



**Annual Report of  
the State Audit Office  
of the Republic of Latvia  
2009**

# Annual Report 2009

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### **Dear readers,**

Working independently, responsibly and professionally the State Audit Office also in 2009 has been able to achieve set objectives, which is significant in the situation, when every lat and santim is of importance for restoration of economic development.

Overall in 2009 the State Audit Office completed 58 audits, including 31 financial audits and 27 legality audits. Within the audits special attention was drawn to rational and efficient utilisation of the State and local governments' resources.

Although implementation of the State Audit Office recommendations upon completion of conducted audits has facilitated improvement of the State administration, financial management and legislation, the State Audit Office in the audits still discloses unlawful or inefficient action with the State resources or risks of such possibility in various amounts. Within the framework of conducted audits we have drawn attention to the facts that resources have not been utilised in accordance with the set objectives, that decisions taken have been taken not in accordance with the tasks, contracts entered in are disadvantageous or not economically substantiated, as well as that the State institutions have not explored all possibilities, how to save resources and restrict inefficient expenditure.

The State Audit Office disapproves irresponsible and inconsiderate management of taxpayers' resources and emphasizes that these are logical consequences to the fact that in Latvia in general there is no system for directing resources for achievement of particular policy or performance results and there is also lack of understanding related to responsibility on efficient use of State resources. Therefore the State Audit Office on the highest level has actively invited discussions on topics, how to facilitate political responsibility in Latvia and how to strengthen thereof on the judicial level, as well as have rendered recommendations for improvement of regulatory enactments. The State Audit Office advocates strict position that the State shall stipulate particular achievable results and State development priorities both short-term and long-term, in order to be able to strategically plan its resources and to utilise thereof in the most efficient way, as well as to ensure responsible and transparent reporting.

With our work and the achieved results we have been able to maintain the high level of trust in the work of the State Audit Office by the residents. Working with the goal of achieving public benefit, State development and improvement of the life quality of the residents, this acknowledgement is important for the State Audit Office as an institution, as well as for each its employee.

The State Audit Office will continue defending public interest and will perform its work qualitatively, professionally and honestly.

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 efficient and effective 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*<sup>1</sup> 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;

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<sup>1</sup> The Parliament of the Republic of Latvia

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- Within the scope of its competence cooperates with the European Union institutions and other international organisations or institutions.

## 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, 12 December 2008, 17 September 2009 and 1 December 2009);
- 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 2008, 5 January 2009, 2 March 2009, 23 March 2009, 31 August 2009 and 7 December 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*.

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

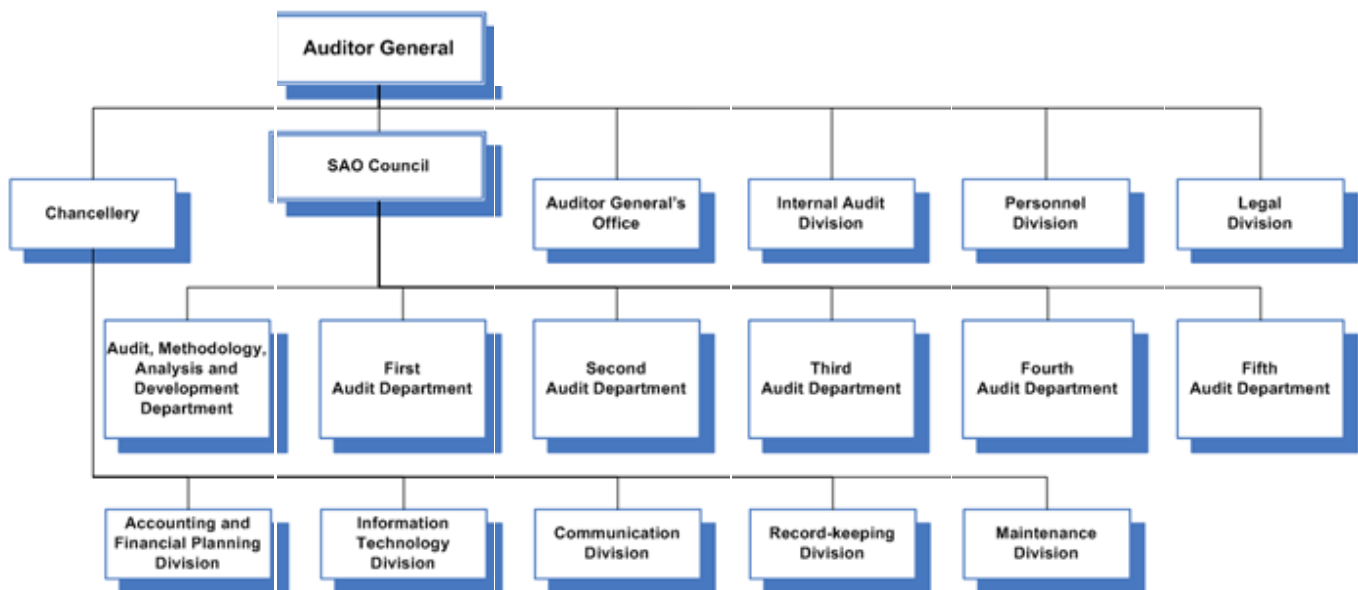
The Council approves the by-law and other regulatory enactments that regulate internal performance of the State Audit Office, as well as Annual Audit Plan and Strategic Development Plan; decides on distribution of audit fields among the departments, and approves audit reports that have not been approved 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 changes have taken place in the structure of the State Audit Office related to the reduction of the budget of the State Audit Office, as well as other institutions financed from the State budget, thus the functions of the structural units have been revised and several structural units were reorganised, reducing the number of sectors and employees at audit departments, as well as the number of employees at the Chancellery.

At the end of 2009 there were 163 staff positions at the State Audit Office, which is by 32 staff positions less than previous year. From the total number of staff positions there were 130 positions of audit personnel, which, compared to the previous year, is by 28 staff positions less.

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132 or 81% of all employees were women and 31 employees or 19% – men. Compared to the previous year the ratio of women in relation to the total number of employees has increased by 1%. Average age of employees at the State Audit Office in the year of account was 36.1 years, which is slightly higher than in 2008 (35.7 years).

As at 31 December 2009 26 employees of the State Audit Office continued their studies at higher education establishments, including 21 persons – from the audit personnel and five – from support staff.

### **3. Implementation of the State Audit Office Strategic Development Plan**

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

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 State Audit Office Audit Work**

##### ***Long-term strategic objectives***

The following long-term strategic objectives have been defined for improvement of the State Audit Office audit work: consistent monitoring and improvement of audit quality is ensured 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.

##### ***Accomplishments in 2009***

- **improved work quality**

In 2009 all work process descriptions were reviewed and updated taking into account the structural changes at the State Audit Office, as well as three new process descriptions were developed, thus ensuring that all work processes are documented.

In the year of account the State Audit Office continued to improve audit work quality, which included quality promotion activities in the course of the audit.

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During the quality promotion activities employees responsible for audit methodology provided consultations to auditors in the course of the audit. This ensures that the audit reports comply with the methodology of the State Audit Office and provide clear and understandable information. On the basis of issues identified during quality facilitation activities audit methodology was revised and improved in 2009.

In 2009 experience exchange seminars on topics important for every stage of an audit were organised in order to improve the effectiveness of the activity of the State Audit Office and to facilitate information circulation among audit departments.

Four modules of audit management system *TeamMate* have been customised for the purpose of the State Audit Office work: audit documentation module (*EWP*), time and accounts capture module (*TEC*), resource and audit planning module (*Schedule*) and audit recommendations monitoring module (*Central*). Audit recommendations monitoring module (*Central*) was introduced in 2009 in order to ensure monitoring of accounting and implementation of audit recommendations. Introduction of this module significantly improves the possibilities of supervision of recommendations implementation.

Continuing even wider use of possibilities provided by *TeamMate* in the work of the State Audit Office, in 2009 *TeamMate* was customised for the needs of internal audit, as well as lawyers, thus utilising *TeamMate* possibilities not only supporting the audit work, but also for the needs of the State Audit Office support block.

*IDEA* software that was introduced at the State Audit Office significantly aids the work of the institution, allowing to analyse data more efficiently and to draw conclusions. The software ensures much wider analysis possibilities of the data acquired from the information systems of the audited entity. Data analysis software *IDEA* is being utilised more and more – developing the samplings, processing data in accordance with complicated algorithms, thus identifying errors or specific trends. Thus, for example, within the framework of financial audits account turnover inspections are performed, calculation of fixed assets depreciation is made and the immovable properties accounted by institutions are compared with the data of the Cadastre using *IDEA* software. *IDEA* software is used for identifying discrepancies also within the framework of legality audits. For example, in the audit “Lawfulness and Effectiveness of Utilisation of the Financing Allocated for Active Employment Measures and Preventive Unemployment Reduction Measures”, to clarify persons’ rights to obtain the status of the unemployed and services, the inspections were conducted on the data, which was received from various registers – from the State Employment Agency, the Ministry of Education and Science, the State Social Insurance Agency, the Road Traffic Safety Directorate and the State Revenue Service.

Upon introducing *IDEA* software the State administration institutions have improved their ability to prepare and submit in a structured electronic format the data, which is being processed in accounting systems of the institutions and is necessary for audit inspections.

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

Under the conditions of economic crisis the State Audit Office directs more and more attention to effective and efficient utilisation of financial resources. Within the framework of audits the State Audit Office pays particular attention to rational utilisation of the State and local government budget resources with the goal of eliminating inefficient utilisation thereof, in order to discover function overlapping and ineffective action with immovable



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property, as well as to facilitate collection of payments specified by the regulatory enactments in the relevant amount. In the audits, where possible, the auditors have indicated economy of financial resources and (or) increase of revenue, resulting from audit recommendations and conclusions.

In 2009 audit work intensity has increased – 85% from the total working time use was utilised on audits (planned – 75%). Time spent on performing audits at the audit departments has increased by 7.6% in comparison to indicators of 2008.

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.

In the year of account 1097 audit recommendations were rendered to the audit entities, out of which 813 or 74% have been implemented, 255 or 23% were in the implementation stage and 29 recommendations or three percent 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 and accessibility of public services – recommendations are directed at improving the quality and accessibility of services rendered by the audited institution;
- Organisation of information technology – recommendations are directed at organising information technology and systems within the audited sector.
- Effective utilisation of resources – recommendations are directed at utilisation and recovery of State budget resources, halting performance of inefficient and ineffective activities.

Recommendations implemented in 2009 are targeting further improvement of State administration, financial management and legislation, improvement of specific institutions' activity; promotion of accessibility and quality improvement of service rendered; recovery of State budget resources and halting performance of inefficient and ineffective activities.

Recommendations implemented at the audited entities in the year of account that improve financial management of the State administration:

- Cabinet Regulation No. 749 of 13 November 2007 *Regulations Regarding the Procedures for Preparing Annual Reports of State Budget Institutions and Local Governments* is improved in order to ensure that, when preparing the consolidated financial statement, comparable and comprehensive information

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would be provided in the explanation to financial year report, and that the quality of information included in the explanations to the annual report is improved;

- In order to ensure observance of the *Law On Budget and Financial Management* and credibility of annual reports Cabinet Regulation No. 749 of 13 November 2007 *Regulations Regarding the Procedures for Preparing Annual Reports of State Budget Institutions and Local Governments* are supplemented, providing that amendments made to the annual report after submission thereof to the Treasury shall be harmonised with a sworn auditor or the State Audit Office and shall be submitted to the Treasury;
- In order to ensure that long-term financial investments into share capital of the State capital companies are indicated in the financial statement in their true value, the Treasury performs consolidation of statements, where long-term financial investments are indicated in accordance with equity method.

The most significant recommendations implemented at the audited entities in the year of account, which ensure further improvement of institution's activity:

- The Ministry of Defence, to ensure introduction of NATO standard requirements, has ensured environmental pollution risk assessment at National Armed Forces units, as well as information aggregation and assessment on volumes of accumulated hazardous waste and possibilities of processing thereof;
- The Ministry of Interior, to improve control on transfer of motor vehicles removed in administrative violation cases, has established that contracts with entrepreneurs shall provide for responsibility of transferring the vehicles by shortest distance to the place of storage, also the system was improved for recovery of expenses from persons, who have the duty of covering the expenses;
- The State Agency "Insolvency Administration" to ensure calculation on traceability of employee claims of insolvent companies, has developed a system how to review claim of each employee and substantiation of amount thereof, also personal liability on utilisation of financial resources, repayment and submission of the documents to the Insolvency Administration has been determined for insolvency process administrator;
- The Ministry of Health, to eliminate overlapping of functions and tasks, has merged the Centre of Emergency and Disaster Medicine and the Emergency Medical Assistance Service, establishing new direct administration institution – the Emergency Medical Assistance Service. To make the services of emergency medical assistance closer to residents six new posts of emergency medical assistance teams were established and it is planned to establish more than 30 new team posts across the country;
- The Ministry of Transport:
  - has developed amendments to the *Law on Aviation*, defining more accurately airfield service fee and contents of these services;
  - has established payment for services rendered to transit passengers by the State Joint Stock Company "Rīga International Airport";

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- to optimise work organisation of the Ministry's employees, the number of work performance contracts entered into has decreased from 132 contracts in the total amount of LVL 198 thousand in 2008 down to 23 work performance contracts the total amount of LVL 104 thousand in 2009;
- Joint Stock Company "Riga International Airport", to ensure property alienation and transfer to other person at highest possible price, has approved internal legal enactment for provision of lease legal relations;
- The Ministry of Culture:
  - has ensured that the Cabinet Regulation No.1102 *Amendments to the Cabinet Regulation No.956 of 21 November 2006 "Regulations regarding the National Holdings of Museums"* was adopted on 29 September 2009, specifying more accurate provisions for improving registration of National Museums Holdings, in order to improve the process of verification of the existence of National Museums Holdings and eliminate damage and loss risks of deposited museum objects;
  - to ensure rendering of complete information on the total amount of the State assets, amendments to the regulatory enactments have been introduced, providing that other assets in the composition of National Holdings (except immovable property) shall be registered by budget institutions;
- The Ministry of Finance has taken actions to put into order the State immovable property accounting by including into the Cabinet Regulation No.867 of 15 November 2005 *Procedures by which Budgetary Institutions Organise Accounting* the paragraphs referring to accounting of the State and local government immovable property in the ownership and possession of budget institutions if such are transferred into keeping of the State or local government capital companies;
- The Ministry of Science and Education:
  - the Cabinet Regulation No.316 *Procedures for the Control of the Utilisation of the Financial Resources Allocated for the Implementation of State Research Programmes* came into force on 30 March 2010 to ensure that utilisation of financial resources allocated for State research projects is transparent;
  - new Cabinet Regulation No.1066 *Procedures for the Evaluation, Financing and Administration of Fundamental or Applied Research Projects* came into force on 22 September 2009 to ensure utilisation of the State budget funds, allocated to the Ministry for implementation of fundamental or applied research projects, in accordance with the objectives intended;
  - to implement random control of market-oriented research projects, performing an audit on the spot, on 18 August 2009 the Ministry has approved *Procedures No.41 Procedures by which Market-oriented Research Project Applications shall be Evaluated, Contracts on Implementation of Market-oriented Research Projects shall be Administered and Monitored, as well as Activity of Committee for*

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*Evaluation of Market-oriented Research Project Applications shall be Organised.*

After performing financial and legality audits in 2009 the State Audit Office has rendered the following important audit recommendations, implementation deadline of which is 2009 and further:

- The Ministry of Finance shall:
  - establish procedure, by which applicants can apply for the State guarantee, as well as develop unified criteria, by which potential recipients of the State guarantee and their projects shall be evaluated;
  - develop guidelines, which would specify aggregation of detailed features and indicators that would allow to assess and take a decision whether a private capital company shall be rendered support;
  - establish conditions and requirements, so that if necessary the State could take over or support private capital companies, not investing significant resources in transaction administration, development of legal documents and purchase of legal services;
  - assess the possibility of specifying criteria in the regulatory enactment, which would characterise occasions, when action with the State and local government budget resources and property is recognised as inefficient, ineffective and uneconomical, and sanctions for ineffective action with budget resources;
  - assess the possibility of developing draft regulatory enactments, specifying that employer shall be prohibited to determine other remuneration that is not stipulated in the single remuneration law, also specify that employees for performance of direct responsibilities in addition to the remuneration stipulated in accordance with single remuneration law shall not receive remuneration, entering into other compensation contracts;
  - develop Cabinet Regulation regarding transition to unified approach on management and maintenance of the State immovable property, relieving State institutions from performance of uncharacteristic functions;
  - improve regulatory enactments and perform measures to ensure accounting of immovable property in the ownership of the State in accordance with the *Law on Accounting*;
  - assess lease payment calculation principles specified in the regulatory enactments to ensure that lease payment set out for the State institutions would cover costs related to leased object and reserves for renovation of buildings and premises, as well as that possibly highest price is determined to natural and legal persons for use of the State and capital company property;
- The President's Chancery shall facilitate amendments to the *Law on Ensuring the Activity of the President*, with the aim of clearly defining compensation of expenditure necessary to ensure activity of the Chancery and range of persons, who shall be compensated the expenditure, as well as to determine procedures for compensation of domestic business trips;
- The Ministry of Education and Science shall:

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- in collaboration with other institutions involved in implementation of social correction education develop effective inter-institutional cooperation model in the field of social correction education;
  - perform relevant measures to ensure achievement of activity objective of social correction educational institutions – to create sense of protectability for children placed in such institutions, ensuring circumstances for their development and wellbeing, as well as to ensure achievement of educational activity objectives;
  - improve regulatory enactments specifying detailed description of study programmes evaluation criteria, as well as establish single own revenue and expenditure accounting procedure at institutions of higher education;
  - assess the possibility of developing recommendations for making amendments to regulatory enactments specifying unified work remuneration principles for all higher education institutions subordinated to the Ministry;
  - perform random inspections at local governments to ensure compliance of utilisation of subsidy and earmarked subsidy to the set objectives;
  - introduce control procedure to ensure utilisation of the State budget funds allocated for sports in accordance with the objectives specified in the contracts;
- The Ministry of Welfare shall assess substantiation of the criterion “does not perform commercial activities or his or her commercial activities have been suspended in accordance with regulatory enactments” stipulated in the *Support for Unemployed Persons and Persons Seeking Employment Law* and actual possibility of administering it;
  - Riga Eastern Clinical University Hospital shall assess the necessity of cooperation with the Limited Liability Company “Wound Clinic” and the Limited Liability Company “Centre of Plastic and Reconstructive Microsurgery of Latvia”, and shall find the possibility to provide microsurgery and microsurgery bedsores treatment services internally, attracting the necessary human resources to ensure professional activity;
  - Capital companies (hospitals) where the Ministry of Health is the only shareholder shall conduct procurement of services only on occasions, when it is not possible to provide such services using existing technical and human resources at the hospital;
  - The Cabinet shall develop action plan, setting measures that would increase export amount of Latvian products in Russian market, setting measures for developing unified criteria on enterprise compliance for export to the Russian Federation and harmonising thereof with the responsible institutions of the Russian Federation, shall determine measures for continuous coordination of cooperation with responsible institutions of the Russian Federation and rendering the necessary support related to analysis of legal framework on possibilities of applying beneficial regime on import procedures to importers from Latvia;

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- The Food and Veterinary Service shall specify the principles, by which food inspectors from territorial structural units shall control food products to ensure application of equality principle;
- The State Chancellery shall within the framework of functional audit assess possibility of merging the resources and administration of Latvian Environmental Protection Fund, the Forest Development Fund, the Hunting Management Development Fund and the Fish Fund, also the possibility of merging Limited Liability Company “Latvian Guarantee Agency” and the State Joint Stock Company “Rural Development Fund”, as well as shall assess the possibility of improving regulatory enactment, eliminating the possibility of utilisation financing of the Funds for such State administration objectives, for performance of which the financing shall be included into budgets of institutions;
- Public Utilities Commission shall improve tariff calculation methodology, indicating, what kind of information shall be submitted by provider of public utilities to substantiate the expenditure forming the tariff, as well as shall ensure unambiguous explanation of types of administrative expenditure included in draft tariffs;
- The Ministry of Transport shall:
  - assess the possibility of increasing the dividends transferred to the State budget by the State Joint Stock Company “*Latvijas Valsts radio un televīzijas centrs*” (Latvian State Radio and Television Centre) for use of the State capital shares, taking into account the amount of undivided profit from previous years and the financing necessary for investment projects of the Centre;
  - to develop methodology for identification of the necessary carriage optimisation in regional intercity route network and regional local route network;
- The Road Transport Administration shall develop procedures for economical and financial indicators analysis of passenger flows in regional intercity routes and voyages, and for documentation of the analysis;
- Riga City Municipality shall:
  - assess the possibility of recovering inefficiently and uneconomically utilised funds for construction of the first stage of the Southern Bridge, reaching an agreement with the Joint Stock Company “Southern Bridge” on cancellation of liabilities in the amount of economically unsubstantiated cost increase – LVL 27 million – or requesting compensation from responsible officials;
  - improve procurement control procedures to ensure performance of procurement procedures in accordance with requirements of the *Public Procurement Law*;
  - develop procedures for identification of amount of long-term liabilities and establish maximum amount of liabilities per financial year.

In total 31 audit reports were sent to the Prosecutor’s General Office in 2009, that is 13 legality audit reports and 18 financial audit reports.



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The Prosecutor's General Office has been informed on squandering of State and local government property and financial resources, on violations of financial, accounting and tax provisions, on non-observance of regulatory enactments laying down provisions on procurement procedure, regarding conflict of interest situations and other violations.

Audit documentation the State Audit Office is reviewed by competent authorities, performing various types of inspections and using criminal procedural methods.

Overall in relation to the audit documentation of the State Audit Office:

- 42 criminal proceedings were initiated (on three occasions audit documentation of the State Audit Office was included into already commenced criminal proceedings). On 16 occasions decision was taken on termination of the criminal proceedings; on 10 occasions decisions were taken on refusal to initiate criminal proceedings, on one occasion criminal proceedings were completed and the official was called to account. 25 criminal proceedings are in progress, two of which are heard in court and 23 are under pre-trial investigation;
- 58 inspections were initiated, two of which are in progress. As a result of completed inspections 14 officials are subject administrative liability, two officials received oral admonishment, on three occasions the facts disclosed by the State Audit Office are attested, however the persons were not called to account due to limitation period, on two occasions the prosecutor's reaction measure was applied and the prosecutor's application was sent, but on other occasions the information was received on the planned control measures by the competent institutions, as well as information was rendered that elimination of violations disclosed by the State Audit Office will be ensured, as well as improvements of regulatory enactments.

To keep up to date on the progress of submitted audit documentation the State Audit Office regularly receives information from law enforcement institutions on progress of examination of the audit documentation 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 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 2009 – assessment of efficient and effective action with the property and financial resources of the State and local governments; assessment of availability, quality and lawfulness of services rendered, as well as implementation of objectives set by sector policy documents, assessment of general budget 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 topic is determined in accordance with current events and audit priorities. Taking into account the economic situation in the country, the measures taken by the government for consolidation of expenditure, including functional audits and structural reforms, as well as discrepancies disclosed in the financial reports, in April 2009 the State Audit Office reviewed the audit topics that were approved in autumn of 2008.

The State Audit Office, approving the work plan for 2009, has used new approach to development thereof – the work plan includes achievable results and performable

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activities for achievement thereof, particular responsible persons and implementation term, as well as planned man-hours and the budget. Thereby the management of the State Audit Office has complete information on the cost of the necessary results to be achieved, also the work plan contains full information on contribution of each structural unit in the achievement of common goals of the State Audit Office.

Overall in 2008 the State Audit Office completed 58 audits, including 31 financial audits and 27 legality audits, in turn the number of developed audit reports is considerably higher – 83, including 33 reports on financial audits and 50 – on legality audits.

During financial audits the auditors perform the necessary inspections 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 examine the 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 2009

	Financial Audits	Legality Audits	Total
Number of audits	31	27	58
Number of audit reports	33	50	83

### 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 2009*

- **activities performed for employee professional growth and development**

In the period of account, considering substantial decrease of the State Audit Office expenditure, the training was mainly organised utilising internal training staff. In 2009 several experience exchange seminars took place on current issues related to audit, including exchange of experience and rendering of information on questions regarding



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implementing performance audits, trainings and seminars on audit tools used at the State Audit Office (*IDEA*, *TeamMate*), as well as trainings and discussions on employee management issues.

In total in the year of account employees attended 22 trainings organised by the State Audit Office (seminars, experience exchange activities), eight of which were organised by external specialists (management issues, information system management, personnel management, legal practices).

In 2009 the State Audit Office provided employees with training in the amount of 1929 hours. In 2009 one State Audit Office employee received training on average for 12 hours per year. Audit personnel received training in the amount of 1845 hours in the year of account, which is on average 14 hours per employee, in turn support personnel received training in the amount of 84 hours, which is on average 2.5 hours per employee. In 2008 one State Audit Office employee received training on average for 55 hours per year, which almost four times more than in 2009.

- **employee work performance assessment conducted**

In total 131 employees participated in the final assessment process of work performance, including 109 employees of audit structural units and 22 employees of support structural units.

From the total number of employees, who participated in the final work performance assessment, 94% received A or B assessment category, which is by 1% more than in 2008.

Taking into account substantial changes related to the structure of the institution, number of employees and decrease of remuneration, significant attention was paid to reviving interest of employees and motivating them. Non-financial employee motivation action plan was developed in the period of account. It foresees paying more attention to internal communication and information exchange, including exchange of work experience.

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

In the year of account technical maintenance of information technologies was ensured, as well as maintenance of existing information systems and software. Information system renewal plans were updated to ensure uninterrupted access to information technologies.

New internal network was developed and introduced, ensuring structured information storage and publishing. Information search, arrangement and viewing functions were improved. Internal network users have the possibility of receiving information by e-mail, taking part in discussions and expressing their opinion, replying to current question.

Four modules of audit management system *TeamMate* that 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*) – largely support and facilitate the use of extensive information systems. Possibilities offered by data analysis programme *IDEA* were widely employed for audit work during the year of account.

### 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. In the year of account participation in international cooperation activities was affected by reduced financial resources, therefore employees of the State Audit Office attended fewer events of these organisations in person, but followed their work via Internet, as well as actively engaged in bilateral cooperation with supreme audit institutions of other countries.

#### **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 four associated members, as well as European Court of Auditors in the status of supranational organisation.

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.

The Working Group on Key National Indicators was established during INTOSAI congress in 2007, where specialists of the State Audit Office took active part. In 2009 representative of the State Audit Office, who is engaged in this Working Group, developed a questionnaire, summarised information submitted by the countries and developed the report covering international experience on use of key national indicators. The report developed by the State Audit Office with regard to experience of other countries on use of key national indicators will be included into overall Working Group report to INTOSAI board. Within the framework of the meeting of the Working Group on

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Key National Indicators in April 2009 in China representative of the State Audit Office presented the working material.

In 2009 representatives of the State Audit Office in the observer's status took part in INTOSAI Working Group on Privatisation, Economic Regulation and Public-Private Partnerships, as well as in INTOSAI Working Group on Environmental Auditing.

During past year specialists of the State Audit Office continued being actively involved also with the INTOSAI Subcommittee on Financial Audit Guidelines, 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 are the following: 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. Similarly to INTOSAI, EUROSAI every three years also organises a congress, as well as regularly arranges work group meetings, training sessions and seminars.

In 2009 representatives of the State Audit Office in the observer's status continued their work in activities of EUROSAI Working Groups on Tax Subsidies, Information Technologies and Environmental Audit.

### **Cooperation with the European Court of Auditors**

The European Court of Auditors (hereinafter – ECA) is a supreme audit institution of the European Union. ECA is external auditor of the European Union, and it contributes to improving the European Union financial management and acts as the independent guardian of the financial interests of the citizens of the European Union. ECA's activity objective is to improve the European Union financial management, in order to provide optimal use of the financial resources considering public interests.

ECA, auditing the collection and spending of the European Union funds, assesses how institutions of the European Union perform these functions. ECA examines whether financial operations have been properly recorded and disclosed, legally and regularly executed and managed so as to ensure economy, efficiency and effectiveness. ECA communicates the results of its audits, publishing relevant and objective reports, as well as opinions.

In 2009 during thematic audit visits of ECA to Latvia auditors of the State Audit Office participated in traditional own revenue audit for preparation of the Statement of Assurance on 2009 financial year, as well as in single area payment scheme and integrated administration and control system audit.

### **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.

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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 Budapest, Hungary in November 2009. The agenda included seminar on the role of supreme audit institutions under financial and economic crisis circumstances, as well as discussions on issues related to independence of supreme audit institutions.

In 2009 within the framework of the Working Group on Structural Funds IV established by Contact Committee auditors of the State Audit Office conducted parallel audit "Cost Effectiveness and Compliance with Legal Enactments of the European Union Structural Funds Administration System". By taking part in the Working Group, the auditors obtained knowledge on assessment of control costs in other European Union Member States. This knowledge will be further used in the audits of the State Audit Office, examining utilisation of the European Union Structural Funds.

In 2009 representatives of the State Audit Office continued their activity in the following working groups established by the European Union Contact Committee, mainly in observer's status:

- Contact Committee Working Group on Tax Subsidies,
- Contact Committee Working Group on National SAI Reports on the European Union Financial Management,
- Contact Committee Working Group on Common Auditing Standards.

### **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 Poland on 3-4 September 2009. 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 exchanged experience regarding EUROSAI strategic plan and consultation process on strategically important issues within the framework of international organisations (EUROSAI, INTOSAI), the role of supreme audit institutions under the circumstances of financial and economic crisis, discussed possibilities of increasing the impact on international level of parallel audits conducted by supreme audit institutions, as well as reviewed the question on presenting the results of audits on the European Union Structural Funds. 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 Lithuania, in 2008. It was decided to organise next meeting of the Supreme Audit Institutions of the Baltic and Nordic States on expert level in Riga in September 2010.

At the beginning of 2009 Auditor General attended the conference in Vilnius, organised in relation to 90<sup>th</sup> anniversary of the National Audit Office of Lithuania.

### **Cooperation with the Supreme Audit Institutions of Other Countries**

In 2009 the State Audit Office considerably broadened bilateral cooperation with supreme audit institutions of other countries with the goal to facilitate information exchange between supreme audit institutions and to share the experience and knowledge related to performing public sector audits.

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To strengthen bilateral cooperation, in 2009 agreements were reached and mutual memorandums of understanding were concluded between the State Audit Office and the following supreme audit institutions of other countries: the Committee of State Control of the Republic of Belarus, the Accounts Committee of the Republic of Kazakhstan for control over execution of the republican budget and the Accounting Chamber of Ukraine. The agreements entered into provide for exchange of experience with the aim to improve audit methodology, professional training and rising of employees' qualification, exchange of information materials and documents, as well as organisation of mutual projects and audits. At the end of 2009 the State Audit Office commenced talks with the Chamber of Control of Georgia on cooperation possibilities of supreme audit institutions of Latvia and Georgia.

To develop bilateral cooperation, in October 2009 the State Audit Office and the Accounts Chamber of the Kyrgyz Republic entered into contract on implementation of the project financed from the subsidy of the Institutional Development Fund for capacity building in public sector auditing. The project will be implemented in the period from October 2009 to May 2011. Project activities include training of personnel of the Accounts Chamber of the Kyrgyz Republic, improvement of audit manual on performance of financial audits in accordance with requirements of international auditing standards, as well as approbation of developed manual through performing pilot audits.

The State Audit Office has developed successful cooperation with the Accounts Chamber of the Russian Federation. In 2009 within the framework of this cooperation both institutions completed already third common audit. During the audit activity of responsible institutions was assessed with regard to supervision of the handling of food and administration of food products export to the Russian Federation.

### **Cooperation with Other Foreign Institutions**

The State Audit Office cooperates not only with external audit institutions of other countries, but also with other foreign public sector institutions:

- In May 2009 Chairman the Committee of State Control of the Republic of Belarus arrived on official visit to the State Audit Office. During the business meeting with Auditor General I.Sudraba the memorandum of understanding between supreme financial control institutions of Latvia and Belarus was signed;
- In June 2009 representatives of the Accounts Chamber of the Kyrgyz Republic visited the State Audit Office, including the Chairman of the Accounts Chamber and deputies of the Kyrgyz Parliament, who met representatives of audit departments and support structural units and discussed such questions as quality management system, financial audit methodology, legality and performance audit methodology, monitoring of recommendation implementation at the State Audit Office and other issues;
- In October 2009 group of representatives of the Accounts Chamber of the Kyrgyz Republic arrived to the State Audit Office to participate in the training on performance of financial audits organised by the State Audit Office;
- In November 2009 representative of the European Court of Auditors was on official visit to Latvia. At the State Audit Office he presented annual report of the European Court of Auditors on implementation of the European Union budget for 2008;
- In December 2009 delegation of representatives of Kazakhstan supreme audit institution and Kazakhstan Parliament arrived to the State Audit Office on experience exchange visit;

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- In December 2009 delegation of representatives of the Accounts Chamber of the Russian Federation lead by its Chairman visited the State Audit Office. The goal of the visit was the completion of the common audit of the State Audit Office and the Accounts Chamber on activity of responsible institutions, regulating export of Latvian food products to the Russian Federation, and publishing the results of the audit. The topic of the audit was the activity of responsible institutions with regard to supervision of the handling of food and administration of food products export to the Russian Federation.
- **communication and cooperation with the public and other institutions was improved**

### Visits of the Auditor General in 2009

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

- In January 2009 Auditor General I.Sudraba attended the conference in Vilnius, Lithuania organised in relation to 90th anniversary of the National Audit Office of Lithuania;
- In July 2009 Auditor General I.Sudraba went to Moscow, the Russian Federation to participate in the meeting on progress of common legality audit "Activity of the Ministry of Agriculture and Institutions Subordinated Thereto in Relation to Supervision of the Handling of Food and Administration of Food Products Export to the Russian Federation";
- In September 2009 Auditor General I.Sudraba went to Sopot, Poland to participate in annual meeting of the Supreme Audit Institutions of the Baltic and Nordic States;
- In September 2009 Auditor General I.Sudraba went to Astana, Kazakhstan to participate in the conference organised by the Financial Police of Kazakhstan and OECD;
- In November 2009 Auditor General I.Sudraba went to Tbilisi, Georgia to discuss cooperation possibilities of supreme audit institutions of Latvia and Georgia;
- In October 2009 in Kijev, Ukraine Auditor General I.Sudraba signed the memorandum of understanding with supreme audit institution of Ukraine;
- In November 2009 Auditor General I.Sudraba went to Saint Petersburg, the Russian Federation within the framework of the legality audit "Activity of the Ministry of Agriculture and Institutions Subordinated Thereto in Relation to Supervision of the Handling of Food and Administration of Food Products Export to the Russian Federation";
- In November 2009 Auditor General I.Sudraba participated in meeting of Contact Committee of European Union Supreme Audit Institutions in Budapest, Hungary.

### Press Conferences

In 2009 the State Audit Office organised two press conferences, informing the public on the activities of the State Audit Office:

- In May 2009 the State Audit Office organised a press conference, during which Auditor General I.Sudraba informed about the findings of the audit on financial statements for 2008 at ministries and central State institutions;



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- In December 2009 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 about the results of the audit conducted by both institutions in 2009.

### **Publications in Press Regarding the Work of the State Audit Office**

In 2009 there were more than 184 publications in the central and regional press on the results of audits that were made public in 2009. The most important interviews and publications that appeared in press in 2009:

- **“Slamming the brakes. What Next?”**. Interview with Auditor General I.Sudraba on economy stabilisation and development plan, on activity of the State Audit Office. The newspaper *“Rīgas Balss”*, 2 January 2009;
- **“Tens of millions are not received by the Airport due to rebates”**. Publication on the findings of the audit, assessing economic performance indicators of Riga Airport. The newspaper *“Diena”*, 27 January 2009;
- **“The State Audit Office: 27 millions have been squandered for Southern Bridge”**. Publication on the findings of the audit by the State Audit Office regarding construction of Southern Bridge. The newspaper *“Latvijas Avīze”*, 19 March 2009;
- **“One shall not lie to one’s people”**. Interview with Auditor General I.Sudraba regarding situation in the country. The newspaper *“Čas”*, 10 June 2009;
- **“Sudraba does not exclude possibility of going into politics”**. Interview with Auditor General I.Sudraba. The newspaper *“Telegraf”*, 19 June 2009;
- **“Inguna Sudraba: control on officials has become weaker”**. Interview with Auditor General I.Sudraba regarding the work of the State Audit Office. The newspaper *“Telegraf”*, 11 August 2009;
- **“If we commence an audit, then there is something to examine”**. Interview with Auditor General I.Sudraba regarding the work of the State Audit Office. The newspaper *“Business & Baltija”*, 27 August 2009;
- **“Money that flows past the Treasury”**. Publication on the findings of the audit at the State Revenue Service. The newspaper *“Latvijas Avīze”*, 27 August 2009;
- **“Important results oriented training”**. Auditor General I.Sudraba on training of employees at the State Audit Office. The newspaper *“Dienas Bizness”*, 11 September 2009;
- **“Audit shows government botched Parex rescue”**. Publication on the findings of the audit of the State Audit Office regarding JSC “Parex Bank” takeover transactions. *“The Baltic Times”*, 1 October 2009;
- **“I count my money”**. Interview with Auditor General I.Sudraba. The newspaper *“Vestji Segodņa”*, 6 October 2009;
- **“Sudraba: “Our goals live independently. They are absent in real life...”**. Interview with Auditor General I.Sudraba on *Parex*, State administration and structural reforms in the country. The newspaper *“Neatkarīgā Rīta Avīze Latvija”*, 12 October 2009;
- **“No fairy will help us. We have to start working ourselves”**. Interview with Auditor General I.Sudraba on budget for 2010, tax policy in the country, activity of the State Audit Office. *“Bilance”* Nr.20 (224), October 2009;

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- **“I.Sudraba: “We have many dishonest people””**. Interview with Auditor General I.Sudraba on the work of the State Audit Office, squandering State resources, State apparatus, State budget for 2010, JSC “Parex Bank” takeover transactions. The newspaper “Čas”, 11 November 2009;
- **“Inefficient practice”**. The newspaper “*Bizness & Baltija*”, 11 November 2009;
- **“Latvian Rural Advisory and Training Centre is accused of inefficient utilisation of the State resources”**. Publication on the legality audit “Assessment of Allocation of the State Budget Funds to LLC “Latvijas Lauku konsultāciju un izglītības centrs” (Latvian Rural Advisory and Training Centre), Justification of Utilisation of the Funds and Compliance to the Needs of Sector Participants”. The newspaper “*Latvijas Avīze*”, 25 November 2009;
- **“Promises of facilitating exports”**. Publication on the findings of the legality audit “Activity of the Ministry of Agriculture and Institutions Subordinated Thereto in Relation to Supervision of the Handling of Food and Administration of Food Products Export to the Russian Federation”. The newspaper “*Dienas Bizness*”, 15 December 2009.

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

In 2009 Auditor General I.Sudraba has met a number of times with the State and local government officials of various levels to discuss the results of the audits conducted by the State Audit Office.

### **Cooperation with the Public Expenditure and Audit Committee of the Saeima, other committees and the Cabinet**

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

In 2009 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 23 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 2008 regarding the implementation of the State budget and regarding the budgets of local governments; on implementation of social correction education system; on implementation of higher education system; on storage and sales of motor vehicles removed during administrative violation matters; on active employment measures and preventive unemployment reduction measures; on expenditure of capital companies of the Ministry of Health and institutions subordinated thereto and issued State guaranteed credits; on export of food products to the Russian Federation; on economic substantiation of administrative costs included in the draft tariffs of providers of public utilities; on the State budget subsidy to providers of public transport services; on design and construction of the Southern Bridge across Daugava River; on commercial activity of Riga City Municipality etc.



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Upon submission of 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.

In the year of account the State Audit Office has been actively involved in the work of the Public Expenditure and Audit Committee of the *Saeima*, related to supervisory function of the Committee on stabilisation and development programme of Latvian economy. The Committee has approved work plan, in accordance with which a time schedule has been determined, as well as topics to be reviewed, responsible institutions and information that shall be submitted to the Committee. The State Audit Office renders support to the Public Expenditure and Audit Committee of the *Saeima*, evaluating draft documents developed by responsible institutions and other information, as well as preparing materials and information summaries for review at the Committee meetings.

In the year of account the State Audit Office has evaluated how the Cabinet observes the decisions adopted on ensuring fiscal discipline, to successfully overcome decrease of the State budget revenue and restricted expenditure caused by the economic crisis. The State Audit Office disclosed that the decisions adopted by the Cabinet, especially in December, contradict the decisions adopted earlier regarding measures on ensuring fiscal discipline and supervision. The government has taken decisions on allocation of resources from the State basic budget sub-programme of the Ministry of Finance "Resources for Unforeseen Circumstances", as well as has allowed redistribution of resources within the framework of the ministries' budgets, not observing the regulatory enactments in force and the decisions adopted earlier on unified principles for restricting the State and local government expenditure.

The State Audit Office informed the President, Speaker of the *Saeima* and the Prime Minister about the findings.

#### **4. Results of the State Audit Office Audits**

##### **4.1. Legality Audits**

In 2009 the State Audit Office auditors completed 27 legality audits. Within the framework of these audits the auditors assessed the issues of interest and importance to the society, as well as implementation of particular systems in accordance with the set objectives and effectiveness of the activity of capital companies, the auditors also assessed several complaints received during the year of account from private persons and institutions, which indicate common problems in a number of local governments and undertakings.

With reference to economic situation in the country issues related to effective administration of the State and local government financial resources were drawing the most of public attention. 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 large part of population and disclosed deficiencies indicated uneconomical action with the State and local government resources or even squandering of resources, as well as inability of particular institutions to achieve objectives put forward for a sector.

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The audits of the State Audit Office have included such important areas as social, healthcare, education, culture, State security and interior, economy, agriculture, transport and other areas, also in the period of account repeated inspection was conducted on implementation of recommendations rendered within the framework of previously conducted audit.

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

### **Audit “Compliance of Design, Construction and Financing of the Southern Bridge across Daugava River in Riga with the Requirements of Regulatory Enactments”**

Audit objective – to obtain assurance that actions conducted by Riga City Municipality, organising design, construction and financing of the Southern Bridge across Daugava River in Riga (hereinafter – the Southern Bridge), comply with the requirements of regulatory enactments, as well as to ascertain whether action of the municipality with financial resources is economical, and whether the Southern Bridge has been built with the minimum use of financial resources.

It was disclosed in the audit that millions of lats were squandered in the process of Southern Bridge construction.

Construction costs of Southern Bridge in total have increased up to LVL 570.14 million from the initially planned LVL 108.84 million (for first stage LVL 64.79 million, for second stage LVL 44.05 million) due to inefficient project management and uneconomical activity of Riga City Municipality.

It was disclosed in the audit that major part of cost increase has occurred due to selection of financing model for construction works, which provides for deferred payments of loan obtained for construction of the bridge until 2010, thus increasing construction costs of Southern Bridge by LVL 264 million or by 87%.

The audit also recognised that Riga City Municipality, by reaching an agreement with the general contractor regarding amendments in payment procedures, during construction of the bridge has unlawfully approved economically unjustified increase of construction costs, thus squandering the municipality’s financial resources in the amount of LVL 27 million.

It was disclosed in the audit that reasonable planning was lacking already during commencement of Southern Bridge construction project development. Before taking the decision on commencement of bridge construction the municipality has not specified nor the project implementation process, nor deadlines or achievable results.

Furthermore the municipality has not conducted sufficient and according research on requirements to be put forward to the project and impact thereof on solving traffic problems in Riga, as well as has not developed project feasibility study in order to apply for the financing available from European Union Structural Funds.

The audit disclosed that procurement procedures for design works and construction works of the Southern Bridge were not performed in accordance with the requirements of regulatory enactments. Contracts that do not favour interests of Riga City Municipality were entered into as the result of competition.

Thus, for example, Riga City Municipality, not observing the requirement of the competition regulations that contract price may be raised only up to 10% in case of

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construction works volume increase has entered into a contract that specifies requirements allowing unlimited raise of the contract price.

Riga City Municipality, entering into agreement with “Deutsche Bank” AG regarding the loan in the amount of LVL 567 million for construction of the bridge, has acted not observing loan obtaining procedures specified in regulatory enactments.

Riga City Municipality has also not observed requirements of regulatory enactments, keeping accounts of transactions related to construction of the bridge.

### **Audit “Activity of the Ministry of Agriculture and Institutions Subordinated Thereto in Relation to Supervision of the Handling of Food and Administration of Food Products Export to the Russian Federation”**

Objective of the parallel audit – to determine effectiveness of international agreement documents on external trade of food products, legal enactments of the Russian Federation with respect to the State regulatory framework, importing Latvian food products into the Russian Federation and legal enactments of the Republic of Latvia with respect to the State regulatory framework on export of Latvian food products to the Russian Federation; to clarify problematic issues within legal framework and application thereof with regard to import of Latvian food products into the Russian Federation, and to draw up proposals for improvement of legal framework; To identify factors, which have negative impact on import of Latvian food products into the Russian Federation, and to draw up respective proposals.

It was disclosed in the audit that activity of the State institutions shall be improved to promote export of Latvian companies to the Russian Federation. Although the export volume to the Russian Federation of Latvian food companies is significantly influenced by the Russian Federation authority decisions related to market demand, promotion of Latvian food export is possible by more purposefully distributing budget funds of the Ministry of Agriculture allocated for this purpose, increasing the financing for the companies and decreasing administrative expenditure, as well as ensuring quality supervision over handling of food and efficient cooperation with the responsible institutions of the Russian Federation.

Legality audit “Activity of the Ministry of Agriculture and Institutions Subordinated Thereto in Relation to Supervision of the Handling of Food and Administration of Food Products Export to the Russian Federation” was conducted in parallel with the audit of similar scope carried out in the Russian Federation, performed by the Accounts Chamber of the Russian Federation. The audit identified problems that hinder companies’ ability to export to the Russian Federation.

Decisions on recognition of companies for export to the Russian Federation are taken by the Veterinary and Phytosanitary Supervision Service of the Russian Federation (hereinafter – VPSS), but in case of fishery produce these rights are delegated to the Food and Veterinary Service (hereinafter – FVS). The audit did not obtain assurance that approach of both institutions with regard to recognition of companies is equal to all companies, therefore supreme audit institutions of both countries have recommended VPSS and FVS harmonising unified criteria for assessment of compliance.

The audit has also disclosed other deficiencies related to supervision of food companies carried out by FVS during assessment of compliance thereof with the requirements of the Russian Federation. If deficiencies are eliminated, supreme audit institutions of both

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countries have proposed to responsible institutions of the Russian Federation to assess the possibility of fully delegating the right of assessing the compliance of meat processing companies with the requirements of the Russian Federation to FVS, entering into appropriate memorandum, as well as, when taking decisions on renewal of export rights for companies, which were temporarily suspended as the result of inspections by VPSS, rely on compliance assessment rendered by FVS instead of carrying out repeated VPSS inspections.

Due to interpretation by VPSS and FVS of the memorandum on export of fishing produce export commencement of these products has been delayed up to 8 months. Supreme audit institutions of both countries recommend FVS and VPSS to agree on according application of requirements of the memorandum in order to speed up recognition process and thus also export possibilities.

It was also recognised in the audit that the support measures of the Ministry of Agriculture for promotion of food products export are mainly targeted at supporting individual companies, not facilitating company consolidation in acquisition of export markets. Supreme audit institutions of both countries recommend Latvian government to perform measures for promoting consolidation of exporters, thus ensuring the necessary volumes to satisfy the demand of retail networks of the Russian Federation.

As the result of the audit the institutions will assess possibilities of specifying performable activities and implementation time periods for reevaluating regulations of the Russian Federation with regard to acceptable level of harmful substances in food products on occasions, when the regulations of the Russian Federation significantly differ from the regulations of the European Union and decrease in the respective requirements does not influence consumer safety and health.

Within the framework of the audit the State Audit Office examined also such activities of the State institutions, which are not related with the export to the Russian Federation, but have significant impact on export ability of companies engaged in the handling of food, for example, analysing the system for the State supervision of the handling of food applied by FVS, and allocation by the Ministry of the State budget funds for promotion of agriculture and food products market.

It was recognised in the audit that FVS expenditure optimisation is possible by means of improving coordination of activity, inspection efficiency and decreasing administrative expenditure.

Product inspections at sales locations performed by FVS do not provide the assurance on efficiency thereof and equal approach, controlling food products that are imported and produced in Latvia, thereby not facilitating fair competition. Besides, FVS has not sufficiently coordinated the activity of territorial units so that inspections would be planned and carried out according to unified principles.

Company assessment and fine infliction system developed by FVS does not ensure equal approach to companies, as well as does not provide for sufficient motivation for companies to operate in accordance with the requirements of regulatory enactments. This fact is certified by the high percentage of companies engaged in producing food products of animal origin and trading companies – 55% – where deficiencies were disclosed regularly in 2008.

91.8% of total number of staff employed by central administration of FVS – Food Supervision Department and Veterinary Supervision Department – are management level employees.

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Implementation scheme of the Programme on Promotion of Agricultural and Food Products Market is not transparent and does not comply with regulatory enactments. Four institutions are involved in the administration of one programme – the Ministry of Agriculture, the Rural Support Service, Latvian State Institute of Agrarian Economics and the association “Marketing Council”.

Programme management and organisational expenditure in 2008 were approved in the amount of 31% of total programme expenditure, also providing resources for raising of qualification of personnel involved in programme administration and for bonuses in the amount of LVL 29 thousand. In 2009 management and organisational expenditure amounted to 28% of total programme expenditure.

Decisions on allocation of aid are taken by the association “Marketing Council” without authorisation specified in regulatory enactments, moreover regularly violating the requirements of the regulation developed by the association “Marketing Council”, which has not been harmonised with the Ministry of Agriculture. This indicates purely formal approach to administering export promotion measures under the programme and does not create assurance on justified utilisation of the State budget funds.

Potential applicants were not provided with sufficient information on the possibility of receiving aid, or the specified support intensity – 25% or 35% of eligible expenditure, with respect to requirements put forward to receiving the aid, does not motivate potential applicants to apply for the aid.

The Ministry shall improve cooperation with the Investment and Development Agency of Latvia (hereinafter – LIAA), ensuring that interested parties would have the possibility of receiving all in-depth information regarding the aid measures administered by LIAA and the Ministry of Agriculture in the area of food, agriculture and fishery

### **Audit “Lawfulness and Effectiveness of Utilisation of the Financing Allocated for Active Employment Measures and Preventive Unemployment Reduction Measures”**

Audit objective – to obtain assurance that the Ministry of Welfare and institution subordinated thereto the State Employment Agency (hereinafter – the Agency) ensures lawfulness and effectiveness of utilisation of the financing allocated for active employment measures and preventive unemployment reduction measures.

It was disclosed in the audit that the State Employment Agency ineffectively organises activities on employment promotion and decrease of unemployment. The Agency does not assess the opportunities for persons to return to labour market, thereby also does not facilitate the achievement of its main objective – to decrease unemployment and promote increase of economic activity of residents.

Overall the State budget funds in the amount of LVL 1.4 million were utilised inefficiently and without substantiation.

The Agency insufficiently supervises compliance of persons to criteria for granting the status of unemployed person or the status of person seeking employment, in the audited period granting or retaining the status of unemployed person or the status of person seeking employment to 7 815 persons, who in accordance with the *Support for Unemployed Persons and Persons Seeking Employment Law* do not have such rights, for example, to persons, who are employed or self-employed. According to estimations of the auditors, the State budget funds in the amount of LVL 233 thousand were unlawfully utilised for the participation of the abovementioned persons in active



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employment measures. In turn the State Social Insurance Agency has disbursed unemployment benefits to these persons in the amount of LVL 434 thousand.

It was disclosed in the audit that the State budget funds are utilised ineffectively, organising active employment measures: involving persons into programmes of *category "B", "C", "D1", "D" or "E" driver* of the measure *Acquisition of Informal Education*, the Agency does not verify if a person after participation in the training has received the driving licence. Until 1 September 2009 987 persons or 45% of persons, who have completed training, have not received driving licence of respective category at the Road Traffic Safety Directorate, thus effective utilisation of the State budget funds in the amount of LVL 436 thousand is not ensured.

Involving the unemployed persons into occupational training and education acquisition measures, the Agency does not assess the information at the disposal thereof on the number of registered unemployed persons in respective professions. For example, 411 persons are involved within the occupational training programme *Salesperson at Retail Shop*, which in respective time period is the highest number within one occupational training programme, although in the Agency's database 21 994 unemployed persons are registered for the occupation *Salesperson at Retail Shop*, which is the third largest number of unemployed persons registered for the abovementioned occupation.

Within the framework of the measures *Paid Temporary Works* and *Measures for Particular Person Groups* 127 persons are involved with the implementer of the measure, who has previously been their employer. Thus there is a risk the implementer of the measure has eliminated previously created positions with the aim of receiving financial support in the form of the State co-financed work positions.

### **Audit "Economy, Effectiveness and Efficiency of Utilisation of Issued State Guaranteed Credit and Direct and Indirect (General), Including Administrative Costs of the Capital Companies of the Ministry of Health and Institutions Subordinated Thereto"**

Audit objective – to examine effectiveness, efficiency and compliance with the activity objectives of direct and indirect (general), including administrative costs of capital companies of the Ministry of Health and institutions subordinated thereto, as well as to verify efficiency, compliance with set objectives and lawfulness of utilisation of the State guaranteed credits issued to capital companies of the Ministry of Health.

Conducting the audit at Riga Stradiņš University (hereinafter – RSU), State Limited Liability Company "Pauls Stradiņš Clinical University Hospital" (hereinafter – PSCUH), Limited Liability Company "Riga Eastern Clinical University Hospital" (hereinafter – RECUH), State Limited Liability Company "Riga Psychiatry and Drug and Alcohol Abuse Centre" (hereinafter – RPDAAC) it was disclosed that that all audited capital companies of the Ministry of Health and institutions subordinated thereto have uneconomically and ineffectively utilised resources in the amount LVL 2.8 million.

Institutions subordinated to the Ministry of Health and institutions, where the Ministry of Health is the only shareholder have repeatedly purchased external services and formed partnerships with private structures, although it was not financially beneficial.

RECUH has paid for microsurgery and microsurgery bedsores treatment services in the amount of LVL 2.4 million by private capital companies – the Limited Liability Companies "Centre of Plastic and Reconstructive Microsurgery of Latvia" and "Wound Clinic", even though it would be beneficial for the hospital itself to render such service, thus RECUH

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has not gained part of possible gross profit in the amount of LVL 1.2 million, which thereby was not invested into development of RECUH, instead was obtained by private capital companies.

PSCUH has entered into contract for purchase of services from the Limited Liability Company "*Baltijas elektronikas izstrādes*" in the total amount of LVL 68 thousand, although the hospital has all the necessary resources to ensure implementation of tasks. Moreover functions of PSCUH employees overlap with the tendered tasks. It was concluded in the audit that the contract has been entered into with the purpose of gaining profit for a private capital company. For example, in 2008 80% of net turnover of the Limited Liability Company "*Baltijas elektronikas izstrādes*" is formed by the revenue from services rendered to PSCUH and profitability of gross profit is 99% or LVL 54 thousand, besides it is planned to pay in dividends the profit of the year of account in the amount of LVL 40 thousand.

RSU has entered into procurement contract with the Limited Liability Company "*Rīgas firma „Pamats”*", although the tendered price was twice as higher as the lowest tendered price. Besides, RSU has disbursed remuneration to 12 administration employees of the Limited Liability Company "*Rīgas firma „Pamats”*" (for example, to Technical Director, Secretary, Head of Quality Management, Construction Works Managers, Procurement Manager), who performed construction, plumbing and electric installation works at RSU.

RPDAAC has entered into contract with the Limited Liability Company "*Publisko iepirkumu atbalsta aģentūra*", which has registered its activity five days prior to the application of RPDAAC employee regarding the need of such external service. RPDAAC payments in 2008 are the only revenue of the Limited Liability Company "*Publisko iepirkumu atbalsta aģentūra*". Thereby possible beneficiary is the abovementioned company instead of RPDAAC.

It was also disclosed in the audit that there are possibilities of decreasing remuneration costs of administrative employees and overall administrative costs in all audited entities, in order to achieve objectives of institutions with the minimum use of financial resources.

Examining utilisation of issued State guaranteed credits, it was disclosed that such payments were made that do not comply with the objectives of the State guaranteed credit and activities provided in the business plan, for example, resources of the State guaranteed credit were utilised for payment of current debt commitment, deposited in credit institutions and investment funds.

### **Audit "Implementation of Higher Education System in Compliance with the Set Objectives"**

Audit objective – to gain assurance that the Ministry of Education and as the leading State administration institution in the field of higher education ensures implementation of tasks set by regulatory enactments to achieve objectives for implementation of higher education system, as well as ensures implementation of tasks set by regulatory enactments in such manner to achieve higher education development policy objectives.

It was disclosed in the audit that in Latvia higher education policy is implemented unprofessionally, the Ministry of Education and Science has deficiently implemented objectives specified in higher education policy planning documents and has not facilitated achievement of the objective – to ensure education supply adequate for development needs of national economy.

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One of the key tools the Ministry of Education and Science can utilise to influence higher education processes in Latvia is high quality and professional accreditation of study programmes and institutions of higher education. It is necessary for ensuring assessment of the work organisation and quality of resources of an institution of higher education, thereby achieving development and competitiveness of higher education.

It was disclosed in the audit that accreditation of education study programmes does not conform to the essence thereof – assessment of respective programme's implementation quality.

The Ministry of Education and Science has not determined detailed criteria for evaluation of study programmes, and unified methodology for assessment of accreditation to obtain assurance that teaching aids and material and technical supply for study programmes is of sufficient quality. Besides, organisation of accreditation process of study programmes and institutions of higher education often does not comply with requirements of regulatory enactments.

The Ministry of Education and Science has authorised the Higher Education Quality Evaluation Centre to perform specific objectives, which according to the law the Ministry shall perform itself. However subordination, competence, functions and role of the centre in the study programme accreditation process are not specified in any of regulatory enactments, moreover, the ministry has not entered into delegation or authorisation contract with the centre.

Another important tool the Ministry of Education and Science can use for improving higher education is organisation of study loans. Requirement of the Cabinet Regulation, developed by the Ministry of Education and Science, that a guarantor may not be a natural person, which receives or repays loans received previously with the government guarantee, reduces range of potential guarantors, thus reducing the number of potential students.

The Ministry of Education and Science does not ensure transparent higher education system budget planning and implementation process, besides the ministry does not have updated information on costs of study programme implementation at institutions of higher education. The Ministry of Education and Science still conducts calculation of the financing for the studies on the basis of scientific research conducted in 1996 by Riga Technical University *Methodology for Calculation of Higher Education Financing*.

The Ministry of Education and Science has not ensured transparent system for determining work remuneration and supplements at institutions of higher education. It was disclosed in the audit that average work remuneration at institutions of higher education for the same positions differs by even 52%. Likewise, the system for keeping accounts of working time and workload of academic personnel is not transparent. During the audit there were occasions disclosed, when at several institutions of higher education persons simultaneously work at three to six places of work.

### **Audit “Cost Effectiveness and Compliance with Legal Enactments of the European Union Structural Funds Administration System”**

Audit objective – to examine effectiveness and lawfulness of EU Structural Funds and the Cohesion Fund (hereinafter – EU Funds) management and control system and costs thereof at the Ministry of Finance, as well as to gather information on administration costs at Certifying, Paying, Co-operation and Managing Authorities.



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The audit was conducted within the framework of coordinated parallel audit of the Working Group on Structural Funds IV established by Contact Committee on costs of controls of EU Structural Funds (hereinafter – the parallel audit). The scope of the audit and audited issues are adapted to the objectives and audited issues of the parallel audit.

It was disclosed in the audit that the Ministry of Finance has not ensured effective administration and quality management of the European Union Funds. The system for supervision over utilisation of EU Funds developed by the Ministry of Finance does not provide assurance on systems approach to effective utilisation of financial resources.

The government has not developed updated *Strategic Development Plan of Latvia*, which would specify development priorities in accordance with the economic situation of Latvia under crisis circumstances; therefore it is not possible to consider if the planned results and performable measures financed from the European Union Funds are current and if financial resources are utilised effectively. Planning documents – *National Development Plan 2007-2013, National Strategic Reference Framework 2007-2013* – have been developed at the time, when Latvia experienced growth and the forecasted economic growth is contrary to the situation in the country since the economic and financial crisis commenced in 2008.

As the planning documents and respective regulatory enactments were not timely approved by the Ministry of Finance, inflow of resources into Latvian economy allocated by EU Funds was delayed by 18 months, thus not commencing implementation of projects of 2007–2013 planning period. Only large infrastructure projects were commenced without delay.

The Ministry of Finance does not assess reports of responsible institutions on utilisation of EU Funds, including on problems disclosed during project implementation, as well as does not analyse disclosed incompliance with the planned indicators with regard to impact thereof on strategic objectives, overall system, further taken decisions on distribution of financing between activities, and furthermore does not ensure measurement of achieved results and assessment of quality thereof.

Implementing the resources of the technical aid project, on specific occasions resources were utilised for the needs of the ministry's employees, which are not targeted at achievement of the project objective, for example, payment for accommodation or catering. Within the framework of the projects costs of such seminars were covered, which do not have direct impact on effectiveness of utilisation of financing of EU Funds, as well as for implementation of guidelines and methodology, although it is direct objective of the Ministry of Finance.

The Ministry of Finance has not observed economy principle established by the government and has not decreased monthly salaries to all employees. At the end of 2008 and the first half of 2009 the Ministry of Finance contrary to the decisions taken by the government has increased salary to 47 employees out of 133 randomly inspected by 9% to 22%. Moreover additional responsibilities included into substantiation match direct work responsibilities. In August 2009 the Ministry of Finance decreased monthly salary of employees by 20%. As monthly salary was increased for part of employees by 22%, in reality monthly salary was increased compared to the situation at the beginning of the year. The Ministry of Finance also has uneconomically planned personnel resources – there was 1 manager per 1.8 employees as at 1 October 2009.

It is not possible to ensure wholesome use of EU Structural Funds and Cohesion Fund Information Management System (hereinafter – IMS) developed by the Ministry of

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Finance utilising for this purpose LVL 1.2 million from the technical aid project, as all the necessary data is not entered into the system. Therefore, respective sections of the system cannot be used as a tool for supervision of EU Funds. It is also necessary to develop alternative version for data aggregation, thus creating additional costs. Besides actual number of system users exceeds the planned number, which also created additional costs.

Activities to recover ineligible costs within the framework of the projects, as well as to limit settlement of such costs from the State budget are continuously not performed. As at 20 September 2009 IMS accounts ineligible costs that were not recovered within 47 projects in the total amount of LVL 5.2 million. The regulatory enactments do not provide for a procedure, which limits disbursement of non-conforming expenditure from the State budget, and do not specify disciplinary procedures for the budget institutions for decreasing of non-conforming expenditure, only decreasing the amount of eligible costs within the framework of a project, but not decreasing the State budget financing. In 2004–2006 planning period the State budget incurred losses in the total amount of LVL 7.9 million. In turn in the new planning period from the beginning of 2007 to 23 September 2009 ineligible costs in the amount of LVL 15 thousand are already disclosed.

### **Audit “Effectiveness of the State Border Guard College Activity and Compliance Thereof with the Requirements of Regulatory Enactments”**

Audit objective – to obtain assurance on effectiveness of implementation of the State Boarder Guard personnel training policy, on compliance of the State Border Guard College (hereinafter – the College) activity with the requirements of regulatory enactments and utilised capacity of material technical base.

It was disclosed in the audit that the State budget funds are utilised uneconomically at the College. The Ministry of Interior has not assessed how to manage and finance colleges under institutions subordinated thereto in the most effective way.

Management structure of the College is not rational – 34 various structural units are established under supervision of the College Director and three Deputy Directors. Number of various support structural units at the College is three times higher than at the State Police College and at the Fire Safety and Civil Protection College. In turn number of positions within support structural units at the College is twice as higher compared to the State Police College and at the Fire Safety and Civil Protection College.

The College has not conducted sufficient resource saving measures. Although in 2009 according to the State economy measures total expenditure of the College was decreased by approximately 40% (LVL 1.1 million) compared to 2008, from resources foreseen for work remuneration in the amount equal to 9 months period of the previous year 83.4% of the planned amount has already been utilised, but for goods and services – 83.6%. In November additional resources in the amount of LVL 86.4 thousand were allocated in order to ensure activity of the College.

It was concluded in the audit that concluded that the Ministry of Interior in essence has not implemented the decision of the Cabinet regarding decrease of expenditure, as the ministry in order to ensure decrease of the State budget funds expenditure in accordance with the decision of the Cabinet, decreased the expenditure for renovation works of the training firing ground “*Janapole*” by LVL 1.6 million, however, in Q4 2009 requested additional financing from the State budget in the amount of LVL 362.7 thousand for settlement of renovation works of the training firing ground “*Janapole*”.

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Professional education concept of the Ministry of Interior does not specify the number of necessary sector specialists and respective vocational education, as well as the College has not determined a procedure and criteria by which the total number of students to be matriculated shall be determined.

Contrary to the regulatory framework, in 2009 72 cadets were matriculated to the College, but nor the Ministry of Interior nor the State Border Guard has established the number of entrants to be matriculated to the State financed 1<sup>st</sup> level vocational higher education study programme "Boarder Guards" for part time studies.

The College entered into employment relations with volleyball team chief coach and four volleyball players, two biathletes, one motorist and one judoka; however, it was disclosed in the audit that the couch and the sportsmen hired to Sports and Physical Training Division do not participate in the training process, thus there is a risk that the State funds in the amount of LVL 120 thousand are utilised without substantiation disbursing work remuneration to the coach and the sportsmen.

### **Audit "Compliance with the Requirements of Regulatory Enactments of Particular Procurements of Kuldīga County Local Government"**

Audit objective – to obtain assurance that public procurements of Kuldīga City Municipality are conducted in accordance with the requirements of regulatory enactments and action of the municipality with financial resources has been economical.

It was disclosed in the audit that Kuldīga local government has ineffectively organised procurement tenders.

Due to erroneous, unequal and unfair evaluation by the Procurement Commission and decisions taken as a result of that the local government has undertaken liabilities, which may result in unsubstantiated utilisation of financial resources in the amount of LVL 145 thousand.

Within the framework of the tender regarding renovation of Piltenes, Liepājas Streets and part of the City Square the Procurement Commission has selected the tenderer offering the highest contract price of LVL 1.4 million (excluding VAT) due to the fact the Commission has awarded the highest number of points in one of evaluation criteria, although in accordance with the evaluation methodology approved by the Commission itself twice as lower number of points should have been awarded. The contract price by LVL 542 thousand (excluding VAT) or 62% exceeds the lowest offered price. Disproportionately high contract price of the selected tenderer did not prevent the local government from entering into procurement contract.

Regulations of procurement tenders include such unsubstantiated requirements to tenderers, which limit free competition and allow for subjective evaluation possibilities, as tender regulations unlawfully contain more strict limitations on involvement of sub-contractors into implementation of works.

One of tender regulations includes a requirement that a project manager and construction work manager shall have only the builder's practice certificate on management of construction works issued by Latvian Union of Building Engineers.

Laying down a requirement that construction work manager shall have at least 5 years of experience in the field of construction and at least 3 years experience in the position as construction work manager, at the same time does not foresee a possibility for a tenderer to certify his or her skills, enclosing information on previously completed works.

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Tender regulation provides for a restriction on participation in the tender of persons, who were involved with drafting of the regulation, not providing a possibility for a tenderer to certify that he or she does not have preferences in the respective tender procedure.

The Procurement Commission did not evaluate the tender with the lowest price regarding construction of the building group at 1 Baznīcas Street and renovation of Strautu Street, indicating that the tenderer did not submit the tender in due time. On such occasion the Commission does not have the right to open submitted tender, however, the tender has been registered and opened.

The local government has unlawfully and without substantiation in all procurement contracts examined during the audit provided for a reserve for unforeseen works in the amount of LVL 167 thousand (excluding VAT). However in order to determine such reserve a negotiated procedure shall be applied and permission of the Procurement Monitoring Bureau shall be obtained.

### **Audit “Compliance of Allocation of the State Budget Subsidy to Public Transport Service Providers and Utilisation Thereof with the Requirements of Regulatory Enactments and the Objective”**

Audit objective – to obtain assurance whether public transport route network has been developed rationally and whether allocation and utilisation of the State budget subsidy to public transport service providers and supervision over distribution thereof complies with the requirements of regulatory enactments and the objective.

It was disclosed in the audit that State resources allocated for public transport are not being utilised efficiently.

Regardless of the fact that the State budget subsidy for compensation of losses of the public transport services has reached LVL 44 million in 2008, which almost twice exceeds the amount allocated in 2007, the State debt to passenger carriers in 2008 has reached LVL 4 million, but until 30 September 2009 it has doubled. The State debt was significantly affected by deficiencies in the activity of the Ministry of Transport, the Road Transport Administration and local governments planning and organising public transport services.

The Ministry of Transport has not developed procedures and principles by which the necessary amount of financing for compensation of losses related to rendering public transport services shall be determined, thus the financing allocation process is not traceable and transparent.

Besides the auditors indicate that in terms of cost passenger carriers are not motivated to render effective public transport services in the situation, when losses are fully compensated from the State budget. This is certified by increase of the actual costs in 2008 by LVL 18 million or by 37.5% compared with 2007, as indicated by passenger carriers.

It was disclosed in the audit that the Road Transport Administration and local governments included in the audit sampling has not analysed costs of passenger carriers in the previous period to decide on substantiation of the cost increase in 2008. The responsible institutions did not obtain assurance on substantiation of the cost increase of the passenger carriers in the total amount of approximately LVL 13 million. For example, four passenger carriers of regional *local route network*, included in the audit sampling, compared to the previous year have increased planned costs of 2008 by

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19.4% – 114.5%, that is the cost increase compared among different carriers varies almost six times.

The audit also disclosed direct impact of decrease of the amount of passenger carriage services on the amount of the requested State budget subsidy, for example, an undertaking, losing in concession tender regarding the rights of rendering services in regional *intercity route network*, increases subsidy request for services in regional *local network*, possibly increasing the request for compensation even by LVL 200 thousand per year.

The Road Transport Administration has not ensured creation of such public transport route network, which would be efficient, both in terms of cost and would achieve social goals. During the audited period inefficient public transport costs were allowed at least in the amount of LVL 3.4 million, as the route network was developed on the basis of available State budget financing, not analysing passenger flow and not applying carriage sufficiency criteria.

The Road Transport Administration has allowed involvement of carriers JSC “*Nordeka*”, JSC “*Rīgas taksometru parks*”, LLC “*Blagovest TUR*” and LLC “*Norma-A*” in servicing the concession lot “*Centrs 1*”, although the results of the tender with regard to the abovementioned are lot are disputed, and administrative district court has taken decision on suspension of rights for assigning the order within the lot, where the abovementioned tenders were recognised as winners of the tender. Currently the abovementioned carriers *de facto* ensure 88.5% of carriage within the disputed lot.

### **Audit “Assessment of Economic Substantiation and Compliance with the Tariff Calculation Methodologies in Force of Administrative Costs Included in the Draft Tariffs of Providers of Public Utilities”**

Audit objective – to assess compliance of activity of the Public Utilities Commission (hereinafter – the Commission) and regulators of public utilities established by local governments, approving tariffs, with the regulatory enactments in force, as well as to assess whether providers of public utilities include economically substantiated administrative costs into draft tariffs.

It was disclosed in the audit that methodologies for calculation of public utility tariffs are deficient, as the methodologies do not provide for detailed accounting of administrative costs included into draft tariffs and for inspection of economic substantiation thereof.

In the audit substantiation of administrative costs included into tariffs for sale of electricity to associated users of energy and tariffs for utilisation of public-use railway infrastructure approved by the Commission was analysed, as well as substantiation of administrative costs included into tariffs for household waste management and heat supply tariffs approved by local government regulators of public utilities.

Provider of public utilities, drawing up the initial draft tariff, individually chooses cost positions to be included into draft tariff and to be substantiated to the Commission, as well as the level of substantiation details. The Commission does not request and does not receive information on eligible administrative costs indirectly related to the service; thereby in fact the Commission cannot assess substantiation of support functions of an undertaking included into tariffs, thus possibly not obtaining adequate assurance on substantiation of tariff calculation.



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Inspecting actual expenditure of undertakings attributed to rendering of the service, the auditors concluded that cost savings are possible. Although impact thereof on the overall tariff is insignificant, nevertheless, inclusion into tariff of such costs of the public utilities provider, which are not directly needed for provision of a service and are not proportionate to economic position of a service recipient, is not acceptable.

Also in local government regulated sectors draft tariffs were not sufficiently substantiated, as public utilities providers applied different cost forecast principles, as well as attributed indirect administrative costs to the tariff on the basis of significantly different principles.

Randomly inspecting costs included into heat supply and household waste management tariffs approved by local government regulators of public utilities, it was disclosed that costs of undertakings at least in the amount of LVL 90 thousand have been included into tariffs without substantiation due to insufficient draft tariff assessment performed by local government regulators, as well as due to deficiencies in the methodology for calculation of tariffs.

Inspecting ratio of administrative costs included into draft tariffs within local government regulated sectors and substantiation of 15 tariffs established by public utilities providers, the auditors disclosed that they are significantly influenced by the quality of the methodology and the degree of detailed elaboration. For example, in household waste management sector, where the methodology for tariff calculation is detailed, the ratio of administrative costs within tariffs ranges from 17.3% to 21.6%, in turn in heat supply sector, where the methodology for tariff calculation does not specify requirements for administrative costs to be included into the tariff, the ratio of administrative costs within tariffs ranges from 4.1% to 22.5%, which indicates the possibility of including economically not substantiated costs into tariffs.

The existing methodology creates a possibility for the public utilities providers to repeatedly include into the forthcoming draft tariffs costs for measures planned within the framework of previous draft tariffs, which have not been implemented, thus receiving unjustified higher revenue. For example, the audit disclosed an occasion, when a provider of public utilities in the draft tariff had foreseen costs for repair of heating main, but in reality did not implement these measures.

Besides the Commission has not specified principles of determination of tariff to be adopted in relation to universal service, as well as has not performed analysis of terrestrial digital television broadcasting market and influence of the possible dominant position of the undertaking in respective market on effective competition assessment, in order to decide on the need of applying the regulatory measures.

### **Audit “Efficiency of the Resources Utilisation of the Funds Financed from the State Budget under the Ministry of Agriculture and the Environment and Efficiency of the State Credit Guarantees Issued to Enterprises, as well as Compliance Thereof with the Requirements of Regulatory Enactments”**

Audit objective – to obtain assurance on efficiency of resources utilisation of Latvian Environmental Protection Fund, the Forest Development Fund, the Fish Fund, the Hunting Management Development Fund and compliance thereof with requirements of the regulatory enactments, to obtain assurance on efficiency and compliance with requirements of the regulatory enactments of the State credit guarantees issued by the State Joint Stock Company “Rural Development Fund” and Limited Liability Company

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“Latvian Guarantee Agency”, as well as on traceability and transparency of the funds’ State budget planning and utilisation supervision.

It was disclosed in the audit that resources of the Funds under the Ministry of Agriculture and the Environment are utilised for financing of basic activity of the State institutions. Most of the resources of the Funds under the Ministry of Agriculture and the Environment – 81.2% or LVL 14 million are allocated for implementation of the objectives of the State administration institutions, and only 19.8% of LVL 3 million are allocated to non-governmental organisations and enterprises for achievement of socially beneficial objectives. Thus the State administration institutions receive additional financing from the Funds for performance of their functions, which forms approximately 10% from total budget expenditure of institutions.

Documents regulating public procurement are evaded, as well as the regulatory enactments regulating the State budget planning are not observed, when drafting project applications for tenders on obtaining financing from the Funds for performance of the State administration functions. Besides councils of the Funds, taking decisions regarding submitted projects participate in the approval of the budget of the State administration institutions and perform tasks in the competence of the Ministry of Agriculture and the Environment related to distribution of resources to institutions subordinated thereto.

Activity of various Funds is specified by regulatory enactments of different hierarchical level, administering institutions have different authorisations and they apply essentially different Funds operation principles. It means that utilisation of the State budget is supervised differently.

Objectives of the audited Funds are similar, and randomly inspecting financed projects, it was disclosed that, for example, projects that conform also to the objectives of other Funds have been granted financing from Latvian Environmental Protection Fund in the amount of LVL 530 thousand.

It was disclosed in the audit that there are optimisation possibilities at the State Joint Stock Company “Rural Development Fund” and Limited Liability Company “Latvian Guarantee Agency”. Concurrent operation of two separate State capital companies with the same activity objectives would only be justified in case if there would exist certain restrictions of the European Union regulatory enactments for merging such entities or if individual operation of entities would be more efficient in terms of cost. Guarantee granting mechanisms in these capital companies are the same, and rural enterprises are not ensured the opportunity to receive credit guarantees for agriculture and rural development measures according to “one stop shop” principle.

### **Audit “Accessibility and Efficiency of Services Rendered by the Legal Aid Administration”**

Audit objective – to obtain assurance that services rendered by the Legal Aid Administration (hereinafter – the Administration) are accessible, rendering thereof is efficient and complies with the requirements of regulatory enactments.

It was disclosed in the audit that the Ministry of Justice has not taken the decision on further optimisation of the activity and structure of the Administration. Irrespective of the position of the Ministry of Justice regarding the need of further optimisation of the activity and the structure of the Administration, decision on respective action has not been taken yet.

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The Administration does not ensure internal control over terms of validity of legal aid providers' contracts, as violating the requirements of regulatory enactments, on specific occasions the Administration for rendering legal aid had assigned persons, with whom the contractual obligations had expired or would have expired before the date assigned for rendering legal aid.

On several occasions the Administration does not ensure timely payment of the State compensation to victims, which in accordance with the requirements of the regulatory enactments shall be paid within a time period of one month after the day when the decision regarding payment of the State compensation was taken.

The auditors disclosed deficiencies related to accounting of creditors of the Administration in the amount of LVL 18 thousand, as liabilities are not accounted in accordance with the requirements of regulatory enactments.

The Administration has not ensured development of efficient system for collection from perpetrators of violent criminal offence or a joint participant thereof, thus timely and complete transfer of resources into the State basic budget is not ensured.

Thereby the Administration has formed accumulation of 355 cases, where the State budget funds shall be collected in the amount of LVL 198 751. The Administration does not implement sufficient cooperation with sworn bailiffs, thus not obtaining information regarding the progress of collection process.

In 2008 the Administration has inefficiently utilised LVL 2,8 thousand, entering into contracts with commercial companies regarding services, implementation of which could have been ensured or was ensured by institution employees in accordance with responsibilities of their respective position.

### **Audit “Lawfulness of Revenue Utilisation of the State Joint Stock Company “*Latvijas Valsts radio un televīzijas centrs*” and Compliance Thereof with the Activity Objectives of the State Joint Stock Company “*Latvijas Valsts radio un televīzijas centrs*””**

Audit objective – to assess lawfulness of revenue utilisation of the State Joint Stock Company “*Latvijas Valsts radio un televīzijas centrs*” (Latvian State Radio and Television Centre, hereinafter – the Centre), including with regard to rendering certification services and expediency of investments related to implementation of terrestrial digital television broadcasting and compliance thereof with the objectives of the Centre.

It was disclosed in the audit that economic activity of the Centre is not efficient – inefficient utilisation of resources and raised cost for rendered services was identified.

Revenue from basic activities of the Centre in the period from 2008 to 2009 does not cover the Centre's operation expenses, with losses increasing from LVL 14 thousand in 2008 to planned LVL 734 thousand in 2009. Profitableness was affected also by insufficient expenditure control and incurring of unjustified costs. Although more than 70% of the Centre's revenue was formed by dividends from capital shares of LLC “*Latvijas mobilais telefons*” (Latvian Mobile Telephone) in the ownership of the Centre and from interest rate for depositing dividends in commercial banks, management policy of free capital has not been developed, which should ensure justified and purposeful action with free capital.



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The Centre, disbursing LVL 1 million in benefits, has applied non-transparent benefit granting system, also disbursing LVL 93 thousand in 2009, when the law specified remuneration expenditure restrictions.

The Centre has inefficiently utilised its motor vehicle park – at least 11 motor vehicles were continuously not used in February, March this year, at the same time a motor vehicle for the needs of the chairman of the board was being leased, paying monthly fee of LVL 791.

The Centre has partly covered costs of recreational events for employees of the company and their family members. In the audited period travel trips to Portugal, Spain, Cyprus, Turkey and Slovenia were covered in the amount of LVL 7165.

Substantial deficiencies were disclosed in relation to the tender organised by the Ministry of Transport regarding implementation of terrestrial digital television broadcasting. Tender requirements do not comply with the Concept approved by the Cabinet. The Centre partly lost the rights of ensuring infrastructure in Riga and Riga Region in favour of Limited Liability Company “Hannu Digital”, which at the same time has caused additional expenditure, thus increasing tariffs to broadcasting organisations and indirectly to end users – watchers of television programs.

The Council of the Centre has not performed relevant supervision of the capital company's activity, as the Council has approved contracts regarding participation of the Centre in the implementation of terrestrial digital television broadcasting, even though the Council had doubted compliance thereof to the requirements of the regulatory enactments and the Concept approved by the Cabinet.

In accordance with the provisions of Section 5, Paragraph three of the Freedom of Information Law, the Centre and commercial companies involved with implementation of terrestrial digital television broadcasting have determined the status of commercial secret to part of the information included into the audit report, thus limiting the possibility of publishing full version of the report.

There was also a negative impact on the performance of the Centre caused by decision of the Ministry to hand over to the Centre rendering of electronic signature certification services initially commenced by the State Joint Stock Company “*Latvijas Pasts*” (Latvian Post). This not only does not comply with the objectives of the company's activity, but also causes additional expenditure in the amount of LVL 619 thousand and worsens financial position of the company by the amount of accumulated losses of the State Joint Stock Company “*Latvijas Pasts*”. There is a possibility that in the nearest years this direction of activity will cause losses to the company in the amount of several million lats.

### **Audit “Assessment of Allocation of the State Budget Funds to LLC “*Latvijas Lauku konsultāciju un izglītības centrs*” (Latvian Rural Advisory and Training Centre), Justification of Utilisation of the Funds and Compliance to the Needs of Sector Participants”**

Audit objective – to obtain assurance that the Ministry of Agriculture has assessed the need of allocating State budget funds to Latvian Rural Advisory and Training Centre, whether measures financed from the State budget comply with the needs of sector participants and the State budget resources allocated for implementation thereof have been utilised efficiently.

It was disclosed in the audit that the Ministry of Agriculture does not ensure efficient utilisation of the State budget funds with regard to rural development promotion.

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In 2008 and the first half of 2009 planning of measures on rural development promotion performed by the Ministry of Agriculture was not efficient for all measures examined in the audit, and the budget funds were utilised inefficiently at least with regard to two measures – “Making More Active the Residents of Less Active Rural Territories and Reorientation of Small Farms” with the funding in the amount of LVL 225 thousand, and “Substitute for Rural Farmers in Latvia” with the funding in the amount of LVL 25 thousand.

For example, implementing the measure “Substitute for Rural Farmers in Latvia”, in 2008 and first half of 2009 LVL 18 thousand were utilised for training ten rural farmer substitutes and for coordination of activities of four rural farmer substitutes, in turn rural farmer substitute services were rendered only in the amount of LVL 2 thousand; out of 24 candidates only ten rural farmer substitutes have successfully completed training, moreover, 40% of trained rural farmer substitutes in 2008 and first seven months of 2009 have not rendered rural farmer substitute services; in 2008 and first seven months of 2009 rural farmer substitute services were used only by 16 farms or by 0.04% of farms registered in Latvia.

The Ministry of Agriculture does not sufficiently assess compliance of planned measures to the needs of sector participants, as well as has not justified preference of entrusting implementation of measures and administration of the State funding specifically to Latvian Rural Advisory and Training Centre, taking into account the experience, resources, personnel qualification and ability to efficiently implement each measure.

The Ministry of Agriculture has not ensured application of principles of fair competition and cost efficiency, entering into annual contracts with Latvian Rural Advisory and Training Centre regarding utilisation of the State earmarked subsidies for implementation of measures on rural development promotion – in the amount of LVL 2.6 million in 2008 and LVL 1 million in 2009.

### **Audit “Activity of the State and Local Government Institutions, Ensuring Recovery of Resources for Rendered Out-of-Family Care Services”**

Audit objective – by examining activity of institution subordinated to the Ministry of Welfare – Social Service Board (hereinafter – SSB, liquidated on 1 July 2009) and activity of local governments, ensuring recovery of resources for rendered out-of-family care services, to obtain assurance whether the developed legal system in this area is operational and efficient; by examining activity of institution subordinated to the Ministry of Welfare – the State Social Insurance Agency (hereinafter – the Agency) related to interruption of disbursement of the State social benefit during out-of-family care, to obtain assurance whether legality of disbursement of these benefits is ensured.

It was disclosed in the audit that interests of a child to grow up in a family environment are not ensured in the country.

Although local governments shall do everything possible to ensure rights of a child to grow up in a family, on occasions, when a family with children experiences a crisis situation, local governments often choose ensuring out-of-family care to a child, that is, guardian care, foster family care or placement into child care institution.

Deciding on out-of-family care for a child, part of local government Social Services and Custody Courts, as a primary option choose care institution, instead of foster family, where the child has more opportunities to receive everything necessary to ensure wholesome physical and intellectual development.

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Rendering of quality support to families, where a child has unfavourable circumstances for development, as well as to foster families and guardians is affected by the fact that in 2008 only 26.9% of local governments had established Social Services, 61.9% of local governments had hired only one social work specialist, but 11.2% of local governments had delegated performance of Social Service task to a local government official apart from other his or her direct responsibilities.

The auditors recognised that there is unequal approach towards child care institutions and foster families, determining financial resources for child's maintenance. Although child maintenance costs at social care institutions have increased from LVL 280 to LVL 461 per month respectively from 2005 to 2009, allowance for child maintenance in a foster family, which currently shall not be less than LVL 27, has not been revised since 1998, and remuneration for performance foster family duties in the amount of LVL 80 – since 2005.

The State and local governments do not ensure full recovery of payments from parents, who were deprived of child care rights. This function in the place of parents is performed by the State or a local government. In the audited period LVL 16 million have been utilised for this purpose, out of which the State funds were not recovered, but local governments have recovered expenditure in the amount of LVL 4 266, which is approximately 0.03% from all utilised resources.

Although regulatory enactments specify that disbursement of the State social benefits for a child under full State or local government maintenance, to parents, who were deprived of child care rights, shall be interrupted, Custody Courts do not have the duty to provide information at their disposal to the Agency, which is the basis for interruption of disbursement of the State social benefits. Thus the Agency has made unjustified State social benefit disbursements.

### **Audit “Compliance of Commercial Activity of Riga City Municipality with the Requirements of Regulatory Enactments”**

Audit objective – to obtain assurance that Riga City Municipality performs commercial activity in accordance with the requirements of regulatory enactments.

It was disclosed in the audit that commercial activity of Riga City Municipality is questionable – it does not comply with the requirements of regulatory enactments and creates a risk of free market deformation.

The municipality has allowed that institution subordinated thereto – Municipal Agency “*Rīgas dārzi un parki*” performs unregistered commercial activity, rendering commercial services to private persons related to territory improvement – planting landscape greenery and ensuring maintenance thereof.

Riga City Municipality has founded and re-registered capital companies in the Commercial Register in order to delegate tasks derived from municipal functions, not assessing whether capital companies can perform specific task more effectively or at least on the same level as municipal institution.

For example, Riga City Municipality has founded Limited Liability Company “*Lucavsālas attīstība*” and Limited Liability Company “*Transporta infrastruktūras attīstība*” and has invested LVL 6 million and LVL 500 thousand respectively into share capital of these companies, delegating the performance of functions of the Traffic Department of Riga City Council and activities falling under objectives of City Development Department of

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Riga City Council, not even planning that these companies will be engaged in commercial activity.

The municipality has re-registered in the Commercial Register such companies as Limited Liability Company “*Rīgas nami*”, Municipal Joint Stock Company “*Rīgas Centrāltirgus*”, Municipal Limited Liability “*Stūre*”, Limited Liability Company “*Rīgas pilsētas lombards*”, Limited Liability Company “*Rīgas GeoMetrs*”, although activity thereof is not related to circumstances specified in the law, under which local government may engage in commercial activity by registering a capital company.

The auditors recognised a risk that Riga City Municipality is paying inadequately high payment for the scope of rendered services by Limited Liability Company “*Rīgas nami*”, Limited Liability Company “*Rīgas pilsētbūvnieks*” and Limited Liability Company “*Rīgas meži*”.

The municipality has leased immovable property to Municipal Joint Stock Company “*Rīgas Centrāltirgus*”, but has not obtained revenue corresponding to the value of immovable property, as Municipal Joint Stock Company “*Rīgas Centrāltirgus*” leases immovable property to third persons setting considerable higher lease price.

Riga City Municipality has unlawfully invested immovable property in the amount of LVL 3.7 million into the share capital of Limited Liability Company “*Rīgas nami*” in the period from 1 January 2006 to 31 December 2008, which was used for ensuring of operation by municipal institutions, and which is now leased by municipal institutions from Limited Liability Company “*Rīgas nami*”.

Moreover the municipality has invested immovable property in the amount of LVL 34.8 million into share capital of Limited Liability Company “*Rīgas pilsētbūvnieks*”, which was foreseen for rendering assistance to residents in solving apartment matters.

The municipality has undertaken long-term obligations indirectly attracting financial resources through capital companies. The amount of long-term obligations as at 31 December 2008 has reached LVL 134.1 million.

### **Audit “Compliance of Organisation of Privatised Residential Houses Management in Riga, Liepāja, Rēzekne and Valmiera City Municipalities with Requirements of Regulatory Enactments”**

Audit objective – to obtain assurance that management of privatised residential houses in Riga, Liepāja, Rēzekne and Valmiera City Municipalities complies with requirements of regulatory enactments.

It was disclosed in the audit that Riga, Liepāja, Rēzekne and Valmiera City Municipalities have not ensured administration and management of privatised residential houses in accordance with the requirements of regulatory enactments.

Rēzekne City Municipality has not entered into a contract on delegating the task of privatised residential houses management to the actual manager and thus obligations and rights of the manager and the control mechanism over its activity have not been determined.

In turn the contracts entered into by Riga, Liepāja and Valmiera City Municipalities with capital companies on management of privatised residential houses are not prepared in accordance with the requirements of regulatory enactments and thus do not contain the control mechanisms on implementation of the tasks.

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In 2008 the municipalities have not determined of the maintenance and management payment for residential houses in accordance with the procedures specified by the regulatory enactments, which foresees that payment for the maintenance and management of a residential house shall be calculated in accordance with the estimate of expenses for the calendar year drawn up by the manager.

In Valmiera City Municipality the payment for the maintenance and management of a residential house was collected in accordance with fixed amount determined by the municipality regardless of the amount of management and maintenance expenses of the particular residential house.

In turn management payment in Liepāja City was collected in the amount of municipal apartment rent fee determined by Liepāja City Public Utilities Regulator in 2006 and 2007, but in Rēzekne City and Riga City the managers have established the management payment without preparing estimates of expenses.

The municipalities have also not carried out supervision of the activity of the managers, thus several managers – Valmiera City Municipality and Riga City Municipality LLC “Zemgale” and LLC “Valdemāra nami” – contrary to the provisions of the regulatory enactment have not ensured the opportunity for the apartment owners to acquaint themselves with information regarding planned and actual expenses for maintenance and management of residential houses.

In 2008 Riga City Municipality LLC “Zemgale” and LLC “Valdemāra nami” from residential houses provisions for renovation works have disbursed apartment owners debts on utilities, thus the resources foreseen for maintenance of houses were utilised for other purposes in the amount of LVL 57 thousand at LLC “Zemgale” and in the amount of LVL 63 thousand at LLC “Valdemāra nami”.

Liepāja City Municipality LLC “Karosta”, by including into residential houses management expenses both calculated fixed assets depreciation and credit payments for purchase of individual heating supply units installed in residential houses, without consent of apartment owners, has without justification requested repayment of a credit in the amount of LVL 24 thousand for heating supply units, which remain in the ownership of the manager.

The municipalities have ensured the transfer of management rights of residential houses in accordance with the procedure specified by the regulatory enactment – Riga City and Liepāja City Municipalities have not complied with the time period specified by the regulatory enactment – within two months from submission of the application regarding taking over administration rights and management rights of residential houses were transferred within the period of up to six months from submission of the application.

Riga, Rēzekne and Valmiera City Municipalities contrary to the provisions of the regulatory enactment, transferring management rights of residential houses to the new manager of the residential house, do not transfer the provisions of a residential house or unused part of the payment for management of residential houses.

Riga City Municipality contrary to the provisions of the regulatory enactment has not entered into contracts with managers on maintenance, management and covering expenses for apartments in the ownership of the municipality.

On occasions, when the municipal apartment rent payment is higher than the determined management payment, the municipalities do not receive part of the rent payment profit specified by the regulatory enactments – in 2008 Rēzekne City Municipality has not received part of the rent payment profit in the amount of LVL



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27 thousand for leasing of 502 apartments in the ownership of the municipality; in 2009 Riga City Municipality has not received part of the rent payment profit in the amount of LVL 18 thousand monthly for leasing of 4595 apartments in the ownership of the municipality.

The municipalities have not observed the procedure specified in the regulatory enactment on determining and decreasing rent payment of municipal residential fund, not including a profit part into the rent payment and not taking the decision on decreasing rent payment on occasions provided for in the regulatory enactments.

### **Audit “Compliance of Planning and Utilisation of Administrative Expenses of Garkalne County Council with the Requirements of Regulatory Enactments”**

Audit objective – to obtain assurance on compliance of planning and utilisation of administrative expenses of Garkalne County Council (hereinafter – the Council) with the requirements of regulatory enactments.

It was disclosed in the audit that budget of Garkalne local government does not provide fair view on the planned expenditure, does not comply the requirements of regulatory enactments, as well as does not provide transparent and comparable information; moreover the Council has not implemented the recommendations of the previous audit conducted by the State Audit Office.

The action of the Council with local government’s resources has not been purposeful, efficient and has not complied with the requirements of regulatory enactments, investing LVL 85 thousand into construction of sports ground of Berģi primary school, as well as covering fuel costs in the total amount of LVL 47 thousand. The auditors also did not obtain assurance that the construction works in the amount of LVL 127 thousand were performed.

The Council has made unjustified payment for non-performed works regarding construction of water extraction place for fire extinguishing purposes and renovation works at the pre-school educational institution *Skudriņas* in the total amount of LVL 6 thousand.

During the audit the auditors disclosed that pavement in the territory of Garkalne primary school is laid in the area by 158 m<sup>2</sup> smaller than indicated in the delivery-acceptance deeds. The total value of missing pavement is LVL 2 thousand, and during the on-site inspection Head of the Construction Board of the Council failed to present it, later explaining that the pavement, which has not been laid, is piled and placed on the territory of Garkalne primary school.

Contrary to the requirements of the regulatory enactments the local government has not elaborated territory development programme, thus the Council has not fulfilled its functions. In order to ensure rational and efficient planning and utilisation of budget expenditure the Council shall elaborate territory development programme according to the requirements of regulatory enactments, linking it together with the amount of resources foreseen for each expenditure category.

Regardless of the fact the regulatory enactment, adopted on 12 December 2008, provided for decrease of the financing for remuneration, the management of the Council as at 1 January 2009 increased employee salary rate on average by 55%.



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Equal approach was not exercised when decreasing expenditure for remuneration, as the decrease of expenditure for administration was three times smaller than for other local government institutions.

The audit disclosed that provision of employment relations does not comply with the requirements of regulatory enactments, as not in all cases employment contracts are entered into and duties are determined, additional agreements to the employment contract are not entered into with employees regarding amendments to the salary rate, salary calculation and payment is not done in accordance with the signed employment contract between the employer and employee, also timely informing of employees regarding amendments to employment contracts is not ensured.

### **Audit “Compliance of Utilisation of the Financing Allocated Within the Framework of the European Social Fund Project “Elaboration of Multimedia Teaching Materials for Engineering Education in Mathematics, Material Science, Physics and Chemistry” with the Objective at Riga Technical University”**

Audit objective – to obtain assurance whether the financing allocated within the framework of European Social Fund project “Elaboration of Multimedia Teaching Materials for Engineering Education in Mathematics, Material Science, Physics and Chemistry” at Riga Technical University has been utilised according to the objective – teaching materials elaborated within the framework of the project are available to Riga Technical University students.

It was disclosed in the audit that as the result of implementation of European Social Fund project “Elaboration of Multimedia Teaching Materials for Engineering Education in Mathematics, Material Science, Physics and Chemistry”, elaborated teaching materials on four Natural Science and Engineering general courses: “Higher Mathematics”, “Physics”, “Fundamentals of Materials Science” and “Chemistry” are available for Riga Technical University students on the Internet, thus facilitating successful mastering of study courses.

At the same time the auditors disclosed that publishing teaching materials, Riga Technical University has not introduced appropriate controls for ensuring intellectual property rights. In case it may be recognised that by publishing lecture notes on “Physics I” and “Physics III”, intellectual property rights were infringed, there is a risk that Riga Technical University may incur losses.

### **Audit “Calculation and Application of Heating Energy Tariffs by LLC “Saldus Siltums” According to Requirements of Regulatory Enactments”**

Audit objective – to obtain assurance whether LLC “Saldus Siltums” has calculated and applied heating energy tariffs in accordance with the requirements of regulatory enactments.

It was disclosed in the audit that by applying heating energy fee determined by Saldus City Council, LLC “Saldus Siltums” has violated requirements of regulatory enactments.

By applying reduced heating energy fee, determined by Saldus City Council, LLC “Saldus Siltums” has violated the requirements of regulatory enactment, which stipulate that an energy supply merchant shall sell energy at the tariff specified by the regulator. According to legislation LLC “Saldus Siltums” shall apply tariffs approved by Liepāja City Public Utilities Regulator.

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The auditors disclosed in the audit that LLC “*Saldus Siltums*”, drawing up invoices for supplied heating energy, since 1 March 2009 has applied reduced heating energy fee in accordance with the decision of Saldus City Council, even though the Council did not have the right to take such decision.

The requirements of regulatory enactments have been violated by not entering into contract regarding supply of heating energy between heating energy producer LLC “*Saldus Siltums*” and apartment house maintenance company “*Saldus namu pārvalde*”, thus obligations and rights of both parties are not specified.

LLC “*Saldus Siltums*” has not ensured transparent achievement of basic activity objectives, which includes clear definition of interconnection between the performable works and increase of heat supply efficiency. Heat supply improvement indicators are not included into the working plan.

### **Audit “Legality of the Action with Property and Financial Resources of Local Governments Forming Vecumnieku County, Performing Local Government Functions”**

Audit objective – to gain assurance that action with property and financial resources of local governments forming Vecumnieku County complies with requirements of regulatory enactments.

It was disclosed in the audit that disclosed in the audit that action with property and financial resources of six local governments forming Vecumnieku County (Bauska District Vecumnieku Parish, Bārbele Parish, Stelpe Parish and Skaistkalne Parish, as well as Aizkraukle District Kurmene Parish and Valles Parish) does not comply with requirements of several regulatory enactments.

Analysing procurements conducted by local governments, the auditors disclosed that 75 out of 116 procurements that were examined have been conducted not observing the requirements of regulatory enactments.

At least 14 procurements in the total amount of LVL 63 thousand were conducted not applying procurement procedures. 10 procurements out of the abovementioned were conducted by Bārbele Parish local government.

Announcing procurements, technical specifications have not been developed, and the needs of a contracting authority were not specified for approximately a half of all procurements or 32 procedures in the total amount of LVL 150 thousand.

Decisions on 27 examined procurements in the total amount of LVL 608 thousand were taken not ensuring the minimum number of Procurement Commission members as specified by the Public Procurement Law, and with participation of persons who are not authorised to conduct procurement procedures.

The audit disclosed that local governments have not observed the requirements of the Law “On Prevention of Squandering of the Financial Resources and Property of the State and Local Governments”, and have ignored prohibition to transfer local government property for use without compensation. Lease contracts have not been entered into, as well as the lease payments were not determined and collected for lands plots with the total area of 189.7 ha, transferred for use to natural persons.

Three local governments (Skaistkalne, Bārbele and Valle) have not observed the requirements of regulatory enactments and have not collected immovable property tax for leased land plots and non-residential premises. For example, one of these local

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governments (Skaistkalne) has not collected immovable property tax for 30 leased land plots with the total area of 26.5 ha.

Five local governments out of examined ones (Bārbele, Stelpe, Skaistkalne, Kurmene and Valle), while planning and approving budget for 2007 and 2008, have not ensured openness and transparency of local government's budget development and implementation.

Developing the budget, these local governments have ignored requirements of the Law "On Local Government Budgets", and have not prepared explanatory notes informing about local government's objectives, goals and amounts of each financing position. Moreover, during budget amendments specific local governments have not amended the budget according to changes in revenue, or have not observed the procedures specified by the regulatory enactments.

### **Audit "Compliance of the Action with Immovable Property of the Ministry of Finance and the State Joint Stock Company "State Real Estate" with the Requirements of Regulatory Enactments"**

Audit objective – to obtain assurance on compliance of the action with immovable property of the Ministry of Finance and the State Joint Stock Company "State Real Estate" with the requirements of regulatory enactments.

It was disclosed in the audit that immovable property management policy of the Ministry of Finance and the Joint Stock Company "State Real Estate" is not purposeful, and does not ensure observation of State interests.

Immovable property has been transferred to the State Joint Stock Company "State Real Estate" for administration, not determining requirements for administration thereof, and not providing supervision of activity of the State Joint Stock Company "State Real Estate" with this immovable property. Process of construction and putting into order of immovable property is not planned and transparent, effective and compliant to the interests of the State management, leasing and maintenance of immovable property is not ensured as well.

The State Joint Stock Company "State Real Estate" has not planned all necessary costs, when entering into contracts regarding performance of construction design, and construction of large property units in the situation, when the amount of construction works has not been initially determined. Thus a number of additional agreements were entered into during the contract implementation period, significantly increasing total construction costs and lease price.

For example, construction of administrative building complex of the Ministry of Interior in Riga, 15 Gaujas Street, presently 1 Čiekurkalna 1<sup>st</sup> Line (Gaujas Street), was commenced without detailed calculation of planned costs, and three additional agreements were entered into during the implementation period of construction contract, increasing total construction costs by LVL 90 million.

Besides, as it is not possible to identify nor the initial construction works of the property unit, and the costs thereof, nor the additional works, and the costs thereof, and as the amount of works indicated in the cost estimate was not examined by experts, there is a possibility that the largest part of the cost increase – in the amount of LVL 22 million – may be unjustified. Total construction costs of Gaujas Street property unit, including cost increase are LVL 56 million.

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Furthermore, after entering into initial contract on reconstruction of the administrative building of the Ministry of Foreign Affairs in Riga, on Kr.Valdemāra Street, additional agreements were entered into with the building contractor regarding unforeseen additional works in the amount of LVL 1.9 million. Out of this amount LVL 0.7 million were spent for additional works related to deficiencies in the technical project, although according to requirements of the contract, such additional works shall be performed under the contract, and shall be included in the contract price. Total construction costs of the property unit, including additional costs are LVL 11 million.

The process on organisation of leasing immovable property of the State Joint Stock Company "State Real Estate", and decision making process regarding further use of immovable property, and lease requirements, is not transparent.

Presumably immovable property of the State Joint Stock Company "State Real Estate" is not being leased to natural persons and legal entities at the highest price possible. Examining lease contracts included in the sampling, according to calculation done by the auditors, in the audited period the State Joint Stock Company "State Real Estate" could have gained additional revenue from lease of premises, buildings, and land approximately in the amount of LVL 1.4 million.

The Ministry of Finance does not ensure that lease price calculation principles developed by the State Joint Stock Company "State Real Estate", according to which the Cabinet approves lease price for property units, where the State Joint Stock Company "State Real Estate" has made investments according to Cabinet Orders, planning institutions' financial resources and long term liabilities, to ensure payback of investments through lease price of premises, are equal, transparent and conform to the interests of the State.

The auditors disclosed also mathematical inaccuracies in calculation of lease price for several property units. For example, due to this reason, possibly, LVL 5 million more than the actual lease cost may be transferred from the State budget to the State Joint Stock Company "State Real Estate" for Gaujas Street building complex during validity of lease contract.

It was disclosed in the audit that immovable property is not managed efficiently, therefore condition thereof substantially worsens. Timely capital and ordinary repairs are not conducted, and deficiencies disclosed by controlling authorities are not being eliminated.

Deficiencies in regulatory enactments or lack of regulatory enactments do not ensure complete information for keeping accounts of immovable property, as well as do not facilitate recovery of funds to the State budget obtained from alienation of State immovable property.

The Ministry of Finance as the developer and implementer of accounting policy has not developed regulatory enactments that would specify accounting of State immovable property on occasions, when it is transferred to capital companies for administration thereof. Furthermore, the procedure for transfer of funds, obtained from alienation of State immovable property, into the State budget has not been established, thus the State Joint Stock Company "State Real Estate" performs transfer of funds, obtained from alienation, into the State budget irregularly during last three years – it was disclosed that funds obtained from alienation in the amount of LVL 7 million were not transferred to the State budget as at June 30, 2008.

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### **Audit “Coordination and Supervision of Energy Policy Development and Implementation, Compliance of State Support Allocation to Energy with the Policy Objectives”**

Audit objective – to assess compliance of coordination and supervision of energy policy development and implementation as well as compliance of State support allocation to energy with regulatory enactments and policy objectives stated in existing policy planning documents.

It was disclosed in the audit that during the time period from 1997-2006 overall development of energy sector was not defined by any policy document, as a result of which systematic sector development and purposeful utilisation of financing allocated to the sector were not ensured.

Although the objective of the budget programme “Energy Policy”, which is implemented by the Ministry of Economics, is to facilitate the overall economic growth of Latvia, to promote both independence of imported energy resources and diversification of commercial activity, more than 16% or LVL 4 million from the total programme 2005-2007 resources are intended for objective not stipulated by the programme – defraying legal expenses and making payments in accordance with verdict by the Arbitration Institute of the Stockholm Chamber of Commerce on December 16, 2003, in the case “Nykomb Synergetics Technology Holding AB”, Stockholm, vs. Republic of Latvia”. As a result of contested agreement, which was concluded in rush and under circumstances of normative regulation and which does not protect the interests of Joint Stock Company “*Latvenergo*”, in total LVL 6 million from the State budget resources have been spent during the time period from 16 December 2003, to 17 July 2007. Although the State budget resources spent are compensated from the additional payments by Joint Stock Company “*Latvenergo*” for utilisation of State capital (dividends) in the amount of 96.9%, these resources are in essence additional expenses incurred by fully State-owned Joint Stock Company “*Latvenergo*”, which decrease the amount of the stock company’s profit and thus the amount of dividends the State can claim.

### **Audit “Assessment of the Work Remuneration System for Actors and Employees of the Theatres Financed from the State Budget Funds”**

Audit objective – to obtain assurance that the work remuneration system for actors and employees of the theatres financed from the State budget funds complies with the requirements of regulatory enactments.

The audit included assessment of the remuneration system of the Ministry of Culture and the State Limited Liability Companies – “Latvia National Theatre”, “New Riga Theatre”, “Daugavpils Theatre” and “Mikhail Chekhov Riga Russian Theatre”.

It was disclosed in the audit that the Ministry of Culture, by delegating performance of culture functions and tasks to theatres, and allocating the State budget subsidies for implementation thereof, has not ensured linkage of specific requirements, objectives and achievable results with the allocated funds.

Achievable performance indicators specified for theatres are not linked to specific amount of the State subsidy, thus supplements and bonuses are paid from the funds of the allocated State budget subsidy.

The remuneration system established at the theatres is not organised in accordance with the requirements of regulatory enactments and is not transparent, as the theatres do not

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enter into additional agreements with employees to employment contracts regarding amendments to work remuneration. It is in conflict with the requirements of regulatory enactment, which specifies that an employee and the employer may amend an employment contract by mutual agreement.

Accounts of working time at theatres are not kept accurately and in essence, and according to the requirements of regulatory enactment, which specify that employers have a duty to keep accurate accounts for each employee of hours worked.

Although actors are prescribed aggregated working time, and their actual working time depends on participation in rehearsals/performances, employment contract indicates monthly salary, instead of hourly rate. Regardless of the number of hours worked an actor receives his or her monthly salary, thus transparent calculation of the salary according to actual working hours is not ensured.

The auditors disclosed that transparent work remuneration of members of the board was not ensured, and management contracts were used as an instrument for increasing work remuneration, as internal regulatory enactments of the Ministry of Culture do not specify criteria, according to which the remuneration of the management contract shall be determined. Remuneration of the management contracts of the members of the board forms up to 66.67% of the monthly salary.

### **Audit “Implementation of Education for Social Correction in Accordance with Set Objectives”**

Audit objective – to obtain assurance that the Ministry of Education and Science, as the responsible body for planning and implementation of the State educational policy, ensures operation of education system for social correction in accordance with the Law “On Application of Compulsory Measures of a Correctional Nature to Children”, as well as in accordance with the objectives set out in the by-law of educational institutions for social correction “*Naukšēni*” and “*Strautiņi*”.

It was disclosed in the audit that higher education policy in Latvia is not implemented professionally.

The Ministry of Education and Science, as the developer and implementation coordinator of education policy for social correction, does not ensure efficient development, refraining from illegal actions, and re-integration into society of students of educational institutions for social correction subordinated thereto.

By not developing a regulatory enactment, which would specify key objectives and tasks of educational programmes for social correction as mandatory content, the Ministry of Education and Science has not observed the requirements of the Education Law and the General Education Law.

It was disclosed in the audit that that social correction classes implemented in both educational institutions subordinated to the Ministry of Education and Science – “*Naukšēni*” and “*Strautiņi*” – do not conform to the age, psychological features, and development level of students attending them.

Most substantial discrepancies were disclosed at educational institution “*Strautiņi*”, where majority of persons undergoing education for social correction are staying. These are mostly 15 to 16 years old male juvenile offenders. In 2007/2008 school year students were able study and improve their skills only in Cooking and Computer Science, in turn



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value education and preparation for life was ensured by means of Physical Education, Music, Applied Arts and Origami.

The programme "Life Skills Development" of this institution specifies "sewing, winding, weaving in creative works", "ornaments, greetings", "making leaf decors, leaf bottles, bouquets and collages" as achievable results of the programme, which do not conform with interests of the respective male age group.

It was also disclosed in the audit that implemented individual process of social correction for students does not comply with the institution's licensed educational programme for social correction. Conclusions of the examination show that until fall of 2008 psychologist services were not ensured in the planned amount nor at "*Naukšēni*", nor "*Strautiņi*". Similarly, although several students were recognised to be addicted to smoking, drinking, drugs, and toxic substances, planned and regular implementation of individual addiction prevention programmes did not take place.

It was also discovered in the audit that internal regulations are not observed at "*Strautiņi*", and students suffer from violence. Regular acts of violence were disclosed during several inspections of the State Inspectorate for Protection of Children's Rights. During one such inspection it was revealed that in the injury registers of this institution such student injuries are registered as haematoma, signs of burning, tattoos, signs of strangling etc. Despite this fact, students placed in this educational institution for such offences as murder, rape and theft, are accommodated in the same premises as other students.

The audit also disclosed that unwarranted absence of students at educational institution "*Strautiņi*" was tolerated on regular basis. In the period from 2006 to 2008 three to twenty nine students were on unwarranted absence repeatedly.

Similarly it was discovered that students of educational institution "*Strautiņi*" before the end of their stay were not familiarised with potential social worker, teacher, police representative, psychological aid centre, non-governmental organisations, support group and other resources. Thus complex of measures facilitating re-integration, specified in the educational programme for social correction, is not being implemented.

It was also disclosed that the Ministry of Education and Science does not supervise utilisation of the State budget funds allocated to educational institutions according to allocation objective – provision of social correction process. The findings of the audit show that the State budget funds were utilised for catering of employees and transport services that are specified as paid services, also for purchase of equipment, which is provided for the learning process (carpentry), however equipment is not installed and used.

### **Audit "Legality of State Budget Expenditure on Storage and Sales of Motor Vehicles Removed During Administrative Violation Matters"**

Audit objective – To gain assurance on whether a system has been developed and implemented at the Ministry of the Interior and the State Agency „Material Reserves”, which ensures lawful and expedient utilisation of State budget resources allocated for storage and sales of motor vehicles removed during administrative violation matters, timely and lawful decision making on return and sales of motor vehicles, as well as recovery of utilized resources from persons that caused the losses.

It was disclosed in the audit that the Ministry of the Interior and the State Agency "Material Reserves" operate uneconomically with State budget resources.

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The system developed at the Ministry of the Interior and the State Agency "Material Reserves" for storage and sales of motor vehicles removed in administrative violation cases does not ensure efficient utilisation of the allocated budget resources as well as their timely recovery.

The Ministry of the Interior and the State Agency "Material Reserves" have not performed sufficient activities to sell the recovered motor vehicles within short time periods and thus avoid their long-term storage.

It was disclosed during the audit that 57 motor vehicles included in the sampling have been stored long-term at the merchants' parking lots for various reasons from 6 to up to 32 months. On average LVL 70 per month were paid for storage of each motor vehicle.

On several occasions the State Agency "Material Reserves" has not informed the motor vehicle owners and violators within five working days after receiving information on decision to impose administrative penalty regarding location of the motor vehicle and commencement of sales procedure after the end of the set term.

On several occasions the sales procedure had not been initiated long after the end of the term indicated in the notification as well as motor vehicles, which have been put in pledge by sworn law enforcement officer or which are registered as commercial collateral, are protractedly stored in merchant's parking lots.

It was disclosed in the audit that in 2007 the State Agency "Material Reserves" had spent LVL 4.5 million for transfer, storage and sales of the removed motor vehicles and has received revenue in the amount of Ls 1 million from motor vehicle owners and sales of motor vehicles. Thus, only 23.1% of the resources have been recovered. In turn, during the first eight months of 2008 the Agency has spent LVL 1.5 million on the above-mentioned activities and received revenue in the amount of LVL 0.9 million. Thus, 58.1% of the resources have been recovered.

The State Agency "Material Reserves" has not performed recovery of expenses from persons, upon which the administrative penalty has been imposed and which are obliged to cover expenses for motor vehicle deposit for storage, storage and sales, as stipulated by the Cabinet Regulation. It is so because decisions on the amount of recoverable expenses have not been taken, therefore recovery of expenses for motor vehicle deposit for storage and storage itself in the amount of LVL 279 thousand have not been commenced.

The State Agency "Material Reserves" has not observed basic principles of the Public Procurement Law on efficient utilisation of State and local government resources, because, when entering into contracts on receipt of transportation and storage services, the Agency has not accurately anticipated the service volume and the number of removed motor vehicles, as well as the financial resources required for service payment.

Therefore, additional resources from privatisation revenues in the amount of LVL 1.5 million and the budget sub programme "Creation and Renewal of State Material Reserves" in the amount of LVL 1.9 million were utilised in 2007, as well as penalty fee was disbursed to a merchant in the amount of LVL 64 thousand for delayed bill payment.

It was disclosed in the audit that the Director of The State Agency "Material Reserves" has set by order the minimum motor vehicle sales rate, which for motor vehicles included in the sample was from 2 to 36 lower than the market rate determined by certified estimator. Therefore the Agency has sold motor vehicles at unjustifiably low rates. 4729 motor vehicles were sold in 2007 for the average price of LVL 85 whereas

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1254 motor vehicles were sold during the first eight months of 2008 for the average price of LVL 98.

The State Agency "Material Reserves" has not ensured sufficient control over data presented by the merchants in motor vehicle removal documents, as the presented transfer distances for removed motor vehicles have been unjustifiably large on several occasions. For example, motor vehicles have been documented as transferred within the territory of one region or even one city in the distance of up to 180 km.

### **Implementation of Recommendations of Legality Audit "On Compliance of Riga District Baloži City Municipality Action, Making Land Contributions into Capital Companies, with the Requirements of Regulatory Enactments"**

Audit objective – to gain reasonable assurance on implementation of recommendations included in the audit report of the legality audit conducted by the State Audit Office "On Compliance of Riga District Baloži City Municipality Action, Making Land Contributions into Capital Companies, with the Requirements of Regulatory Enactments", and on sufficiency of performed measures for elimination of deficiencies.

It was disclosed in the audit that has not entirely implemented recommendations of the State Audit Office legality audit "On Compliance of Riga District Baloži City Municipality Action, Making Land Contributions into Capital Companies, with the Requirements of Regulatory Enactments" with regard to assessment of lawfulness and expediency of draft decisions, and with regard to assessment of results of managing local government's capital shares at capital companies.

Although Baloži City Municipality has developed and approved internal regulatory enactment "On Assessment of Lawfulness and Expediency of Draft Decision", the provisions thereof were not observed during the audited period – an official responsible for additional examination of lawfulness of draft decisions was not appointed, and 11 draft decisions out of 53 Council decisions that were examined, were not reviewed by committees.

Although local government has developed and approved internal regulatory enactment "Procedures on Assessment of Capital Shares Management", the provisions thereof that representative of capital shareholder shall inform capital shareholder on activity of capital companies and financial position thereof, were not implemented in the audited period.

Managing local government's contributions into capital companies, the local government has not ensured complete accounting of contributions – local government's contributions and transactions with local government's capital shares in the amount of LVL 87 thousand have not been accounted, and have not been decreased in the amount of LVL 268.

## **4.2. Financial Audits**

### **The audit on the Annual Report of the Republic of Latvia for 2008 Regarding Implementation of the State Budget**

Audit objective – to examine whether the Annual Report of the Republic of Latvia for 2008 on implementation of the State budget and budgets of local governments (hereinafter – the financial year report) in all significant aspects complies with the

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financial statements, from which it was derived, as well as to assess compliance of transactions indicated in the financial year report with the requirements of regulatory enactments.

It was disclosed in the audit that there are still no strict procedures in place regarding accounting and utilisation of resources, and it is unclear how the resources are utilised in order to achieve specific results. The ministries report on the activities achieved only in accordance with the regulatory enactments on accounting, not presenting the relation of utilised resources to implementation of specific objectives.

Also the findings of the State Audit Office regarding inefficient, ineffective and uneconomical action with budget funds and property are not sufficiently assessed, as well as repetition of inexpedient and inefficient action is not eliminated. The responsible officials are not called liable in accordance with the regulatory enactments.

The following most important violations were recognised during the audit:

- Ministries, central State institutions and local governments, by not accounting all fixed assets, have not observed the *Law on Accounting*, the Cabinet Regulation No.749 of 13 November 2007 *Regulations Regarding the Procedures for Preparing Annual Reports of State Budget Institutions and Local Governments* and the Cabinet Regulation No.867 of 15 November 2005 *Procedures by which Budgetary Institutions Organise Accounting*, therefore the balance sheet position *Fixed Assets* is indicated at inaccurate value and does not provide complete information on the amount thereof;
- The ministries and local governments continue estimation of land and forest stands in the ownership thereof. Respective ministries, local governments and institutions subordinated thereto are responsible for registration of land and forest stands, however all land and forest stands in ownership of the State and local governments have not been estimated and accounted as at 31 December 2008. Therefore accounting value of the land and forest stands as at 31 December 2008 and in further periods will be corrected. These circumstances related to indication of fixed assets at inaccurate value were valid also on 31 December 2007, with regard to which the State Audit Office rendered qualified opinion;
- There were occasions disclosed, when ministries transfer State immovable property to the possession of capital companies and do not indicate them in the financial statements of the ministries, thus State immovable property in the total cadastral value of LVL 186.3 million is not indicated in the financial year report;
- Indicating liabilities of creditors in the financial year report the *Law on Accounting* was not observed, as the Ministry of Culture undertook liabilities by LVL 4 million more than the available budget funds of the ministry, in turn Riga City Municipality did not indicate long-term loan in the amount of LVL 567.75 million;
- Examining collected tax revenue, it was disclosed that all revenue from taxes, fees and other State mandatory payments collected to the State general budget accounts in 2008 are accounted and indicated in the financial year report in accordance with the *Law on Budget and Financial Management*, yet the tax revenue is not indicated in accordance with accrual principle, it was also disclosed that the State Revenue Service has not ensured control over revenue in the amount of LVL 8.6 million, thus collection of taxes into the budget was not ensured at least in the amount of LVL 2.4 million;

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- The audit disclosed occasions of unlawful, inefficient, ineffective and uneconomical action with budget funds and property. Findings of the State Audit Office regarding inefficient, ineffective and uneconomical action with budget funds and property are not sufficiently assessed, as well as repetition of inefficient and ineffective action is not eliminated and responsible officials are not called liable in accordance with the regulatory enactments;
- Randomly inspecting action with budget funds, there were occasions disclosed in the audits of the State Audit Office, when the State and local governments budget funds were utilised not in accordance with the requirements of regulatory enactments. For example, with regard to work remuneration, budgets funds at least in the amount of LVL 1.7 million were utilised not observing the restrictions specified in the regulatory enactments issued by the Cabinet and the Prime Minister. In turn 20 local governments have disbursed LVL 0.3 million for foreign trips to persons, which are not in employment relations with local governments;
- Although the financial balance sheet of the State budget included into the financial year report is prepared correctly, taking over of *Parex Bank* was performed under unclear and non-transparent circumstances, and these have had an impact on the investment of the State budget funds in *Parex Bank* in the amount of LVL 674 million, which corresponds to 37 % of planned State budget revenue from taxes in 2009, also the National debt was substantially increased, which resulted in additional burden for the State budget in the form of attracted resources in the amount of LVL 38.1 million (expenditure for issue and cancelling of State bonds and interest payments for the loan from the International Monetary Fund).

### **The Audits on Financial Statements of Ministries and Other Central State Institutions for 2008**

In 2009 the State Audit Office conducted 30 audits on correctness of preparation of ministry and central State institution financial statements for 2008.

The objective of these audits – to examine if the financial statements for 2008 in all significant aspects provide true and fair view on institution's financial position as at December 31, 2008 (performance results and cash flow) and are prepared in accordance with the regulatory enactments in force in the Republic of Latvia.

*Figure 3.* Opinions rendered to the ministries and other central State institutions on financial statements for 2008

Unqualified Audit Opinions	Qualified Audit Opinions	Total Number of Rendered Opinions
25	5	30

In total the State Audit Office provided opinions on 30 ministry and other central State institution financial statements, including unqualified audit opinions for 25 ministries and other central State institutions, qualified audit opinions were provided for five institutions. On two occasions the State Audit Office, not rendering a qualified opinion, brought to the



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attention circumstances related to development in the future and which may have an impact on financial statements.

After performing the audits on the correctness of preparation of financial statements for 2008, the State Audit Office provided 574 recommendations to ministries and other central State institutions, including 99 with high priority, 378 – with medium and 97 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, arranging internal control system, as well as related to ensuring equal work remuneration to public sector employees.

### Qualified Audit Opinions

Qualified audit opinions on financial statements for 2008 were provided to five ministries – the Ministry of Finance, the Ministry of Education and Science, the Ministry of Transport, the Ministry of Culture and the Ministry of Health.

In the audit conducted **at the Ministry of Finance** it was disclosed that the Ministry of Finance not observing the *Law on Accounting* and the Cabinet Regulation No.867 of 15 November 2005 *Procedures by which Budgetary Institutions Organise Accounting* has presented State immovable property in the value of LVL 166 million, which has been transferred for management to a State capital company, in the sub-balance sheet and not in the composition of the long-term investment section of the balance sheet, as result of which the section of the statement *Long-term Investments* does not provide true view.

Significant deficiencies were disclosed during the audit **at the Ministry of Education and Science**, which influence sections *Long-term Investments* and *Expenditure* of the financial statement for 2008 of the Ministry of Education and Science, as the auditors of the State Audit Office did not obtain assurance on completeness of long-term investments presented under the position *Land, Buildings and Structures* of the financial statement for 2008 of the Ministry of Education and Science, the auditors also disclosed significant discrepancies in supervision of application of financing, which has been allocated to Market-oriented research projects, theoretical or applied research projects and State research programmes, as a result of which the section of the financial statement *Expenditure – Payment for Implementation of Scientific Research Work* in the amount of LVL 14 million did not provide true and fair view on application of expenditure in accordance with intended objectives. Moreover significant deficiencies in remuneration calculation were disclosed in the central apparatus of the Ministry of Education and Science, which affect the financial statement for 2008 of the Ministry in the amount of LVL 4 million (in accordance with the accrual principle).

In the audit conducted **at the Ministry of Transport** it was disclosed that in the consolidated financial statement for 2008 671 immovable property units in the possession of the Ministry of Transport were not included, capital expenditure for construction of long-term investment objects, co-financed by the European Union Structural, expenditure regarding performance of the State administration objectives delegated to other legal entities in the amount of LVL 6.1 million were accounted not observing unified planning and accounting principles, expenditure in the amount of LVL 5.4 million was indicated in the composition of expenditure for external experts employed



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on the basis of a contract, in turn, expenditure in the amount of LVL 0.7 million was indicated in the composition of subsidies for State entrepreneurs.

Significant deficiencies were disclosed during the audit **at the Ministry of Culture**, which influence sections *Long-term Investments, Equity and Subsidies* of the financial statement for 2008 of the Ministry of Culture, as sufficient evidence was not obtained at the National Library of Latvia on the monetary value of the presented library reserves to reach the evaluated amount of LVL 3.7 million, the State Agency “The New Three Brothers” has assumed long-term obligations exceeding the available financial resources by LVL 4 million, subsidy allocation process by the Ministry of Culture to four budget programmes in the total amount of LVL 14 million is not transparent, and the auditors could not obtain assurance on substantiation of budget resource allocation, on supervision of subsidy utilisation and on utilisation of the State budget resources for the intended objectives. Moreover, the State Audit Office disclosed in the audit one occasion, which indicates possible conflict of interest at the central apparatus of the Ministry of Culture – when a committee member has taken part in decision making process on distribution of State budget subsidies to professional creative organisations and he has had personal interest in this decision.

Essential discrepancies were disclosed in the section of the statement of **the Ministry of Health Settlements for Work Remuneration and Deductions**, including deliberate misrepresentation of financial information and (or) unlawful utilisation of the budget resources in the total amount of LVL 782 thousand, which has an impact on the annual report for 2008 of the Ministry of Health. It was disclosed in the audit that not observing the prohibition imposed by the decision of the minutes of the Cabinet No.62 of 25 November 2008 *Regarding Decrease of the State Budget Expenditure for November and December of 2008*, bonuses were disbursed to employees in November and December in the total amount of LVL 368 thousand, including at the State Blood Donors Centre in the total amount of LVL 209 thousand, accounting the expenditure in the composition of economic classification code *Supplements to Management Contracts and Other Supplements*; at the State Agency “Infectology Centre of Latvia” in the total amount of LVL 154 thousand, accounting the expenditure in the composition of economic classification code *Other Employee Monthly Salary, Supplements*; the State Agency of Medicines in December 2008 disbursed bonuses to employees in the total amount of LVL 5 495, accounting the expenditure in the composition of economic classification code *Supplements to Management Contracts and Other Supplements*.

The Ministry of Health and six institutions subordinated thereto – the Health Compulsory Insurance State Agency, the Centre of Emergency and Disaster Medicine, the State Agency for Tuberculosis and Lung Diseases, the State Agency of Medicines, the State Blood Donors Centre and the State Agency “Public Health Agency”, by disbursing to employees additional benefits in the total amount of LVL 153 thousand, have not observed the requirement of the *State Administration Structure Law* that State administration shall be governed by law and rights, and thus has not ensured lawful and economic utilisation of financial resources.

The State Blood Donors Centre’s expenditure for remuneration in 2008 exceeds the planned budget by LVL 253 thousand, thus the management of the Centre has not observed the requirements of the *Law On Budget and Financial Management* that a budget shall be planned for the financial year, and that heads of authorities financed from the budget shall be responsible for the observance, implementation and control of the procedures and requirements prescribed by the law, as well as for the efficient and

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economic utilisation of budgetary funds in conformity with purposes intended. The State Agency for Tuberculosis and Lung Diseases has paid supplements for additional work to employees included in the selection by LVL 5 258 exceeding the amount specified in the Cabinet Regulation No.995 of 20 December 2005 *Regulations On the System of Work Remuneration and Qualification Levels of Civil Servants, Employees and Officials of Institutions of Direct Administration and Employees of the Central Electoral Commission and the Central Land Commission, as well as Allowances and Compensation for Civil Servants*. Seven institutions subordinated to the Ministry of Health – the State Blood Donors Centre, the Centre of Emergency and Disaster Medicine, the State Agency for Tuberculosis and Lung Diseases, the Health Compulsory Insurance State Agency, the State Agency “Public Health Agency”, the Health Statistics and Medical Technologies State Agency and the Health Inspectorate, has incorrectly calculated and disbursed remuneration to employees included in the selection in the total amount of LVL 3 297.

### **Unqualified Audit Opinions**

Unqualified audit opinions on the correctness of preparation of financial statements for 2008 were provided to 25 ministries and other central State institutions. Several legal norm violations were disclosed at two central State institutions, most significant violations are indicated in the opinion.

It was disclosed in the audit that **at the National Radio and Television Council** there is a significant uncertainty regarding the accountability of the State Non-profit Limited Liability Company “Radio Latvia” (with regard to its ability to continue operations), settlement of which depends on future events and which may influence the financial statement of the National Radio and Television Council. The National Radio and Television Council does not ensure sufficient control over application of the subsidy to the State Non-profit Limited Liability Company “Radio Latvia” in the amount of LVL 4.6 million for the programme “Development and Distribution of Radio Programmes” in order to observe the requirement of the *Law on Budget and Financial Management* on efficient and economic utilisation of budget resources in accordance with intended objectives.

During the audit conducted **at the Secretariat of the Special Assignments Minister for Social Integration** it was disclosed that the Secretariat has not accounted immovable property in the possession thereof (two collapsible design buildings), thus not observing the requirements of the *Law on Accounting* and thereby the annual report does not provide true view on fixed assets. As the Secretariat of the Special Assignments Minister for Social Integration did not perform evaluation of the buildings and did not prepare estimates on value of the buildings, the impact on the annual report cannot be determined.

### **5. Priority Areas of Activity for the Next Year**

Despite decrease in financial resources in 2010, 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. Considering reduced resources the State Audit Office plans to perform smaller number of legality audits than in 2009, and audit topics will be determined taking into account violations disclosed in financial audits and issues of interest to the public.

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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. The State Audit Office renders support to the Committee, preparing materials for review at the Committee meetings and evaluating draft documents developed by responsible institutions and other information. The State Audit Office is basing its opinion on the information and conclusions of the conducted audits.

The State Audit Office continues taking active position and expressing recommendations and view on the processes taking place in the country and the measures to be taken for improvement of financial system. Both through the audit work and taking part in the work of the Committee, the State Audit Office has concluded that substantial deficiencies were admitted in the financial management system, which hinder assessment of effectiveness and efficiency of the State budget funds utilisation. The State Audit Office on its own initiative has developed and submitted to the working group established at the *Saeima* and led by Speaker of the *Saeima*, the recommendations on amendments to two laws – *Development Planning System Law* and the *Law on Budget and Financial Management*. The recommendations provide for amending the current budget development process and specifying that at first State policies shall be approved and achievable results shall be determined, and in accordance to that financial and other resources shall be planned. Also the *Law on the State Budget* shall indicate achievable results along with revenue and expenditure economic categories. Recommendations provide for reporting of the State institutions on the results actually achieved.

At the end of 2009 the Council of the State Audit Office approved activity strategy for 2010-2013, where new priority directions, strategic objectives, audit priorities, achievable results, performance indicators were specified. Improvement of the public sector management and ensuring sustainability of the State Audit Office development were determined as the directions of activity of the State Audit Office.

The State Audit Office continues 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 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 2008 (LVL)	2009	
			Planned (LVL)	Execution (LVL)
<b>1.</b>	<b>RESOURCES FOR COVERING EXPENSES:</b>	<b>4 796 742</b>	<b>3 321 819</b>	<b>3 303 542</b>
1.1.	Subsidy from general revenue	4 620 748	3 283 519	3 283 519
1.2.	Foreign financial support	175 994	38 300	20 023
<b>2.</b>	<b>EXPENSES (TOTAL):</b>	<b>4 498 832</b>	<b>3 321 819</b>	<b>3 125 713</b>
<b>2.1.</b>	<b>Maintenance expenses</b>	<b>4 378 481</b>	<b>3 320 420</b>	<b>3 124 314</b>
2.1.1.	Remuneration	2 312 924	1 907 163	1 842 140
2.1.2.	State mandatory social insurance payments, social allowances and compensations	1 106 946	673 691	621 167
2.1.3.	Business trips	34 326	18 985	11 970
2.1.4.	Other maintenance expenses and operating costs related to ensuring operation of institution	747 454	681 464	628 197
2.1.5.	Expenses, covered by foreign financial support	175 994	38 300	20 023
2.1.6.	Subsidies and international cooperation (membership fees in public and international organisations)	837	817	817
<b>2.2.</b>	<b>Equity capital</b>	<b>120 351</b>	<b>1399</b>	<b>1399</b>
2.2.1.	Fixed assets	75 033	1092	1092
2.2.2.	Intangible assets	45 318	307	307

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### Annex 2. The Audits Performed at the State Audit Office in 2009

No.	Title of the Internal Audit, Inspection	Internal Audits, Inspections Performed in the Year of Account	
		Numbers of days	
		Planned	Actual
1	2	3	4
<b>Internal Audits in accordance with the Audit Plan</b>			
1.	Use of service vehicles and parking places	15	25
2.	Business trip planning and implementation control	20	20
3.	Provision of work place equipment and use of material values	25	25
4.	Organisation of employee work performance assesment	12	11
5.	Keeping accounts, storage and use of material values	30	30
6.	Use of public premises and material values	30	29
7.	Personal data processing	15	15
<b>Total</b>		<b>147</b>	<b>155</b>
<b>Inspections</b>			
8.	Compliance inspection	8	5
<b>Total</b>		<b>8</b>	<b>5</b>