



The Republic of Latvia
State Audit Office
Public Annual Report for
2012

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Foreword by the Auditor General

Dear readers,

The key values supported by the State Audit Office - accountability, transparency and development - have not been merely the words in our strategy over all recent years, but have become the basis for each and every work performed by us - to each and every audit.

Although inefficient use of the public resources as well as unlawful activities with the state budget resources were identified in the audits performed last year, the quality audit recommendations developed by the State Audit Office as a result of audits have contributed to the improvement of the performance of the audited authorities and the public administration system. A lot of regulatory provisions have been put in order, the internal processes of various organizations have been improved, the achievement of the industry policy goals has been promoted; the professional competence of the officers in charge and their accountability to the public has been gradually improving.

The achievement of the objectives defined by the State Audit Office in 2012 contributed to the high level of the public confidence in the institution and the accomplishments of its staff. This has increasingly motivated the State Audit Office and each and every member of its team to continue the professional development and follow our mission to promote efficient and lawful spending of taxpayers' money.

While appreciating the public confidence we can say that the values of the team of the State Audit Office and those of the public match. This in turn fosters a firm belief that the efforts of not just the State Audit Office alone but its joint efforts with the Latvian population will bring about the improvement in everyone's quality of life. This will contribute to the creation of such an environment which is secure in its broadest sense - in the area of education, health care and employment to each and every member of the public.

In the future I wish to all of us that we support these values closely so that we would become a prosperous, educated and healthy nation. I am convinced that only the work performed in the name of meaningful goals will succeed!

*The Auditor General of the Republic of Latvia
Inguna Sudraba*

Background information on the State Audit Office

1.1. Mission, vision and values of the State Audit Office

Mission

To promote an effective and lawful use of public resources (the taxpayers' money), development of financial management and accountability for the application of the resources, an honest and transparent decision-making process in the public sector.

Vision

To assist the government in managing and applying the resources wisely.

Values

Accountability, transparency and development.

1.2. Fundamental operational principles

The State Audit Office is an independent collegial supreme audit institution in the Republic of Latvia. Its independence is prescribed by Section 87 of the Constitution of the Republic of Latvia and the State Audit Office Law.

The tasks of the State Audit Office are:

- To promote the development of the system of financial control in the country;
- To promote compliance with laws;
- To minimise the risk of errors and violations;
- To promote the development of internal audit and the increase of the accountability of internal audit services;
- To promote the improvement of laws and other regulatory enactments based on the audit conclusions drawn in audits.

Pursuant to the State Audit Office Law the State Audit Office performs audits in accordance with the international auditing standards recognised in the Republic of Latvia. The standards of the *International Federation of Accountants* (IFAC) and the standards of the *International Organization of Supreme Audit Institutions* (INTOSAI) are applied in the performance of audits.

The State Audit Office serves the public interest, and its principles are based on efficient, purposeful and result-oriented action.

1.3. Organisational structure and staff

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

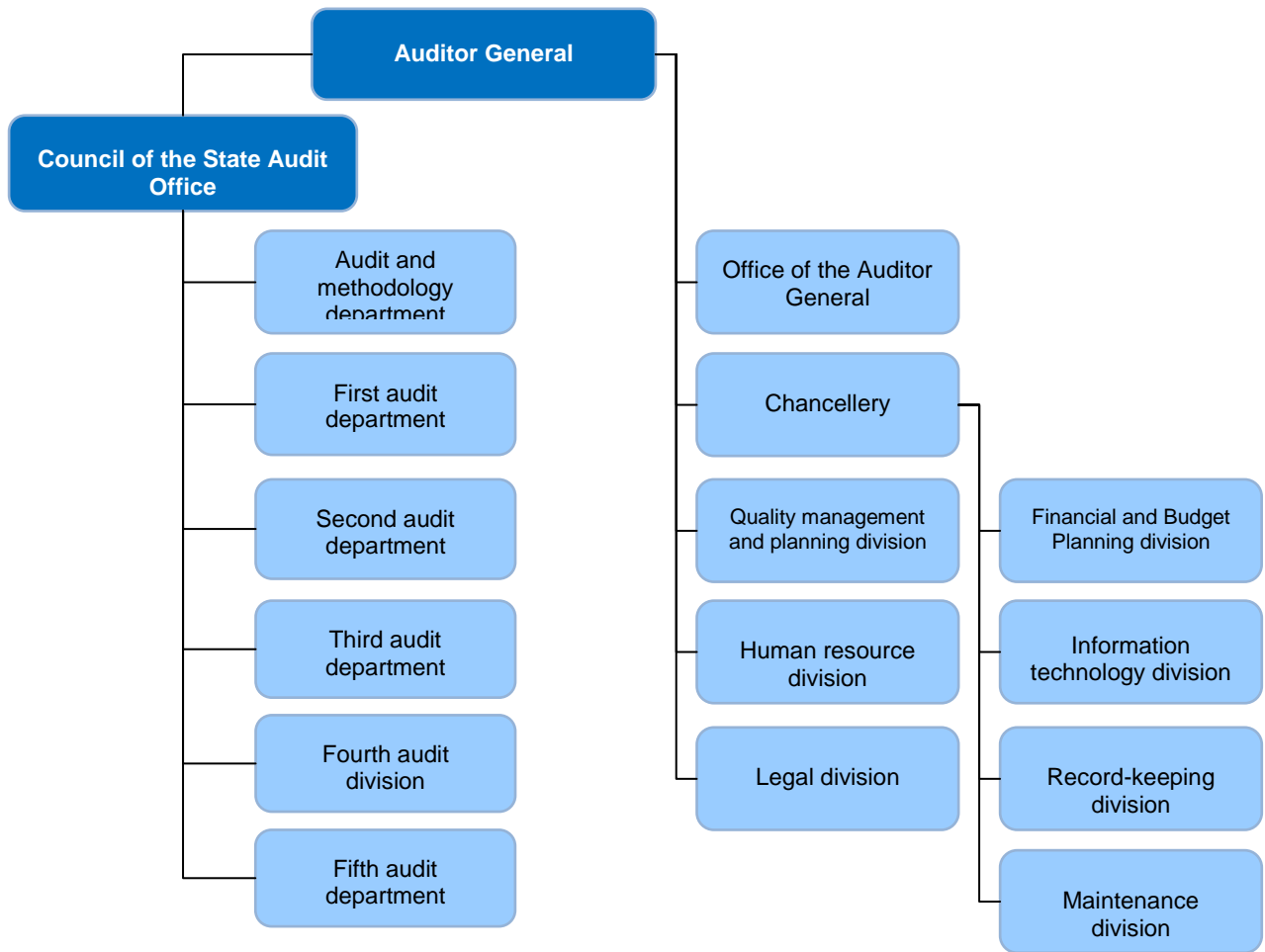


Figure 1. Organisational structure of the State Audit Office

The performance of audits is organised on the industry basis, with the audit departments being responsible for particular areas to be audited. The audit areas are allocated between the departments as follows:

- The First audit department performs audits in the Ministry of Finance, the Chancery of the President, the Cabinet of Ministers, the Corruption Prevention and Combating Bureau, Interdepartmental Coordination Centre, the Ministry of Foreign Affairs, the Ministry of Culture, the Ministry of Education and Science and the National Council for Electronic Media, as well as the audit of the performance report on the execution of the state government budget and budgets of local governments (the financial position), the balance sheet and the consolidation process;
- The Second audit department performs audits in the Ministry of Defence, the Ombudsman's Office, the Ministry of Interior, the Latvian Prosecutor's Office, the Ministry of Justice, the Latvian Supreme Court, the Latvian Constitutional Court and the Constitutional Protection Bureau;
- The Third audit department performs audits in the Ministry of Welfare and the Ministry of Health;
- The Fourth audit department performs audits in the Ministry of Agriculture, the Ministry of Environmental Protection and Regional Development, the Central Land Commission, the Ministry of Economics and the Ministry of Transport;
- The Fifth audit department performs audits in the Society Integration Fund, the local governments of the Republic of Latvia and the institutions established by them, the local government-owned capital, the public private and private capital companies in which a local government has participation, in the capital companies in which capital shares or stocks are owned by the capital companies owned by local governments, as well as performs an audit

of the local government section of the annual performance report on the execution of the state budget and the budgets of local governments (audit of their financial position);

- The Audit and methodology department performs an audit and prepares a draft opinion to the Saeima (the Parliament) on the annual report on the execution of the state budget and the budgets of local governments (on their financial position) of the Republic of Latvia submitted by the Minister of Finance, performs audits in the Bank of Latvia, the Central Election Commission as well as audits for particular transactions for their compliance with the statutory provisions.

At the end of 2012, the total number of employees was 152, of which 123 employees or 81 % represented the audit staff and 29 employees or 19 % represented the support staff.

1.4. Operational Strategy

The State Audit Office operates in accordance with *the State Audit Office Operational Strategy for 2010 to 2013* (hereinafter - the Strategy), which defines the development areas, objectives and the outcomes to be achieved.

In 2012, the assessment of the Strategy implementation process for the period from 2010 to 2011 was performed gaining assurance that the achievement of the objectives of the Strategy is being ensured. In order to promote further development and improvement of the work performed by the State Audit Office, the Strategy has been updated; at present two activity areas of the State Audit Office as well as the long-term strategical objectives related to them and the respective outcomes to be achieved have been identified.

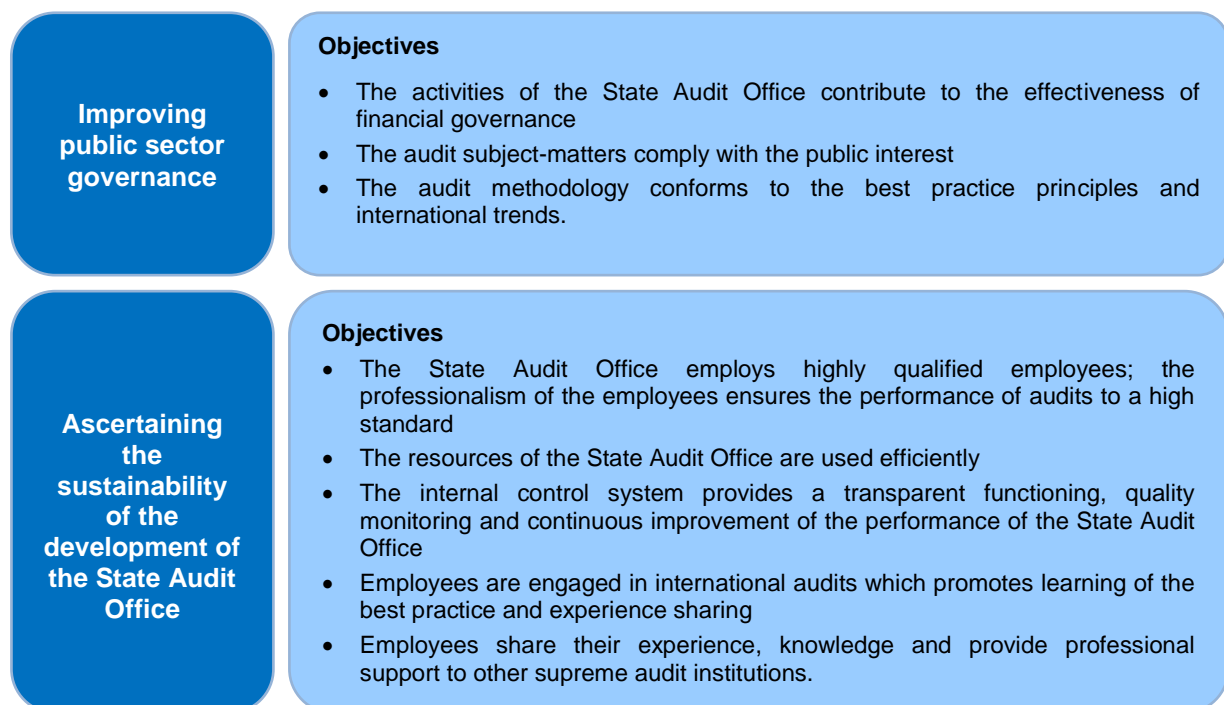


Figure 2. Activity areas and objectives of the State Audit Office

The Strategy is the basis for planning the work and resources of the State Audit Office for the current year; it secures the achievement of the outcomes of the performance of the State Audit Office and compliance with the uniform principles for achieving the objectives of the institution.

1.5. Quality management and control system

The State Audit Office has implemented a quality management system that ensures the operational management of State Audit Office, a uniform approach in the implementation of tasks, continuous monitoring of the quality of audit performance and the improvement of the work of the State Audit Office.

The objective of the quality management system is to ensure that every employee would

understand and act in accordance with the statutory provisions, would be personally accountable for the job responsibilities assigned to him/her and the quality of his/her performance.

The activities of the State Audit Office are documented in the work process descriptions, manuals and other internal documents.



Figure 3. Management of the work processes of the State Audit Office

In order to ensure the execution of the work processes to an adequate quality standard, promote the stability of performance and operational efficiency of the State Audit Office, the performance monitoring measures such as audit quality control, internal audit and compliance reviews as well as the analysis of the assessment indicators of the work process descriptions and self-assessment of the quality management system are implemented in the State Audit Office.

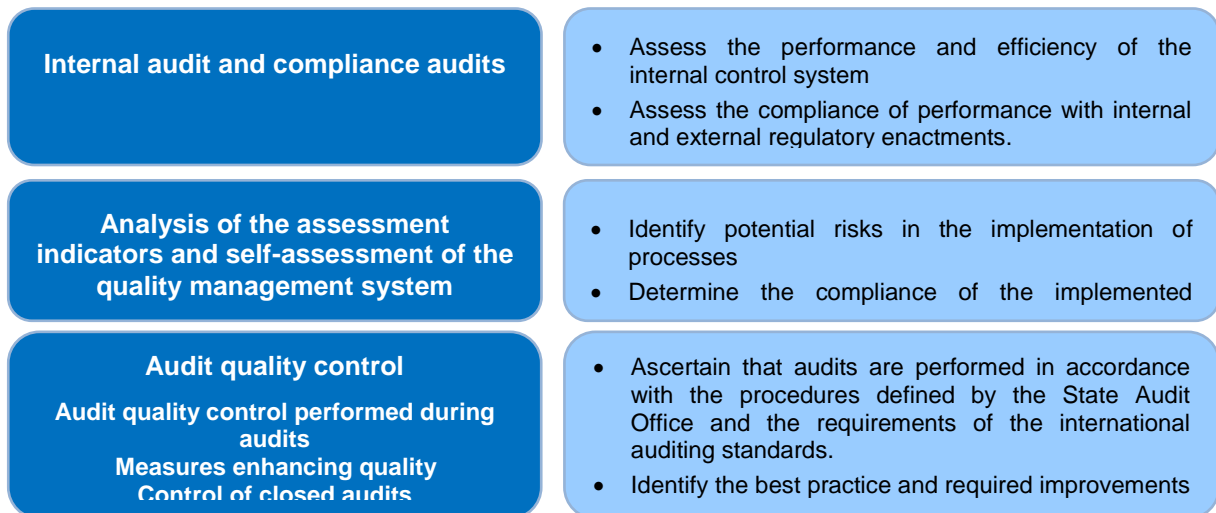


Figure 4. Measures for monitoring the performance of the State Audit Office

Performance monitoring measures carried out in 2012

During the quality control of closed audits the process of aggregation and assessment of errors and the kind of the issued opinion was examined for compliance with the methodology defined by the State Audit Office. As a result, the audit methodology has been improved which has facilitated the application of a uniform approach to the classification, aggregation and assessment of errors as well as the preparation of opinions.

Within the scope of internal audit and compliance reviews eight examinations were carried out as a result of which recommendations were provided in the following areas:

- internal regulations;

- information technology systems;
- internal control system;
- Internal and external communication.

As a result of the analysis of the assessment indicators of the work process descriptions and self-assessment of the quality management system the monitoring of the implementation of the recommendations of the quality control of closed audits and the prescribed procedure for safeguarding of electronic data were improved, and the defined indicators for a more complete assessment of the internal performance were revised.

By carrying out the above quality management and audit control measures quality, monitoring is ensured at all levels and processes, improving the joint performance of the State Audit Office.

1.6. Financial Resources

In 2012, the budget of the State Audit Office slightly exceeded 2.6 million lats.

Table Budget of the State Audit Office (in LVL)

No.	Indicators	Budgeted for 2012	Actual in 2012	Budgeted for 2013
1.	RESOURCES FOR EXPENDITURE	2,642,381	2,642,381	2,642,381
1.1.	Grant from general revenues	2,642,381	2,642,381	2,642,381
2.	TOTAL EXPENDITURE	2,642,381	2,524,201	2,642,381
2.1.	Maintenance expenses	2 544 381	2,426,305	2,627,381
2.1.1.	Employment compensation	1,512,786	1,428,706	1,553,186
2.2.	Formation of share capital	98,000	97,895	15,000
2.2.1.	Fixed assets	98,000	97,895	15,000

1.7. Organisation of the audit work

The State Audit Office performs financial and legality audits aimed at ascertaining whether the state and local government resources and property were used lawfully, properly, cost-effectively and efficiently, as well as provide recommendations for the elimination of the discrepancies identified.

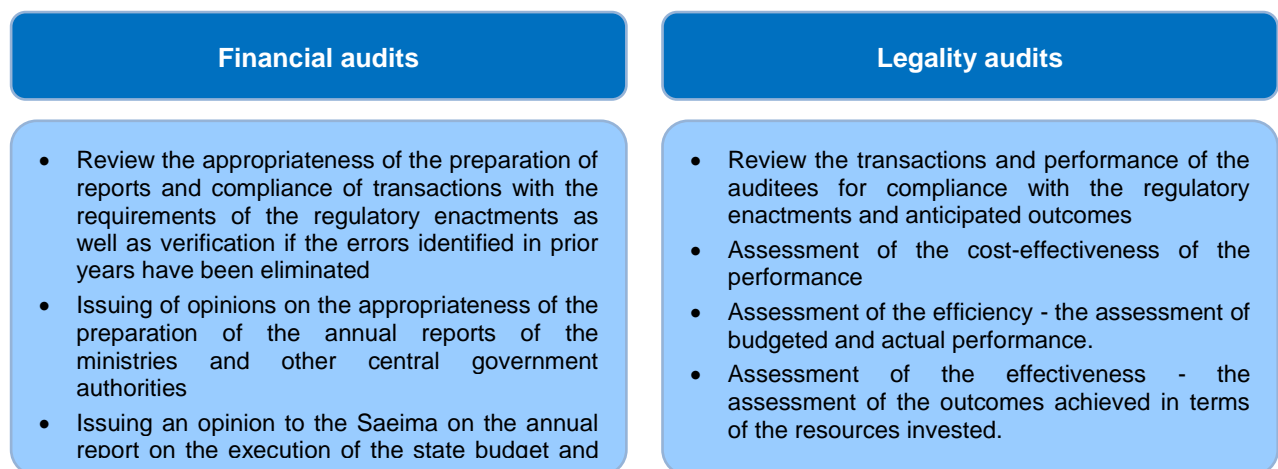


Figure 5. Types of audits

According to the State Audit Office Law the State Audit Office determines the subject-matter of the audit, auditees, the timing, nature and objectives of the audit.

In determining the subject-matters of audits, a strategic assessment of the areas to be audited is

performed, ensuring an objective evaluation of the impact of the risks and audit in the respective industry. This ensures that audits are performed taking into account the priorities of the respective industry, the public interest and the key processes of the auditee.

The methodology of the State Audit Office provides a standardized approach and ensures compliance with the international auditing standards in the performance of audits as well as defines the key principles for the performance of audits and review procedures.

A more efficient performance of audits is ensured by the audit support tools implemented in the State Audit Office which facilitate the documentation of audits, monitoring of the audit recommendations, planning of the timing of audits as well as enable a more efficient analysis of the data accumulated by the public administration and the use of the data in audits.

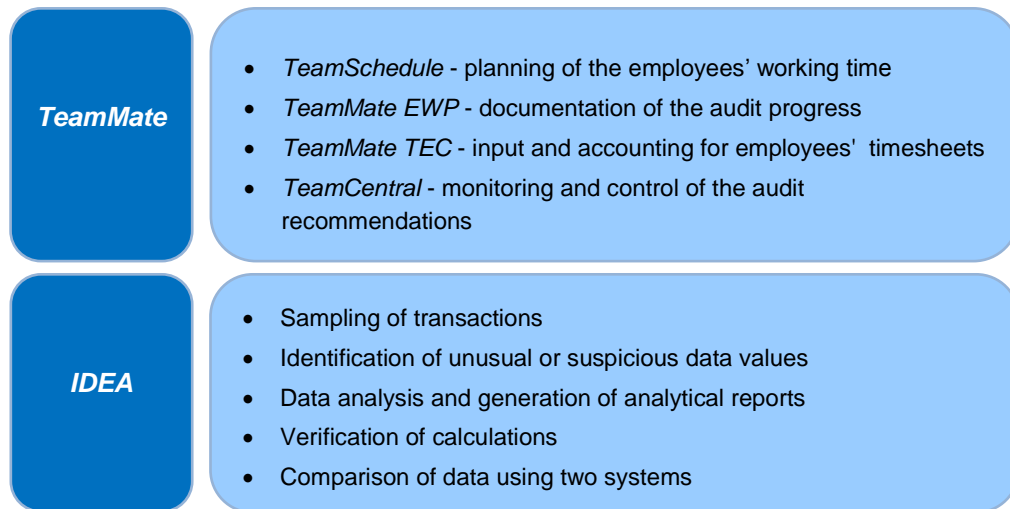


Figure 6. Audit support tools

In 2012, the new version of the *TeamMate* software was implemented. As a result of the implementation, the performance speed of the software improved, the investment of the human resources involved in its maintenance decreased; the compatibility with the new versions of other information technology systems used by the State Audit Office has been ensured.

2. Audit findings

2.1. The audits performed during the reporting year and the recommendations provided to the audited authorities

In 2012, the State Audit Office performed 27 financial audits and 17 legality audits, prepared 49 audit reports, the number of financial audits and legality audits increased by one and three, respectively, compared to 2011.

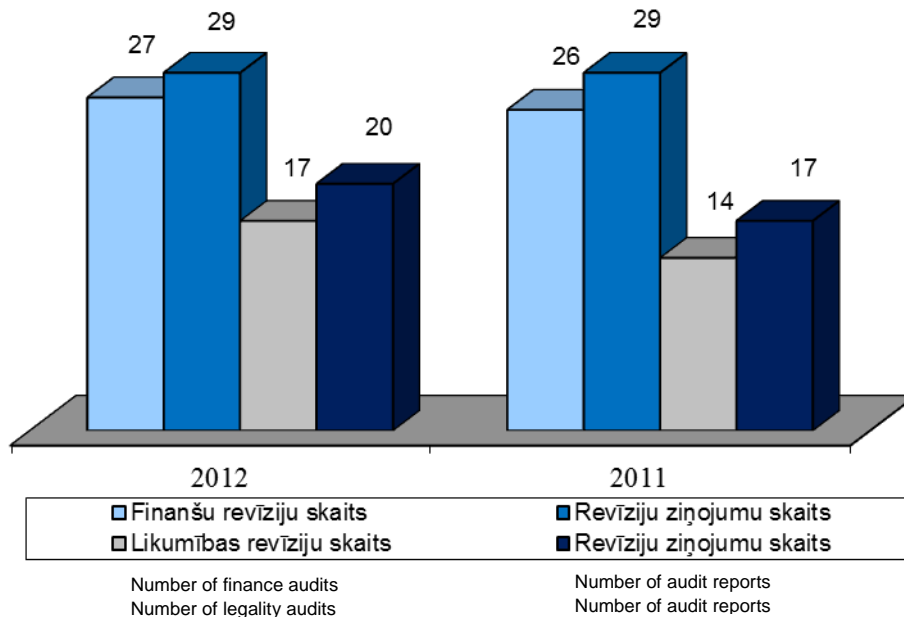


Figure 7. Number of audits performed and audit reports prepared in 2011 and 2012

During the reporting year, the State Audit Office issued 454 recommendations. The findings identified most often included:

- Discrepancies in the accounting system;
- Discrepancies in the internal control system;
- Discrepancies in the application of the regulatory enactments;
- Ineffective and inefficient use of the budget resources;
- Discrepancies in the financial planning system.

2.2. Financial audits

In the audit of the annual reports of 27 ministries and other central government authorities, the appropriateness of the preparation of the 2011 annual reports and compliance of transactions with the regulatory enactments of the Republic of Latvia was assessed.

The financial audits performed by the State Audit Office involved an assessed of the lawfulness, cost-efficiency and effectiveness of the transactions carried out by the ministries and central government authorities, issuing opinions on the appropriateness of the preparation of the 2011 annual reports and of the ministries and other central government authorities as well as the Republic of Latvia 2011 annual report on the execution of the state budget and the budgets of local governments.

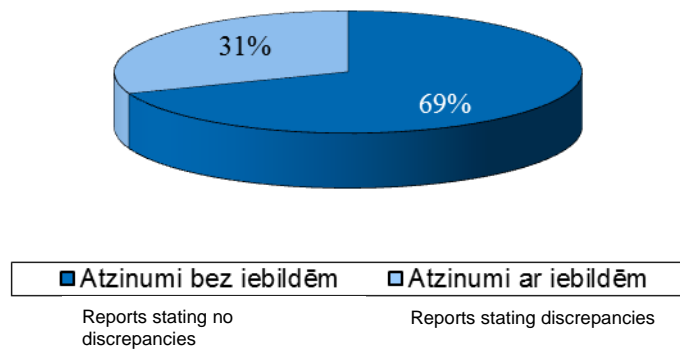


Figure 8. Audit opinions issued by the State Audit Office for the 2011 financial statements (in per cent)

Compared to the previous year, the number of the authorities in which the State Audit Office did not identify any discrepancies in the accounting systems and the internal control systems has increased, and the respective authorities are: the Supreme Court, the Central Election Commission, the Constitutional Court, the Prosecutor's Office, and the Chancery of the President.

The State Audit Office has issued three unqualified opinions - with respect to the 2011 annual reports of the Ministry of Interior, the Ministry of Environmental Protection and Regional Development and the Ministry of Agriculture, including the emphasis of matter paragraph, specifying that due to making the advance payments which were not provided for in the budget in the last quarter of 2011, the authorities did not use the financial resources lawfully and cost-effectively.

The State Audit Office issued qualified opinions with respect to the 2011 annual reports of the Ministry of Defence, the Ministry of Education and Science, the Ministry of Culture, the Ministry of Transport, the Ministry of Justice, the Ministry of Health and the Central Land Commission 2011 report, including the emphasis of matter paragraph in the opinions issued to the Ministry of Defence, the Ministry of Education and Science, the Ministry of Culture, the Ministry of Justice and the Ministry of Health - on material facts of the violation of regulatory enactments identified during the audit or cost-ineffective use of financial resources.

The State Audit Office has notified the Prosecutor's Office of the Republic of Latvia on the identified violations of the regulatory enactments by the Ministry of Interior, the Ministry of Education and Science, the Ministry of Justice, the Ministry of Health and the Central Land Commission, as well as the Corruption Prevention and Combating Bureau - on the identified violations of the regulatory enactments by the Ministry of Culture and the Ministry of Education and Science.

Upon completing the audit of the Republic of Latvia 2011 annual report on the execution of the state budget and the budgets of local governments, the State Audit Office issued a qualified opinion and included the emphasis of matter paragraph pointing out to critical matters related to the future events which may impact the annual report. In its issued opinion the State Audit Office pointed out to the discrepancies of the economic classification of the transactions presented in the annual report as well as to the fact that because the tax revenues had not been presented using the accruals principle, the State Audit Office was unable to express an opinion on the completeness of the tax and fee revenues.

The State Audit Office has provided 198 recommendations in the area of financial management to address the identified discrepancies.

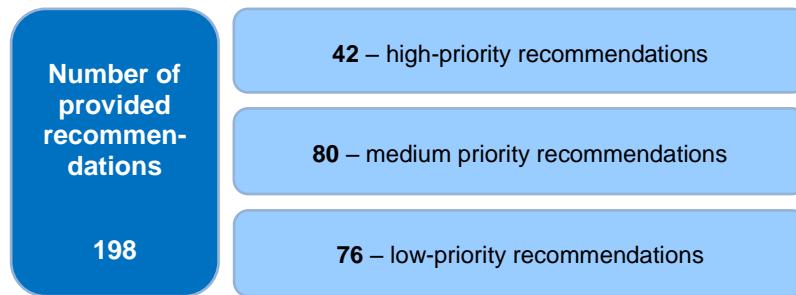


Figure 9. Number of recommendations provided in the audits of the State Audit Office

Upon the implementation of the recommendations provided by the State Audit Office in respect of the errors and discrepancies identified in the annual reports of the ministries and other central government authorities, it will be ensured that:

- Planning of the financial resources of the state budget is lawful, efficient and cost-effective and the financing is used in compliance with the envisaged objectives and the requirements of the regulatory enactments;
- Accounting records are maintained on the basis of a uniform approach in compliance with the statutory requirements; and true and complete information is presented in the annual reports;
- The state budget resources for the compensations of employees are used efficiently and transparently;
- The internal control system is improved.

2.3. Legality audits

In 2012, the State Audit Office performed 17 legality audits.

- The audit of **the Operational efficiency and compliance with the statutory requirements of the Ministry of Education and Science in developing and arranging for the implementation of the national science policy** involved an assessment of the national science policy, financing of scientific activities and the EU structural fund project support system. Broadly, it was found in the audit that the state budget planning had not been developed on the basis of justified decisions on the required state budget financing for ensuring scientific activities and the development thereof. Envisaging of the support of the EU structural funds for all priority scientific areas did not promote the development of the science industries with growth potential and capable of offering internationally competitive products and services. Contrary to the provisions of the Law on Scientific Activity, the government, rather than commissioning the required scientific research, had taken into account the proposals submitted by scientists for defining the objectives and tasks, thus not ensuring a uniform approach in the implementation of the research commissioned by the government.

Upon the implementation of the recommendations of the State Audit Office provided during the audit, the planning of such national science policy will be ensured which focuses on resolving the problems identified in the area of science and the achievement of the defined performance indicators as well as promote the development of the priority segments of the economy. As a result of implementing the recommendations, a more transparent mechanism for the allocation of financing to scientific research will evolve and the implementation of the EU structural funds will be more efficient.

- The audit of **the Compliance and efficiency of the use of the state budget resources to secure social and professional rehabilitation of disabled persons and persons with functional disorder** involved an assessment of the performance of the Ministry of Welfare and its subordinated authority - the Social Integration State Agency. It was found in the audit that the Ministry of Welfare had not performed a high-standard monitoring of the performance of the Social Integration State Agency and had allowed that the public

property and financial resources envisaged for the provision of social and professional rehabilitation services to the disabled were used unlawfully and inefficiently. The management of the Social Integration State Agency had not established a system of internal control for preventing fraud, mismanagement and arbitrary application of the agency's resources. In turn, the Ministry of Welfare had not ensured the development of regulatory enactments of top quality.

Upon the implementation of the recommendations of the State Audit Office the regulatory enactments regulating the industry will be improved, the internal control environment in terms of rendering services will be improved preventing unlawful use of the public property and financial resources.

- The audit of the **Operational efficiency and lawfulness of the operations of the Blood Service and the circulation of plasma preparations** involved an assessment of the activities performed by the Ministry of Health, the State Blood Centre and the State Agency of Medicines in ensuring the efficiency, lawfulness and circulation of plasma preparations. Broadly, it was found that the Ministry of Health had not developed the industry policy documents, had not provided a high-standard monitoring of the compliance with the strictest protection measures established by the state, had not monitored the activities performed by the Blood Service and the performance of the State Blood Donor Centre sufficiently, nor had ensured a high-standard oversight over the activities of the State Agency of Medicines. It was found that the collection, testing, processing, storage and distribution of blood and blood components effected by the state did not comply with the regulatory enactments. The State Agency of Medicines and the Blood Service had not ensured the oversight and control over stricter protection measures on the quality and safety standards of human blood and blood components provided for in the external regulatory enactment. The Ministry of Health had not ensured that the budget funds of the State Blood Donor Centre are used in a lawful, cost-effective and efficient manner as required by the regulatory enactments. The financial resources related to the preparation of whole blood and blood components and the services rendered have not been used efficiently; similarly, the receipt of, accounting for, circulation and write-off of the inventory of the Blood Service is not complete or accurate.

Upon the implementation of the recommendations of the State Audit Office, the future development of the operations of the Blood Service, the key directions and objectives of the implementation, tasks and the outcomes to be achieved will be defined, the monitoring and control of the performance of the Blood Service will be ensured, and the accounting for the inventories of blood and blood components and the use of the financial resources and property of the State Blood Donor Centre will be more accurate.

- The audit of **Ensuring the operation of courts and land registry departments of the Republic of Latvia** involved an assessment of the compliance of ensuring the operation of the Ministry of Justice, the Court Administration and the Courthouse Agency and land registry departments with the statutory requirements, gathering information on the requirements of the material and technical resource base of the courts and land registry departments, planning and control of financial resources. Broadly, it was found that the financial resource planning system developed by the Court Administration for the purposes of the material and technical resource base had discrepancies. Planning of a uniform hardware base required for the operation of the judicial authorities, control of the use of the acquired hardware had not been ensured resulting in an inefficient use of the state budget financing. The Ministry of Justice had not provided the judicial authorities with the court premises that meet the specific needs characteristic of the court premises, nor arranged for independent flows of people traffic; neither the presence of the court policeman had been ensured. The functions and tasks of the Courthouse Agency in the administration of the servers of the State Unified Computerised Land Register had been defined in broad terms and overlap with the functions of the Court Administration.

Upon the introduction of the recommendations of the State Audit Office the state budget resources planning and compliance of the court premises with the generally accepted safety principles and statutory requirements will be ensured, and the overlapping of the

functions and tasks of the Court Administration and the Courthouse Agency will be eliminated.

- The audit of the **Lawfulness of the own revenues of the authorities subordinated to the Ministry of Interior and the compliance of the collection of state fees (stamp duties) and cash fines with the statutory requirements** involved an assessment of the system developed by the Ministry of Interior and its subordinated authorities for ensuring the collection of revenues from chargeable services, a lawful and complete collection of state fees (stamp duties) and administrative cash fines as well as the assessment of the efficiency of the use of the allocated budget funds for the administration thereof. Broadly, it was found that the control system developed by the Ministry of Interior and its subordinate authorities for controlling the pricing of chargeable services and the calculation of the recoverable costs in accordance with the statutory provisions, collection of state fees and cash fines were deficient and did not ensure an efficient use of the state budget resources and a timely recovering thereof; the data of the Punishment Register could not be used for controlling the payments, thus a principle of good governance had not been complied with. The calculation of the costs of keeping the motor vehicles seized with respect to the administrative violation cases had not been performed in compliance with the procedure prescribed in the statutory provisions and the amount of refundable costs was unreasonably high. There were no clearly defined criteria developed to ensure transparent and appropriate decision-making on securing the public order and security measures during public events as a result of which it was not possible to separate the measures carried out by the State Police and the State Fire and Rescue Service within the scope of their defined functions from chargeable services.

Upon the implementation of the recommendations provided by the State Audit Office, it will be ensured that the pricing of chargeable services and the calculation of recoverable costs are based on actual costs, a clear and transparent system for chargeable services is established and that the data of the Punishment Register matches the actual situation and is used for controlling the payment of recoverable costs.

- The audit of the **Legality and cost-effectiveness of the use of the state budget resources at the National Armed Forces, in maintaining and using motor vehicles** involved an assessment of the compliance of the maintenance and use of the motor vehicles for the administrative needs of the National Armed Forces with the statutory requirements as well as the assessment of the cost-effectiveness and efficiency of the use of the state budget resources. Broadly, it was found that the system of maintenance and use of the motor vehicles for administrative needs was inefficient as a result of which ineffective use of the state budget resources was allowed to occur. The Ministry of Defence has not assessed the need of the motor vehicles for the administrative needs of the National Armed Forces and the selected model for providing the repairs to the administrative motor vehicles was not the best choice. It was also found that the prescribed fuel consumption rates were not supported by documents and the control exercised over the writing off of the fuel at the National Armed Forces was not sufficient.

Upon the implementation of the recommendations provided by the State Audit Office, an assessment of the required provision with administrative motor vehicles for the National Armed Forces will be performed, the model for the provision of motor vehicle repair services and controlling of the fuel consumption will be improved ensuring that the state budget resources are used in a more cost-effective and effective manner.

- The audit of the **Compliance of the European Fisheries Fund with the policy documents, statutory provisions and efficiency** involved an assessment of the compliance of the performance of the Ministry of Agriculture and the Rural Support Service in the implementation of the European Fisheries Fund programme. Broadly, it was found that the assessment of the efficiency of the management of the European Fisheries Fund may not be performed fully. The approved financing of the fund for the priority areas and activities, the timetable for the acquisition of the funds and the decisions on the announcement of rounds were not based on a documented cost-benefit and situational analysis. The Rural Support Service had not ensured adequate control procedures to gain

assurance that the allocation of the support of the European Fisheries Fund and the implementation of the projects complies with the statutory provisions. The Ministry of Agriculture and the Rural Support Service had not ensured the management, planning and use of the financing of the technical assistance in compliance with the statutory provisions.

Upon the implementation of the recommendations of the State Audit Office, it will be ensured that it is possible to follow the decision-making in planning the application of the financing of the European Fisheries Fund in the next programming period, that the risks with respect to the independence of the audit authority of the Fund and the competence of the authorities in the decision-making on the application of the financing of the technical assistance are eliminated, expenditure planning is improved and inappropriate use of financing is prevented.

- The audit of **the Operational efficiency of the supply and procurement system of detention facilities and compliance thereof with the statutory provisions** involved an assessment of the compliance of the policy planning documents of the Ministry of Justice related to re-socialisation and employment of prisoners with the statutory provisions, the system for planning the necessary financial resources to ensure the supplies for prisoners and the rules of internal control in the detention facilities. Broadly, it was found in the audit that the system developed by the Prison Administration for the planning of the necessary financial resources for the supplies for prisoners was deficient and did not provide for the inclusion of the expenditures actually required by the detention facilities in the state budget. The supplies for prisoners in detention facilities had not been based on a uniform approach and different application of the law had been allowed. Centralized billing system had not been implemented pursuant to the concluded contract; the process of the implementation of the billing system had not been coordinated or monitored. Neither the information technology security regulations nor the mandatory technical and organisational requirements for the protection of the accounting data and personal data had been developed.

Upon the implementation of the recommendations provided by the State Audit Office, the regulatory enactments applicable to the facility management in the territory of a prison, the prisoner catering standards, including the prisoners employed outside the imprisonment facility, as well as quotas of detergents and personal care products, soft furnishings and bedding articles and the procedure for issuing thereof to prisoners and detainees will be improved; a centralized billing system will be introduced and the human resources of the Prison Administration will be optimised to the effect that there will be no need to handle the personal funds of prisoners.

- The audit of **the Performance assessment of the Ministry of Transport in implementing the national policy in the railway transport sector and managing the group "Latvian Railway", the operational efficiency of the group "Latvian Railway" efficiency and compliance with the statutory provisions** involved an assessment of the railway transport policy planning and the implementation of the activities to be performed in compliance with the statutory provisions as well as the assessment of the performance of the state joint stock company "Latvian Railway". Broadly, it was found that medium-term policy planning of the railway had not been ensured in the sub-industry of railway. The actions of the Ministry of Transport were more focusing on the supervision of the activities of the board of the group "Latvian Railway" rather than on the management of the capital company which creates the risk of inefficient management of the state capital and growth potential of the capital operation in the long-term. In the audit no assurance was gained that the performance of the group had been assessed in terms of the development objective of the state joint stock company "Latvian Railway".

Upon the implementation of the recommendations of the State Audit Office effective management of the state capital will be ensured, and the economic and industry development objectives and the assessment thereof will be defined. For the purpose of achieving the objectives and outcomes defined by the Ministry, the development and approval of the a medium-term investment plan will be ensured for the state joint stock company "Latvian Railroad" and a transparent implementation of the investment plan in

the priority areas of rail transport will be ensured.

- The audit of **the Performance assessment of the Ministry of Transport in carrying out the management of the joint stock company "Latvian Post" and compliance of the performance of the state joint stock company "Latvian Post"** involved an assessment of the management of the state joint stock company "Latvian Post" carried out by the Ministry of Transport as well as the compliance of the performance of the state joint stock company "Latvian Post" with the statutory provisions and the cost-efficiency of the services provided. Broadly, it was found that the Ministry of Transport had not ensured the prerequisites, which comply with the good corporate governance principles and the statutory provisions, for the activities of the capital company's board which would be capable of implementing the business plan of a motivated capital company. The state joint stock company "Latvian Post" did not have any action plan for achieving the defined objectives and indicators. The capital company had failed to carry out the reorganization of the structural units involved in the provision of postal services, thus material savings of financial resources were not achieved. The joint stock company "Latvian Post" had not carried out the management of the real estate effectively. The annual operating costs of the joint stock company "Latvian Post" had not been calculated on the basis of the actual situation because the useful lives of its fixed assets were unreasonably short. There was no system in place for controlling the performance of the concluded procurement contracts thus it was allowed that payments for services in the amount exceeding the upper limits provided for in the contracts occur, in which case the public procurement should have been arranged for.

Upon the implementation of the recommendations of the State Audit Office the monitoring of the achievement of strategic objectives of the state joint stock company "Latvian Post" which is compliant with the statutory provisions and in accord with the good governance practice as well as the organization of the work of the board members will be ensured. The system for monitoring the payments to service providers will be improved same as the operational performance and solvency ratios of the capital company.

- The audit of **the Governance and compliance of the performance in the area of environment protection of the state capital companies** involved an assessment of the management of the capital companies that are fully state-owned (the state limited liability company "Latvian Environment, Geology and Meteorology Centre" and the limited liability company "Environmental Investment Fund"). It was found in the audit that the capital companies had not complied with the statutory provisions, spending of the state budget funds has not been cost-effective; as a result the aggregate non-compliance amounted to LVL 3,397,380. The management of the capital companies did not comply with the best corporate governance principles and monitoring of the allocation and use of the state budget grants for the performance of the assigned public administration functions did not comply with the statutory provisions and was insufficient. It was found in the audit that the limited liability company "Latvian Environment, Geology and Meteorology Centre" had not developed the methodology for the pricing of chargeable services; therefore the basis for pricing could not be traced.

Upon the implementation of the recommendations of the State Audit Office it will be ensured that the assessment of the operational efficiency of the capital companies can be made; ineffective use of state property will be eliminated and an economically justified amount of the state budget grants will be determined for the limited liability company "Latvian Environment, Geology and Meteorology Centre" and the monitoring of the use of the grant by capital companies will be ensured.

- The audit of **the Agencies set up by local governments in terms of their operational efficiency, cost-effectiveness and compliance with the statutory provisions, in implementing autonomous functions** involved an assessment of the efficiency, cost-efficiency and compliance with the statutory provisions of the agencies set up by the local governments of Krāslava, Ogre, Jelgava and Kuldīga. Broadly, it was found that by delegating the implementation of the management tasks and rendering of services to agencies for the purpose of the implementation of the autonomous functions of local

governments, the local governments had not ensured an effective management and contrary to the statutory provisions had not taken measures to improve the established institutional system for the implementation of their functions. The local governments had not ensured the development of adequate operational planning documents nor had carried out the monitoring of the operations and economic management of the performance of the agencies as a result of which the agencies of local governments had provided services at prices based on economically unjustified costs. The agencies, except for the agencies of the local government of Kuldīga, had violated the provisions of the Public Procurement Law in carrying out procurements. In turn, the expenditures related to the compensation of employees, violating the limitations laid down in law, have been unduly increased in the agencies of the local governments of Kuldīga and Ogre. The local governments of Krāslava and Jelgava, in managing the agencies, had not prescribed the procedure for using the motor vehicles handed over to the agencies, while the local government of Ogre had not ensured the control over the use of the motor vehicles in accordance with the approved procedure.

The State Audit Office made recommendations to the regional local governments to improve the performance of the agencies in the areas of management, revenues, expenditure and the related procurement activities.

The audit of the ***Performance of the local government of Jūrmala in ensuring the operational efficiency of the capital companies and compliance with the statutory requirements***, involved an assessment of the implementation of the management tasks and rendering of services for the purpose of implementing autonomous functions. It was found in the audit that the local government of Jūrmala had not ensured efficient management and contrary to the statutory provisions had not taken measures to improve the established institutional system for the implementation of its functions as a result of which the resources of the capital companies had been used ineffectively. The local government of the Jūrmala City, in managing the capital companies had not assessed the operational plans of the capital companies nor the quality of the performance of the board members of the capital companies. The local government of Jūrmala had not developed the internal regulations prescribing the procedure for the appointment and removal of the board members of the capital companies and effected of financial transactions which had resulted in unjustified expenditure; suboptimal cash investments had been made, services had been provided at prices that were not economically justified, transparent or were unreasonably high.

Upon the implementation of the recommendations of the State Audit Office, the operational efficiency and compliance with the statutory provisions regulating the management of local governments as well as management of capital shares, management of property, administration of the revenues of capital companies and procurement will be improved.

- The audit of the ***Performance of the local government of Daugavpils in ensuring the operational efficiency of the capital companies and compliance with the statutory requirements***, involved an assessment of the actions of the local government of Daugavpils City in implementing the autonomous functions commercially, the compliance with the statutory provisions, ensuring the compliance of capital companies in terms of operations, efficiency and cost-efficiency with the statutory provisions. Broadly, it was found that the local government of the local government of Daugavpils City had not ensured the management of capital companies in compliance with the statutory provisions as a result of which the resources of the capital companies had been used up while the recipients of services had overpaid for services. The local government of Daugavpils City in managing the capital companies had not developed a uniform documents setting out the objectives and tasks of the management of capital companies as well as the underlying principles for the attainment of the objectives. The operational cost-effectiveness of capital companies of the local government of Daugavpils city did not comply with the statutory requirements.

Upon the implementation of the recommendations of the State Audit Office the assessment

and improvement of the institutional system established by the local government will be ensured. Effective, sustainable, goal-oriented system for the management of capital companies and administration of the revenues and expenditure of the capital companies will be implemented.

- The audit of the **Compliance of the actions of the local government of Līgatne district in arranging for the utility services for the population** involved an assessment of the compliance of the provision of the utility services by the local government of the Līgatne district and the compliance of the arrangement for the management of the municipal waste with the statutory provisions. Broadly, it was found that the provision of the utility services in the local government of the Līgatne district had not been arranged for in compliance with the generally accepted management principles - the accounting for the costs of each service had not been maintained and the methodology for determining the tariffs for the services had not been developed. The calculations of the utility service tariffs prepared by the local government of the Līgatne district were based on the costs which were not related to the provision of the services and on inaccurate data which contributed to an unreasonable increase of the tariffs. Control over the activities of the Utility Services and Territory Improvement department and the Finance and Accounting department with respect to the provision of the utility services had not been ensured.

Upon the implementation of the recommendations of the State Audit Office the accounting for revenues of the utility services and arranging for the provision of services will be improved.

- The State Audit Office has performed the audit of the **Legality of the use of state budget resources in the Military Intelligence and Security Service and the legality of the government spending in the Investigation Support Authority of the Main Criminal Police Department of the State Police**. The audits referred to above have "a restricted access" status.

2.4. Audit recommendations implemented during the reporting year

The authorities audited in 2012 were required to implement 454 recommendations whereof 301 or 66% of recommendations have already been implemented, while 131 or 29% of the recommendations are being implemented, including 46 or 10% of recommendations for which the due term for implementation has been extended. Conversely, 22 or 5% of the total number of the recommendations are no longer relevant.

As a result of the implementation of the recommendations various areas of activity of the audited authorities have been improved:

- In 40% of cases the statutory provisions have been adjusted and coordinated,
- In 27% of cases the processes for maintaining accounting records have been improved,
- In 12% of cases the achievement of the industry policy objectives have been promoted,
- In 6% of cases the quality of services has been improved,
- In 6% of cases the human resource management processes have been improved,
- In 4% of cases the internal control system has been improved,
- In 3% of cases the improvement of the information technology environment has been promoted,
- In 2% of the cases compliance with the procurement procedures has been promoted.

2.5. Cooperation with law enforcement authorities

From 30 May 2006 to 31 December 2012 the State Audit Office submitted reports to the law enforcement authorities on the violations of the statutory provisions identified in 139 audits. In 116 instances verifications of different kinds have been launched, in 23 instances the officers were subject to an administrative liability, in 15 instances the findings of the State Audit Office

findings had been corroborated, however the persons had not been subject to the administrative liability due to the expiry of the limitation period. Broadly, 56 criminal proceedings have been initiated, in one instance the criminal proceedings have been completed and the officer has convicted and subject to a cash fine, in nine instances the audit materials of the State Audit Office were supplemented to the initiated criminal proceedings. At present 23 criminal proceedings related to the audit findings of the State Audit Office are in progress.

3. International cooperation

During the reporting year the State Audit Office continued to be actively involved in the activities of the supreme audit institutions of the international organizations and contributed its share to the achievement of the common goals of these organisations and the State Audit Office.

INTOSAI	<ul style="list-style-type: none"> National performance indicator work group
EUROSAI	<ul style="list-style-type: none"> Working group of environmental audits Task force of the strategic plan: <ul style="list-style-type: none"> First task force "Capacity Building" Second task force "Professional Standards" Information Technology Working Group
Contact Committee	<ul style="list-style-type: none"> The activity of the management of the state and local government-owned capital companies Operational working group on the cooperation with EUROSTAT and the national statistical authorities Public audit deficit working group
European Court of Auditors	<ul style="list-style-type: none"> Support in ensuring thematic audit visits and provision of information
Cooperation of the Baltic, Nordic and Polish supreme audit institutions	<ul style="list-style-type: none"> The annual meeting at the expert level
Parallel audit	<ul style="list-style-type: none"> Audit on the European Union Emissions Trading System
Other cooperation projects	<ul style="list-style-type: none"> Bilateral cooperation with the supreme audit institution of Kazakhstan Bilateral cooperation with the supreme audit institution of the Russian Federation

Figure 10. International cooperation activities

Within the scope of the **working group of the INTOSAI National Performance Indicators**, the State Audit Office held a working group meeting in Riga which resulted in the development of the guidelines of national performance indicators.

The State Audit Office participated in the work of the two task forces of the EUROSAI the main task of which is to promote the implementation of the international auditing standards (ISSA) in the supreme audit institutions in the EUROSAI region and facilitate the future development of these standards, as well as strengthen the institutional capacity of the supreme audit institutions.

Within the Contact Committee of the European Union the State Audit Office chaired the activity "Sharing of experience related to audits of the state and local government-owned capital companies". The activity was carried out by aggregating the experience of 21 member states of the Contact Committee and the outcomes of prior audits, by using two questionnaires for this purpose. As a result, the State Audit Office produced a report on the experience and the practice implemented by the supreme audit institutions of the European Union in the governance audits of the state and local government-owned capital companies. The completed report has been disseminated to all member states and has been published in the website of the Contact Committee. The results of the implementation of the activities were presented to the representatives of the supreme audit institutions of the Baltic countries, Nordic countries and Poland in the annual meeting held in Estonia.

The State Audit Office, performing **the parallel audit of the European Union Emission Trading System**, together with the supreme audit institutions of Denmark, Finland, Lithuania, Norway, Poland and Sweden assessed the efficiency of the European Union Emissions Trading System of the European Union and the performance of the system in terms of the Kyoto Protocol. It was found in the audit that all seven countries had implemented the EU Emissions Trading System in accordance with the EU regulatory requirements and the provisions of the United Nations Framework Convention on Climate Change. Considering that the low prices caused by the excess of emissions quota do not motivate the companies to make investments aimed at technological improvements on account that they are more expensive than the cost of emission quotas, and no actual reduction of emissions has been achieved, the efficiency of the system must be maintained for achieving the goal of reduced emissions in the long-term.

In 2012, bilateral cooperation activities were continued. **In cooperation with the supreme audit institution of Kazakhstan** the employees of the State Audit Office developed and delivered training on performance audits in accordance with the international auditing standards to the professionals of the regional departments of the supreme audit institution of Kazakhstan. Continuing the **cooperation with the supreme audit institution of the Russian Federation**, preparatory work was performed for launching in 2013 the fifth parallel audit of the government institutions of the Republic of Latvia and the Russian Federation in charge for the execution of the provisions of the International Road Transport Agreement concluded between the government of the Republic of Latvia and the government of the Russian Federation.

4. Communication

4.1. Informing of the public and assessment of the performance of the State Audit Office

During the reporting year, the State Audit Office continuously informed the public of its activities using various means of communication:

- Publications in the State Audit Office website www.lrvk.gov.lv;
- Press releases;
- Interviews in the media;
- Answers to the enquiries of the population;
- Press conferences.

The most important assessment of the performance of the State Audit Office has been the public confidence in the work performed by the State Audit Office.

According to the results of a survey conducted during the airing of the programme *Sastrēgumstunda* on the Latvian Television 81% of the audience of the Latvian Television gave a positive assessment of the performance of the State Audit Office.

4.2. Cooperation with the Parliament

According to the provisions of the State Audit Office Law, the State Audit Office is required to

submit to the Saeima:

- Opinion on the annual performance report;
- Information on the financial audits in the audited authorities to which the State Audit Office issued qualified opinions, a negative opinion or a disclaimer of the opinion;
- Information on the audits with the most important and significant findings;
- Information on audits areas of the coming year.

In the area of the monitoring of the audit results the State Audit Office cooperated with the Public Expenditure and Audit Committee of the Saeima. In 2012, the representatives of the State Audit Office attended 28 meetings of the Public Expenditure and Audit Committee of the Parliament, to inform the committee on the results of the audits performed by the State Audit Office during the reporting year and to review, together with the ministries and other central government institutions, the progress of the implementation of the recommendations provided by the State Audit Office.

5. Work priorities in 2013

One of the key tasks for 2013 is the development of the operational strategy of the State Audit Office for 2014-2017 because the term of the operation of the existing strategy of the State Audit Office will expire at the end of 2013, and the new Strategy will ensure a further development of the operations of the State Audit Office.

In 2013, the State Audit Office will continue to perform financial audits, issuing opinions on the appropriateness of the preparation of the 2012 annual reports of 28 ministries and other central government authorities, as well as issue an opinion on the Republic of Latvia 2012 annual report on the execution of the state budget and the budgets of local governments.

The State Audit Office will continue to perform audits of the matters of public interest. In the area of education the audit related to the use of the state government budget for the compensation of teachers will be performed as well as the audit of the compliance of the activities the local government of Riga City with the statutory requirements in ensuring a place for children in pre-school educational establishments. In the area of health care the audit will be performed to examine the lawfulness and cost-efficiency of the compensation of the costs of medicines envisaged for being used in the outpatient treatment. In the area of internal affairs the material and technical resource base of the State Police will be examined; in the area of justice the arrangement for the health care of prisoners will be examined. With respect to the transport area, the audit will be performed to verify the basis for the allocation and application of the grants of the state budget for the providers of public transport services, as well as the operational efficiency of the joint stock company "Passenger Train". Audits will be carried out to verify the state budget spending in ensuring the operations of the National Guard of the Republic of Latvia and the reorganization of the State Forest Service. During the audits the action of the State Revenue Service with respect to the articles seized and confiscated within the scope of the administrative violation cases and criminal proceedings will be examined, the maintenance and facility management of the real estate held in possession by the Riga City school and pre-school educational establishments, social care institutions and the Riga City Council Property Department will be examined, the assessment of the software management in the local governments and their educational establishments will be performed. Audits will also be performed in the state and local government-owned capital companies - the state limited liability company "House of Sampeteris" and the capital companies owned by the local government of the Jelgava City.

In cooperation with the Accounts Chamber of the Russian Federation a parallel audit will be performed to examine the performance of the authorities in charge for the execution of the provisions of the agreement on the International Road Transport concluded between the government of the Republic of Latvia and the government of the Russian Federation.

In order to ensure the sustainability of the operations of the State Audit Office, it will be ensured

that the employees will continuously improve their knowledge and develop professionally through attending training courses and experience sharing workshops. The most important training will be arranged for on audit, accounting, management, information technology and legal matters as well as on the updates of the international auditing and accounting standards. The employees will also participate in the training arranged for by the Indian supreme audit institution in order to gain international experience of the best practice in performing audits.

Within the scope of the international co-operation representatives of the State Audit Office will visit the United Nations / INTOSAI symposium in the autumn of 2013, which will be devoted to a wider involvement of the public in the work of the supreme audit institutions, representatives of the State Audit Office will take part in the XXI Congress of INTOSAI, which will address the issues on the topic "National governance / National Audit" and the topic "The role of the supreme audit institutions on safeguarding long-term sustainability of financial policies" as well as attend the meeting arranged for by the Contact Committee on the tasks and role of the supreme audit institutions of the European Union and the European Court of Auditors in the context of the development of recent financial and economic crisis in the European Union. The work started in the working groups of the international organizations will be continued: the Lisbon Strategy / Europe 2020 Audit Information Exchange Network of the Contact Committee, the Fiscal Policy Information Exchange Network of the Contact Committee, the EUROSAI Information Technology Working Group and the implementation of the Strategic Plan Task Force Group No. 2 "Professional Standards", in the working group of the INTOSAI National indicators, etc.