

### Structural Efficiency

- What specific efficiency gains have been achieved compared to pre-merger?
- Where do new structures create longer or more complicated processes?
- How have communication channels changed in quality and quantity?
- Does the actual structure match the formally documented one?

## Main Question 2

### Synergy Effects

- Which management positions could be consolidated without quality loss?
- To what extent have support functions (HR, IT, Finance) been centralized?
- What measurable efficiency gains resulted from centralization?
- Where is there untapped potential for further consolidation?

## Main Question 3

### Responsibility & Accountability

- Are responsibilities clearly defined in the new structure?
- Is accountability sustainable and transparent?
- Are there gaps or overlaps in decision-making authority?
- How is the tension between centralization and local proximity resolved?

**Methodology Note:** These questions are designed to be action-oriented and investigative, moving beyond simple compliance checks to assess actual performance and outcomes.

# Organisational Structures: Methods in Action

## Document Review

**Org charts, internal policies, procedure manuals**

*Purpose: To understand the formal, documented structure and intended workflows.*

## Interviews

**Managers, staff, and key stakeholders**

*Purpose: To understand the informal structure and gather qualitative insights.*

## Observation

**Communication patterns, workplace interactions**

*Purpose: To see the actual vs. documented structure in practice.*

## Process Analysis

**Mapping actual workflows and decision paths**

*Purpose: To identify bottlenecks, loops, and inefficiencies in daily operations.*

## Data Analysis

**Decision times, processing volumes, costs**

*Purpose: To measure efficiency gains or losses quantitatively.*

## Benchmarking

**Comparison with similar municipalities**

*Purpose: To identify improvement potential based on best practices.*

# Organisational Structures: Time and Resources

Total Duration

**12-16 Weeks**

Total Effort

**1,200-1,600 Hours**

Team Composition (3 Auditors)

- Org. Development Specialist
- Process Analyst
- Data Analyst / Auditor

Based on a standard team-based approach.

1. Planning & Preparation

2-3 Weeks

2. Document Review & Data Gathering

3-4 Weeks

3. Interviews & Observation

3-4 Weeks

4. Analysis & Findings

2-3 Weeks

5. Reporting & Recommendations

2-3 Weeks



# Why Team-Based Performance Audits Matter



## Coverage of Competencies

Performance audits require diverse expertise (IT, HR, Finance) rarely found in one person. Teams enable **optimal skill coverage**.



## Quality Assurance

The **dual control principle** is fundamental. Mutual validation of findings minimizes the risk of misjudgments or errors.



## Objectivity & Balance

Multiple perspectives lead to more balanced judgments, reducing personal bias and blind spots in complex or sensitive issues.



## Efficiency

Parallel processing of different audit areas enables **faster implementation** and higher quality results compared to sequential work.

**Key Message: Teams are not a luxury—they are essential for quality performance audits.**



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# The Reality: Single Auditor Challenges

## Reality Check

**Many municipalities in Latvia  
operate with only one  
internal auditor.**

While team audits are the gold standard, we must address the practical constraints faced by smaller audit units.



### Competency Gaps

No single person can be an expert in IT, Law, Finance, and Engineering simultaneously.



### Time Pressure

Complex performance audits require deep analysis, which is often impossible alongside routine compliance tasks.



### Quality Risks

Lack of a "second pair of eyes" increases the risk of subjective interpretation and overlooked evidence.

**Without adaptation, a single auditor attempting a full PA risks burnout or superficial results.**

# Solutions for Single Auditors



## Inter-Municipal Cooperation

Form joint audit teams with neighboring municipalities to pool expertise and resources for specific projects.



## External Experts

Hire specific subject-matter experts (e.g., IT security, engineering) for short-term support during fieldwork.



## Scope Reduction

Drastically narrow the audit scope to a single, manageable question rather than a broad system review.

### The Time Formula

Standard Team Time

Baseline (100%)

+30% to 55%

Required Extension

**Reality:** A single auditor needs significantly more time for data gathering and validation. We explicitly plan for a **30-55% timeline extension** in our concepts to ensure quality is not compromised.

## Summary & Outlook

- 01** 8 ready-to-use concepts covering critical municipal and central government areas.
- 02** A unified methodology based on the Latvia PA Guidelines, ensuring consistency and quality.
- 03** Flexible implementation options for both ideal teams and realistic single-auditor scenarios.

### Next Steps

## Move from Theory to Practice

Select one concept. Adapt it to your specific context. Start a pilot audit to demonstrate the value of Performance Auditing.




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Interne Revision

# Practical experience on auditing sustainability in public sector

Forum of State Control and Internal Audit Units

10. December 2025

**Markus Erlmoser**  
Chief Audit Executive

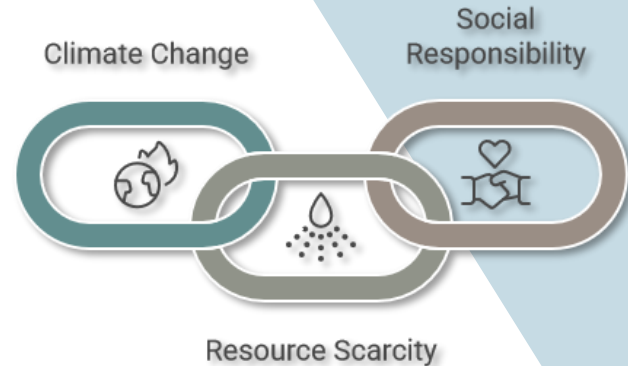


## The Challenge - Why Sustainability in Internal Audit?

### The Sustainability Challenge for Internal Audit

- Global sustainability pressures on public organizations
- Traditional audit approaches may miss opportunities
- Need for practical integration, not separate "sustainability audits"

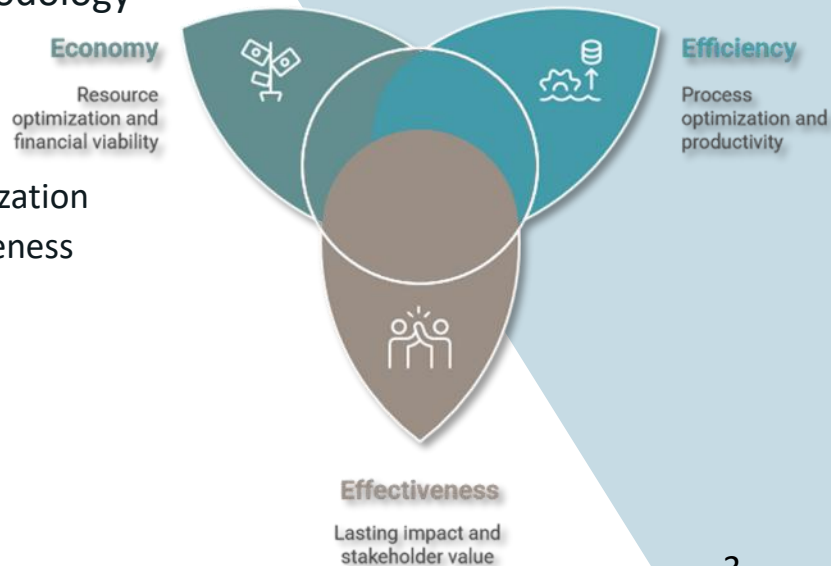
How can internal audit add value?



# Sustainability as Performance Enhancement

## Reframing the Approach: Sustainability ≠ New Audit Type

- Sustainability = Enhanced performance audit methodology
- Traditional 3Es with sustainability lens:
  - Economy → Economic sustainability & resource optimization
  - Efficiency → Environmental efficiency & social effectiveness
  - Effectiveness → Long-term impact & stakeholder value





## The Case: Real Estate & Space Management Audit

### Audit Objective

Examine economy, efficiency, effectiveness of space management

### Hidden Opportunity

Identify sustainability improvements through traditional criteria

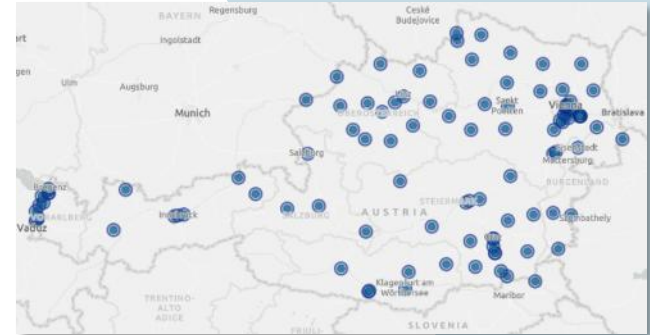
### Auditees

All subordinate area properties (tax offices, customs offices, etc.)

**No explicit sustainability mandate!**

### Initial information

- Federal Ministry of Finance
- €100+ million annual real estate costs
- 11,000+ employees
- across 100+ locations



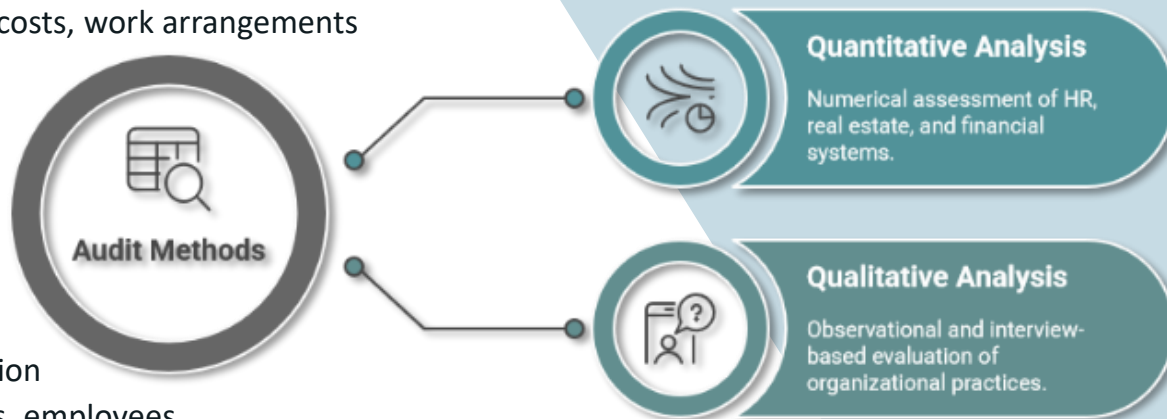
## Methodology - Multi-Dimensional Data Analysis

### Quantitative audit methods used:

- HR systems: attendance patterns, travel costs, work arrangements
- Real estate systems: space allocation, utilization rates
- Financial systems: costs per m<sup>2</sup>, per employee, energy consumption

### Qualitative audit methods used:

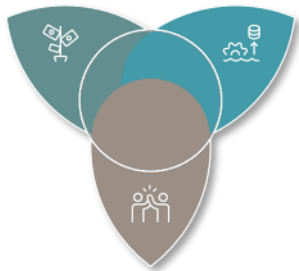
- Site inspections with enhanced observation
- Stakeholder interviews (facility managers, employees, union representatives)
- Document analysis (contracts, policies, energy certificates, building assessments)



**Key Principle: Use existing audit methodology with sustainability awareness**

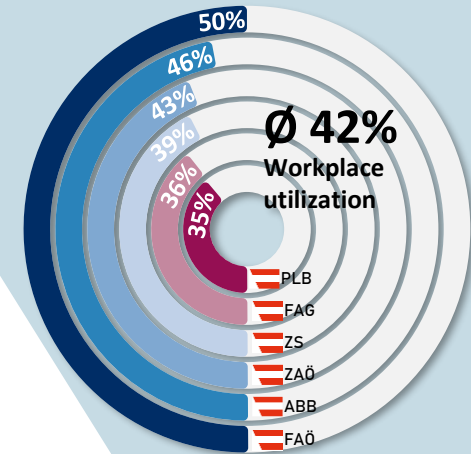
## Key Finding 1 - Massive Resource Underutilization

- Average workplace utilization: 42%
- Friday utilization: <30%
- Annual cost impact: € millions in unnecessary rent/utilities
- Environmental impact: Heating/cooling/lighting empty spaces



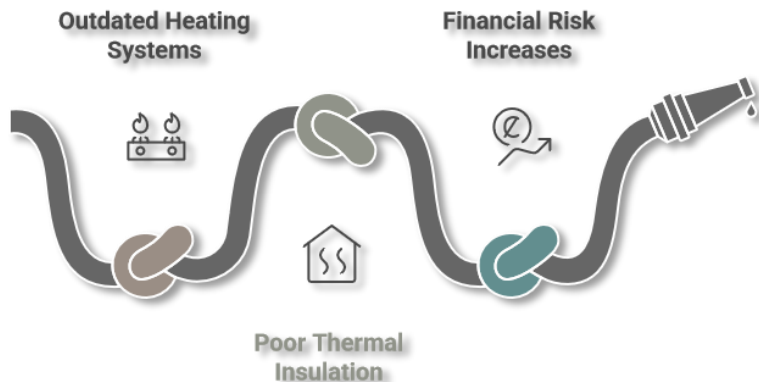
### The Triple Impact:

- **Economic:** Wasted rental and operational costs
- **Environmental:** Unnecessary energy consumption and emissions
- **Social:** Inefficient use of public resources



## Key Finding 2 - Dramatic Energy Performance Variations

- **Energy consumption variation:** Up to 40% between similar buildings
- **Root causes:** Outdated heating systems, poor thermal insulation
- **Financial risk:** Rising CO<sub>2</sub> prices, stricter EU building regulations
- **Opportunity:** Deep retrofits with renewable energy integration



### The Business Case:

- Immediate: Reduced operating costs
- Medium-term: Regulatory compliance
- Long-term: Asset value preservation

## Key Finding 3 - Untapped Renewable Energy Potential

- 90% of suitable roofs without solar installation
- Potential annual savings: €5.000.000+
- CO<sub>2</sub> reduction potential: 20.000 tons annually
- Payback period: 8-10 years



### Government Leadership Opportunity

Leveraging government influence for innovation



### Energy Independence Benefits

Enhancing national security and economic stability



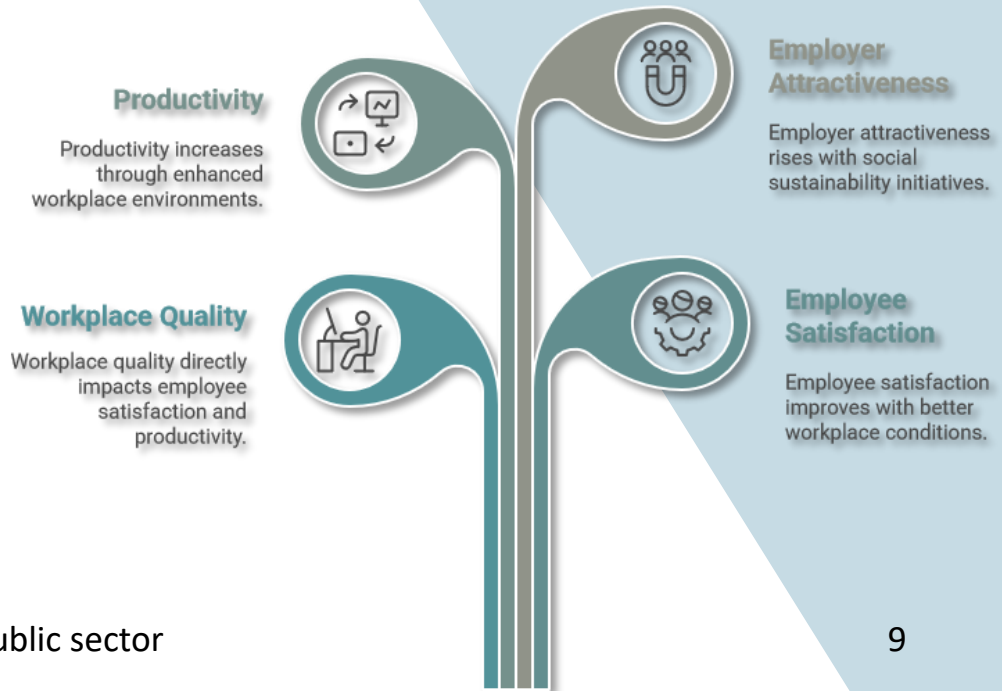
### Long-Term Cost Predictability

Ensuring sustainable growth through financial planning

## Key Finding 4 - Workplace Quality Variations and Impact

### Issues Identified:

- Poor ventilation and temperature control in older buildings
- Noise issues in open-plan offices
- Accessibility barriers for disabled employees
- Inadequate facilities for modern work arrangements



## Integrated Recommendations - The Sustainability Business Case

### Dynamic Real Estate Strategy

- Link space optimization with energy retrofits
- Use rental savings to fund green improvements
- Implement flexible workspace models

### Systematic Renewable Energy Program

- Centralized solar installation program
- Mix of ownership and contracting models
- Portfolio approach for risk management

### Future-Proof Workplace Standards

- Mandatory quality criteria for all locations
- Health, accessibility, and environmental standards
- Regular assessment and improvement cycles



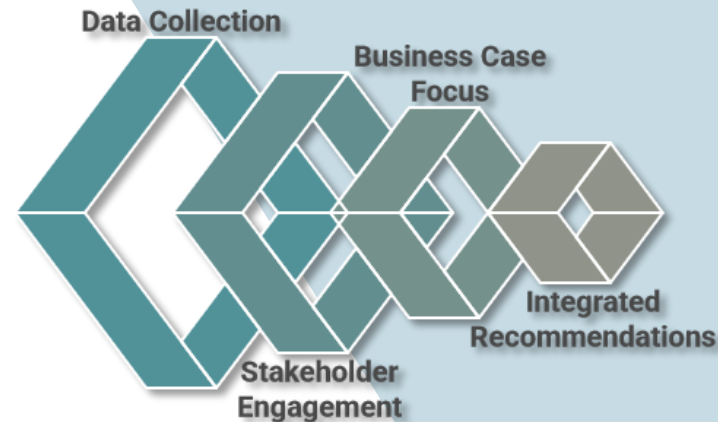
## Lessons Learned - What Worked & Critical Success Factors

### What Worked Well:

- ✓ Using traditional 3Es framework as foundation
- ✓ Multi-method data collection and triangulation
- ✓ Stakeholder engagement throughout the process
- ✓ Strong business case focus with quantified benefits
- ✓ Integrated recommendations addressing multiple dimensions

### Key Challenges:


- ⚠ Data integration from multiple, incompatible systems
- ⚠ Quantifying social benefits and intangible impacts
- ⚠ Balancing technical detail with executive accessibility
- ⚠ Managing stakeholder expectations about implementation timeline





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# Performance Audit Awareness Concept

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# Agenda

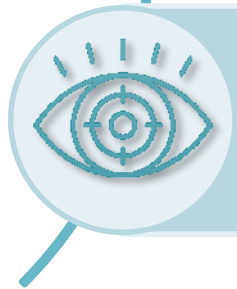
- 1 Vision and Mission
- 2 Strategic Objectives
- 3 Current Challenges
- 4 Strategic Awareness Goals
- 5 Communication Strategy & Core Messages
- 6 Target Group Overview
- 7 Target Group-Specific Needs
- 8 Core Awareness Measures Overview
- 9 Communication Channels & Media Mix

# Mission & Vision



## Mission

To raise awareness of the added value of performance audits through systematic, target group-specific communication and education measures and to build the necessary skills for their successful implementation and use. The focus is on developing a new culture of quality based on evidence-based decision-making, continuous improvement, and transparent accountability.



## Vision

To establish internal audit as an indispensable partner in administrative modernization and to anchor performance audit as a natural instrument of good governance in all areas of the Latvian public sector. This vision aims to change the administrative culture, where continuous evaluation and improvement of performance are understood as an integral part of professional administrative work.

# Strategic Objectives

## Promoting administrative development

Drives internal innovation and strategic administrative changes.



## Establishing performance audit as a standard tool

Integrates internal processes for operational efficiency.



## Positioning Internal Audit as a strategic partner

Enhances external perception and strategic organizational goals.



## Improving cooperation between all stakeholders

Fosters external relationships for operational success.



## Current Challenges

### Perception Problems

Performance Audit often seen as "control" rather than "support". Lack of clarity about benefits and added value for the organization.

### Resource Constraints

Limited capacities in internal audits.  
Competing priorities in administration.

### Methodological Gaps

Different quality standards between organizations. Lack of uniform approaches and best practices.

### Communication Deficits

Insufficient education about Performance Audit. Lack of visibility of successes and improvements.

# Strategic Awareness Goals (3-5 Years)

## 1. Standard Tool Establishment

Integration of performance audit into regular management and planning processes of all relevant public institutions.

## 2. Strategic Partnership

Positioning Internal Audit as a proactive advisor and catalyst for improvement, not just a controller.

## 3. Professionalisation

Establishing uniform quality standards and competence development for performance audits across all sectors.

## 4. Social Anchoring & Transparency

Establishing performance auditing as an instrument of democratic control with increased public awareness.

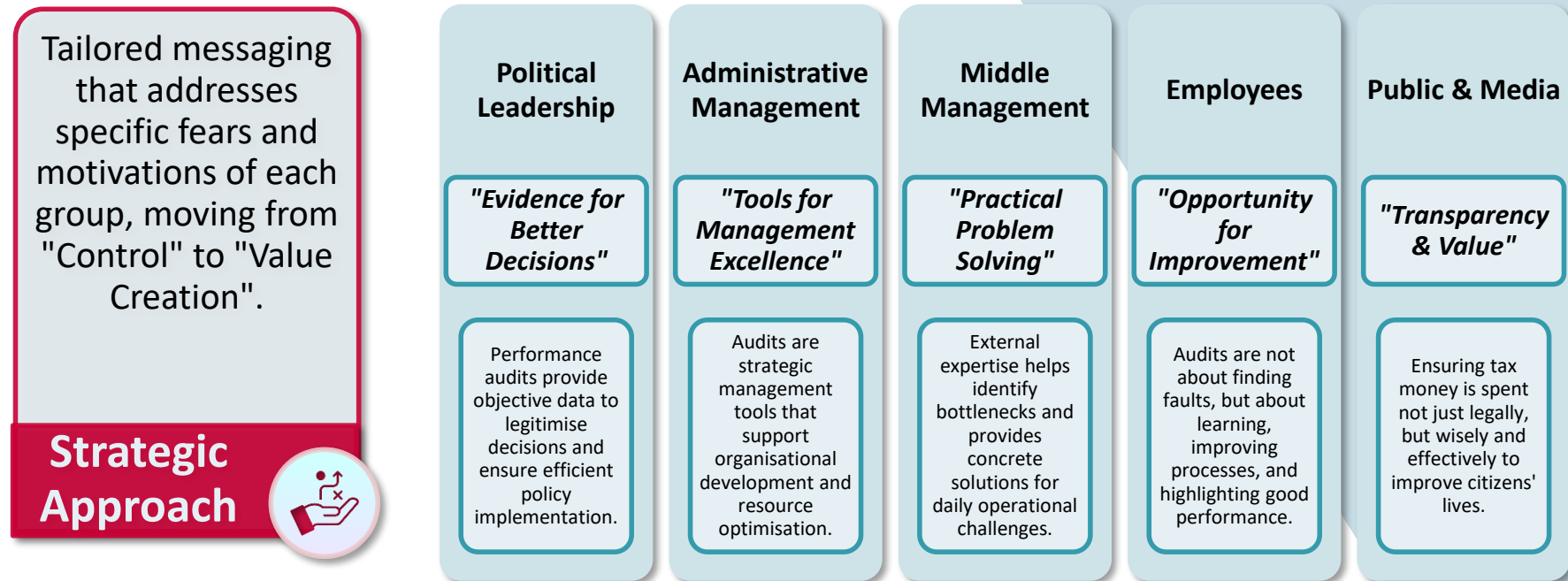
## 5. Measurable Improvement

Demonstrating concrete efficiency gains, cost savings and service quality improvements through audits.

### Measuring Success

- Implementation rates & Integration degree
- Perception index & Satisfaction surveys
- Quality standards & Peer reviews
- Documented efficiency gains

## Communication Strategy & Core Messages





## Target Group Overview

- **Central Government**
  - Political Leadership: Ministers, State Secretaries
  - Administrative Management: Directors-General, Department Heads
  - Middle Management: Division Heads, Team Leaders
- **Local Government**
  - Municipal Leadership: Mayors, Administrative Directors
  - Municipal Administration: Office Heads, Case Officers
- **Public Enterprises**
  - Management and Supervisory Boards
  - Management and Staff





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## Target Group-Specific Needs

Understanding Different Needs

### Political Leadership

- Quick, concise information
- Political benefits and legitimacy
- Risk minimization

### Administrative Management

- Methodological support
- Objective management data
- Organizational development

### Middle Management

- Practical application in daily work
- Process improvement
- Cooperation with auditors

### Municipal Level

- Citizen proximity and service quality
- Resource optimization
- Inter-municipal exchange

# Core Awareness Measures Overview

## Central Government

### Executive Briefings

Short, high-level sessions for top political leadership on strategic value.

### Management Excellence

Comprehensive program for administrative heads on using audit for improvement.

### Workshop Series

Practical training for middle management on process optimization.

## Local Government

### Mayor Roundtables

Peer exchange forums for municipal leaders on efficiency.

### Performance Awards

Recognition program for municipalities with best performance practices.

### Benchmarking

Data-driven comparison initiatives to identify best practices.

## Public Enterprises

### Governance Excellence

Program for supervisory boards on audit as a governance tool.

### Public Value Performance

Focus on balancing economic efficiency with public mandate.

### Stakeholder Engagement

Strategies for communicating value to shareholders and public.

# Communication Channels & Media Mix

## Traditional Channels

### Print Media

Articles in 'Latvijas Vēstnesis' & trade journals for professional credibility.

### Personal Briefings

Structured 1-on-1 discussions with key decision-makers.

### Conferences

Annual national events & international expert symposiums.

### Study Trips

Benchmarking visits to performance audit pioneers abroad.

## Digital Channels

### Central Website

Comprehensive hub for case studies, tools, and resources.

### Social Media

LinkedIn for professionals, Twitter for news, YouTube for explainers.




## Digital Tools

### Webinars

Interactive online sessions for broad reach and flexibility.

### Podcasts

Audio series for on-the-go consumption by busy managers.

Channel	Central Government	Local Government	Public Companies
 <b>Primary</b>	Personal briefings, high-quality print materials, professional online platforms	Regional workshops, peer-to-peer events, practical learning formats	Industry-specific trade media, corporate events, business networks
 <b>Secondary</b>	LinkedIn, specialist conferences, study trips	Newsletters, webinars, online learning platforms	LinkedIn, podcasts, mobile apps
 <b>Special Features</b>	Focus on exclusivity and high quality of communication	Emphasis on the exchange of experiences between local authorities	Integration into existing governance structures




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