



**Annual Report of
the State Audit Office
of the Republic of Latvia
2008**

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Dear readers,

The State Audit Office is an independent State institution serving public interest, which continued strengthening and developing high quality standards also in 2008, efficiently and professionally achieving set goals and objectives.

Responsibility, transparency and development are values of the State Audit Office that are followed in every step of its operation, planning the work, performing audits, as well as analysing results thereof.

Our principles of operation are always based on purposeful, efficient and results oriented action. We have the same expectations from our audited entities, therefore in the past year the State Audit Office purposefully continued assessing not only legality of utilisation of taxpayers' resources, but also expediency thereof and efficient further investment in order to achieve maximum returns. For example, the audit on economic activity of Riga International Airport has demonstrated that there are still companies, which, not making use of all opportunities to increase revenue, plan their development on the basis of regular attraction of the State budget funds. Under particularly challenging economic situation it is very important to pay more attention to efficient and expedient use of financial resources.

Overall the auditors of the State Audit Office in 2008 completed 61 audit, including 29 financial audits and 32 legality audits, in turn the number of developed audit reports is considerably larger – 74, including 31 reports on financial audits and 46 – on legality audits.

Unfortunately incompetence and disinterest can still be observed not only at the State and local government companies, but also among political supervisors. Regulatory enactments are amended inactively and unwillingly, although amendments thereof would allow more efficient and transparent use of taxpayers' money and property.

Instead of acknowledging and rectifying mistakes made, responsible officials frequently look for excuses and try to appeal to court, yet the task of the State Audit Office is not to punish somebody, but to disclose deficiencies and violations where such exist. Due to high professional competence of our employees, international authority and strong public support, we are doing our job and will continue doing it also in the future.

Assessing the accomplished in the past year, I would like to say that political responsibility traditions have to be developed and strengthened in Latvia at last, which would promote development of more reputable and lawful State, where the State administration is really serving public interest, operating mindfully, professionally and expediently with entrusted public resources.

Auditor General of the Republic of Latvia
Inguna Sudraba

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1. Mission, Vision, Values and Objectives of the State Audit Office

The State Audit Office is an independent collegial supreme audit (inspection) institution, an essential constituent of the financial system serving public interests by ensuring supervision over expedient and efficient utilisation of State and local government resources.

The State Audit Office is one of the six constitutional government bodies in Latvia and is subject only to the law.

Mission

To promote:

- Efficient and legitimate utilisation of public resources (tax payers' money);
- Development of financial management and responsibility for utilised resources;
- Honest and transparent decision making process in the public sector.

Vision

Assist the State in wise management and utilisation of resources.

Values of the State Audit Office

Responsibility, transparency and development.

Objectives

Through its action, the State Audit Office:

- Promotes development of State's financial control system;
- Promotes observance of the laws;
- Reduces risk of errors and violations;
- Promotes development of internal audit and increased responsibility of internal audit services;
- Promotes improvement of internal control system;
- On the basis of audit conclusions, advances improvement of laws and other regulatory enactments.

In order to ensure implementation of the set objectives and in accordance with the State Audit Office Law, the State Audit Office:

- Each year provides an opinion to the *Saeima*¹ regarding the financial year report submitted by the Minister for Finance on the implementation of the State budget and the budgets of local governments (the financial position thereof);
- Each year provides opinions on correctness of annual report preparation by ministries and other central State institutions;
- Submits a report to the *Saeima* and the Cabinet regarding financial audits of audited entities, which have received qualified or adverse audit opinion or disclaimer of audit opinion by the State Audit Office; regarding all performance audits conducted by the State Audit Office; regarding particularly important and significant findings;
- Reports to State institutions regarding findings that affect activities of the respective institutions, as well as to law enforcement institutions regarding violations of legal norms disclosed during the audits;
- Within the scope of its competence cooperates with the European Union institutions and other international organisations or institutions.

¹ The Parliament of the Republic of Latvia

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2. Legal Regulation and Structure of the State Audit Office

Legal Status of the State Audit Office

Article 87 of the Constitution of the Republic of Latvia specifies that the State Audit Office is an independent, collegial institution; Article 88 stipulates that the organisation and responsibilities of the State Audit Office shall be provided for by a specific law.

The activity of the State Audit Office is regulated by:

- The State Audit Office Law (adopted by the *Saeima* on 9 May 2002, with amending laws of 9 December 2004, 22 June 2005 and 12 December 2008);
- By-law of the State Audit Office (approved at the meeting of the State Audit Office Council on 3 October 2005, amendments of 19 December 2005, 12 February 2007, 29 October 2007, 17 March 2008, 18 July 2009 and 5 January 2009).

In accordance with the State Audit Office Law, the State Audit Office itself determines the audited entity, audit time period, type and objective of an audit.

Rights of the State Audit Office

In accordance with the State Audit Office Law, the State Audit Office is entitled to receive draft regulatory enactments examined by the *Saeima* and the Cabinet and provide opinions of such, if the regulatory enactments may affect the revenue and expenditure of the State and local governments or if such enactments provide for action with the property of the State, as well as with the resources allocated by the European Union and other international organisations or institutions.

Auditor General, a member of the Council of the State Audit Office, Head of Sector of an Audit Department and employees authorized by the Auditor General may without hindrance visit institutions and undertakings (companies) irrespective of their subordination and ownership and request all necessary information in order to perform the task of the State Audit Office.

Upon the request of the State Audit Office, banks and other credit institutions shall have the duty to provide the State Audit Office in the amount and according to the procedures determined by *Credit Institution Law*, with the information requested by it with respect to the accounts and transactions performed by the audited entities, if such is necessary in order to perform an audit.

Structure and Personnel of the State Audit Office

The State Audit Office is comprised of the Auditor General, the Council of the State Audit Office, audit departments and support structural units.

The Auditor General is appointed to the position for four years by the *Saeima*, members of the Council are appointed in accordance with recommendation of the Auditor General for four years by the *Saeima*.

The Auditor General is the Chairperson of the Council. The Auditor General appoints Directors of Audit Departments and Heads of Sectors of Audit Departments, defines the audit standards that shall be used by the State Audit Office in accordance with the international standards recognised in the Republic of Latvia, audit methodology and

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requirements for audit quality control, as well as undertakes responsibility for establishing internal control and internal audit system.

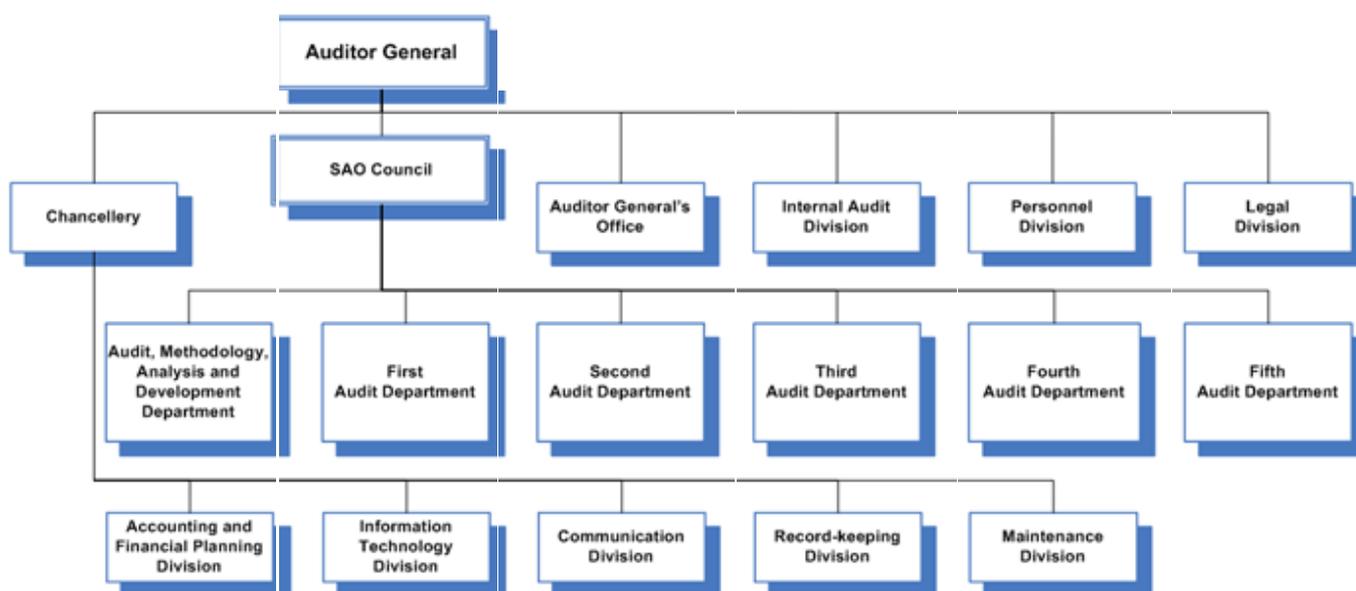
The Council approves the by-law and other regulatory enactments that regulate internal performance of the State Audit Office, as well as Annual Audit Plan and Strategic Development Plan; decides on distribution of audit fields among the departments, and approves audit reports that have not been approved by the audit departments.

Directors of the Audit Departments examine and approve the results of audits, audit reports and opinions.

Heads of the support structural units ensure effective execution of the institution's basic functions.

The auditors are employees of the State Audit Office, who perform audits and develop audit reports and opinions, render recommendations reasoned by audit findings and conclusions, and ensure supervision of implementation of audit recommendations.

Figure 1. The Structure of the State Audit Office



In the year of account the structure of the State Audit Office has not experienced substantial changes. In 2008 functions of Audit, Methodology, Analysis and Development Department, were revised, establishing separate structural unit for information system auditors. Information system auditors participate in audits, develop methodology for information system audit and information technology support tools for use in audits, as well as render consultations for using the methodology in practice.

As at December, 30 2008, 191 employees were working at the State Audit Office, including 153 auditors and 38 employees performing support functions. 152 or 80% of all employees were women and 39 employees or 20% – men. Average age of employees at the State Audit Office in the year of account was 35.7 years.

In 2008 37 new employees commenced their work at the State Audit Office. Compared to previous years employee turnover has significantly decreased (in 2008 – 15%, in

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2007 – 45%), this may be explained by employment of qualified employees and their motivation to work at the State Audit Office.

3. Implementation of the State Audit Office Strategic Development Plan

The State Audit Office Strategic Development Plan 2006-2009 (hereinafter – Strategic Development Plan), which was approved in 2006, specifies development directions, objectives and achievable results of the State Audit Office. *Activity Plan for Implementation of the Strategic Development Plan* determines objectives to accomplish, in order to achieve objectives and results of the Strategic Development Plan, as well as timelines for achieving these tasks.

Many of the Strategic Development Plan objectives have already been implemented or have become daily operations. However, in order to ensure continuous development of the State Audit Office, the Strategic Development Plan is updated each year by including new objectives, which are directed toward development of the institution and improvement of work quality.

In accordance with the long-term requirements of the State Audit Office, three main strategic development areas are defined in the Strategic Development Plan:

- Improvement of the State Audit Office audit work;
- Development of the State Audit Office resources;
- Strengthening cooperation and communication of the State Audit Office.

Sub-areas and corresponding objectives are established for each strategic development area, whereas achievable results are defined for the implementation of the objectives.

3.1. Improvement of the Audit Work of the State Audit Office

Long-term strategic objectives

The following long-term strategic objectives have been defined for improvement of the State Audit Office audit work: Quality Management System has been implemented at the State Audit Office; audits are performed on topics important to the public; activity of State administration institutions has improved, as a result of the audits and recommendations for amendments in regulatory enactments have been rendered for improvement of financial management; audit recommendations assist institutions in improving their activity, and they highly value activity of the State Audit Office; audit work planning system has been improved by determining the amount of budget resources required for audits; and efficient system of performance indicators has been developed.

Accomplishments in 2008

• improved work quality

In order to ensure continuous supervision of audit performance quality and to promote improvement of the State Audit Office work, Quality Management System was introduced at the State Audit Office in 2008, as well as Quality Management System Guidelines of the State Audit Office was approved and 20 work process descriptions were developed, which specify activity of the State Audit Office.

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The Quality Management System has been introduced with the objective to document activity of the State Audit Office by stating order of work processes and their mutual relation. This system ensures that implementation of requirements of international auditing standards is ensured during the process of audit performance and that quality reports and correct opinions are prepared.

The State Audit Office continued to improve audit work quality in 2008, which included quality promotion activities in the course of the audit and quality control of closed audits.

During the quality promotion activities employees responsible for audit methodology provided consultations to auditors in the course of the audit. These activities ensure that the audit reports comply with the methodology of the State Audit Office and provide clear and understandable information.

Work documentation assessment of completed audits provides assessment of audit work organisation, disclosure of required improvements in methodology, and identification of best practice. Quality control of closed audits in 2008 was performed for one financial and one legality audit.

In order to improve activity efficiency of the State Audit Office and to promote information exchange between audit departments, four experience exchange seminars were organised in 2008 regarding examples of best practice in audit work and on risks disclosed during the audits. Seminars were organised prior to commencement of each audit stage in order to promote efficient resource utilisation during audits.

Work by the State Audit Office is largely facilitated by utilisation of extensive information system, which permits to analyse data and draw conclusions more efficiently. Four modules of audit management system *TeamMate* have been customised for the purpose of the State Audit Office work: audit documentation system (*EWP*), time and accounts capture (*TEC*), resource and audit planning system (*Schedule*) and audit recommendations monitoring database (*Central*). Possibilities offered by data analysis programme *IDEA* were widely employed for audit work during the year of account.

• increased added value by the State Audit Office with respect to development of financial management

During the conditions of economic instability, more and more attention is directed at efficient and expedient utilisation of financial resources. In 2009 the State Audit Office plans to implement a performance indicator, which describes activity of the State Audit Office the best – amount of financial resources saved and recovered for the State budget as opposed to each lat spent by the State Audit Office.

In order to implement this performance indicator, guidelines for calculating the financial impact of audit recommendations have been developed, which will permit to assess the financial impact of audit recommendations – savings of the State resources or increase in revenues. In accordance with the guidelines, the State Audit Office plans to pay significant attention to rational expenditure during the audits of State and local government budget resources in order to prevent their inexpedient utilisation, to disclose function redundancy and inefficient actions regarding property, as well as to promote collection of payments in adequate amounts as specified by the regulatory enactments.

By approving the Work Plan for 2009, the State Audit Office has employed a new approach to its development – the Work Plan contains achievable results and activities to perform for their attainment, specific timelines and responsible persons, as well as

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planned man-hours and the budget. Therefore, the management of the State Audit Office possesses complete information on the costs associated with obtaining the required results. The Work Plan also contains comprehensive information on how much each structural unit has contributed to achieve the shared objectives of the State Audit Office.

In parallel with implementation of the abovementioned activities, work is performed on increasing audit work intensity of the audit departments – 77.4% from the total working time use was utilised on audits during the year of account (planned – 75%). Time spent on performing audits at the audit departments has increased by 13.3% in comparison to indicators of 2007.

Auditors of the State Audit Office prepare audit recommendations and harmonise them with the audited entities, which ensures prevention of deficiencies disclosed during the audits. Implementation of audit recommendations is performed in accordance with their implementation timeline.

Audited entities were required to implement 1217 audit recommendations during the year of account, out of which 907 or 75% have been implemented, 198 or 20% were in the implementation stage and 69 recommendations or 5% were not implemented.

Audit recommendations of the State Audit Office are rendered on the following areas:

- Legislation – recommendations are directed at adjusting requirements of the regulatory enactments in order to generate unambiguous interpretation of provisions of the law;
- Accounting policy – recommendations are directed at development of accounting policy or its improvement in accordance with requirements of the Cabinet Regulation *Regulations on the Conduct and Organisation of Accounting* and the Cabinet Regulation *Regulations Regarding Procedures for Preparation of Annual Reports of the State Budgetary Institutions and Local Governments*;
- Internal control system – recommendations are directed at organising and improving internal control system at the respective institution in accordance with requirements of the Cabinet Regulation *Regulations Regarding Basic Requirements for Developing Internal Control System*;
- Quality of public services – recommendations are directed at improving the quality of services rendered by the audited institution;
- Organisation of information technology – recommendations are directed at organising information technology and systems within the audited sector.

Recommendations implemented in 2008 are targeting further improvement of State administration, financial management and legislation, improvement of specific institutions' activity; promotion of accessibility and quality of service rendered; recovery of State budget resources and halting performance of inexpedient and inefficient activities.

In the year of account the audited entities have implemented recommendations that improve financial management of the State administration:

- After conducting financial audit "On the Annual Report of the Republic of Latvia for 2005 Regarding Implementation of the State Budget and Budgets of Local Governments" the State Audit Office rendered recommendations, according to which the law *On Taxes and Fees* was amended, determining unified criteria for taking decisions on extending tax payment terms, and specifying the authority of the State Revenue Service to distribute payment of overdue tax payments for a period up to year, reaching an agreement with a taxpayer for debt settlement timetable;

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- After conducting financial audit “On the Annual Report of the Republic of Latvia for 2007 Regarding Implementation of the State Budget and Budgets of Local Governments” the State Audit Office rendered recommendations, according to which the Cabinet Regulation *Regulations Regarding Procedures for Preparation of Annual Reports of the State Budgetary Institutions and Local Governments* was amended, in detail specifying corrections that shall be made to the consolidated report if institutions have different accounting policies. Cabinet Regulation was also amended to ensure that, making corrections to the annual report on local governments after submission thereof to the Treasury, such corrections shall be harmonised with a sworn auditor or the State Audit Office and shall be repeatedly submitted to the Treasury.

Most significant recommendations implemented by the audited entities in the year of account, which ensure further improvement of institution activity:

- The Ministry of Culture, in order to improve the control system, providing for regular accounting of holdings and security control thereof, and performance of inspections at museums, has developed unified methodology and has conducted inspections at several museum storages;
- The State Revenue Service, in order to ensure timely accounting and control of customs duty debts, using Central Customs Information System has created a possibility to select information on the amount of administrated tax debts, and time of origin per specific date, thus it is possible to commence timely collection of customs payment debts;
- The Ministry of Education and Science, in order to improve laws and regulatory enactments in the field of vocational education quality and content provision, has amended the Cabinet Regulation *Regulations regarding the State Vocational Secondary Education Standard and the State Industrial Education Standard*, the Cabinet Regulation *Regulations Regarding Profession Classifier, Basic Objectives and Basic Qualification Requirements Corresponding to a Profession and Procedures for Using and Updating Profession Classifier* and the Cabinet Regulation *Procedures by which the Course of Centralised Vocational Qualification Examinations shall be Regulated*, as well as developed and approved internal regulatory enactments that specify procedures for development of draft professions standard, expert examination, harmonisation and registration thereof, and procedures for maintenance of the Register of Profession Standards;
- The Ministry of Justice, in order to ensure procedures regarding the volume of court information that shall be published on the Internet with purpose of ensuring natural personal data protection, has developed the Cabinet Regulation *Regulations On Publishing Court Information on the Internet Home Page and Processing Court Orders Before Issue Thereof*;
- The Ministry of Defence, in order to ensure preservation conditions to National museum holdings of the State Agency “Latvian War Museum”, on the basis of the Cabinet Order, has entered into reconciliation with natural persons, who occupied an apartment within premises of the State Agency “Latvian War Museum”. On September 24, 2008 the persons were disbursed the compensation in the amount of LVL 75 thousand, and the premises were vacated on November 25, 2008, signing the acceptance certificate;
- In order to ensure requirements of the law *On the Service Career Path of Officials with Special Service Ranks in Institutions of the Ministry of the Interior System and Prison Administration*, the Ministry of Interior has developed and the Cabinet has

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adopted the Cabinet Regulation *Description of Uniform and Identification Marks, Types of Special Clothing, Inventory and Individual Protection Means and Norms for Distribution Thereof for Officials with Special Service Ranks in Institutions of the Ministry of the Interior System and Prison Administration*;

- The Ministry of Health:

- Has commenced elaboration of *Development Programme for Ambulatory and Stationary Health Care Service Providers* for the planning period from 2010 to 2017, which, assessing the current situation in health care field, forecast of sickness rate and volume of services, as well as availability of financing, will update and improve comparative indicators, will be specified in the policy planning document for 2005-2010, wherewith also specific measures and financing necessary for implementation thereof;
- Has developed amendments to the Cabinet Regulation *Procedures for Organisation and Financing of Health Care*, to ensure that resources of the Reserve Fund are allocated only to an institution, which, on the basis of regulatory enactment or contract governed by public law, is related to providing health care according to granted competence;

- The Ministry of Welfare has developed the Cabinet Regulation *Procedures for Receiving Social Services and Social Assistance*, which specifies procedures by which a person receives social services, wherewith regulatory enactments, as well as quality and accessibility of service were improved. Amendments were developed also for the Cabinet Regulation *Requirements for Social Service Providers*, deepening minimum requirements for social service providers, who provide rendering social rehabilitation services to persons with impaired vision and hearing impaired, as well as for the Cabinet Regulation *By-law of the State Agency for Social Integration*, clarifying the functions of the Agency, and performing redistribution of the State budget funds;

- The institution subordinated to the Ministry of Transport, the State Joint Stock Company "Latvian State Roads":

- Has taken the decision to review and extend methodology for determining motor road section priorities, thus the risk of subjectivity will be eliminated and accessibility of quality infrastructure will be improved. Procedures for applying motor road construction average price were also developed, thus more accurate planning of the State budget funds utilisation will be ensured, as well as the possibility to take more accurate and justified decisions on entering into procurement contracts for motor road construction;
- Has amended *Guidelines for Developing State Motor Road Funding Programme for 2009-2011*, specifying procedures for application of inflation to costs of motor road renovation construction works, thus more accurate planning of the State budget funds utilisation will be ensured;

- To improve internal control system, the Ministry of Transport has developed internal regulatory enactment *Procedures by which Public Procurement is Organised at the Ministry of Transport*;

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- Riga District Baloži City Municipality has approved local government Regulation *Procedures for Assessment of Lawfulness and Expediency of Draft Decision*, to ensure adopting decisions that conform to the interests of the public, drawing up of democratic, lawful and efficient decisions and procedural progress. There was also approved local government Regulation *Procedures on Capital Shares Management*, to ensure availability of information regarding activity of a capital company and financial position thereof, and also to ensure possibility for capital shareholder to implement shareholder's rights;
- *Procedures for Ensuring Technical Implementation of Residential Houses Privatisation and for Commencement of Residential Houses Privatisation, procedures On Offering and Transference to the Ownership of Local Government of Non-privatised, Leased out Parts of Houses in the Ownership of the State, procedures On Taking Possession and Transferring to Management by the Construction, Energy and Housing State Agency of State Residential Houses or Parts Thereof Transferable for Privatisation and Procedures by which the Construction, Energy and Housing State Agency Controls Activity of Managers of State Residential Houses* were approved for improvement of internal control system and work organisation of the Construction, Energy and Housing State Agency.

After performing financial and legality audits in 2008, the State Audit Office has rendered the following important audit recommendations, implementation deadline of which is 2009 and on some occasions – 2010:

- The Ministry of Finance shall:
 - Conduct measures to ensure that ministries, central State institutions and local governments in their financial statements perform accounting of all immovable property in their respective ownership;
 - Assess the possibility to perform accounting of State budget revenues according to the accrual basis of accounting specified by International Accounting Standard of Public Sector;
 - Assess the necessity to develop amendments to regulatory enactments specifying that remuneration shall be planned upon assessing tasks of State administration institution and the required number of employees for performance of these tasks in accordance with the performance indicators of the institution;
 - Assess the possibility to improve regulatory enactments, which shall ensure transparent system regarding use of service motor vehicles; improve control over expenses related to use of service motor vehicles; and ensure transparency in planning and expenditure in relation to telecommunication service expenses and representation expenses, and expedient application thereof;
 - Ensure that the State Revenue Service gathers information on all of the uncollected enterprise income tax amounts in accordance with the law *On Budget and Financial Management*, or assess the expediency and efficiency of aggregating all information specified by the regulatory enactment and render recommendations for amendments to regulatory enactments;

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- In cooperation with the State Revenue Service assess the possibility to develop procedures for evaluation and accounting of administrative expenses related to resources invested in administration of a particular tax;
- In cooperation with the Ministry of Justice to assess the possibility to develop amendments to regulatory enactments in order to ensure identification of non-residents when registering immovable property alienation transactions in the Land Register and for the State Revenue Service to establish regulations, procedures and timelines to ensure identification of alienation transactions of non-residents' immovable property and timely payment of income tax;
- solutions to ensure comprehensive technical equipment for control function implementation on the external border of the European Union; shall assess the possibility of improving activity of the motor vehicle and container automatic identification system (TLKAIS) for detection and prevention of potential violations of customs regulations; shall ensure efficient management and implementation of customs modernisation project; and shall ensure complete information exchange with responsible institutions of the Russian Federation;
- The Ministry of Education and Science shall:
 - Develop a mechanism in order to organise planning of development of vocational schools subordinated thereto, to approve long-term development planning documents for vocational schools and to perform supervision of implementation thereof, as well as develop a procedure by which number of vocational school State financed places is planned for accredited vocational education programmes, and by which expedient utilisation of immovable property transferred for use to vocational schools is ensured;
 - Develop internal control mechanisms in order to prevent occasions, when the State finances not accredited vocational education programmes, as well as to improve internal regulatory enactments related to budget planning process, specifying unified and traceable budget planning for vocational education;
 - Improve implementation plan for objectives, specified in *Education Development Policy Guidelines 2007-2013*, determining detailed measures and implementation timelines for pre-school education;
 - Ensure development of regulatory enactments, specifying mandatory content of pre-school education, programmes content and samples, as well as procedures by which pre-school educational programmes and pre-school education establishments are accredited, and ensure implementation of competences in the field of pre-school education specified in regulatory enactments;
 - In cooperation with local governments perform analysis of local government pre-school educational programme implementation costs per one educatee, and agree on indicators that shall be included in the minimum cost and to determine the minimum costs agree on costs that shall be included per one educatee per year;

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- The Ministry of Interior, in order to ensure sufficient supervision over activity of the agencies and planning of financial resources, shall develop an opinion regarding utilisation of resources and efficiency, and compliance of achieved results with the planned at the State Agency of Health and Social Affairs and State Agency “Material Reserves”, as well as shall supervise implementation of the management agreement, and ensure observance of procedures specified in the management agreement regarding material stimulation of the agencies’ directors and employees;
- The Ministry of Health shall assess the functions and objectives of the institution subordinated thereto, the Centre of Emergency and Disaster Medicine and the institution, which shall be established, the Emergency Medical Assistance Service, eliminating overlapping of functions of both institutions, as well as assessing the amount of available financial resources and taking into consideration current situation in the field of emergency medical assistance, update policy planning documents in the field of emergency medical assistance;
- The Ministry of Welfare shall:
 - Jointly with subordinated institutions account for immovable property in the possession thereof with total cadastral value LVL 3.3 million as at January 1, 2008, as well as reconstruction, renovation and improvement works and other assets purchased and created within the framework of the project “Development of Social Services Infrastructure and Services for Customer Rehabilitation, Integration into Society and Labour Market within Riga Region” in the amount of LVL 820 thousand;
 - Develop amendments to the Cabinet Regulation *Regulations for Repayment Amount and Procedure of the State Budget and Local Government Budget Expenses, Ensuring Treatment, Rehabilitation, Technical aids and Disbursement of Pensions and Benefits*, specifying in detail the information exchange procedures regarding victims of road traffic accidents, including procedures, by which detailed notices on road traffic accidents, where persons have suffered harm, are sent;
 - To ensure achievement of the objective of the law *On Unemployment Insurance*, amend the law *On Unemployment Insurance*, specifying that, when granting the unemployment benefit repeatedly within the time period of a year, not only benefit receipt duration shall be considered, but also proportional differentiation of the benefit amount related to duration of the receipt of preceding unemployment benefits granted;
 - To ensure efficient utilisation of the State budget resources, develop amendments to the law *On State Social Insurance*, specifying that the State shall not make mandatory contributions for pension insurance and unemployment insurance for persons, which are employed and are receiving a child care benefit or parental benefit, or a disabled child care benefit, and for whom the employer or the employed himself or herself is simultaneously making mandatory contributions;
 - In order to exclude possibility that a person simultaneously may receive both unemployment benefit and sickness benefit, thus obtaining income

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not only in the amount of lost work remuneration, but also additional income in the form of sickness benefit, and in order to eliminate inefficient utilisation of the State budget funds, develop amendments to the law *On Maternity and Sickness Insurance*, specifying that the abovementioned norm of the law shall not be applied to persons, receiving unemployment benefit;

- In order to facilitate timely recovery of overpaid unemployment benefits, assess the possibility of amending regulatory enactments, specifying that overpaid amount of unemployment benefit, on the basis of the decision of the State Social Insurance Agency official, may be recovered by withholding amounts from any service rendered by the Agency, from which according to regulatory enactments such withholdings can be made;
- Institutions subordinated to the Ministry of Welfare:
 - The State Social Insurance Agency shall recover State budget funds for 3562 victims of road traffic accidents, who have received benefits and pensions in the amount of LVL 2.6 million;
 - The Centre for Technical Aids shall recover the State budget funds for 212 victims of road traffic accidents, who have received technical aids in the amount of LVL 34.6 thousand;
 - The State Agency for Social Integration, in accordance with procedures specified by the Cabinet Regulation *Regulations for Repayment Amount and Procedure of the State Budget and Local Government Budget Expenses, Ensuring Treatment, Rehabilitation, Technical aids and Disbursement of Pensions and Benefits* shall recover the State budget funds for 3 victims of road traffic accidents, who have received professional rehabilitation services as a result of injuries suffered during road traffic accidents in the amount of LVL 1178;
- The Ministry of Agriculture shall determine justified amount of payment to the State budget by the Joint Stock Company "Latvia's State Forests", observing the requirements of regulatory enactments and considering investments into equity capital made by the shareholder, as well as observing investment amount of the coming year, forecast of net profit, costs for achieving environmental and social objectives, risks assessment results and market situation in Latvia and abroad;
- The Ministry of Transport shall assess the possibility of initiating amendments to the regulatory enactment, updating tariffs for services rendered by Riga Airport, assess the possibility of imposing fees for transit passenger services, as well as assess validity of the State budget subsidy to Riga Airport;
- Riga Airport shall improve internal regulatory enactments, providing for establishing lease relations upon results of open tenders, specifying criteria for entering into lease relations, when open procedure is not applicable, as well as specifying criteria for determining minimum guaranteed lease price for premises and land, and shall assess the possibility of organising its activity in such manner that revenue of the airport would cover expenditure;
- The Ministry of Economics shall assess the possibility of initiating amendments to the law *On Privatisation of State and Local Government Property* and the law *On*

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Privatisation Funds of State and Local Government Property, to prevent such situation that only a small part of funds obtained through privatisation process are transferred to the State Property Privatisation Fund, but major part is utilised for financing of the State basic budget expenditure;

- Riga City Municipality shall ensure that with regard to types of assistance, specified by the binding regulations concerning provision of assistance in solving apartment matters, procedures for rendering thereof shall be determined. Riga City Municipality shall also establish Help Register that would ensure clear and transparent order of priority within an queue to third persons, and shall assess the need of developing procedures for taking decisions on rendering emergency assistance;
- Riga City Municipality shall assess the need of Riga City Development Fund, and develop proposals for amending respective regulatory enactments, in order to ensure lawful collection of the fund's revenue;
- Garkalne County local government shall assess compliance of payments made from revenue of natural resources tax for services in the amount of LVL 93 thousand with requirements of regulatory enactments of *Natural Resources Tax Law*, and shall establish control measures, in order to ensure utilisation of revenue from natural resources tax only for the financing of measures related to environmental protection;
- Riga District Baloži City Municipality shall develop procedures, by which the need of local municipal property for performing local government functions is established. The Municipality shall develop procedures by which control of lawfulness and expediency is performed, ensuring that the Municipality approves only decisions that conform to the interests of the public; as well as the procedures for assessment of lawfulness and expediency of making municipal immovable property contributions into equity capital of capital companies, to ensure management of public resources according to the interests of the public.

In total 19 audit reports were sent to the Prosecutor General Office in 2008, including 11 legality audit reports and 8 financial audit reports.

The State Audit Office has sent information to the Prosecutor General Office on 32 law violations, including 10 violations regarding conflict of interest situations in the work of State officials, five – on squandering of State and local government property and financial resources, four – on violations of financial, accounting and tax provisions, as well as 13 violations of various character.

With reference to violations of legal norms, disclosed in audits in 2008, three criminal proceedings were initiated, on one occasion audit documentation of the State Audit Office was included into commenced criminal proceedings, on three occasions decisions were taken on refusal to initiate criminal proceedings. Eleven inspections were initiated by the Corruption Prevention and Combating Bureau, two inspections – by the State Police, three inspections – by the State Revenue Service and one – the Prosecutor General Office.

Assessing violations of legal norms disclosed by the State Audit Office in 2008, according to procedures specified by regulatory enactments the Corruption Prevention and Combating Bureau has brought to account two State officials; considering the nature of violation, one official received oral admonishment, and one official was released from responsibility, five officials due to limitation period were not subject to administrative liability.

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To keep updated on the progress of the submitted audit materials the State Audit Office regularly receives information from law enforcement institutions on progress of the audit documentation examination and decisions taken.

- **improved planning and management of the State Audit Office audit work**

Audits are performed in accordance with the Annual Audit Plan approved by the Council of the State Audit Office, which is developed on the basis of audit priorities approved by the Council of the State Audit Office. In order to promote efficient management of State and local government financial resources, the State Audit Office set the following priorities in 2008 – assessment of expedient and efficient conduct in relation to property and financial resources of the State and local governments; assessment of availability and quality of services rendered; assessment on implementation of objectives set by sector policy documents; assessment of revenue administration and accounting.

The State Audit Office has developed efficient system for identifying audit subjects, which includes comprehensive analysis of the audited sectors – the auditors analyse sector's legal framework, financial and activity results, problems and identify risks, as a result of which the audit subject is determined in accordance with current events and audit priorities. The State Audit Office had developed nine sector analyses by the end of the year of account. Sector analyses are periodically updated by following the current events within the respective sector.

Overall the auditors of the State Audit Office in 2008 completed 61 audit, including 29 financial audits and 32 legality audits, in turn the number of developed audit reports is considerably larger – 74, including 31 reports on financial audits and 46 – on legality audits.

During financial audits the auditors perform the necessary controls to gain sufficient audit evidence and to assess if there are no significant errors or discrepancies in the financial statement, examine if preparation of the financial statement is made in accordance with the requirements of the regulatory enactments and recognised accounting standards.

During legality audits the auditors perform controls on compliance of transactions and activities of the audited entities with the regulatory enactments and planned results. Economy, efficiency and productivity of the audited entities are inspected during these audits as well.

Figure 2. Number of audits performed and number of audit reports developed by the State Audit Office in 2008

	Financial Audits	Legality Audits	Total
Number of audits	29	32	61
Number of audit reports	31	46	74

3.2. Development of the State Audit Office Resources

Long-term strategic objectives

In order to ensure development of the State Audit Office, the following long-term strategic objectives have been set: the State Audit Office is staffed with adequately qualified personnel; employees are ensured with the possibility to regularly improve their professional knowledge and experience; employees are provided with motivation; quality information technology services are ensured.

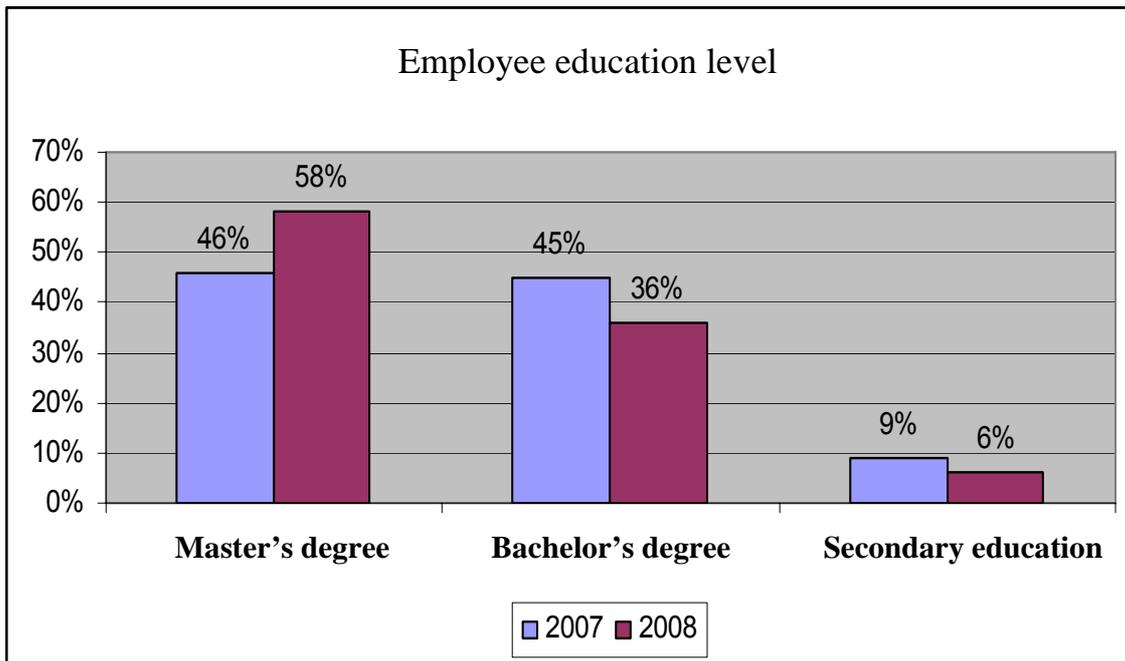
Accomplishments in 2008

- **Activities Performed for Employee Professional Growth and Development**

During the year of account the State Audit Office promoted increase in education level of its employees and further improvement of their professionalism.

94% of the State Audit Office employees had higher education as at December 31, 2008, which is by 3% more than in previous year. 45 employees continued studies at higher education institutions, what indicates about the fact that the employees are interested in increasing their qualification.

Figure 3. Education level of employees at the State Audit Office



Training needs for each employee at the State Audit Office are examined individually. The Personnel Division prepares training plan for the next year by summarizing those individual needs.

In 2008 the State Audit Office continued to direct attention at increasing competency of managers in leadership positions (higher and middle level) by organising training and seminars on exchanging experiences regarding employee management. The auditors

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improved their professional knowledge by attending trainings and seminars on updates in regulatory enactments, international audit standards, and with regard to other issues related to audit performance. The State Audit Office personnel improved their knowledge also in written communication and obtained skills pertaining to audit report preparation.

During the period of account training of the State Audit Office employees and teaching staff continued in cooperation with twinning experts financed by the Transition Facility Programme. Seminar on conducting performance audits was organised at the State Audit Office, which provided employees with knowledge and recommendations, which have to be considered when organising internal training on performance audit. Consultations and recommendations provided by the experts assisted in preparing performance audit training fitting to various knowledge levels.

Audit personnel commenced use of new work methods during the year of account, therefore training and experience exchange seminars on *TeamMate* software were organised. Experience exchange seminars continued on *IDEA* software, which supports auditors in performance of various types of statistical data activities and also presents with possibilities for data comparison.

In 2008 the State Audit Office provided employees with training on 66 different topics in the amount of 10 513 hours. During the period of account one State Audit Office employee received training on average for 55 hours per year. Audit personnel received training in the amount of 9794 hours in 2008, which is on average 64 hours per employee; support personnel received training in the amount of 720 hours, which is on average 19 hours per employee.

19 training sessions for the State Audit Office employees were provided by external training staff (861 participants altogether attended these training sessions). The State Audit Office spent LVL 77 056 on provision of external training during the year of account. External training staff was recruited in order to organise training on international audit and accounting standards, methodical (technical) questions in relation to audits, staff management, argumentation skills, written communication skills and various legal questions.

Internal training staff of the State Audit Office provided 14 different training sessions (564 participants altogether attended these training sessions) – training to recently joined audit personnel was ensured, as well as experience exchange seminars were organised on various questions pertaining to audit implementation and regarding questions related to the information system. Internal training staff of the State Audit Office ensured 42% from the total training volume, apart from individual employee training outside of the State Audit Office.

During the year of account the employees also attended individual training sessions and seminars on 33 different topics (in total 60 employees). In 2008 the State Audit Office spent LVL 1944 on provision of individual training. Topics of training sessions and seminars addressed legal, staff management, labour safety and information system issues.

During the year of account training programmes were developed for position categories in order to assist employees in developing their abilities and achieving both their individual and institutional objectives. Main training sections and topics are specified in the training programmes along with a time schedule when it would be desirable for the employee to gain knowledge on the particular training topics.

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In order to promote training efficiency and variety, e-learning for the State Audit Office employees on various computer programmes (*Microsoft Visio, PowerPoint, Outlook*) was developed in 2008. It is planned that in 2009 recommendations to personnel regarding significance of learning with regard to personality development and work productivity increase (also on advantages of e-learning) will be prepared.

- **employee work performance assessment conducted**

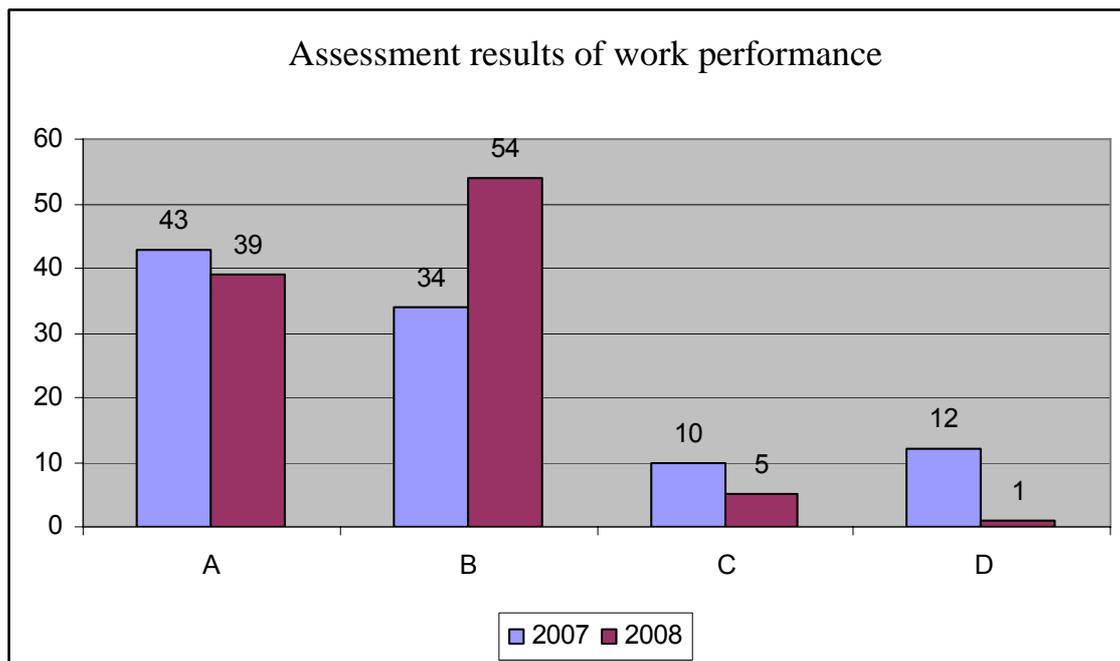
The State Audit Office employee assessment process continued during the year of account. 155 employees participated in the final assessment process of work performance.

Work performance assessment of the State Audit Office employees in 2008 was fully carried out by heads of structural units without external experts.

From the total number of employees, who participated in the final work performance assessment, 94% received A or B assessment category, which is by 17% more than in 2007. It indicates an increase in overall professional competency of employees.

Work performance assessment criteria are planned to be updated in 2009 in order to promote objectivity of assessment process.

Figure 4. Work performance assessment results of the State Audit Office employees



- **improved information technology and information technologies services**

Several activities on assessment and improvement of information technology security were performed in 2008. In order to decrease the possibility of unauthorised access to the system and data, data encryption software was introduced. Performance of comprehensive information technology risk analysis ensured identification of weak points in security, as a result of which many proposals regarding improvement of information technology security were prepared.

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Increase of data transmission speed within the local computer network was performed as part of improvements of information technology infrastructure. Introduction of increased capacity equipment, which duplicates data reserves, provides storage of continuously increasing data volume. Server hardware of adequate capacity was introduced for provision of information system activity ensuring audit process support. Transition to network printing devices offers centralised management of printing devices and accounting of printing works.

In order to ensure information technology management and quality of rendered services, implementation of management system for information technology services was commenced in 2008. During the year of account management over information technology configuration units was implemented, which secures accounting, configuration and documentation of information technology units. Such management also ensures performance of management processes over other information technology services.

Audit work planning and documentation during the period of account was entirely performed in *TeamMate* environment, thus improving audit documentation management system, enhancing supervision possibilities and simultaneously decreasing circulation of paper documentation. *TeamMate* time and account capture function has been customised to suit the requirements of the State Audit Office, thus completely replacing the accounts of working time system in *Excel* environment employed up to now. Both the audit personnel of the State Audit Office and employees of support structural units utilise *TeamMate* for accounts of working time.

Electronic workpaper module of *TeamMate* has been improved so as to ensure its use not only for financial audits, but also for legality and performance audits, as well as for performance of a particular – financial year report – audit.

Implementation of *TeamMate* module for tracking of audit recommendations was commenced during the period of account by performing module pre-implementation works in order to transition from accounting and tracking audit recommendation in *Excel* environment to organising them in *TeamMate* environment during the course of 2009.

Possibilities offered by data analysis software *IDEA* are increasingly more often utilised in the audit work. Utilisation of *IDEA* is promoted by regular experience exchange seminars of *IDEA* specialists working at the State Audit Office, as well as by increasing understanding of audited entities when providing access to large volumes of data in structured electronic format for audit performance. Therefore, by the end of the year of account 80% of structural units actively utilised *IDEA* possibilities during their audit work as compared to 47% at the beginning of the year of account.

By analysing data with *IDEA* software during legality audit on compliance of the Joint Stock Company “Latvia’s State Forests” action in relation to the State properties transferred into its possession and supervision with the requirements of the regulatory enactments, discrepancies were disclosed between the actual and initially evaluated amount of round timber cut down in each felling area. It was also recognised that permitted deviations in amounts of prepared and sold round timber have been exceeded.

IDEA was also used for verification of long-term investments during financial audit of the Ministry of Transport financial statement for 2007. Deficiencies in inventory of fixed assets were disclosed on five occasions – different fixed assets had the same inventory number and several fixed assets did not even have an inventory number.

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During the legality audit performed at the State Agency of Health and Social Affairs under the Ministry of the Interior on compliance of allocation and disbursement of service pensions and allowances to employees with special service ranks within the Ministry of the Interior system with the requirements of regulatory enactments, unjustified payment of service pensions was disclosed by employing *IDEA*. Pensions were disbursed to persons also receiving unemployment benefits, as well as to persons, who have left the country, and deceased persons. Even though the State Agency of Health and Social Affairs had performed old-age pension recalculation for some of the persons, the disbursement amount of the respective service pension had not changed. Thus, overpayment of service pensions was recognised.

During the audit on activity of the institutions subordinated to the Ministry of Welfare in ensuring recovery of the State budget expenses for social and professional rehabilitation of a victim in a road traffic accident, delivery of technical aids and disbursement of pensions and benefits, the State Audit Office auditors disclosed by employing *IDEA* that during the audited time period the institutions subordinated to the Ministry of Welfare have not recovered State budget resources from the insurer or the Motor Insurers' Bureau in the amount of LVL 2.7 million. These resources were utilised for provision of rehabilitation to a victim in a road traffic accident, technical aids, as well as disbursement of pensions and benefits.

During the audit on compliance of granting and calculation of unemployment benefits with the requirements of regulatory enactments, transactions were identified when a person has simultaneously received both unemployment benefit and sickness benefits. The total amount of sickness benefits disbursed in such manner was calculated to amount to LVL 910 thousand by performing modelling procedures. On the basis of modelling procedures performed, the audit unit was able to not only specify the risks, but also to determine the amount of inefficiently utilised special budget resources.

3.3. Strengthening Communication and Cooperation of the State Audit Office

Long-term strategic objectives

To ensure strengthening of the State Audit Office communication and cooperation, the State Audit Office has put forward the following long-term objectives: the State Audit Office has improved international cooperation and strengthened its acknowledgment and authority among institutions of foreign countries; communication with the audited entities and mass media promotes understanding on the part of the society, politicians and audited entities regarding the mission, objectives and audit work results of the State Audit Office; there is open and mutual communication between management and employees at the State Audit Office.

- **strengthening of cooperation with international organisations and supreme audit institutions of other countries**

The purpose of international cooperation is to improve the State Audit Office abilities to conduct public sector audits and improve professional competence of employees. In order to achieve this, the State Audit Office takes active participation in the international organisations of supreme audit institutions INTOSAI and EUROSAI, participates in international conferences and seminars, conducts parallel audits, as well as facilitates bilateral and multilateral exchange of experience with supreme audit institutions of other countries.

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Cooperation with INTOSAI

INTOSAI is independent international organisation of supreme audit institutions – the highest level of cooperation between external audit institutions – and its goal is to facilitate exchange of experience between supreme audit institutions of different countries. The organisation has special consultative status with the Economic and Social Council of the United Nations.

Already since 1953 INTOSAI operates like a forum for strengthening of public sector audit area, professional development of supreme audit institutions, as well as for transfer of knowledge and best practice. INTOSAI unites 189 supreme audit institutions and three associated members.

Regional supreme audit institution organisations have been established in order to provide achievement of INTOSAI goals, a congress is organised every three years, regular committee meetings, working group meetings and other informative events take place.

Working Group on Key National Indicators was established during INTOSAI congress in 2007, specialists of the State Audit Office took active part in the Working Group's work in 2008, providing their point of view on essence of key national indicators, and the role of supreme audit institutions in assessment thereof.

During past year specialists of the State Audit Office continued being actively involved with the INTOSAI Professional Standards Committee, assessing drafts of several guidelines.

Cooperation with EUROSAI

EUROSAI is a regional organisation of the INTOSAI, bringing together European supreme audit institutions and European Court of Auditors. Organisation's objectives include facilitation of professional cooperation among the involved European supreme audit institutions and other INTOSAI regional organisations, supporting exchange of information and documents, facilitating research of the public sector audit, stimulating development of academic positions in this field and achieving unification of terminology. In 2008 Montenegro joined the organisation, and the number of EUROSAI members since its establishment in 1990 has grown from 30 to 49 institutions.

Similarly to INTOSAI, EUROSAI every three years also organises a congress, as well as regularly arranges work group meetings, training sessions and seminars. In June, 2008 EUROSAI VII congress took place in Krakow, Poland, where Latvia was represented by the Auditor General and a member of the Council of the State Audit Office. Agenda of the congress included three thematic sessions, review of reports of organisation's working groups and committees with respect to the accomplished for the period since previous congress in 2005, approval of working plans for three coming years, as well as many administrative issues.

Thematic sessions of the congress were on introduction of quality management system at supreme audit institutions and audits of social programmes in the field of education and professional integration of disabled. Member States had prepared information regarding their experience, and during the first thematic session the Auditor General introduced participants of the congress with the Quality Management System implemented at the State Audit Office.

In 2008 the State Audit Office representatives actively participated in EUROSAI Working Groups on taxes, to provide their contribution in preparation of Working Groups reports

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for EUROSAT congress. Common report and presentation on parallel audits regarding administration of reduced value added tax rate (allowances) and administration of enterprise income tax relief was harmonised at the meeting of the Coordinated Audit on Tax Subsidies Working Group. Within the framework of Working Group on Performance of Tax Administrations the State Audit Office participated in development of questionnaire, in order to make the comparison on expenditure of tax administration institutions of various countries and performance results according to such indicators as efficiency, quality of service, compliance of taxes and costs.

The State Audit Office representatives also participated in the meetings and the seminar of EUROSAT IT Working Group and IT Audit Self-assessment Sub-group. The experience gained there will be applied to structuring the work of Information System Auditors at the State Audit Office, developing standard audit programmes for evaluation of IT controls at audited entities.

In 2008 the State Audit Office representatives continued their work at EUROSAT Working Group on Environmental Auditing together with supreme audit institutions of Denmark, Estonia, Finland, Germany, Lithuania, Poland, Russia and Sweden conducting parallel audit on fisheries management and the environmental impact monitoring of fish stock in the Baltic Sea, and preparing common audit report.

Cooperation with the European Court of Auditors

The European Court of Auditors (hereinafter – ECA) is a supreme external audit institution of the European Union. Work purpose of the ECA is to improve management of the European Union finances, in order to provide optimal use of the European Union resources considering public interests.

ECA examines whether financial transactions are properly recorded, legally and regularly executed and managed so as to ensure economy, efficiency and effectiveness. ECA provides information on the results of its activity by regularly publishing statements, reports and opinions.

In November, 2008 I.Ludboržs, ECA's representative from Latvia came on official visit to Latvia and presented at the State Audit Office ECA's annual report on implementation of European Union budget in the previous financial year, as well as provided information on current issues of European Union financial administration.

In 2008 the auditors of the State Audit Office participated in two thematic audit visits of ECA to Latvia:

- In the audit regarding implementation of general European Union budget for 2007 and preparation of declaration of assurance. Implementation of Cohesion Fund project "Construction of Saulkrasti Bypass and improvement of *Via Baltica* Route on State Main Road A1" was examined during the audit;
- In performance audit regarding health promotion projects that are financed from European Union Public Health Programme 2003-2008.

After the visits preliminary ECA findings were received, and the State Audit Office provided rendering of comments and replies by Latvian institutions involved with visits to ECA for preparation of final report.

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Cooperation with the Supreme Audit Institutions of the European Union Member States

Cooperation with the supreme audit institutions of the European Union Member States generally takes place within the framework of the European Union Contact Committee and working groups established by the Committee. Contact Committee is an autonomous and independent assembly of leaders of the supreme audit institutions of the European Union Member States and the European Court of Auditors. Its goal is to strengthen financial management and sound administration of the European Union.

The meetings of the European Union Contact Committee take place once a year. The Liaison Officers, who meet twice a year, perform preparation of topics for the Committee meeting. Annual meeting of European Union Contact Committee took place in Luxemburg in December, 2008. The agenda included discussions on European Union budget reform and implementation of Lisbon Strategy.

In 2008 the State Audit Office representatives continued working in four working groups out of eight, established by the European Union Contact Committee:

- Within the framework of Core Group of Working Group on Structural Funds III the State Audit Office representatives participated in development of common audit report of coordinated parallel audit "Assessment of Efficiency of Environmental and Employment Programmes Supported by Structural Funds", assessing reports developed by other countries and preparing one section of the common report. Within the framework of the parallel audit auditors of the State Audit Office conducted legality audit "Compliance of Planning, Monitoring and Provision of Cost Effectiveness for Environmental Projects, Co-financed by European Regional Development Fund, with the Requirements of EU Funds Planning Documents and Regulatory Enactments" and post-control audit, to gain reasonable assurance on elimination of deficiencies, identified during the legality audit "Compliance of Planning, Monitoring and Provision of Cost Effectiveness for Projects, Co-financed by European Union (EU), with the Requirements of EU Funds Planning Documents and Regulatory Enactments", developing regulatory enactments for EU Structural Funds 2007-2013 planning period. Assessing proposals on further topics of parallel audits at the meeting of the Core Group of the Working Group, the proposal submitted by the State Audit Office was supported regarding costs of controls, including use of EU Funds Technical Assistance for ensuring controls.
- Within the framework of the Working Group on National SAI Reports on EU Financial Management the State Audit Office representatives participated in development of questionnaire, in accordance to which supreme audit institutions provide information on conducted audits.
- The State Audit Office participated in the meetings of the Working Group on Activities on Value Added Tax, in order to gain international experience on measures for combating value added tax fraud. The State Audit Office representatives within the framework of the Working Sub-group on assessment of anti-fraud strategy also participated in development of questionnaire and summarising results on how the anti-fraud strategy developed on European Union level is observed by Member States. The State Audit Office applies acquired experience, determining possible audit topics and conducting audits on the State budget revenue.

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- The State Audit Office participated in the meetings of the Working Group on Common Audit Standards, in order to learn about experience in the field of performance audits of supreme audit institutions of other countries, as well as about the audit approach and methodology of the European Court of Auditors. The State Audit Office applies acquired experience, assessing performance issues in legality audits.

Cooperation with the Supreme Audit Institutions of the Baltic States and Nordic States

The annual meeting of the Supreme Audit Institutions of the Baltic and Nordic States was held in Lithuania on September 4-5, 2008. The main goal of the meeting was exchange of information on current events and development trends at supreme audit institutions. Participants from eight countries attended the meeting: Denmark, Estonia, Latvia, Lithuania, Norway, Poland, Finland and Sweden. Participants of the meeting shared their experience regarding measures on facilitation of audit quality control, criteria and possibilities of assessing performance of a supreme audit institution, as well as discussed impact of performance budgeting on audit approach of annual accounts. As usual, within the framework of the annual meeting representatives of supreme audit institutions presented most important conducted audits and discussed improvements in the work of each institution since previous meeting in Estonia, in 2007.

Within the framework of bilateral cooperation delegation lead by Auditor General of the National Audit Office of Lithuania visited the State Audit Office in June, 2008, in order to discuss different roles of supreme audit institutions for improvement of public sector administration. During the visit representatives of the National Audit Office of Lithuania met Speaker of the *Saeima* and visited the Public Expenditure and Audit Committee of the *Saeima*, where most important activities of the National Audit Office of Lithuania and the State Audit Office of the Republic of Latvia were presented.

Cooperation with the Supreme Audit Institutions of Other Countries

In 2008 along with welcoming colleagues from other countries the State Audit Office conducted a parallel audit.

The State Audit Office, in cooperation with the Accounts Chamber of the Russian Federation, conducted the legality audit on activities of State institutions, providing movement of goods and other items at Latvia – Russia border control points. In conclusion of the audit in December, 2008 delegation lead by the Chairman of the Accounts Chamber of the Russian Federation visited the State Audit Office, in order to discuss the results of the post-control audit and to inform the President, the Prime Minister, the *Saeima* and the public about the results.

Within the framework of bilateral cooperation the supreme audit institutions of Germany and the Czech Republic visited the State Audit Office:

- In April, 2008 representatives of the supreme audit institution of Germany visited the State Audit Office to discuss the cooperation possibilities of both countries;
- In June, 2008 delegation lead by Auditor General of Czech Republic visited the State Audit Office, to learn about objectives and activity of the State Audit Office, introduced Quality Management System and audit quality control, personnel management policy and cooperation with *Saeima*.

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Cooperation with Other Foreign Institutions

Not only external auditors from other countries, but also other foreign public sector institutions take interest in the work of the State Audit Office, which indicates the important role of the State Audit Office in strengthening public sector financial management:

- In January, 2008 representatives of the Ministry of Finance of Vietnam visited the State Audit Office. The goal of their visit was to learn about legal basis of the work of the State Audit Office, audit process and methodology, as well as about publishing audit results and accessibility thereof;
- In June, 2008 representatives of Tajikistan President Administration and several ministries visited the State Audit Office. During the meeting the delegation was introduced the mandate, work organisation and activity strategic planning of the State Audit Office, as well as the audit process, audit results and monitoring of recommendation implementation, external communication and cooperation of the State Audit Office;
- In September, 2008 representative of the Ministry of Economics of Armenia visited the State Audit Office to learn about the experience of the State Audit Office with regard to implementation of European Union Twinning projects. In turn, with the same purpose delegation representing the Ministry of Finance and the Ministry of Economic Development of Azerbaijan and other institutions visited the State Audit Office in November, 2008.

During the year of account the Auditor General met several ambassadors accredited at the Republic of Latvia.

- **communication and cooperation with the public and other institutions was improved**

Visits of the Auditor General in 2008

In the year of account the Auditor General has participated in several visits abroad:

- January, 2008. Auditor General Inguna Sudraba participated in the forum "Management Modernisation Perspective" in Berlin, Germany;
- April, 2008. Auditor General Inguna Sudraba participated in the seminar "Management of State Supreme Audit Institution" in Berlin, Germany;
- May, 2008. Auditor General Inguna Sudraba participated in the meeting of INTOSAI Working Group on Key National Indicators in Moscow, Russian Federation;
- June, 2008. Auditor General Inguna Sudraba participated in EUROSAI VII Congress in Krakow, Poland;
- December, 2008. Auditor General Inguna Sudraba participated in meeting of Contact Committee of European Union Supreme Audit Institutions in Luxemburg.

Press Conferences

In 2008 the State Audit Office organised two press conferences, informing the public on the activities of the State Audit Office:

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- On March 19, 2008 the State Audit Office organised a press conference, during which Auditor General I.Sudraba informed about the findings of the audit „Implementation of Vocational Education System in Compliance with Set Objectives”. Director General of Employers’ Confederation of Latvia E.Egle also took part in the press conference;
- On December 22, 2008 the State Audit Office organised a press conference, during which Auditor General I.Sudraba and Chairman of the Accounts Chamber of the Russian Federation S.Stepashin informed on the implementation process of recommendations, rendered within the framework of the parallel audit “Activity of State Institutions, Providing Movement of Goods and Other Items at Latvia - Russia Border Control Points” of 2007.

Publication in the Press

In 2008 there were more than 210 publications in the central and regional press on the results of the State Audit Office audits that were made public in 2008.

The most important interviews that appeared in press in 2008:

- “Inguna Sudraba: “One shall handle taxpayers' money as his or her own”. Interview with Inguna Sudraba in the newspaper “Rīgas Balss” of 3 January;
- “Our goal - Latvian Television put to order”. Interview with Inguna Sudraba regarding conclusions of the State Audit Office and position of Latvian Television after the audit “Prevention of Deficiencies Disclosed During the Legality Audit „State Non-Profit Limited Liability Company “Latvian Television” Compliance of Economic Activity in 2005 with the Requirements of Regulatory Enactments” and Subsequent Performance of Economic Activities in Accordance with the Requirements of Regulatory Enactments” in the newspaper “Diena” of 26 February 2008;
- “Reports of the State Audit Office become criminal cases”. On disclosed violations, initiated criminal proceedings and departmental inspections after the audits conducted by the State Audit Office in 2007, in the newspaper “Neatkarīgā Rīta Avīze Latvijai” of 4 March 2008;
- “Sudraba: we do not position ourselves against authority”. Interview with Auditor General on everyday work of the State Audit Office, and the audit at the Ministry of Transport in the newspaper “Neatkarīgā Rīta Avīze Latvijai”, of 9 April 2008;
- - “The banks could not afford acting in such way”. Interview with Auditor General on yearly audits of the State Audit Office at the State administration institutions in the newspaper “Diena”, of 13 May 2008;
- “I am confident that the estimate of “The Castle of Light” is too luxuriant”. Interview with Inguna Sudraba regarding the financial audit at the Agency “Jaunie Trīs brāļi” and the work of the State Audit Office in the newspaper “Телераф” of 15 May 2008;
- “I.Sudraba has not been invited to see the Prime Minister. But would like to meet him”. Interview regarding recommendations for development of the State budget and regarding the audit at the State Revenue Service in the newspaper “Latvijas Avīze” of 15 September 2008;
- “Negligence at the cost of half a billion lats”. Interview with Inguna Sudraba in the newspaper “Бизнес и Балтия” of 16 October 2008;

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- "The State Audit Office - chief public accountant". Interview with Inguna Sudraba in the newspaper "Час" of 21 October 2008;
- "The Economy is destroyed by specific group interests". Interview with I.Sudraba in the newspaper "Телерпаф" of 21 December 2008;
- "Errors worth half a billion". On the findings upon completions of the audits regarding financial statements for 2007 at the ministries and central State institutions, on the problem of unaccounted State property, in the newspaper "Latvijas Avīze" of 29 December 2008.

Appearance of the Auditor General on the Television and Radio

In 2008 the Auditor General made several appearances on Latvian Television and the radio. I.Sudraba has participated in TV news broadcasts ("900 sekundes", "LNT ziņas", LTV 1, LTV 7, TV 3, in several media broadcasts in Russian language), as well as analytical TV and radio broadcasts ("Kas notiek Latvijā?", "Valsts pirmās personas" etc.). Main topics of the appearances were related to results of the audits conducted by the State Audit Office, as well as social and economical processes in our country.

Participation of the Auditor General in Conferences and Discussions

In the year of account Auditor General participated in different conferences and discussions:

- January 14, 2008. Auditor General organised a discussion, where cooperation partners of the State Audit Office took part, representing professional associations of various areas and public organisations;
- May 7, 2008. Auditor General participated in the conference of Latvian Association of Education Managers;
- August 21, 2008. Auditor General participated in the Summer Conference of Latvian Association of Sworn Auditors;
- October 10, 2008. Auditor General participated in Latvia 2030 Forum regarding Latvia's sustainable development strategy.

The Most Important Meetings of the Auditor General with State Officials of the Republic of Latvia

In 2007 Auditor General I.Sudraba has met a number of times with the State and local government officials of various levels (the President of the Republic of Latvia V.Zatlers, the Prime Minister I.Godmanis, sector ministers and other officials), in order to discuss the results of the audits conducted by the State Audit Office.

Other Events

August 16, 2008 marks 85 years since the foundation of the State Audit Office of the Republic of Latvia. The foundation date is considered to be August 16, 1923, when the State Audit Office Law came into force. The Law clearly stipulated the status of the new audit institution and guidelines for taking decisions: independence and collegiality. These principles are still kept in the State Audit Office Law, presently in force. Independence and collegiality in the decision making process are still major cornerstones of successful operation of the State Audit Office.

A formal ceremony took place on August 29, 2008, celebrating 85th anniversary of the State Audit Office. During the ceremony Auditor General I.Sudraba evaluated the

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accomplished of the State Audit Office in the past years and specified key objectives to be achieved in the future. President of the Republic of Latvia V.Zatlers, Speaker of the *Saeima* G.Daudze, Prosecutor General J.Maizītis and Chairman of the Public Expenditure and Audit Committee of the *Saeima* A.Bērziņš participated in the formal ceremony.

Cooperation with the Public Expenditure and Audit Committee of the *Saeima* and the Cabinet

The State Audit Office informs the Public Expenditure and Audit Committee of the *Saeima* and the Cabinet about the most important audit reports and violations disclosed during the audits.

In 2008 Auditor General and other responsible employees of the State Audit Office have, participated in meetings of the Public Expenditure and Audit Committee of the *Saeima*, where 28 audit reports conducted in the year of account were reviewed and disclosed violations were discussed, as well as jointly with ministries and other State central institutions the course of implementation of audit recommendations, rendered by the State Audit Office to the audited entities, was reviewed.

The State Audit Office has provided information to the Public Expenditure and Audit Committee of the *Saeima* on the Annual Report of the Republic of Latvia for 2007 regarding the implementation of the State budget and regarding the budgets of local governments; on the audit regarding the National Museum holdings; on the audit results regarding administration of enterprise income tax relief and administration of reduced rates (allowances) of value added tax; on the audit regarding vocational education system; on recommendations implementation of already conducted audit regarding activities of State institutions, providing movement of goods and other items at Latvia – Russia border control points; on allocation of service pensions and allowances to employees within the Ministry of Interior system; on development, operation and maintenance of Court Information System; on activity of the Ministry of Welfare, ensuring recovery of the State budget expenses for rehabilitation of victims of road traffic accidents, delivery of technical aids and disbursement of pensions; on granting and calculation of unemployment benefit; on availability of emergency medical assistance; on results of the audit at Riga District Baloži City Municipality, the State Agency “Housing Agency” and other audits. The State Audit Office also informed respective Commissions of the *Saeima* on results of particular audits, for example, regarding the audits in the field of healthcare and welfare – the *Saeima* Social and Employment Matters Commission.

After submitting the audit reports the Public Expenditure and Audit Committee of the *Saeima* assigned the ministries and other central State institutions to report on implementation of rendered recommendations.

The State Audit Office has informed the Public Expenditure and Audit Committee of the *Saeima* about audit areas of the next year and novelties in the audit work.

The State Audit Office has informed also the Cabinet and the President about the most important audit reports.

- **international project was implemented at the State Audit Office**

At the end of 2008 the Twinning Project “Protection of the European Union and State Budget Funds”, which lasted 18 months and was financed by Transition Facility

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Programme, was completed. The project was implemented by the State Audit Office in cooperation with the National Audit Office of United Kingdom.

The overall goal of the project, which commenced in May, 2007, was strengthening of the State Audit Office ability to prepare quality information for the *Saeima* and the public regarding utilisation of the State budget and European Union funds. To achieve the goal two basic objectives were put forward:

- To develop and introduce Quality Management System at the State Audit Office;
- To improve specific skills of audit personnel related to conducting of financial and performance audits and auditing European Union funds.

During the course of the project Quality Management System was introduced at the State Audit Office – process descriptions were developed, Quality Management Guidelines were developed, as well as audit quality control was improved. With the help of project experts training process at the State Audit Office was improved, developing training programmes for employees of various levels, and training the teaching staff of the State Audit Office. Employees have improved their knowledge on determining of risks in the audited areas, on choosing an audit approach when auditing utilisation of European Union funds, and the audit approach to audits of the annual report regarding implementation of the State budget and the budgets of local governments, was also improved. In 2008 several expert visits took place, in order to render consultations on assessment of performance issues in four legality audits and preparation of the audit report.

4. Results of the State Audit Office Audits

4.1. Legality Audits

In 2008 the State Audit Office auditors completed 32 legality audits. Within the framework of these audits the auditors, in accordance with priorities set by the State Audit Office, examined quality and accessibility of services rendered by the State and local governments; achievement of objectives put forward in sector policy planning documents; State and local government revenue administration and accounting; as well as lawful and efficient action of the State and local government institutions with the State and local government financial resources and property.

With reference to economic situation in the country the auditors of the State Audit Office paid special attention to efficient administration of the State and local government financial resources. Several audits, performed by the State Audits Office in the year of account, have awoken substantial public interest, as the audit topics apply to interests of various population groups, and disclosed deficiencies indicated inability of particular institutions to achieve objectives put forward for a sector and rationally utilise the granted resources. This also indicates that sufficient actions were not conducted to recover the State budget funds.

The audits of the State Audit Office have included such important areas as State and local government revenue administration and accounting, quality and accessibility of services regarding social and health protection, and education, areas that are of high importance to residents of the country. Audits were conducted both at State financed institutions, and at local governments, paying special attention to assessment of lawful and efficient action with the State and local government financial resources and property, and compliance thereof with the State and local government policy objectives.

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In the period of account the State Audit Office has also performed repeated inspections on implementation of recommendations rendered within the framework of previously conducted audits.

Further insight into specific audits in the abovementioned fields is provided.

State and local government revenue

The audit “On Administration of Reduced Rates of Value Added Tax” and the audit “On Administration of Enterprise Income Tax Relief”

The objective of the audit – to gain assurance on compliance of tax relief introduced in Latvia with regulatory enactments of the European Union, on ensured benefit to the public, and on activities of institutions administrating tax relief, in order to provide complete, timely and genuine accounting, analysis and indicating in reports of reduced rate of value added tax (hereinafter – VAT) and enterprise income tax (hereinafter – EIT) relief.

The audit was conducted within the framework of coordinated parallel audits of EUROSAL, the scope of the audit and audited issues are adapted to the objectives and audited issues of the parallel audit.

Discrepancies were disclosed in the activity of the Ministry of Finance, providing development and implementation of tax policy, and in the activity of the State Revenue Service, providing administration of EIT relief and administration of reduced VAT rate.

It was disclosed in the audit that the Ministry of Finance, introducing reduced VAT rate and EIT relief, has not assessed nor the public benefit, nor the anticipated economical or social gain. Due to discrepancies in the regulatory enactments the Ministry of Finance does not aggregate and submit to the Cabinet information on the amount of EIT and VAT possibly forgone the State budget, thus there is a risk that the Cabinet does not receive comprehensive information regarding the State budget revenue.

The State Audit Office has disclosed discrepancies of the law of the Republic of Latvia *On Value Added Tax* with Council Directive 77/388/EEC, as taxpayers in Latvia are granted rights to apply reduced VAT rates to a broader range of goods than the Council Directive allows.

The law *On Value Added Tax* stipulates that reduced VAT rate shall be applied to medicinal products in accordance with a list approved by the Cabinet. As the list of medicinal products has not been submitted to the Cabinet for approval, and any other external regulatory enactment has not been adopted with regard to this, 5% VAT rate is not applied to medicinal products in accordance with the procedures specified by the law *On Value Added Tax*.

The State Revenue Service and institutions, indirectly involved with administration of VAT and EIT do not have sufficient cooperation and information exchange. Therefore the auditors did not obtain assurance that the State Revenue Service is able to provide sufficient control of justified application of reduced VAT rate and ensure EIT administration.

The State Revenue Service does not provide sufficient control over compliance of VAT 12% compensation recipients with the requirements specified by the law *On Value Added Tax*, thus there is a risk that compensations may be received by persons, who are not granted such rights.

The audit “Compliance of Natural Resources Tax Administration with the Requirements of Regulatory Enactments”

The objective of the audit – to gain reasonable assurance that operation of the State institutions, ensuring administration of natural resources tax, complies with the requirements of regulatory enactments.

The audit was conducted at the Ministry of the Environment and institutions subordinate thereto, the State Revenue Service, and several local governments, examining issues in the competence of State institutions and local governments.

It was disclosed in the audit that the Ministry of the Environment does not ensure traceable and justified natural resource tax exemption granting process, as well as equal approach to all companies, which apply for tax exemptions, thus there is risk of corruption.

Although the State Environmental Service has entered into agreement with the State Revenue Service on exchange of information in the field of natural resources tax administration, the State Revenue Service lacks timely and complete information on natural resource taxpayers, thus the State Revenue Service cannot ensure qualitative and timely control in the field of natural resources tax collection. The State Environmental Service also lacks the information on natural resources tax revenue in preceding periods, therefore the State Environmental Service is not able to accordingly implement its functions regarding control over payment of natural resources tax, and timely plan the inspections.

Natural Resources Tax Law specifies that special environmental protection budget resources of local government shall only be used for the financing of such measures and projects which are related to environmental protection, however information received from 426 local governments indicates that revenue from natural resources tax was actually utilised for organisation of utilities services of local governments – cleaning of streets and roads, waste management, establishment and maintenance of sewage systems, as well as that local governments use the natural resources tax revenue for making natural resources tax payments calculated for the local government regarding environmental pollution or extraction of natural resources.

The audit “Administration of State Duties, Related to Activities at Court Institutions, that are Payable to the State Basic Budget”

The objective of the audit – to gain assurance that administration of State duties, related to activities at court institutions, that are payable to the State basic budget complies with the requirements of regulatory enactments.

It was disclosed in the audit that supervision and control system over State duties that are payable to the State basic budget, established by the Ministry of Justice, does not ensure complete and timely transfer of State duties to the State basic budget.

Data, included in the court information system, regarding the paid State duties is incomplete; also the examination of payment documents submitted to court authorities does not always ensure identification of errors.

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The Ministry of Justice has not established internal control system for identification of the State duties transferred by mistake. Regular transfer to the State basic budget of State duties that are identified as transferred to the accounts of Ministry by mistake is not ensured

Social protection and health protection

The audit “Compliance of Granting and Calculation of Unemployment Benefits with the Requirements of Regulatory Enactments”

The objective of the audit – to gain assurance that action of the Ministry of Welfare and the State Employment Agency ensures compliance of granting and calculation of unemployment benefits with the requirements of regulatory enactments.

It was disclosed in the audit that deficiencies of regulatory enactments in welfare sphere have facilitated inefficient and unjustified utilisation of the State budget funds.

The Ministry of Welfare, developing the State social insurance policy and elaborating regulatory enactments, insufficiently supervises and assesses application of these regulatory enactments, thus in the audited period allowing inefficient and inexpedient utilisation of the State budget funds in the amount of LVL 4.6 million. After conducting the audit the State Audit Office has recommended the Ministry of Welfare to introduce amendments to the law *On State Social Insurance*, the law *On Maternity and Sickness Insurance* and to the law *On Unemployment Insurance*.

The State Audit Office disclosed that utilisation of the State budget funds in the amount of LVL 3.7 million for mandatory payments of State social insurance for employed persons, simultaneously receiving a child care benefit, does not comply with the objective of the law *On State Social Insurance*, developed by the Ministry itself, namely – to provide length of period of insurance for a person, when he or she is unemployed due to taking care of a child.

Norms of the law *On Maternity and Sickness Insurance*, developed by the Ministry of Welfare, are in contradiction with the principles of the State social insurance, as they allow for a person to simultaneously receive both unemployment benefits and sickness benefit. Thus the State budget funds in the amount of LVL 0.9 million were utilised inefficiently and not in accordance with objectives of the State social insurance, providing material compensation not only in the amount of lost income, but ensuring additional income in the form of sickness benefit.

It was disclosed in the audit that the State Social Insurance Agency has not accurately calculated unemployment benefits to persons, who within the time period of year had repeatedly requested unemployment benefits, thus to 24 persons, included in the audit sampling, the Agency had paid by LVL 5 182 higher unemployment benefits than specified in the law *On Unemployment Insurance*.

The audit has also disclosed that the State Employment Agency, subordinated to the Ministry of Welfare, granting the unemployed person status, has not verified compliance of a person with the criteria for granting unemployed person status specified in the law *Support for Unemployed Persons and Persons Seeking Employment*, thus the State Social Insurance Agency has disbursed unemployment benefits also to persons, who do not have the right to acquire unemployed person status and respectively to receive unemployment benefits.

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The audit “Activity of the Institutions Subordinated to the Ministry of Welfare in Ensuring Recovery of the State Budget Expenses for Social and Professional Rehabilitation of a Victim in a Road Traffic Accident, Delivery of Technical Aids and Disbursement of Pensions and Benefits”

The objective of the audit – to gain assurance that the activity of the institutions subordinated to the Ministry of Welfare ensures recovery of the State budget resources for social and professional rehabilitation of a victim in a road traffic accident, delivery of technical aids and disbursement of pensions and benefits.

It was recognised during the audit that the State Social Insurance Agency has not performed activities to recover the State budget resources in the amount of LVL 2.6 million for 3562 victims in road traffic accidents, which have had benefits and pensions granted as a result of injuries suffered during road traffic accidents.

During the audit the State Audit Office disclosed that the system developed within the State and the activity by the Ministry of Welfare regarding recovery of the State budget resources from the insurer, which have been utilised on pensions and benefits of victims in a road traffic accident, social and professional rehabilitation and delivery of technical aids, are inefficient and deficient.

It was disclosed during the audit that the institutions subordinated to the Ministry of Welfare, which are responsible for such matters – the State Social Insurance Agency, the State Agency “Centre of Technical Aids” and the State Agency for Social Integration – do not ensure implementation of the Cabinet Regulation regarding recovery of the State budget resources.

The internal regulatory enactment developed by the State Social Insurance Agency stipulating procedures for recovery of the State budget resources is deficient and does not ensure compliance with the requirements of external regulatory enactments, whereas the State Agency “Centre of Technical Aids” has not even developed internal regulatory enactment stipulating procedures for recovery of the State budget resources.

The State Agency “Centre of Technical Aids” has not performed activities to recover the State budget resources in the amount of LVL 34.6 thousands for 212 victims in road traffic accidents, which have had technical aids delivered as a result of injuries suffered during road traffic accidents.

The State Agency for Social Integration, in turn, has not performed activities to recover the State budget resources in the amount of LVL 1178 for three victims in road traffic accidents, which had had professional rehabilitation services rendered as a result of injuries suffered during road traffic accidents.

It was also disclosed during the audit that the same function - accounting of victims in a road traffic accident and recipients of social rehabilitation services – is performed by both the Social Service Board and the State Agency for Social Integration, thus financial resources are spent inexpediently on administrating recovery process of the State budget resources.

The audit “Compliance of Remuneration System at Stationary Medical Treatment Institutions with the Requirements of Regulatory Enactments”

The objective of the audit was to verify the compliance of position qualification level and

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determination, calculation, payment and accounting of work remuneration for employees of stationary institutions – medical practitioners –with legal enactments in force.

Non-compliance of remuneration system with requirements of regulatory enactments was disclosed during the audit examining nine hospitals in Latvia.

Monthly salary of several medical practitioners included in the audit sampling constituted only 29% of total work remuneration in 2006, in turn, during four months of 2007 it constituted 30% of work remuneration. The rest of work remuneration consisted of different supplements, including supplements, which are not specified by external regulatory enactments.

While examining monthly salary determination, it was disclosed that two hospitals have not determined position qualification categories for medical practitioners and have not determined monthly salaries adequate to position qualification categories. In two hospitals several medical practitioners' position groups were determined a lower monthly salary than specified by external regulatory enactment.

During the examination of supplement determination system, it was disclosed that supplements for overtime work have not been determined in accordance with *Labour Law* at six hospitals. These hospitals paid for overtime work only in the amount of medical practitioner's monthly salary rate for basic work load.

Supplements for length of service were determined without observing requirements of the external regulatory enactment in three hospitals, another three hospitals have neither determined or paid the aforementioned supplements.

Overtime working hours exceeded the number of overtime hours specified by *Labour Law* in three hospitals. For example, overtime work of one medical practitioner out of the audit sampling exceeded regular working time by 734 hours within a four-month period, which surpasses the limit specified by *Labour Law* by 590 hours. Such medical practitioner's work load potentially hinders provision of quality health care services rendering.

Several occasions were disclosed, when total number of hours worked by medical practitioners indicated in the accounts of working time at several work places exceeds 24 hours a day. In accordance with concluded work/enterprise contracts, medical practitioners at some of the audited hospitals have been employed even by nine employers simultaneously.

The audit "Availability of Emergency Medical Assistance and Compliance of Provision Thereof with the Requirements of Regulatory Enactments"

The objective of the audit was to examine availability of emergency medical assistance and compliance of provision thereof with the requirements of regulatory enactments in force.

Deficiencies were disclosed in provision of emergency medical assistance.

The Ministry of Health has not assessed and eliminated discrepancies of policy planning documents and deficiencies of regulatory enactments in the field of emergency medical assistance. Thus, for example, although the policy planning document specifies that single emergency medical assistance service shall be established by merging the Centre of Emergency and Disaster Medicine with emergency medical assistance structures that

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existed under ownership of local governments, the Ministry plans to establish new direct administration institution.

It was recognised that the functions and objectives in the field of emergency medical assistance of existing Centre of Emergency and Disaster Medicine and of Emergency Medical Assistance Service, which shall be established – overlap.

In specific administrative territories medical treatment institutions' teams of an emergency medical assistance are not situated in such a way, to ensure timely rendering of emergency medical assistance in compliance with the requirements of regulatory enactments.

Regulatory enactments do not provide detailed description of calls that shall be considered as ungrounded, therefore callers for emergency medical assistance have difficulties evaluating their state of health and determining the necessity of a justified call for emergency medical assistance. The requirement of regulatory enactments that the responsible on-duty medical practitioner shall reject ungrounded calls, in practice does not work, as it is not always possible to determine on the phone whether a call may be ungrounded.

Likewise the audit disclosed that regulatory enactments do not specify rights and obligations of a patient and personnel of an emergency medical assistance teams on occasions, when dispute arise regarding justification of emergency medical assistance call, and when a patient refuses to pay for an ungrounded call.

Although the *Procedures for the Organisation and Financing of Health Care* specify that an ungrounded call shall be considered as paid service, which shall be rendered according to a price list of a medical treatment institution, the collection process thereof is inefficient, and has facilitated the fact that 61% of calls, which in the execution moment do not represent a condition that is critical to person's life and health, are not paid.

Within the framework of the audit it was also recognised that emergency medical assistance calls received at medical treatment institutions are registered differently, thus the data provided by medical treatment institutions is inaccurate, and therefore it is not possible to assess whether arrival time for calls, when a condition is critical to person's life and health, is ensured in accordance with the requirements of the regulatory enactments.

The audit “Compliance of Allocation and Disbursement of Service Pensions and Allowances to Employees with Special Service Ranks within the Ministry of the Interior System with the Requirements of the Regulatory Enactments”

The objective of the audit was to gain assurance on whether a system has been developed and implemented at the Ministry of the Interior and the State Agency of Health and Social Affairs, which ensures calculation, allocation and disbursement of service pensions and allowances to employees with special service ranks within the Ministry of the Interior system in accordance with the requirements of the regulatory enactments.

It was disclosed during the audit that the Ministry of the Interior and institution under supervision thereof – the State Agency of Health and Social Affairs – have not developed sufficient control and supervision system, which would ensure accurate

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calculation, allocation and disbursement of service pensions to the employees with special service ranks within the Ministry of the Interior system.

The Ministry of the Interior has not developed internal regulatory enactment, which would stipulate procedures for calculating average earnings, based on which service pensions are allocated, therefore statements prepared by its subordinate institutions were incorrect: 17 out of 19 statements verified were erroneous.

By comparing databases of the State Agency of Health and Social Affairs and the Population Register during the audited time period, during the audit the State Audit Office disclosed that service pensions were disbursed to 28 deceased persons even during the month following their death. Overpayment for one month took place on twenty five occasions disclosed during the audit, on three occasions the State Agency of Health and Social Affairs disbursed pensions even six, 12 and 13 months after the death of the service pension recipient.

It was also disclosed during the audit that the management agreement stipulated by the regulatory enactment and entered into by the Minister for the Interior and the director of the State Agency of Health and Social Affairs for 2008 was concluded only on August 28, 2008. Therefore up until this point the State Agency of Health and Social Affairs had been operating without management agreement, which stipulates objectives to achieve and procedures for material stimulation. However, bonuses for work results during the first half of 2008 were disbursed in total amount of LVL 8827.

The agreement did not contain funding and attainable quantitative indicators, which are related to disbursement of the pensions and allowances from the Special Budget resources of the Ministry of Welfare, which amounted to LVL 6.9 million in 2008. Therefore the State Agency of Health and Social Affairs had performed disbursement of the service pensions from the Special Budget resources of the Ministry of Welfare without appropriate authorisation.

The audit “Provision of Assistance in Solving Apartment Matters for Inhabitants of Riga City Municipality”

The objective of the audit was to gain assurance that assistance to inhabitants by Riga City Municipality in solving apartment matters is organised and provided in accordance with the requirements of regulatory enactments.

It was disclosed during the audit that Riga City Municipality has permitted a number of violations in provision of assistance to inhabitants in solving apartment matters.

The Riga City Municipality has not indicated a body of documents in binding regulations that a person shall submit for Riga City Municipality to decide on provision of assistance to a person who has made exceptional work contribution for the good of Latvia and the Riga City Municipality. Therefore the Riga City Municipality has not observed the requirements of *State Administration Structure Law* on openness to private persons and the public.

It was also recognised during the audit that persons, who wish and are entitled to receive assistance in the form of renting municipality residential space, are divided into groups and registered in separate registers, thus forming several queues. Therefore information on the actual location of the person in the general queue cannot be obtained.

By taking decisions on offering residential spaces for rent to persons irrespective of their location in the queue, who should be provided with assistance in accordance with the

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general procedures, the Riga City Municipality has not observed the order of priority when offering residential spaces for rent as specified by the law *On Assistance in Solving Apartment Matters*. The Riga City Municipality has also violated the requirements of this law by determining different criteria to groups of registered persons, which have been offered provision of assistance for renting residential space.

When entering into social apartment rent agreements of unlimited duration, the Riga City Municipality has not observed requirements of the law *On Social Apartments and Social Residential Houses*, which specifies that the social apartment rent agreement shall be entered into on a term no longer than six months, and it is renewed if the tenant and his family members have not lost the rights to rent a social apartment after the termination of the agreement.

The Riga City Municipality also had not developed procedures for receiving timely and complete information on unoccupied residential spaces at disposal of the Riga City Municipality, which could be utilised for provision of assistance in solving apartment matters.

Education

The audit “Compliance of Pre-School Education with the Requirements of Regulatory Enactments”

The objective of the audit – to gain assurance that pre-school education system is organised, implemented and managed in compliance with the requirements of regulatory enactments.

It was recognised in the audit that although the Ministry of Education and Science is responsible for elaboration and implementation of unified State policy and development strategy regarding pre-school education, it has not provided organisation and operation of pre-school education system in such manner, in order to achieve the set objectives to planned extent and quality.

The Ministry of Education and Science as leading State administration institution in the field of education does not provide operation of pre-school education system in compliance with the requirements of regulatory enactments. There is a risk that pre-school education objectives are not being implemented – intellectual, physical and social development of trainee and formation of his or her individuality is not achieved, as well as development of initiative, inquisitiveness, independence and creative activity, psychological preparation for the commencement of the acquisition of a basic education and acquisition of the basic skills for using the official language.

Action Plan for implementation of objectives established for pre-school education was not elaborated simultaneously with *Education Development Policy Guidelines 2007-2013*. The Plan was approved only on November 30, 2007 and it does not provide for objective implementation deadlines.

General Education Law stipulates that the State Pre-school Educational Centre is an institution subordinated to the Ministry of Education and Science, which shall develop the content of the pre-school education programme, the models of the pre-school education programme, as well as methodological recommendations regarding pre-school education for educators and parents who are implementing the mandatory preparation of five-year-old and six-year-old children for school. The Ministry of Education and Science has not founded the State Pre-school Educational Centre, as

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well as has not assigned the responsible structural unit or subordinated institution of the Ministry of Education and Science, which shall implement the functions provided for the State Pre-school Educational Centre.

Not observing the requirements of regulatory enactments, the Ministry of Education and Science has not developed the regulatory enactments necessary for implementation of unified State policy and development strategy in pre-school education, which specify the State pre-school education standard, content of pre-school education, pre-school education programme samples and procedures by which pre-school educational programmes and pre-school education establishments are accredited.

Although the regulatory enactment stipulates that the Ministry of Education and Science shall organise the attestation of the professional qualification of educators, the Ministry of Education and Science not perform this function, thus there is a risk that there are educators working at pre-school educational establishment with inadequate professional qualification.

Contrary to the requirements of *Education Law* and *General Education Law* – that work remuneration of educators in State or local government institutions, including the teaching of five-year old and six-year old children, shall be provided from the State budget resources (earmarked subsidies), as at September 1, 2006 only 75% of work remuneration of educators, engaged in the teaching of five-year old and six-year old children, was financed in such way, in turn as at September 1, 2007 – 76%.

Contrary to the Cabinet Regulation *Procedure for Registering the Children Who Have Reached the Age of Compulsory Schooling* in 2007 the Ministry of Education and Science has not provided information to local government educational boards on children, who have reached the age of compulsory schooling, but who do not attend educational establishments. There is a risk that information is not available on the number of all children, who have reached the specific age, but who do not attend pre-school educational establishments, and that they are not provided the opportunity to get prepared for acquisition of basic education.

The audit “Implementation of Vocational Education System in Compliance with the Set Objectives”

The objective of the audit – is to gain assurance that vocational education system is organised and implemented in accordance with the objectives set in the regulatory enactments, and the strategic objectives of the vocational secondary education programmes and industrial education programmes.

It was disclosed in the audit that the Ministry of Education and Science does not provide operation of vocational education system in compliance with the requirements of regulatory enactments and set objectives.

The planning documents for implementation of vocational education policy that were developed by the Ministry of Education and Science are contradictory, set measures and implementation timeframes are not harmonised, and they do not facilitate achievement of goals established in *Vocational Education Law*.

Although *Vocational Education Law* stipulates that a vocational education programme shall be developed in accordance with the State vocational education standard of the relevant educational level, the Ministry of Education and Science has not developed the standard for several types of vocational education programmes, licensed by the Ministry.

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The Ministry of Education and Science does not perform planning of vocation school long term development, as well as does not supervise implementation of school development plans. The Assessment of number of vocational school graduates – the unemployed, and analysis of these numbers according to vocational education programme groups is not performed as well.

Students of vocational schools and of general education establishments are not provided with equal possibilities to continue their education on higher vocational education level.

The Vocational Education Administration subordinated to the Ministry of Education and Science, during the period from 2004 to 2007 has not approved compliance of any technical aids with the State vocational education standard; therefore there is a risk that technical aids at vocational schools are purchased not in accordance with the requirements of the Cabinet Regulation.

The Ministry of Education and Science does not have updated information regarding the necessary financing for implementation of vocational education programmes group in accordance with the existing situation.

Financing for implementation of vocational education programmes is still being calculated on the basis of scientific research paper *Methodology for Determination Vocational Education System Financing Regulations*, developed in 1997.

The Ministry of Education and Science does not provide all technical aids necessary for implementation of education programmes at vocational schools. Several occasions were disclosed, when written-off technical aids, which are not accounted anymore, are used in student training process.

Students of vocational schools do not have equal conditions for obtaining their vocational education within the framework of single vocational education programme group. Technical aid purchase costs per one student differ even 26 times – in 2005 from LVL 7.05 to LVL 139.88, and in 2006 from LVL 10.02 to LVL 264.58.

Planning of the number of vocational education pedagogic personnel is not ensure in the country, the Ministry of Education and Science does not aggregate information on teacher training needs and does not provide according possibility to attend further education courses.

Financing allocated by the Ministry of Education and Science for improvement of professional skills and organisation of further education courses per one teacher in the period from 2004 to 2006 was approximately LVL 1 per year, which is insufficient for provision of further education for 4875 vocational education teachers.

The State Audit Office has disclosed significant deficiencies regarding control of qualification practice. 52% students of vocational schools, subordinated to the Ministry of Education and Science, have not completed their qualification practice, as well as during the qualification practice perform tasks not related to specifics of their profession.

Action with State and local government budget funds and property

The audit “Compliance of Action with the National Museum Holdings with the Requirements of Regulatory Enactments”

The objective of the audit – to gain assurance that the action of the Ministry of Culture, the State Authority on Museums and the museums with the National museum holdings complies with the requirements of the regulatory enactments.

It was disclosed in the audit that during the last 17 years, none of the competent authorities has performed inspections on activities regarding the National museum holdings, and generally assessing it does not comply with the requirements of regulatory enactments, as well as significant deficiencies were disclosed.

The Ministry of Culture has not observed the Cabinet Regulation *By-law of the Ministry of Culture*, which stipulates that the Ministry shall perform inspections on implementation of functions of institutions subordinated thereto, as well as perform other inspections. The Ministry also does not ensure complete functional supervision of museums, because neither the Internal Audit Division of the Ministry nor other divisions or institutions subordinated thereto perform inspections at the museums on the compliance of the action with the National museum holdings with the regulatory enactments.

There is risk of fraud, loss of museum objects, damage and deterioration of the state of preservation in several museums, because the museums do not observe the requirements of the regulatory enactments regarding accounting of museum holdings, verification of existence, depositing and preservation.

Because the museum holding objects are not accounted for in the financial accounting, the regulatory enactments specify strict provisions regarding the accounting of the museum holdings in the inventory books, as well as regarding drawing up and storage of accounting documentation. However, the audit recognised that such provisions are not observed by several museums.

During the audit 6% of the National museum holding objects included in the scope of the audit were not located.

During the audit occasions were recognised when the museum holding items are deposited (temporarily lent to another museum or institution) without drawing up appropriate documentation. Procedures and criteria for evaluation of the museum holding objects have not been developed, therefore there is risk that the true value of the deposited museum holding object will not be determined, and if the object sustains damage or is lost, the museum will suffer material losses.

The Cabinet Regulation *On National Museum Holdings* does not specify regularity of performing the verification of the museum holdings existence, therefore there is risk that the quantity of museum holdings presented in the inventory books does not correspond with their actual amount, and absence of the museum holding objects is not disclosed in a timely manner.

There is risk of fraud at museums, as during the audit several museum holding objects could not be located, and the Ministry of Culture has not developed, in turn the management of museums has not implemented such control system, which would ensure observance of the regulatory enactments.

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Storage sites in several museums were not adequate for preservation of holdings, the necessary conditions and microclimate for preservation, which would prevent the deterioration of the preservation state of museum objects, were not ensured. Museum holding objects were preserved in the offices of the museum staff, hallways, auxiliary rooms and other inadequate places, instead of storage sites.

Buildings and premises of several museums are not equipped with an alarm system, which guarantees 24-hour security and fire safety. The Ministry of Culture does not ensure sufficient supervision of the State Authority on Museums, as well as does not request the necessary information regarding the current events and problems of the sector.

It was recognised in the audit that control environment in museums is also weak, as the directors of museums rely on the work of the chief curators without inspecting it; other supervision activities are also not performed.

The audit “Compliance of Planning, Monitoring and Provision of Cost Effectiveness for Environmental Projects, Co-financed by European Regional Development Fund, with the Requirements of EU Funds Planning Documents and Regulatory Enactments”

The objective of the audit was to gain assurance on compliance of planning, monitoring and cost effectiveness of environmental projects, co-financed by European Regional Development Fund (hereinafter – ERDF), with the requirements of European Union (hereinafter – EU) Funds planning documents and regulatory enactments.

The audit was conducted within the framework of coordinated parallel audit of the Working Group on Structural Funds III established by Contact Committee of EU Supreme Audit Institutions. The scope of the audit and audited issues are adapted to the objectives and audited issues of the parallel audit

It was recognised in the audit that environmental project planning and monitoring system, established during EU Structural Funds 2004-2006 planning period, does not provide accomplishment of planned goals with lowest possible costs and in shortest possible periods, as well as on some occasions – adequate project selection and their implementation monitoring.

Structural Funds goal achievement indicators, established in policy planning documents, are controversial or are not established at all, thus making it difficult and, on specific occasions even impossible, to assess achievement of results and policy implementation efficiency.

Although the regulatory enactments provide that the Ministry of Finance shall be responsible for development of Structural Funds aid policy planning and implementation documents, but the Ministry of the Environment shall provide drawing up of sections of the respective documents, clear responsibility of institutions, regarding compliance of policy planning and implementation document final versions with the requirements of Structural Funds implementation system, was not established.

During EU Structural Funds 2004-2006 planning period the Ministry of the Environment has developed complicated procedures for planning and implementation of Environmental National Programmes projects, which are applied only partially. For example, there were occasions disclosed, when Structural Funds aid was granted to

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environmental projects, which do not comply neither with the initial requirements established by the Ministry of the Environment, nor the evaluation criteria.

The Ministry of the Environment has not eliminated deficiencies recognised in EU Structural Funds 2004-2006 planning period, developing project evaluation criteria for five EU Structural Funds 2007-2013 planning period activities.

The audit disclosed that although EU Structural Funds financing for 2007-2013 was available already from October 24, 2006, part of policy planning and implementation documents are still in the approval stage and implementation of the projects was not commenced, therefore the auditors of the State Audit Office were unable to render sufficient and complete opinion on compliance of EU Structural Funds 2007-2013 planning period documents.

The audit “Establishment, Operation and Maintenance of Single Court Information System”

The objective of the audit – to gain assurance that establishment, operation and maintenance of Single Court Information System complies with the requirements of regulatory enactments.

It was disclosed in the audit that the Ministry of Justice has not ensured control over *Court Information System* project implementation in the period from 1998 to 2007 and implementation of specific requirements of the contracts entered into.

The audit disclosed that contracts entered into by State Joint Stock Company “Courthouse Agency” on May 16, 2000 and on February 18, 2005, have entitled the commercial company to use data, available in the database and developed using the State budget funds, for commercial aim without approval of the Ministry of Justice.

Judgments of court regarding administrative matters, civil matters and criminal matters, which contained personal data of persons related to legal proceedings, were publicly available during the audited period in the court information data base, developed by the State Joint Stock Company “Courthouse Agency” and the commercial company, thus the requirements of the law *On Judicial Power* and *Personal Data Protection Law* were not observed.

The Ministry of Justice has settled accounts with the supplier for computer equipment delivery and installation in the amount of LVL 368 thousand in December 2006, however the purchased computer equipment in the total value of LVL 217 thousand has not been delivered to the courts of Latvia and installed until October 1, 2007. The Ministry of Justice, acting in such way, has not observed the requirements of the law *On Budget and Financial Management*, and that the Ministry’s action with the State budget funds in the amount of LVL 217 thousand was not economic and efficient, because for the period of nine months the computer equipment was stored at a warehouse of one of suppliers.

In the period from 2002 to 2004 the Ministry of Justice has made orders and payments for development of Court Information System data exchange modules with other State institutions, however, these modules are not applicable in practice, because inter-institutional agreement on data exchange had not been yet reached until the end of 2007. Thus State budget resources in the amount of at least LVL 151 thousand were not utilised efficiently.

Although Court Information System provides processing of State importance information and complies with State Information System status, not observing the requirements of

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the Cabinet Regulation *State Information System Registration Regulations*, it is not registered in the State Information System Register.

The Ministry of Justice The Ministry has not observed the requirements of the Cabinet Regulation *General Security Requirements of State Information Systems*, having not developed Court Information System security policy, security regulations and security risk management plans, therefore Court Information System security was endangered.

The audit “Alienation and Management of State Residential Houses, Undivided Shares Thereof or Apartment Properties in the Possession of the State Agency “Housing Agency” after September 1, 2006”

The objective of the audit – to gain assurance that alienation and management of State residential houses, undivided shares thereof or apartment properties in the possession of the State Agency “Housing Agency” (hereinafter – the Housing Agency) after September 1, 2006 complies with the requirements of regulatory enactments.

It was disclosed in the audit that the Housing Agency does not provide implementation of the entrusted functions.

Although the by-law of the Housing Agency specifies particular functions – to conclude privatisation of the State residential houses and perform transfer of the State residential fund to local governments in accordance with the law *On Privatisation of State and Local Government Residential Houses*, in the period from September 1, 2006 to August 31, 2007 the Housing Agency has not offered local governments to take possession of the State residential houses, as well as has not initiated alienation of vacant apartments in its possession.

During the audited period in the possession of the Housing Agency there were 4090 apartments, whose tenants have refused to privatise them. However the audited period the Housing Agency has not offered local governments to take possession of any of those non-privatised apartments.

Upon receipt of alienation proposals from tenants, the Housing Agency has not timely prepared draft Cabinet orders on apartment alienation or refusal to alienate an apartment.

Until August 31, 2007 in the possession of the Housing Agency there were 18 vacant apartments, which had to be alienated in accordance with the law *On Alienation of State and Local Government Property*; however in the period from September 1, 2006 to August 31, 2007 Director of the Housing Agency has not taken any decision on initiation of vacant apartment alienation.

Cabinet Regulation specifies that the Housing Agency shall have the duty to administer and manage residential houses, which shall be privatised, until the owners of the privatised objects take over administering and management of residential house.

The Housing Agency organises management and administering of the State residential houses in its possession by entering into contracts with natural persons and legal entities. However the Housing Agency has not established the criteria by which managers of residential houses are selected, as well as has not paid sufficient attention to the management quality of the houses in its possession, as the Agency has not provided control over maintenance of the houses, and has not requested information from managers on actual state of the houses.

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The audit “Observance of the Requirements of *Public Procurement Law* and Principle of Efficient Utilisation of State Resources with Regard to Motor Road Renovation and Provision of Activity of the Ministry of Transport”

The objective of the audit – to assess observance of the requirements of *Public Procurement Law* and principle of efficient utilisation of State resources with regard to motor road renovation and provision of activity of the Ministry of Transport.

It was disclosed during the audit that the Ministry of Transport has utilised the State budget resources inefficiently.

Funding allocated for renovation of State motor roads has been constantly increased. Funding for 2007 as compared to 2004 increased by 2.7 times, but the volume of priority utilisation direction of State motor road funding – renovation of black surfacing – has increased only by 2.1 times during this time period. It indicates at substantial increase in contract prices of State motor road renovation works.

Contract prices of State motor road renovation works are influenced by insufficient competition among the construction companies - in 39.6% of all procurements performed during the audited time period for renovation, design and construction supervision, the proposal for tender was submitted by only one applicant.

For procurements of State motor road renovation and maintenance, which were included in the audit sampling, the State Joint Stock Company “Latvian State Roads” (hereinafter – Latvian State Roads) has performed the public procurement in accordance with procedures specified by *Public Procurement Law*. However, under the circumstances of insufficient competition, the application of procedures stated by *Public Procurement Law* does not ensure the attainment of the objective set by the law – efficient utilisation of State resources.

The competition was also affected by dominant market positions of specific construction companies within various motor road maintenance subsectors - during the audited time period agreements on implementation of 84.3% of the total volume have been entered into with 11 capital companies, agreements on implementation of 65.8% of the total volume have been entered into with 5 capital companies whereas 52.4% of all State motor road renovation works were performed by one capital company. Substantial increase in funding for State motor road renovation and concentration of construction works in the competency of few contractors provided an opportunity to make use of the situation by unjustifiably increasing the service price. For example, after a repeated open tender, the applicants were able to offer a price that was by 24% lower than the initial price offered.

Competition in the State motor road maintenance sector has been practically eliminated because during the time period from 2004 to 2006 the Ministry of Transport merged four capital companies and created one company with large market power – the State Joint Stock Company “Latvian Motor Road Maintainer” (hereinafter – Latvian Motor Road Maintainer) – which is the only company performing daily maintenance works of State motor roads.

For the open tender organised in 2007 on maintenance of State motor roads for the next seven years Latvian Motor Road Maintainer was the only company that submitted tender application, with which contracts were entered into for the amount of LVL 328.6 million. The price offered by Latvian Motor Road Maintainer exceeded the anticipated contract price by LVL 45.3 million; however the contract was entered into on the price offered.

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It was disclosed during the audit that Latvian State Roads had not performed planning of contract prices in accordance with the requirements of *Guidelines for Developing State Motor Road Funding Programmes* and had not ensured unified approach to calculating contract prices.

When taking decisions regarding increase in funding on occasions when there is discrepancy between planned contract prices and contract prices offered by the applicants, the Ministry of Transport officials have permitted Latvian State Roads to increase funding for separate motor road renovation procurements in the amount of LVL 5.6 million without respective authorisation.

The Ministry of Transport has not performed inspections at renovation work sites of motor roads, which are financed by the State budget. Therefore, the Ministry of Transport has not ensured implementation of functions entrusted upon it. In addition, the Ministry of Transport did not ensure performance of public procurement in accordance with requirements of regulatory enactments and created a situation when the State budget resource for performance of procurements were utilised inefficiently.

Upon verifying compliance of procurement performance with *Public Procurement Law*, it was disclosed during the audit that on occasions of three procurements for the amount of LVL 110 thousands the Ministry of Transport has violated procedures specified by *Public Procurement Law*, which ensure traceability of decision making.

Upon assessing expediency of procurement performance, as well as utilisation efficiency of State budget resources, the auditors analysed 12 procurements at random in the total value of LVL 242 thousands or 37% of all procurements performed during the audited time period. It was recognised that the Ministry of Transport has utilised: LVL 104 thousands for activities not in line with functions stipulated by the Ministry of Transport regulations; LVL 100 thousands in line with functions, tasks and competencies stated by the Ministry of Transport regulations, but which are to be recognised as too expensive; LVL 3870 to pay for a transaction that did not occur, which indicates at fraud in utilisation of State budget resources.

The audit “Implementation of Prescribed Functions and Tasks of the State Agency „Insolvency Administration””

The objective of the audit was to gain assurance on implementation of prescribed functions and tasks of the State Agency “Insolvency Administration” (hereinafter – Insolvency Administration).

It was recognised during the audit that the Insolvency Administration insufficiently supervises work of administrators and its compliance with the requirements of regulatory enactments.

By analysing several insolvency proceedings it was disclosed that records do not contain copies of substantiating documents, which would certify compliance and credibility of calculations applicable to employee claims of insolvent companies.

It was also disclosed during the audit that out of all employee claims of insolvent companies included in the sample on 91% of occasions administrators were requested to submit more detailed specifications and corrections in total amount of LVL 17 thousands, including sums being decreased by LVL 9797 and increased by LVL 7348.

Law on the Insolvency of Undertakings and Companies specifies that insolvency administrator may be a physical person, qualification of which is affirmed by a certificate.

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Such insolvency proceedings were disclosed during the audit, which were initiated before *Law on the Insolvency of Undertakings and Companies* came into effect and which are administrated by a physical person without the certificate or by a legal person.

Several insolvency proceedings were also recognised during the audit, information on development of which cannot be located at the Insolvency Administration or at the archive of the Ministry of Justice or at the State Archives of Latvia or at the district court, thus developments of these proceedings are not being supervised.

Even though the Administrators' Supervisory Plan stipulates performance of various supervisory verifications regarding administrators' activity, they are performed imperfectly or are not documented due to deficiencies in internal regulatory enactments, thus they cannot be identified and potentially do not even take place.

Procedures for short-term supervisory record keeping of insolvent companies have not been determined at the Insolvency Administration. Such situation has promoted inclusion of deficient and faulty information into the documentation.

The audit "Assessment of Compliance of Revenue from the Economic Activity of JSC "Riga International Airport" with Ensuring the Operations, and Assessment of the Need of State Budget Subsidy for Ensuring Aviation Security, Rescue and Medical Assistance"

The objective of the audit was to assess compliance of revenue from economic activity of JSC "Riga International Airport" (hereinafter – Riga Airport) with ensuring the operations, and the need of State budget subsidy for ensuring aviation security, rescue and medical assistance.

It was disclosed in the audit that profitableness of Riga Airport's economic activity is facilitated using State budget subsidy.

Taking into consideration Riga Airport request, and in accordance with the requirements for protection of commercial secret specified in the *Freedom of Information Law* and *Commercial Law*, the State Audit Office has determined restrictions on access of information for substantial part of the audit report. Restricted access information does not allow disclosing to the public of complete Riga Airport economic activity, but allowed rendering only general notion on the results of the audit.

The audit recognised risks, related to increase of passenger turnover in the period from 2004 –2007 and regular decrease of Riga Airport aviation revenue per one handled passenger, and such risks possibly being a cause for requesting increasing amounts of the State budget subsidy, in order to promote profitableness of economic activity.

Riga Airport profit, excluding the State budget subsidy would only be LVL 607 thousand in 2007 or 24.7 % of the profit indicated in the annual report.

Riga Airport economic activity is affected by tariff policy established and introduced by the Ministry of Transport and the Airport.

Airlines have received substantial volume discounts on airport services, therefore Riga Airport revenue has decreased by more than 11 million in 2007.

If the abovementioned volume discounts to airlines were granted with the purpose of increasing the number of passengers, and granting such discounts could contribute to development of Latvian economy, then the audit disclosed other decisions and actions of

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the Ministry of Transport and Riga Airport, which have limited Airport's possibilities of obtaining substantial additional revenue or have caused losses.

The State Audit Office concluded that the State budget subsidy for financing Riga Airport security measures in the amount of almost 8 million lats in 2007 and 2008, was requested without justification, as the regulatory enactments of the Republic of Latvia regulating aviation sector do not define Riga Airport security measures as the State objectives, and as the Riga Airport has not been delegated implementation of the State objectives – regulatory enactments that specify aerodrome security measures, stipulate that aerodrome shall render paid services. In turn, European Union regulation, which provides the possibility for each Member State to determine in which circumstances, and the extent to which, the costs of security measures shall be borne by the State, the airport entities, air carriers, other responsible agencies, or users, was adopted only in 2008, and the regulatory enactments of the Republic of Latvia still do not provide such regulation.

The State Audit Office has disclosed that State budget subsidies for provision of airport security measures have not been allocated in the neighbouring countries of Latvia and other countries in the region – in Estonia, Lithuania, Finland, Sweden, Poland, Czech Republic, and Hungary.

The audit recognised that the amount of the State budget subsidy requested by Riga Airport for financing security measures is not justified. Thus, for example, LVL 500 thousands for elimination of "bird threat" were requested in 2007; however, only LVL 5000 or 1% of the allocated funds were utilised according to requested objective until October 1, 2008. LVL 2 millions were requested for capital expenditure in 2008; however, only LVL 61 thousand or 3.1% of the allocated funds were utilised in nine months of 2008. In turn, LVL 43 thousands were requested for employee clothing cleaning in 2008, and the requested amount 16 times exceeds the funds utilised for this purpose in 2007. LVL 1352 or 2.8% of the allocated funds were utilised in the first half of 2008.

The State Audit Office also disclosed occasions, when the State budget subsidy has not been utilised in accordance with the requested purpose. For example, LVL 261 thousands were utilised for activities not related to security measures, diverting the funds for construction of transit passenger passageway, construction of which initially was not included in the North Terminal construction project, but necessity thereof was recognised upon completion of the terminal.

It was also disclosed in the audit that Riga Airport has suffered damages in the amount of LVL 1 million due to stopping the Airport Development Plan in 2007, and introducing plans related to servicing considerably higher number of passengers, and amending already commenced design works.

The audit "Legality of the Activity of the Ministry of Defence and Institutions Subordinated Thereto, Ensuring Compliance of the State Military Objects with the Environmental Protection Requirements"

The objective of the audit was to gain assurance that the regulatory enactments developed by the Ministry of Defence and application thereof ensure transparent environmental protection system at the State military objects.

The audit disclosed deficiencies regarding supervision of the hazardous waste management at the National Armed Forces.

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The Ministry of Defence has not ensured supervision of the policy implementation when forming and developing the environmental policy of the State defence sector, and has tolerated the fact that the environmental management system specified by the planning documents in 2005 has not been implemented at the National Armed Forces, and that the management system for hazardous waste produced by the National Armed has not been developed.

It was recognised during the audit that timely hazardous waste transfer to recycling companies has not been ensured at the National Armed Forces units, and their storage at the territories of the National Armed Forces units is permitted for longer than 12 months, thus not complying with the requirements of several regulatory enactments.

Hazardous waste storage facilities at the National Armed Forces units are not equipped in accordance with the requirements stipulated by the rules of procedure of the Ministry of Defence *Storage of Hazardous Substances*. For example, personal protective equipment was located only at one of the units included in the audit sample. In addition, labels on containers do not indicate the content or term when storage was commenced.

Several National Armed Forces units have not received permits stipulated by the regulatory enactments for hazardous waste management and performance of polluting activities.

It was also disclosed during the audit that the Ministry of Defence has not issued a regulatory enactment that would unify the procedures for disposal and utilisation of outworn and inapplicable materially technical devices and hazardous waste in the possession of the Ministry of Defence and its subordinate institutions, as well as exchange of information and cooperation between the Ministry of Defence and institutions subordinated thereto on the subject of waste management.

By not taking a timely decision on further action regarding outworn metal scraps, hazardous chemical substances and large amount of inapplicable motor vehicles, the Ministry of Defence and institution subordinated thereto – the State Agency for Defence Properties, has tolerated their unjustified accumulation at the territories of the National Armed Forces units. For example, 987 motor vehicles have been accumulated at the territories of two National Armed Forces units, which were not used for implementation of National Armed Forces tasks during the audited time period.

The audit “Compliance of Accumulation, Management and Utilisation of the Resources Obtained in the Result of Privatisation of the State Property Units and Deposited at the State Property Privatisation Fund with the Requirements of Regulatory Enactments in Force”

The objective of the audit – is to gain assurance whether the resources obtained in the result of privatisation of the State property units and deposited at the State property privatisation fund are accumulated, managed and utilised in accordance with the requirements of regulatory enactments in force.

It was recognised in the audit that objectives of establishment of State property the privatisation fund have not been achieved.

Although the regulatory enactments provide that resources obtained in the result of privatisation of State and local government property shall be transferred into privatisation fund that shall be used for achievement of particular, specifically stated objectives (for example, the State support for entrepreneurship, forming of long-term credit resources

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and long-term stabilization reserve), more than 80% or LVL 78.5 millions of total resources have been transferred for financing of such activities, which shall be planned and included in the yearly State budget.

Using the opportunity provided in the regulatory enactments to deduct expenditure specified by the Cabinet before transferring resources obtained in the result of privatisation into the State property privatisation fund, in the period of three years only approximately 16% or LVL 14.9 millions were transferred into the privatisation fund out of resources obtained in the result of the State property privatisation.

Thus, for example, in 2005, in accordance with the Cabinet Orders, more than LVL 200 thousands have been transferred to public integration sector projects, as well as LVL 250 thousand have been transferred for construction of Sports Complex for the Ministry of Interior. In 2006, in accordance with the Cabinet Order, LVL 4 million were transferred to Liepāja Special Economic Zone Authority to cover the costs related to deepening of Liepāja Port; in turn LVL 1 million was allocated to Ventspils Free Port Authority – for costs related to deepening of Ventspils Port. In 2007, in accordance with the Cabinet Order, LVL 1.5 million was allocated to State Agency “Material Reserves”, to ensure delivery and storage of vehicles withdrawn from administrative violation cases, but in 2008, in accordance with the Cabinet Order, total amount of LVL 1.9 million was allocated to various institutions to ensure implementation of activities for 90th anniversary of proclaiming the Republic of Latvia.

Although already since October 22, 2004 State Joint Stock Company “Privatisation Agency” has changed the status thereof from non-profit organisation to State Joint Stock Company, during the audited period it applied accounting policy characteristic to non-profit organisation’s revenue-expenditure accounting, thus the amount of net turnover and enterprise income tax was artificially reduced. By not including all income from the basic activities of the company into net turnover, and by not observing the requirements of the Cabinet Regulation, in 2007 State Joint Stock Company “Privatisation Agency” has not ensured payment of dividends to the Treasury in the amount of LVL 566 thousand.

It was also disclosed during the audit that monetary resources have been continuously kept in the account of State Joint Stock Company “Privatisation Agency” – in 2005 and 2006 there were more than LVL 4 million, in 2007 – more than LVL 27.6 million and in the first half of 2008 – more than LVL 26.1 million; however there is no assurance that such amount of monetary resources is necessary for provision of the Agency’s regular activities.

The audit “Assessment of Activity of the Ministry of Economics and the State Agency “Investment and Development Agency of Latvia” Regarding Business Development Promotion”

The objective of the audit – to gain assurance that measures determined and projects supported by the Ministry of Economics and implemented by the State Agency “Investment and Development Agency of Latvia” facilitate business development, in order to ensure achievement of objectives specified in the policy planning documents.

It was disclosed in the audit that State budget grant and European Union Structural Funds administration system, developed by the Ministry of Economics and the State Agency “Investment and Development Agency of Latvia” does not fully ensure achievement of objectives specified in the policy planning documents.

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Due to differences between values of supervision indicators specified in *Single Programming Document* and *Programme Complement*, and values of performance indicators, specified in the policy planning document, true achievement indicators for policy objectives could not be identified.

It is planned to perform assessment of Latvian national economy for identification of priority supportable sectors only in 2009, therefore it was not possible to implement measures, specified by the planning documents, for development of priority sectors, and majority of support is allocated on the basis of self-initiative of entrepreneurs representing various sectors.

The audit recognised that targeted attraction of foreign direct investment is also difficult, as objectives, principles and activity directions for attraction thereof were not specified. It was planned to approve foreign direct investment attraction guidelines only by the end of 2008.

The audit “Compliance of the Joint Stock Company “Latvia’s State Forests” Action in Relation to State Properties Transferred into its Possession and Supervision with the Requirements of the Regulatory Enactments and Assessment of Activity by the Ministry of Agriculture in Supervising the Joint Stock Company “Latvia’s State Forests””

The objective of the audit – to gain assurance on whether the Joint Stock Company “Latvia’s State Forests” (hereinafter – Latvia’s State Forests) is implementing both supervision over the State forest property and such State forest management, which ensures preservation and increase of the State forest value, and revenue for the owner of the forestland – the State, as well as whether the Ministry of Agriculture ensures supervision over Latvia’s State Forests and revenues for the State budget.

It was disclosed during the audit that the Ministry of Agriculture has not sufficiently supervised activity of Latvia’s State Forests neither regarding contributions payable into the State budget and changes to be made in its fixed capital nor regarding achievement of set targets.

By determining the contribution amount to be transferred into the State budget, the Ministry of Agriculture has not assessed and justified the amount the State has the rights to from the expropriation of forest production or the volume of profit share payable in the form of dividends. In addition, the Ministry of Agriculture has not taken into account factors specified by the legal enactments - territory, quality and productivity of the forest strands and forest infrastructure.

As a result the amount of contributions payable into the State budget previously mentioned has substantially fell behind the profit growth dynamics starting 2004 with contributions even decreasing from 2004 to 2005, and significant monetary resources were retained by Latvia’s State Forests.

In 2007 profit of Latvia’s State Forests was LVL 92.7 million, out of which LVL 28.7 million were paid into the State budget, but LVL 64 million were utilised for increasing the fixed capital of Latvia’s State Forests. In turn, by the end of 2007, investment in deposits and securities by Latvia’s State Forests reached LVL 79 million, out of which LVL 24.3 million were accumulated by 2007, but during 2007 additional LVL 54.7 million were invested in deposits and securities.

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By determining unreasonably small Latvia's State Forests' contributions payable into the State budget, the Ministry of Agriculture has not defended interests of the State in order for the State to receive its rightful benefits from use and sale of its property. What is more, since Latvia's State Forests was established, its fixed capital has been increased from LVL 1 million to LVL 132 million without assessing the necessity to change the fixed capital Latvia's State Forests.

The Ministry of Agriculture also has not determined indicators characterising implementation of economic, environmental and social targets of Latvia's State Forests and has not supervised the attainment of goals determined for the capital company. Therefore it was impossible to gain assurance on implementation of the Latvia's Forest Policy with regard to the State forests and forest lands.

The Ministry of Agriculture has appointed Council members of Latvia's State Forests on the basis of political considerations and without assessment of applicants' professional qualification, thus not promoting decision making in accordance with the State interests with regard to distribution of the capital company profit.

Council member remuneration at Latvia's State Forests was determined by the Ministry of Agriculture as a percentage from the remuneration of the Chairperson of the Board of Latvia's State Forests. Therefore, such situation was made possible that the Council members could have potentially made a decision on determining Board remuneration while in conflict of interests. Furthermore, remuneration to Council members was disbursed regardless of whether the Council member has taken part in the capital company Council meeting.

Several deficiencies in internal control at Latvia's State Forests were also disclosed during the audit. For instance, when analysing each felling area separately substantial discrepancies were recognised in Latvia's State Forests' economic activity data information system between the actual and initially evaluated amount of round timber – up to 76 times. Information system data discrepancies for 2006 and 2007 regarding sales volumes of timber in respective amounts of 112 902 m³ and 219 879 m³ were also disclosed.

The audit “Compliance of Activity of Riga City Development Fund with the Requirements of Regulatory Enactments”

The objective of the audit – to gain assurance that Riga City Development Fund, established by Riga City Council, and its activity complies with the requirements of regulatory enactments.

The audit disclosed that Riga City Council's action with Riga City Development Fund does not comply with the requirements of regulatory enactments.

Riga City Council, determining Riga City Development Fund as special budget resources, has not observed the requirement specified by the law *On Budget and Financial Management*, which stipulates that a special budget is a part of a budget formed from sources of revenue earmarked for special purposes by provision of the law. Sources of revenue, which form Riga City Development Fund in 2006, are not determined by procedure provided by the law and resources transferred into the Fund – single payment for development of city infrastructure and lease payment – did not have legal justification.

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Riga City Council, adopting *Riga City Land Use and Building Regulations*, by which single payment for development of city infrastructure is specified as mandatory payment to any person planning implementation of construction intention within the city territory, has not observed the requirement of *State Administration Structure Law*, which stipulates that action of an institution shall conform with legal norms and that an institution shall act within the framework of established authorization. The abovementioned binding regulations were not passed based on regulatory enactment, which specifies the rights of municipality to determine paid services.

Through examination, how the mandatory payments provided for in *Riga City Land Use and Building Regulations* are collected, it was disclosed that Riga City Council has not observed the requirements of the law *On Local Government Budgets* and the law *On Budget and Financial Management*, which specify that in order to perform payments from special budget there shall be sources of revenue earmarked for special purposes by provision of the law. Thus in 2006 Riga City Council has unlawfully collected single payment for development of infrastructure in the amount of LVL 1 million.

Riga City Council has not developed unified control system that would specify distribution of competency for Riga City Council responsible institutions with regard to control over utilisation of Riga City Development Fund's resources. In 2006 Presidium of Riga City Council, taking decisions regarding allocation of Riga City Development Fund's resources, has allocated resources for different projects, which do not comply with the objectives specified in Riga City Development Fund Regulation.

The audit "Compliance of Riga District Baloži City Municipality Action, Making Land Contributions into Capital Companies, with the Requirements of Regulatory Enactments"

The objective of the audit was to gain assurance on compliance of Riga District Baloži City Municipality action, making land contributions into capital companies, with the requirements of regulatory enactments.

Baloži City Municipality, making contributions of municipal immovable property with total area of 101,1 ha into equity capital of private capital companies in the total value of LVL 839 thousand, has not observed the requirements of regulatory enactments with regard to public person engagement in commercial activities, goals of local government property utilisation and decision making procedures.

Baloži City Municipality, taking decision on making contributions of 26 municipal land property units into equity capital of 11 private capital companies, and engaging in commercial activity, has not observed the requirements of the law *On Local Governments*.

The State Audit Office also disclosed that Baloži City Municipality, performing commercial activities with the aim of gaining profit from sales of residential houses and apartments, has not observed the requirements of *State Administration Structure Law*.

Baloži City Municipality, taking decisions regarding making contributions of two immovable property units into equity capital of capital companies, has not observed the requirements specified by *Commercial Law*, which stipulate that property contributions shall be valued according to the usual value and that local government property shall be alienated or transferred to the ownership or possession of another person at the highest price possible.

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Chairman of Baloži City Municipality, managing capital shares obtained through contributions of immovable property, has not observed the requirements specified by the law *On Local Governments*, which stipulate that only local government councils may take decisions with respect to the exercise of rights of first refusal regarding immovable property for sale.

Chairman of Baloži City Municipality, managing capital shares obtained through contributions of immovable property, has also violated the requirements specified by the law *On State and Local Government Capital Shares and Capital Companies*, which stipulate that decisions regarding alienation or transference of capital shares shall be taken by local government council and that before alienation or transference of capital shares they shall be valued in accordance with the provisions of the law.

During the audited period implementation of four capital companies residential house construction projects – construction and sale of 454 apartments – for implementation of which Baloži City Municipality made contributions into equity capital in the amount of LVL 135 thousand, has not provided income to the Municipality.

Baloži City Municipality has received only LVL 5664 in dividends from implementation of one capital company project – construction and sale of 4-apartment residential house and 54 family houses. For implementation of the abovementioned project the Municipality made contributions in the amount of LVL 307 thousand.

The audit “Legality and Expedience of Conduct by Limbaži City Municipality Regarding the Lease of Immovable Property”

The objective of the audit was to gain assurance that the conduct of Limbaži City Municipality with regard to lease of local government's immovable property has been legitimate and expedient.

It was disclosed during the audit that Limbaži City Council has unlawfully transferred for privatisation several immovable properties.

By taking decisions to lease out land plots with rights to build and subsequently transferring the same land plots for privatisation, the local government has acted contrary to the requirements stipulated by external regulatory enactments and internal regulatory enactments adopted by the local government, and has performed illegitimate ownership transfer of local government property to private persons for lowered price.

It was recognised during the audit that as a result of such decisions the Limbaži City Municipality has expropriated eight land plots belonging to it with the total area of 50 784 m² for a price that is at least by LVL 38 thousands or 35% less than the minimum price feasible by privatising them in accordance with procedures specified by regulatory enactments.

In turn, by taking a decision to transfer a vacant land plot within the territory of the local government for privatisation and by indicating that the mentioned property is not required for performance of local government's functions as specified by *State Administration Law* and the law *On Local Governments*, the local government has acted contrary to the Limbaži City Territorial Spatial Plan, which states that this land plot is required for performance of local government's functions.

By not observing the procedures specified by regulatory enactments on rights to change the allowed use of the territory from vacant territory to territory used for building, the mentioned land plot in area of 21 184 m² has been privatised for the price of LVL 2167

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(LVL 0, 10/ m²), which is 17 to 100 times less than the selling price of comparable land plots.

The audit “Compliance with the Requirements of Regulatory Enactments of Zilupe County Local Government Action with Immovable Properties”

The objective of the audit – to gain assurance that action of Zilupe County local government with immovable properties complies with the requirements of regulatory enactments.

The audit disclosed that action of Zilupe County local government with land in the territory thereof does not comply with the requirements of regulatory enactments.

Zilupe County Council, by taking the decisions regarding 31 vacant land plots in the ownership of the State, with total area of 156.33 ha, and granting thereof to the local government with the purpose of selling to residents of the county, has acted against the requirements specified by the law *On Land Use and Land Survey*; moreover, on the basis of these decisions, the local government has denied seven persons the rights specified by the law – to be granted land for permanent use.

In the audited period Zilupe County Council has taken decisions regarding lease of 53 land plots with total area of 29.82 ha to natural persons; however has not specified the amount of lease payment and has not entered into lease contracts regarding the abovementioned land plots.

For 40 land plots out of the abovementioned 53 land plots Zilupe County local government could not submit source documents, certifying that persons granted lease rights are actually using the land plots. For 13 land plots with total area of 5.78 ha the local government has not specified nor the amount of lease payment, neither has entered into lease contracts, as well as has not collected lease payments from natural persons, who are the actual users of the abovementioned land plots.

One land plot in the ownership of the local government with the total area of 2.5 ha, contrary to the requirements specified by the law *On Prevention of Squandering of the Financial Resources and Property*, was granted for permanent use without compensation to a natural person.

The local government has not performed the duty, specified by the law *On Local Governments* – to collect taxes and fees, by not taking decisions during the auditing period regarding recovery of real estate tax, not paid in due time, and of late charges on an uncontested basis in the amount of LVL 5178 according to the procedures provided by the law *On Taxes and Fees*.

There were also one occasion disclosed, when the local government has not secured the rights of the persons specified by the law *On Land Privatisation in Rural Areas* – to receive land of equal value if the inherited land or its part cannot be actually returned – by not offering land of equal value located in rural area on occasions, when a person, who has inherited land, had requested so.

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The audit “Compliance of Jūrmala City Municipality Action with Requirements of the Regulatory Enactments with Respect to Immovable Property of the Local Government”

The objective of the audit – to gain assurance that action of Jūrmala City Municipality with respect to immovable property of the local government complies with requirements of the regulatory enactments.

It was disclosed during the audit that Jūrmala City Municipality does not fulfil its obligation – to manage immovable property of the local government rationally and expediently.

Several violations of the regulatory enactments were recognised during the audit upon assessing action of Jūrmala City Council with regard to immovable property.

By not complying with stipulations of the law *On Prevention of Squandering of the Financial Resources and Property of the State and Local Governments*, which specify that the immovable property of local government shall be transferred to another person for the highest price attainable, rights to adjust the rental rate have not been exercised on several occasions, such as when the yearly inflation rate surpasses 10% or the cadastral value of the land changes.

Even though the inflation coefficient rate for 2007 as calculated by the Central Statistical Bureau was 14%, Jūrmala City Municipality had not increased the rental rate of land plots leased out. Rental rate for 27 vacant land plots has not been corrected as in accordance with the cadastral value determined by the State Land Service. Therefore revenues of the local government in 2008 were by LVL 186 400 lower.

Contrary to requirements of the law *On Local Governments* three rental agreements have been entered into during past years, rental rate for which has been determined not in accordance with that stipulated by the decision of Jūrmala City Council. Thus while these agreements are in effect the local government forgoes income in the amount of LVL 6730 each year.

It was disclosed during the audit that action by Jūrmala City Council, when organising the rental of land plots belonging to the local government, does not ensure prevention of corruption risk. Procedures for determining rental rate amounts are not regulated at the local government and rental rate justification when reviewing resolution projects of setting rental rate is not documented. It was recognised during the audit that Jūrmala City Council has determined rental rate 2 to 2800 times lower than the lowest possible rental rate set by independent estimator.

Contrary to stipulations by the Cabinet Regulation the Jūrmala City Council has not ensured preparation of information on local government's vacant land plots available for rent, which shall be placed in a visible location inside the Jūrmala City Council building.

It was recognised during the audit that Jūrmala City Council also has not ensured internal control over administration of rental rates for leased out immovable properties – there have been occasions when more than 9 months after entering into the land plot lease agreement bills had not yet been dispatched and rent rate had not been collected, as well as warnings regarding potential termination of the lease agreement were not sent to tenants, which had not paid the rental rate in a timely manner already for two quarters.

Audits on control of recommendations implementation

The audit on introduction of recommendations rendered in the audit “State Institution Activities, Providing Movement of Goods and Other Articles at Latvia – Russia Border Control Points”

The objective of the audit – to gain reasonable assurance on sufficiency of measures conducted and elimination of deficiencies disclosed in the closed parallel audit of 28 November 2007 “State Institution Activities, Providing Movement of Goods and Other Articles at Latvia – Russia Border Control Points” conducted by the State Audit Office of the Republic of Latvia and the Accounts Chamber of the Russian Federation.

Conducting audit on implementation of recommendations it was disclosed that the State Revenue Service has implemented four recommendations out of eight that had to be implemented in 2008, and the State Border Guard – 13 out of 15 recommendations.

During the parallel audit in 2007, the State Audit Office of the Republic of Latvia and the Accounts Chamber of the Russian Federation recognised that most substantial deficiency in the work of border control institutions of both countries is lack of permanent information exchange system between the responsible institutions of the Republic of Latvia and the Russian Federation.

In order to facilitate faster border crossing, the State Audit Office of the Republic of Latvia and the Accounts Chamber of the Russian Federation proposed to assess the possibility of ensuring information exchange between the responsible institutions of both countries. It was disclosed in the audit that although there were measures conducted throughout the year to improve the situation, the level of mutual cooperation is still unsatisfactory. Thus, for example, the Russian Federation and the Republic of Latvia still does not ensure timely identification of differences in freight weight and in numbers of trucks that are crossing the border.

Substantial improvement, to ensure exchange of information between border guard institutions and coordination of activities, was an agreement entered into in 2008 between the State Border Guard of the Republic of Latvia and the Border Guard Service of the Federal Security Service of the Russian Federation regarding cooperation in solving border crossing problems, as well as the approved activity plan that specifies measures to be performed, when long vehicle queues have formed at the border crossing points, and the action on occasions if an information is received regarding illegal freight movement across the border.

Although measures were conducted to harmonize requirements in the field of international carriage and freight customs clearance, a number of requirements for freight carriage and vehicles are still different in the European Union and the Russian Federation.

Although the officials of customs authorities of the Republic of Latvia are informed about the requirements of the Russian Federation, they are not authorized to prevent freight from crossing the border that conforms to the European Union legal enactments, but does not comply with the requirements of the Russian Federation. Such freights are returned to Latvia, and process of going through repeated customs clearance required unnecessary use of additional resources.

Although the State Audit Office and the Accounts Chamber already last year indicated that lack of harmonized activities with regard to planning of border control point

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modernization and construction may cause inexpedient and inefficient utilization of the State budget funds, planned capacity of control points and project implementation timetables are still not harmonized, and the capacity, foreseen in the modernisation plans of border control points of both countries, is different.

Although throughout the year accounting of returned freights has been improved, and differences in presented data have considerably decreased, the developed control procedures and mutual cooperation is incomplete. Data of Russian and Latvian sides regarding re-export of vehicles from Russia border control points does not match for 20%.

Information of the customs authority of the Republic of Latvia regarding product weight indicated in customs documents was also compared in the audit with information provided by the Russian Federation customs authority. It was disclosed that weight indicated in the information systems of the customs authority of the Republic of Latvia differs from the one indicated in the information system of the Russian Federation. In 79% of randomly inspected documentation of the customs authority of the Republic of Latvia the indicated freight weight differs by more than 1000 kg from the data registered by the Russian Federation customs authority.

The audit “Prevention of Deficiencies Disclosed During the Legality Audit “State Non-Profit Limited Liability Company “Radio Latvia” Compliance of Economic Activity in 2005 with the Requirements of Regulatory Enactments” and Subsequent Performance of Economic Activities in Accordance with the Requirements of Regulatory Enactments”

The objective of the audit – to gain reasonable assurance on implementation of recommendations included in the report of legality audit conducted by the State Audit Office in 2006 regarding “State Non-Profit Limited Liability Company “Radio Latvia” compliance of economic activity in 2005 with the requirements of regulatory enactments” and on adequacy of measures taken to prevent deficiencies.

During the repeated verification audit, it was disclosed that the State Non-Profit Limited Liability Company “Radio Latvia” (hereinafter – Radio Latvia) has implemented 9 out of 17 recommendations.

Internal control measures at Radio Latvia are still not ensured regarding barter transaction registration, discount application in accordance with concluded contracts, contract implementation and transmission of advertisements according to requirements of *Radio and Television Law*.

Average monthly salary of Radio Latvia employees constituted from 26% to 72% of total monthly remuneration, rest of the remuneration consisting of supplements, bonuses and payments for implementing tasks included in work performance contracts. Instances were disclosed during the audit when supplements approved for employees of Advertising Division exceeded the determined salary by 336%.

Duties specified in Radio Latvia contracts for work performance with employees partially or completely overlap with duties prescribed in employee position descriptions, therefore transparent work remuneration system is not ensured, and monthly salary determined for Radio Latvia employees does not disclose the actual amount of work remuneration.

By taking into consideration recommendations by the State Audit Office, Radio Latvia has developed internal regulatory enactment base regarding provision of economic

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activity. Radio Latvia has implemented recommendations regarding placement of advertising and control, advertising service costs, as well as ensured precise accounting of advertising volume.

By determining Advertising Accounting Division as a separate unit, Radio Latvia has performed structural changes and ensured disclosure and prevention of errors, as well as accurate revenue reflection in financial accounting.

Within the time limits set by the State Audit Office Radio Latvia had implemented two recommendations regarding validity of supplement allocation and bonus payment to Director General, and several internal regulatory enactments had been developed in accordance with requirements of regulatory enactments, which improved the work remuneration system.

The audit “Prevention of Deficiencies Disclosed During the Legality Audit “State Non-Profit Limited Liability Company “Latvian Television” Compliance of Economic Activity in 2005 with the Requirements of Regulatory Enactments” and Subsequent Performance of Economic Activities in Accordance with the Requirements of Regulatory Enactments”

The objective of the audit – to gain reasonable assurance on implementation of recommendations included in the report of legality audit conducted by the State Audit Office in 2006 regarding “State Non-Profit Limited Liability Company “Latvian Television” compliance of economic activity in 2005 with the requirements of regulatory enactments” and on adequacy of measures taken for preventing deficiencies.

During the repeated verification audit, it was disclosed that during the set time limit the State Non-Profit Limited Liability Company “Latvian Television” (hereinafter – Latvian Television) has implemented only four out of 14 recommendations.

Repeatedly disclosed deficiencies in entering into agreements, registration, accounting and implementation control did not provide assurance on the efficiency of internal control system developed at Latvian Television.

Internal control system at Latvian Television has not ensured compliance of value added tax accounting with the requirements of the law *On Value Added Tax* and the Cabinet Regulation *On Administration and Organisation of Accounting*. Internal control system also has not ensured timely record of entries in accounting registers as well as disclosure and prevention of errors regarding transaction accounting.

Several instances were disclosed when entries in accounting registers of goods or services received were recorded later than 15 days from the moment when the goods were actually received, as well as five invoices received for one transaction were recorded without observing expense recognition within the relevant time periods.

It was also disclosed that on two instances Latvian Television received and recorded consignment notes for services received, which had value added tax calculated at 21%, even though the law *On Value Added Tax* specifies the value added tax rates are applicable to qualifying transactions at rates of 18%, 5% and 0%.

Latvian Television had implemented two recommendations regarding unified work remuneration provision, which regulates royalty payment system. Unified procedure for royalty contract conclusion was also defined but deficiencies in employment contracts entered into by Latvian Television, accounts and organisation of employees’ actual working time and calculation of employee remuneration still had not been averted.

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Latvian Television had developed and approved several internal regulatory enactments, which stipulate the policy on price determination and discount application. However, majority of them did not comply with the requirements of the Cabinet Regulation *Development and Drawing up of Documents*.

Latvian Television has entered into two of the barter transaction agreements included in the State Audit Office sampling without observing requirements of internal regulatory enactments, namely, discounts in the amount of 50% and 75% have been applied therefore decreasing the total contract sum of LVL 438 thousands without value added tax by LVL 274 thousands without value added tax.

The audit „Elimination of Deficiencies Identified During the Legality Audit “Compliance of Planning, Monitoring and Provision of Cost Effectiveness for Projects, Co-financed by European Union, with the Requirements of EU Funds Planning Documents and Regulatory Enactments”, Developing Regulatory Enactments of 2007-2013 Planning Period”

The objective of the audit – to gain reasonable assurance that deficiencies recognised in 2004-2006 planning period are eliminated, during implementation and approval of policy implementation documents of EU Structural Funds 2007-2013 planning period.

The audit was conducted within the framework of coordinated parallel audit “Evaluation of Efficiency of Environmental and /or Employment Programmes Supported by Structural Funds” of the Working Group of the Contact Committee of EU Supreme Audit Institutions.

During the audit the auditors were unable to obtain sufficient evidence regarding elimination of deficiencies recognised in 2004-2006 planning period, during implementation and approval of policy implementation documents of EU Structural Funds 2007-2013 planning period, as the Ministry of the Environment had not developed procedures by which reports on implementation of measures and activities, co-financed by European Union shall be prepared, as well as procedures by which selection of five EU Structural Funds activities’ environmental projects shall be provided.

4.2. Financial Audits

The audit on the Annual Report of the Republic of Latvia for 2007 Regarding Implementation of the State Budget

The objective of the audit – to verify whether the Annual Report of the Republic of Latvia for 2007 regarding implementation of the State budget and local government budgets (hereinafter – Financial Year Report) provides true and fair view in accordance with the law *On Budget and Financial Management* and the law *On State Budget for 2007* and in all significant aspects complies with the financial statements, from which it was derived.

During the audit significant deficiencies regarding implementation of State budget and budgets of local governments for 2007 were disclosed, and the State Audit Office rendered qualified opinion already for the third subsequent year. The following was recognised during the audit:

- Ministries, central State institutions and local governments have not ensured application of unified accounting policy and accounting of fixed assets, therefore the

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balance sheet position "Fixed Assets" is indicated at inaccurate value and does not provide complete information on the amount thereof;

- All immovable property in ownership of the State and local governments – land, forest stands, residential houses – have not been estimated and accounted for as at December 31, 2007, or have been indicated incorrectly;
- Errors related to accounting of fixed assets and indication thereof in financial statements of ministries and central State institutions in the amount of LVL 490 million;
- The Financial Year Report includes consolidated financial statement for 2007 of the Ministry of Health. The State Audit Office has rendered qualified opinion on the financial statement for 2007 of the Ministry of Health, as significant discrepancies were disclosed during the audit.

During the audit several deficiencies were recognised with regard to expenditure part of the Financial Year Report.

In general, transparent remuneration system of employees employed in State administration was also not ensured in 2007.

In accordance with the Cabinet Regulation *Regulations regarding Basic Principles for the Development and Submission of Budgetary Requests* when ministries and other central State institutions prepare budgetary requests, they shall also take into consideration staff lists, but number of vacant positions shall not be assessed. Yet the financing is allocated also for vacant positions, thus substantial savings of remuneration fund are possible, which later are paid as bonuses.

In ministries and other central State institutions the financial resources saved from remuneration fund amount up to 14.16%, and up to 29.16% of planned remuneration fund are paid as bonuses, which indicated at deficiencies in the basic principles of remuneration fund planning process.

The audit disclosed that bonuses are paid up to 14 times per year, and that on a number of occasions monthly salary forms the smallest part of a person's total remuneration.

Internal regulatory enactments of eleven ministries and their subordinated institutions and three central State institutions do not clearly specify procedures, by which supplements, bonuses and allowances shall be awarded, and detailed criteria for determining the amount of supplements, bonuses and allowances.

Management contract tasks of several State administration institutions are similar to responsibilities specified in the employee position descriptions. The amount of management contracts may reach up to 125% of yearly salary. Therefore, it may be concluded that management contracts are used as a means of increasing work remuneration.

It was also disclosed during the audit that State administration institutions still have not developed unified principles regarding costs related to institution's representation activities, transport and communications services, thus there is a risk of non-transparent and unjustified utilisation of the State budget resources.

With regard to the revenue part of the Financial Year Report it was disclosed during the audit that the State Revenue Service does not ensure equal treatment of all taxpayers, and there are areas where taxes are not collected.

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Significant information is not reflected regarding calculated revenue from State and local government taxes and fees, tax debts, as well as information regarding non-received tax amounts due to applied tax relief as specified by the laws.

Significant deficiencies were disclosed in the internal control system of the State Revenue Service. Consequently, several deficiencies have developed in tax revenue administration, and collection of taxes relevant to the State budget is not ensured in full amount, as well as the State budget incurs losses.

The audit disclosed that the State Revenue Service does not ensure control over payment of value added tax for purchase of new vehicles. Thus, such tax payment system is inefficient and does not provide collection of budget revenue in full amount, as well as does not ensure observation of the State administration principles, which stipulate that institutional system of State administration shall be regularly examined and, if necessary, improved.

The State Revenue Service also has not ensured control over payment and declaration of income tax, when alienating immovable property from non-residents in Latvia, thus the State budget incurs losses, as well as a possibility is created to avoid tax payment.

Randomly inspecting tax calculations and performing tax recalculation for 64 transactions, it was recognised that in 2007 the State Revenue Service has not ensured collection of tax revenue in the amount of LVL 653 thousands.

The audit disclosed that, due to deficiencies in internal regulatory enactments, the State Revenue Service has not ensured unified approach to customs control of taxpayers and thus created risk of fraud.

By reducing the amount of fines for some taxpayers on their own initiative and not reducing the same fines for other taxpayers, as well as by bringing forward additional formal requirements, for example, requesting taxpayer's application, the State Revenue Service has not ensured equal treatment of all taxpayers and has not observed the requirements of the law *On Taxes and Fees* and the principle of sound administration.

The State Revenue Service also does not control timely cancellation of tax debts and other tax administration operations, which influences comprehensive tax calculation and collection into the State budget.

The Audits on Financial Statements of Ministries and Other Central State Institutions for 2007

In 2008 the State Audit Office conducted 27 audits on correctness of preparation of ministry and central State institution financial statements for 2007.

The objective of these audits – to examine if the financial statements for 2007 in all significant aspects provide true and fair view on institution's financial position as at December 31, 2007 (performance results and cash flow) and are prepared in accordance with the regulatory enactments in force in the Republic of Latvia.

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Figure 5. Opinions rendered to the ministries and other central State institutions on financial statements for 2007

Unqualified Audit Opinions	Qualified Audit Opinions	Adverse Audit Opinion	Total Number of Rendered Opinions
19	7	1	27

In total the State Audit Office provided opinions on 27 ministry and other central State institution financial statements, including unqualified audit opinions for 19 ministries and other central State institutions, qualified audit opinions were provided for seven institutions, but adverse audit opinion was given in one case.

After performing the audits on the correctness of preparation of financial statements for 2007, the State Audit Office provided 576 recommendations to ministries and other central State institutions, including 63 with high priority, 410 – with medium and 103 with low priority. Recommendations with high priority shall be implemented by the audited entity in short period of time, eliminating disclosed deficiencies, but in case of recommendations with medium priority the matters shall be solved until preparation of next financial statement. The recommendations were mostly provided regarding arrangement of accounting organisation and keeping of accounts, accounting of immovable property, elimination of conflict of interest, as well as arrangement of bonus and supplement issues.

Adverse Audit Opinion

The State Audit Office, after conducting financial audit, has rendered an adverse opinion on the financial statement for 2007 of the Ministry of Health, as the financial statement in all significant aspects does not provide true and fair view on the financial position of the Ministry and its subordinated institutions, its alterations and on the activity results of the Ministry and institutions subordinated thereto, which concluded on December 31, 2007, and is not prepared in accordance with the requirements of the regulatory enactments in force in the Republic of Latvia.

The Ministry of Health has not ensured the quality and expedience to users of its consolidated annual report for 2007, has not established unified accounting principles, has not applied accounting policy to the economic activity of the Ministry and institutions subordinated thereto, has not developed procedures for preparation and submission of the consolidated statement, moreover the information in the annual report is not comparable.

The annual report for 2007 also did not provide truthful view on long term investments, current assets and the performance results of the year of account as of December 12, 2007, as Riga Stradiņš University has not observed accrual basis in accounting of receivables and payments to suppliers and contractors when preparing the financial statement for 2007, the total amount of assets of which forms LVL 9 million or 8% from the consolidated balance assets of the Ministry for 2007.

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Qualified Audit Opinions

Qualified audit opinions on correctness of preparation of financial statements for 2007 were provided to seven ministries and other central State institutions – the Ministry of Education and Science, the Ministry of Welfare, the Ministry of Transport, the Ministry of Justice, the Ministry of the Environment, the Ministry of Economics and the Cabinet.

During the audit conducted at **the Ministry of Education and Science** the auditors disclosed that consistent accounting policy has not been ensured for reflecting the value of immovable property of the Central Apparatus. The State Audit Office did not obtain assurance on the balance sheet position “Land, Buildings and Structures” of the financial statement for 2007.

Risk of fraud was recognised at Ventspils Vocational Secondary School No.20 subordinated to the Ministry of Education and Science with regard to utilisation of financial resources granted by the European Union. The School also did not ensure keeping accounts of economic transactions at the accounting registers.

The Central Apparatus of the Ministry of Education and Science and Latvian Council of Science have not ensured the accounting of the expenditure positions “Payment for Implementation of Scientific Research” in accordance with the requirements of the regulatory enactments

Moreover, it was disclosed in the audit that the Ministry of Education and Science does not ensure control over utilisation of resources earmarked for scientific research. There were no source documents available for expenditure of the Ministry of Education and Science on market oriented research in the amount of LVL 718 thousand.

Utilisation of resources in the amount of LVL 10 million, allocated for basic and applied research, as well as for the State research programmes, was not controlled either. Resources allocated for basic and applied research was utilised for purchase of vehicle portable navigation system, driving courses and household equipment.

During the audit conducted at **the Ministry of Welfare** the auditors did not obtain reasonable assurance that the accounting policy selected by the Ministry provides sufficient information transparency in the financial statement, as assets in the amount of LVL 4.2 million were not accounted in the composition of the position “Land, Buildings and Structures” of the statement, including immovable property that was used for implementation of functions of the Ministry and institutions subordinated thereto with total cadastral value of LVL 3.3 million, and reconstruction works, performed at social care centres “Allaži” and “Ropaži” within the framework of European Regional Development Fund project “Development of Social Services Infrastructure and Services for Customer Rehabilitation, Integration into Society and Labour Market within Riga Region” and other assets acquired and established within the framework of the project in the total amount of LVL 0.9 million.

During the audit conducted at **the Ministry of Transport** it was disclosed that in the consolidated financial statement for 2007 the Ministry has not indicated long-term investments in the total value of LVL 66.9 million, including, according to estimation of the Ministry 3365 land properties not registered in the Land Register with cadastral value of LVL 7.3 million, 420 buildings and constructions with the cadastral value of LVL 41.2 million were not indicated, as well as motor road maintenance capital expenditures in the amount of LVL 15.2 million were not included in the composition of long-term investment, and property of capital companies reorganised in 2006 in the amount of LVL

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3.2 million was not invested in the equity capital of the State Joint Stock Company "Latvian State Roads".

Due to restricted scope of the audit conducted at **the Ministry of Justice** the State Audit Office did not obtain assurance on long-term investments at the Enterprise Register at the end of the financial reporting period, on receivables and liabilities at the end of the reporting period at Dienvidlatgale Regional Office of the State Land Service and the Court Administration. The State Audit Office was also not able to determine impact on initial balance of the Court Administration at the beginning of financial reporting period of intermediary accounts balance and difference of particular accounts as at December 31, 2005, and of expenditure in 2006.

During the audit conducted at **the Ministry of the Environment** the State Audit Office did not obtain assurance on the actual expenses of the Latvian Environmental Protection Fund for the year of account, as subsidies and grants in the amount of LVL 3.7 million are accounted pursuant to the cash flow principle, instead of the accrual basis of accounting.

It was disclosed during the audit that immovable property in the amount of LVL 395 thousand has not been presented in the consolidated report of the Ministry of the Environment.

The consolidated report of the Ministry of the Environment does not provide a truthful view on the changes in fixed assets during the year of account, because the Ministry has presented land property in the value of LVL 139 thousand as a fixed asset acquired without compensation, although payment for the land was made from the State budget resources.

During the audit conducted at **the Ministry of Economics** the auditors did not obtain assurance that all immovable property under the competence of the Ministry was indicated in the annual report for 2007. Accounting value of immovable property shown in the annual report is LVL 35 million, but in accordance with the information system of the State Cadastre of Immovable Property – also other immovable property with total cadastral value of LVL 418 million is indicated under the competence of the Ministry of Economics and institution subordinated thereto – the Construction, Energy and Housing State Agency.

During the audit at **the Cabinet** it was disclosed that such transactions were included as services expenses, which in their essence are long-term investments in leased fixed assets in the total amount of LVL 156 thousand, thus positions of the statement "Long-term Investments" and "Expenses" do not provide fair view.

Unqualified Audit Opinions

Unqualified audit opinions on the correctness of preparation of financial statements for 2007 were provided to 19 ministries and other central State institutions. Several legal norm violations were disclosed at five ministries and other central State institutions, most significant violations are indicated in the opinion.

During the audit conducted at **the Supreme Court** it was disclosed that there is risk that, by approving an order on procedure for awarding a bonus to himself, the Chief Justice of the Supreme Court may become involved in a conflict of interest. The Chief Justice of the Supreme Court had issued an order, by which procedure for awarding a bonus to the Chief Justice of the Supreme Court (himself) was approved. The procedure specified

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that decisions on awarding a bonus to the Chief Justice of the Supreme Court are made during the Supreme Court management meetings, and the order on awarding a bonus to the Chief Justice of the Supreme Court is signed by the deputy Chief Justice of the Supreme Court. The law *On Prevention of Conflict of Interest in Activities of Public Officials* specifies that a public official is prohibited, while performing his or her duties, to prepare or issue administrative acts, perform supervisory, control, inquiry or punitive functions, enter into contracts or perform other activities, in which such public official is personally or financially interested.

It was recognised in the audit that the deputy Chief Justices of the Supreme Court have signed the orders on awarding a bonus to the Chief Justice of the Supreme Court during a time period when he was not in absence and had not determined his substitution with an order, thus not observing the requirements of law *On Judicial Power*.

During the audit conducted at **the Ministry of Culture** it was disclosed that supplements to heads of particular institutions subordinated to the Ministry are granted according to self-issued orders, which indicates possible violation of prohibition to a public official, specified by the law *On Prevention of Conflict of Interest in Activities of Public Officials*.

During the audit conducted at **the Constitutional Court** it was disclosed that there is risk that the Chairman of the Constitutional Court, by signing orders on awarding bonuses to employees of the Constitutional Court, himself included, may become involved in conflict of interest, as law *On Prevention of Conflict of Interest in Activities of Public Officials* specifies that a public official is prohibited, while performing his or her duties, to prepare or issue administrative acts, perform supervisory, control, inquiry or punitive functions, enter into contracts or perform other activities, in which such public official is personally or financially interested.

During the audit conducted at **the Office of the Rights Defender** it was disclosed that the Rights Defender, by signing an order on allocation of supplements, when the Rights Defender himself is one of the employees included in the list of employees to receive supplements, has not observed *Rights Defender Law*, as well as possibly there is violation of the law *On Prevention of Conflict of Interest in Activities of Public Officials*.

During the audit conducted at **the Ministry of Regional Development and Local Governments** it was disclosed that the Chairman of the Development Council of Vidzeme Planning Region had issued an order granting to himself one time supplement, in turn his deputy has awarded himself a bonus, which indicates violations of the requirements of the law *On Prevention of Conflict of Interest in Activities of Public Officials*.

5. Priority Areas of Activity for the Next Year

At the end of 2008 the *Saeima* of the Republic of Latvia repeatedly approved Inguna Sudraba for the position of the Auditor General for the next four years. Conclusive vote by the members of the *Saeima*, as well as the fact that seven political parties nominated her for this position, is indicative of the confidence in the Auditor General and appreciation of the overall work performed by the State Audit Office.

Despite decrease in financial resources in 2009, the State Audit Office continues to develop work quality by ensuring performance of audit on topics of particular interest to the public, disclosing permitted deficiencies and squandering of resources, and promoting efficient management over State and local government financial resources.

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In current economic conditions of the State, the State Audit Office has selected the following as the most important objectives for 2009 – promote achievement of sector-specific goals and results with the most rationally and efficiently organised institution operations, and expedient and efficient utilisation of financial resources. In 2009 the State Audit Office plans to specifically focus on determining financial impact in audits – economy by the State and local government budget institutions and (or) increase in revenue will be assessed in the audits whenever possible.

Taking into consideration Latvia's Economic Stabilisation and Growth Revival Programme developed by the government at the end of last year, Latvia's Letter of Intent sent to the Managing Director of the International Monetary Fund, Memorandum of Understanding concluded between the European Community and the Republic of Latvia, as well as that the government of Latvia is developing activities in order to implement specifications by the economic stabilisation documents, including reforms in State administration, education and health system, the State Audit Office shall review its annual activity plan for 2009 after concluding financial audits in order to clarify legality audit topics, as well as to assess questions within financial audits, which are drawing the most attention as a result of the processes presently taking place in Latvia. Thus, when commencing audit on implementation of State and local government budgets in 2008, the State Audit Office has also directed its attention at the take-over transaction of the Joint Stock Company "Parex banka" and has requested all information related to this transaction.

The State Audit Office is actively involved in the activity of the Public Expenditure and Audit Committee of the *Saeima* (hereinafter – Committee) as a result of the Committee being tasked to supervise the economic stabilisation process.

Activity objective of the Committee is to supervise not only utilisation of the financial loans, but also the overall process of Latvia's economic stabilisation and growth revival. The Committee has approved activity plan for the first six months of 2009, in accordance with which a time schedule has been established along with topics to be reviewed, responsible institutions and information to be submitted to the Committee, which shall demonstrate implementation of tasks set by the economic stabilisation documents, as well as achievement of planned results.

The State Audit Office provides support to the Committee by preparing materials for review during its meetings and by assessing document projects developed by responsible institutions and submitted to the Committee, as well as other information. The State Audit Office bases its expressed opinion on information and conclusions collected while performing audits.

In 2009 the State Audit Office plans to develop new activity strategy for the next four years, which will contain new strategic objectives, audit priorities, achievable results, performance indicators and resources required for their attainment.

The strategy will be developed by taking into consideration economic situation prevailing in the State and development directions, public interests, and recommendations by international organisations for improvements in the State Audit Office activity, as well as the experience obtained during sector analysis and audits.

The State Audit Office will continue to take active part in the area of international cooperation by getting involved in international audit work, participating in work groups of international organisations, offering its experience and professional support to other

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supreme audit institutions, and thus strengthening its visibility and authority among foreign institutions.

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Annex 1. Budget of the State Audit Office

	Indicators	Execution in 2007 (LVL)	2008	
			Planned Execution (LVL)	Actual Execution (LVL)
1.	RESOURCES FOR COVERING EXPENSES:	4 655 790	4 834 763	4 796 742
1.1.	Subsidy from general revenue	4 386 335	4 620 748	4 620 748
1.2.	Foreign financial support	269 455	214 015	175 994
2.	EXPENSES (TOTAL):	4 494 565	4 834 763	4 498 832
2.1.	Maintenance expenses	3 718 072	4 712 865	4 378 481
2.1.1.	Remuneration	1 883 704	2 486 309	2 312 924
2.1.2.	State mandatory social insurance payments, social allowances and compensations	926 733	1 166 360	1 106 946
2.1.3.	Business trips	37 864	38 531	34 326
2.1.4.	Other maintenance expenses and operating costs related to ensuring operation of institution	599 548	806 600	747 454
2.1.5.	Expenses, covered by foreign financial support	269 455	214 015	175 994
2.1.6.	Subsidies (membership fees in public organisations)	200	250	220
2.1.7.	International cooperation (membership fees in international organisations)	568	800	617
2.2.	Equity capital	776 493	121 898	120 351
2.2.1.	Fixed assets	619 767	76 580	75 033
2.2.2.	Intangible assets	156 726	45 318	45 318

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Annex 2. The Audits Performed in the State Audit Office in 2008

No.	Title of the Internal Audit, Consultations, Inspections, Examinations or Task Area	Internal Audits, Consultations, Inspections, Examinations and Other Tasks Performed in the Year of Account			
		Complete audits		Unfinished audits	
		Numbers of days		Numbers of days	
		Planned	Actual	Planned	Actual
Internal Audits in accordance with the Audit Plan					
1.	Observation of inventory process of the year of account	12	12		
2.	Document registration, circulation and implementation control	35	22		
3.	Procedures for organisation of employee probation period	20	15		
4.	Public relations, publicity, press	20	20		
5.	Work organisation and development strategy of the State Audit Office	35	35		
6.	Personal data processing	15	15		
7.	Observation of inventory process of the year of account			15	15
Total		137	119	15	15