



Annual Report 2013

The State Audit Office

of the Republic of Latvia

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# CONTENT

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<b>1. Basic information ABOUT the State Audit Office</b>	<b>5</b>
1.1. Vision, Mission, Values	5
1.2. Legal Status	5
1.3. Aims and Goals	6
1.4. The Structure	7
1.5. Personnel and Financial Resources	8
1.6. The Action Strategy	10
1.7. Organisation of audit work	15
1.7.1. Types of audit	15
1.7.2. Audit support tools	16
1.8. The system of quality management and internal control	17
1.8.1. Audit quality control	18
1.8.2. Internal audits and compliance reviews	19
1.8.3. Analysis of performance indicators as for the descriptions of work processes and the achievable results	20
1.8.4. Self-assessment of the system of quality management	20
1.8.5. Implementation of recommendations issued at the result of monitoring activities	20
1.8.6. Self-assessment	21
<b>2. Results of financial and regulatory audits</b>	<b>23</b>
2.1. The First Audit Department	23
2.2. The Second Audit Department	28
_____	28
2.3. The Third Audit Department	33
2.4. The Fourth Audit Department	38
2.5. The Fifth Audit Department	49
2.6. Audit and Methodology department	56
2.7. Reporting to law enforcement institutions	60
<b>3. International cooperation</b>	<b>65</b>
3.1. Participation in international organisations	65
3.2. Cooperation with supreme audit institutions of other countries	67
<b>4. Communication</b>	<b>69</b>

## CONTENT

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4.1. Public availability of information	69
4.2. Cooperation with the Saeima	71
4.3. Cooperation with other organisations	72
<b>5. Action priorities for the year 2014</b>	<b>73</b>



Dear readers,

The results achieved during 2013 by the State Audit Office and its team of independent, responsible and professional employees acknowledge our success in realisation of the intended goals. At the same time we continued development and improvement of standards of highest quality and we have actively participated in the international environment both by sharing our experience and searching for new approaches and methods of work.

The State Audit Office follows its values — Accountability, Openness, and Development — throughout our everyday activities both in planning and performance of audits and in analysing and publishing information on audit results.

We are grateful for the trust and acknowledgement for our work expressed by people of Latvia for many years. In order to increase awareness and involvement of the public in the activities of the State Audit Office we have introduced new forms of communication — social media and direct meetings with people all around Latvia.

In order to safeguard public interests we have introduced operational audits which allow us to actively respond to the latest developments and more rapidly review important matters, sectors or actions of certain institutions without leaving the issues behind. Also we are increasingly focusing on performance audits the aim of which is to review aims and efficiency of spending of public resources.

Looking back at the performance results of the previous year I can identify two main groups of issues encountered by the State Audit Office during audits.

First issue is focusing on the process not the result. The mentioned problem is current in many state and local government institutions. No doubt — in circumstances when institutions haven't defined particular achievable goals efficient spending of state budget funds is a goal of distant future. And the tax-payers continue to pay for processes not for real product.

Second issue is the lack of accountability. For many years the State Audit Office has called for strengthening of the tradition of accountability in order to facilitate development of fair and legal country and punish all those who have improvidently and inexpediently managed state and local government owned resources trusted in their hands.

We have always aspired for and will continue to look for new ways for improving our performance and achieving as valuable and useful results in the interests of the people of Latvia as possible at the respective time and place by continuously caring about the quality of life of people of Latvia.

A handwritten signature in blue ink, consisting of a large, stylized 'O' followed by several loops and a final flourish.

The Auditor General of the Republic of Latvia  
Elita Krūmiņa

## 1. BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

### 1.1. Vision, Mission, Values

The **vision**, **mission** and **values** of the State Audit Office are aimed at facilitating lawful, economic and efficient use of state budget funds in accordance with needs and interests of the public.

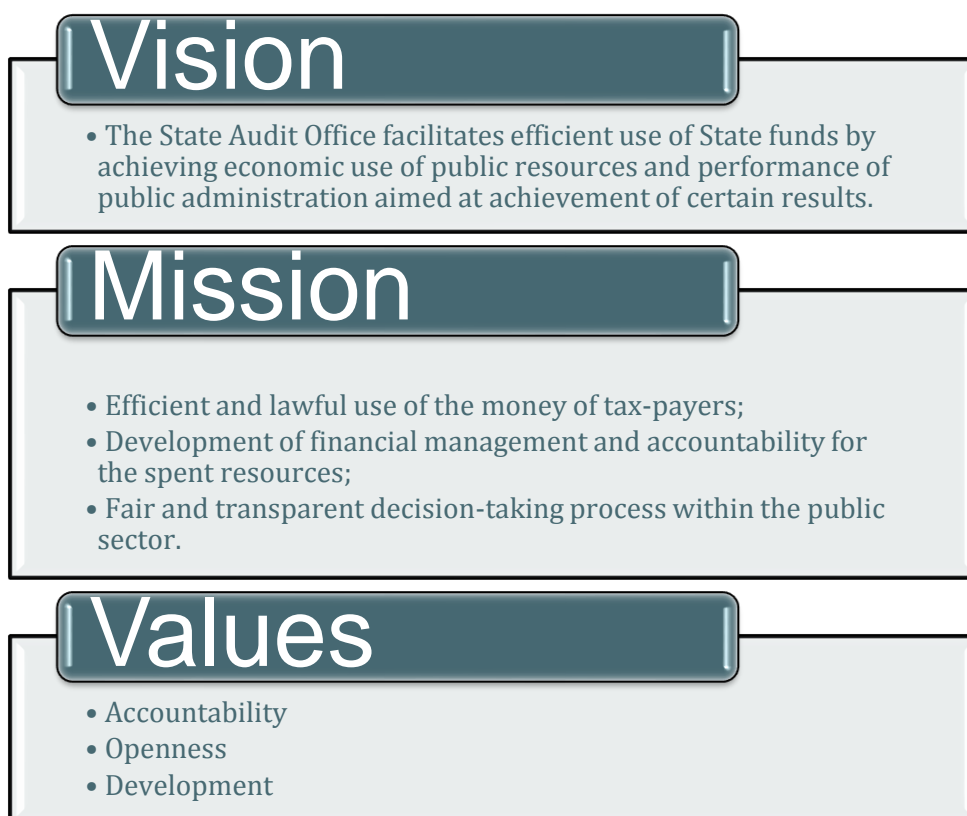


Image 1.1. Vision, Mission and Values of the State Audit Office

### 1.2. Legal Status

According to the Constitution of the Republic of Latvia and the State Audit Office Law, the State Audit Office acts as **independent, collegial, supreme audit institution** of the Republic of Latvia, and is subject only to the law.

The State Audit Office is a member of *INTOSAI*<sup>1</sup> un *EUROSAI*<sup>2</sup> organisations and must apply documents issued by international organisations of supreme audit institutions which define operating principles of supreme audit institutions, describe audit performance matters, and stipulate the independence requirement of supreme audit institutions. According to the Lima

<sup>1</sup> International Organization of Supreme Audit Institutions.

<sup>2</sup> European Organization of Supreme Audit Institutions.

declaration on guidelines of financial control<sup>3</sup> supreme audit institutions are able to perform their tasks objectively and efficiently only if they are independent from audited entity, safeguarded from external influence and provided with necessary funds for performing their functions. The principles of the Lima Declaration are secured by the Resolution of the UN General Assembly of 22 December 2011 “Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions”<sup>4</sup>.

### 1.3. Aims and Goals

The State Audit Office performs audits in order to ascertain whether resources of public person are used in a lawful, correct, economical and efficient manner, and to provide recommendations for elimination of revealed deficiencies.

#### The State Audit Office:

- Each year provides opinions on correctness of annual reports prepared by ministries and other central state institutions.
- Each year provides opinion on the Annual report of the Republic of Latvia on State budget execution and local government budgets.
- Reports to the Saeima and the Cabinet of Ministers on the results of financial audits of audited entities where qualified opinion, adverse opinion or disclaimer of opinion has been issued, and reports on all performance audits and particularly important findings.
- Reports to the Public Expenditure and Audit Committee of the Saeima on audit results, including implementation of recommendations.
- Reports to state institutions on findings related with performance of these institutions, and reports to law enforcement institutions on violations of legal norms identified during audits.

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<sup>3</sup>Lima Declaration of Guidelines on Auditing Precepts

<http://www.intosai.org/documents/intosai/general/declarations-of-lima-and-mexico/lima-declaration/ii-independence.html>.

<sup>4</sup> UN General Assembly Resolution A/66/209 “Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions” <http://www.intosai.org/news/010112-un-resolution-a66209.html>.

## 1.4. The Structure

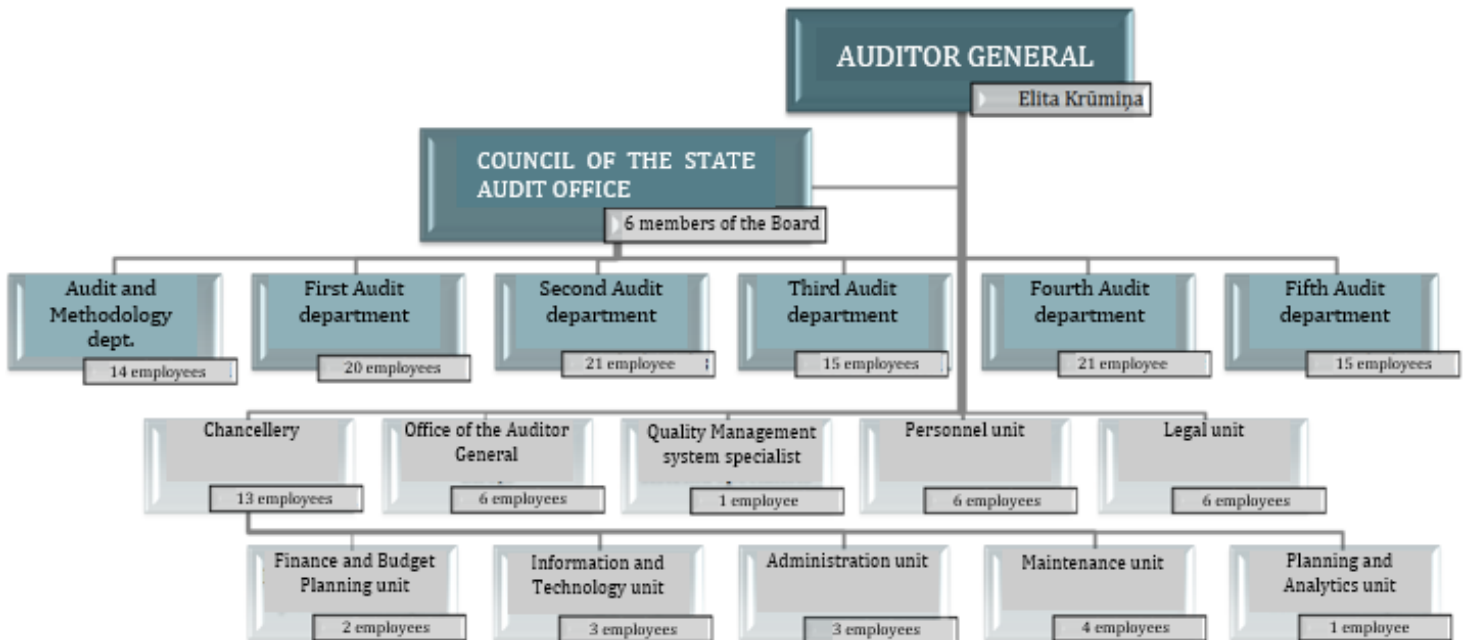


Image 1.2. The Structure of the State Audit Office

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

**January 17 —  
Elita Krūmiņa is  
appointed by  
the Saeima as  
the Auditor  
General**

**The Auditor General** is the chairman of the Council of the State Audit Office. The Auditor General is appointed by the Saeima for the term of four years, and can be appointed repeatedly, but longer than for two consecutive terms. The Auditor General approves audit methodology and requirements on audit quality review, and is responsible for development of the system of internal control. On January 17, 2013 the Saeima appointed Elita Krūmiņa as the Auditor General.

**The Council of the State Audit Office** approves regulations which govern operations of the State Audit Office and reviews other matters in accordance with the Law on State Audit Office. The Council consists of the Auditor General and six members of the Council who are acting as directors of audit departments. Members of the Council are appointed by the Saeima for the term of four years, and they can be appointed repeatedly, but longer than for two consecutive terms. On February 21, 2013 the Saeima appointed Inga Vārava as the member of the Council of the State Audit Office and on May 16 — Ilze Grīnhofa.

Audit engagements are distributed among **audit departments** by the decision of the Council of the State Audit Office. Each audit department is divided into sectors. A sector consists of the head of sector and auditors of the State Audit Office (state auditors, state auditors-lawyers, senior state auditors, senior state auditors-lawyers, assistant auditors and information system



auditors). Audit departments perform audits according to the field of specialisation of each department and in accordance with the annual audit plan approved by the Council of the State Audit Office.

**Supporting units** provide for everyday administrative processes. The employees of the Auditor General's office, the specialist of the system of quality management, the Human Resources unit, the Legal unit and the Chancellery are reporting directly to the Auditor General. The Chancellery consists of Finance and Budget Planning, Information Technology, Planning and Analytics, Administration and Maintenance units.

During the reporting period following changes were introduced in the **structure of the State Audit Office**:

- Redistribution of functions between the First audit department and the Audit and Methodology department by stipulating that the audit of balance sheet and consolidation process of the Annual report of the Republic of Latvia on State budget execution and local government budgets will be performed by the Audit and Methodology department.
- Structural changes in the Third and Fifth audit departments by creating new sectors as of 1 January 2014 which are to perform “ad-hoc” audits for prompt response to current events in the State, and local government audits.
- Reorganisation of the Quality Management and Planning units by stipulating that maintenance of the system of quality management of the State Audit Office is under the authority of the specialist for quality control systems who is reporting directly to the Auditor General, and the planning function is to be performed by the Planning and Analytics unit of the Chancellery.
- Redistribution of functions between the Chancellery and the Office of the Auditor General by stipulating that all matters of external and internal communication are under the authority of employees of the Office of the Auditor General.

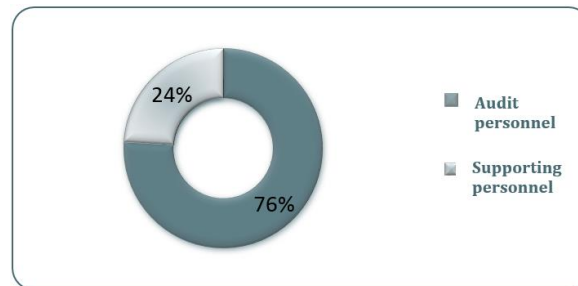
### **1.5. Personnel and Financial Resources**

The aim of requirements on structure, number and qualification of audit personnel is to ensure compliance of the scope of audit procedures with the requirements of the International Standards on Auditing, to obtain appropriate evidence, to collect necessary assurance, to provide independent opinion, and issue appropriate recommendations.

The structure and the number of supporting personnel is set in order to provide the necessary support for the basic function (auditing) in matters related to legal aspects, personnel

management, work planning, financial management, accounting, document management, information technology and operations.

In 2013 the number of staff positions in the State Audit Office was 163 out of which 124 were provided for audit personnel and 39 — for supporting personnel.



**Image 1.3. Distribution of personnel by groups of positions**

The average number of employees during the reporting period was 154. Employee turnover during the reporting period was 17%. 26 employees terminated their employment legal relations with the State Audit Office and 31 employee started to work for the SAO, out of which 16 employees started to work as State Auditors or State Auditor-Lawyers, seven employees as Assistant State Auditors or Assistant State Auditor-Lawyers, and eight employees occupied other positions.

Despite the fact that employee turnover during 2013 in comparison with 2012 decreased by 5% still the percentage of employee turnover in 2013 was high. In order to identify the reasons for termination of employment relations information was gathered from interviews made during the last day of employment and employee satisfaction survey was performed. The results of the survey indicated that the main reason for termination of work relations was uncompetitive salary in proportion to the professional qualification necessary for performance of duties, work intensity and responsibility.

Employee remuneration costs (wages, vacations and social warranties in accordance with applicable laws and regulations) constitute 74% of the total expenses of the State Audit Office.

Table 1.1.

## Revenue and expenditure of the State Audit Office

Indicators	2013		2014
	Plan, LVL	Execution, LVL	Plan, EUR
1. Resources for covering of expenses	2 646 898	2 646 898	4 798 046
1.1. Grants from general revenue	2 646 898	2 646 898	4 798 046
2. Total expenditure	2 646 898	2 555 603	4 798 046
2.1. Maintenance expenses	2 627 381	2 536 141	4 675 760
2.1.1. Remuneration	1 993 135	1 902 699	3 625 835
2.1.1.1. Salaries	1 494 686	1 444 333	2 797 278
2.2. Building of fixed assets	19 517	19 462	122 286
2.2.1. Fixed assets	19 517	19 462	122 286

## 1.6. The Action Strategy

The operations of the State Audit Office in 2013 were governed by the **Action Strategy 2010–2013 of the State Audit Office**, which was approved in 2009 and updated in 2012. The Strategy sets two action courses, as well as consequential long-term strategic goals and intended results.

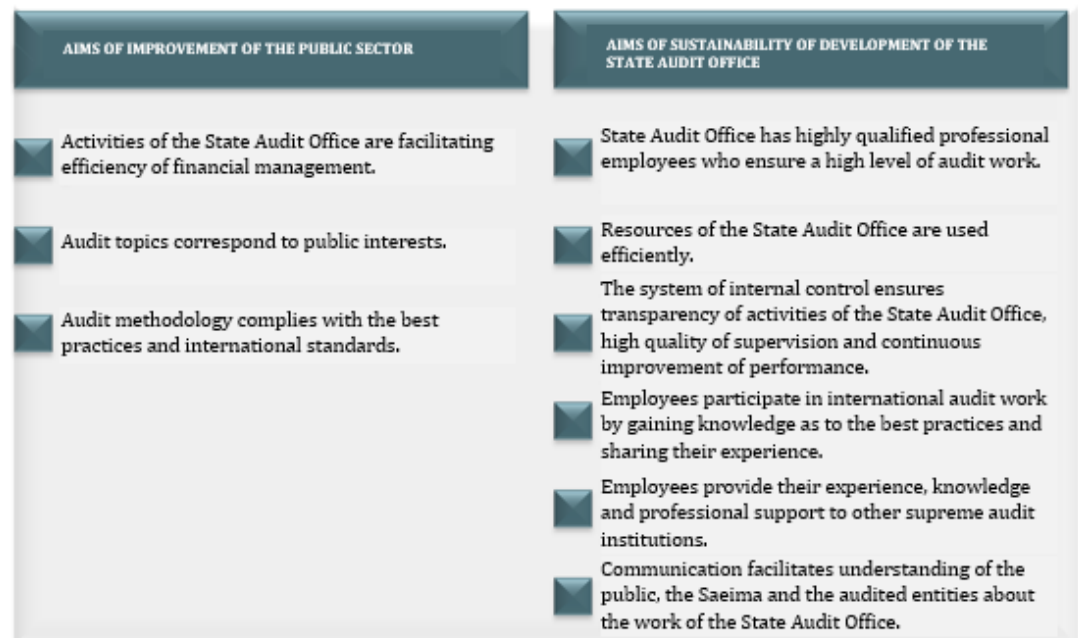


Image 1.4. The Action Courses and the goals of the State Audit Office

The Action Course **Improvement of public sector administration** is aimed at achieving further advancements in audit work by improving audit methodology and audit quality

reviews, as well as continuing identification of current audit topics of public interest. The most significant results achieved within this action course are:

- **The achievable result: The audited entities have implemented AT LEAST 80% of recommendations issued during audits.**

***81% of  
recommendations  
are being  
implemented***

The actual result: Out of 439 recommendations which were planned to be implemented during 2013 the audited entities performed measures aimed at implementation of 354 (81%) recommendations (290 recommendations were implemented fully, 64 are being implemented), and 18 (4%) recommendations have lost their currency due to objective circumstances (e.g. changes in applicable laws and regulations). In order to obtain assurance on elimination of all deficiencies identified during audits selective checks are performed during audits of financial statements of 2013, as necessary. The general progress of implementation of recommendations issued by the State Audit Office is hindered by slow implementation of recommendations in local governments and low level of activity of local governments in reporting to the State Audit Office on the performed measures for elimination of deficiencies identified during audits. The information submitted to the State Audit Office indicates that out of 108 recommendations which were planned to be implemented by local governments during 2013 only 26 were implemented and implementation of 19 recommendations was started.

**Table 1.2.**

**The progress of implementation of recommendations issued by the State Audit Office**

Sector/Field	Recomm. in-total	Introduced recomm.	Under implement.	Status-of implement. %	Lost topicality
State Defence	10	10	0	100	0
External Affairs	1	1	0	100	0
Economy	3	3	0	100	0
State Finances	7	6	0	86	1
Internal Affairs	26	25	0	96	1
Education and Science	48	11	30	85	3
Culture	9	7	2	100	0
Welfare	18	16	2	100	0
Transport and Comm.	35	33	1	97	1
Protection of rights	21	21	0	100	0
Health	45	38	0	84	7
Environment, Regional Development, e-adm.	33	30	3	100	0
Agriculture	31	26	5	100	0
Local governments	108	26	19	42	1
Independent and other institutions	21	19	1	95	0
Annual Report of the Republic of Latvia	23	18	1	83	4
<b>Total</b>	<b>439</b>	<b>290</b>	<b>64</b>	<b>81</b>	<b>18</b>

Implementation of recommendations in the sector of public financial management resulted in an increase in the number of public administration institutions in the accounting registers or systems of internal control of which the State Audit Office did not reveal any deficiencies; also it resulted in improvements as to fairness and completeness of disclosure of information in annual statements, administration of state and local government owned property, efficiency of state and local government owned capital companies, achievement of planning goals, lawfulness and regulatory compliance of use of state budget funds in line with the aims of state policy, and other general improvements in the sector of public sector administration.

- **The achievable result: The State Audit Office prepares at least 45 audit reports annually.**

The actual result: During 2013 audit departments completed 28 financial audits and 13 regulatory audits, and prepared 67 reports on audit results (38 reports on financial audits and 29 reports on regulatory audits).

- **The achievable result: The State Audit Office creates an efficient system for identification of SIGNIFICANT AUDIT TOPICS OF PUBLIC INTEREST.**

The actual result: During elaboration of proposals on performance of audits the audit departments conduct strategic evaluation and risk assessment of audited fields within the

*67 reports were prepared on the results of audits*

sector. This means that audits are performed in compliance with priorities of respective sectors, in line with public interests and the most relevant processes of the audited entities.

- **The achievable result: AUDIT METHODOLOGY is being updated IN ACCORDANCE WITH THE INTERNATIONAL STANDARDS ON AUDITING.**

The actual result: The State Audit Office has performed self-assessment according to the Supreme Audit Institutions Performance Measurement Framework developed by the working group of *INTOSAI*, including assessment of compliance of methodology of financial, performance and regulatory audits with the *ISSAI* standards. It was concluded that the State Audit Office completely fulfils the criteria on audit methodology and financial audits. Meanwhile it was revealed that compliance of methodology for regulatory audits with the *ISSAI* standard 400 and practical application of several performance audit requirements needs to be evaluated taking into account the fact that the State Audit Office has not performed separate performance audits and did evaluate the aspects of performance within the scope of regulatory audits.

The Action Course **Ensuring sustainable development of the State Audit Office** is aimed at enhancing further development of the State Audit Office as an institution, improvement of professionalism of its employees, and increase of the added value for the public provided by the State Audit Office as an audit institution. The most significant results achieved within this action course are:

- **The achievable result: The State Audit Office is attracting employees of high qualification. During performance evaluations AT LEAST 90% of employees receive grade A and B.**

The actual result: The employee performance evaluation system is a significant personnel management tool which provides the State Audit Office with opportunity to evaluate professionalism, abilities and contribution of each employee during a certain time period. The aim of the annual performance evaluation is to assess professional competency, intellectual abilities, communication, planning and organisational skills, and personal skills; for managerial positions this process focuses on management skills, creativity and strategic thinking. Performance results are also evaluated in relation to individual tasks of each employee. During the reporting period **95.3%** of the employees received grade **A or B**.

**95.3% of the  
employees  
received grade A  
or B**



Image 1.5.

- **The achievable result: Each employee participates in training sessions held by the State Audit Office and devotes time for PROFESSIONAL DEVELOPMENT in the total amount of 15 HOURS PER YEAR.**

The actual result: Due to the fact that no higher education institution is preparing respective specialists the State Audit Office has to invest huge resources in training of auditors. In order to provide professional development of the personnel **22 training sessions and seminars** (image 1.5.) were held during the reporting period on topics, such as use of specific audit software (*IDEA, TeamMate*); processes of financial audit, including audit approach, audit evidence and working documents; evaluation of errors; risk assessment; IT controls; International Financial Reporting Standards, and other current topics. Employees of supporting units participated in seminars on the issues of personnel management, administration of archives, and systems of quality management. During the reporting period each employee devoted for educational purposes on average 33 hours.

- **The achievable result: Consumption of working time for AUDIT WORK is AT LEAST 75% of the productive time of auditors, in 85% of cases audits are completed within DEADLINE and the DIRECT COSTS OF AUDIT are AT LEAST 65% of the total expenses of the State Audit Office.**

The actual result: During 2013 the consumption of working time for **audit work** out of productive working time of auditors was **86%**. According to the approved schedule of audit engagements the audit departments have ensured completion of **93% of audits within the planned deadline**. The **direct costs of audit** constituted **66%** of the total expenses of the State Audit Office.

- **The achievable result: Increased EXPERIENCE IN INTERNATIONAL AUDITS by the State Audit Office. The State Audit Office SHARES ITS KNOWLEDGE and BEST PRACTICE with other supreme audit institutions by facilitating improvement of their operations.**

### ***A parallel audit was performed***

The actual result: In May 2013 a **parallel regulatory** audit was started on regulatory compliance of actions of institutions which are involved in provision of international road transportation services and on evaluation of implementation of the agreement concluded between the Republic of Latvia and the Russian Federation on international traffic of road vehicles. In December the results of the parallel regulatory audit were summarised in a general informative report. The State Audit Office participated in *INTOSAI* and *EUROSAI* **working groups** and activities of the Contact Committee the aim of which is to facilitate introduction of the International Standards on Auditing in supreme audit institutions.

- **The achievable result: The State Audit Office REPORTS ON ITS WORK RESULTS to the representatives of SAEIMA committees and ensures efficient COOPERATION WITH THE AUDITED ENTITIES.**

The actual result: The State Audit Office reports to the **Public Expenditure and Audit Committee of the Saeima** on audit results and the progress of implementation of recommendations. Information on most important audit reports and revealed violations is submitted to the President of the State, the competent committees of the Saeima, the Prime Minister and the competent ministers. Cooperation with the audited entities provides opportunity to receive complete information from audited entities in due time during all stages of audit, as well as obtain common understanding about audit findings, conclusions and recommendations included in audit report thus fostering mutually coherent and productive operations.

## 1.7. Organisation of audit work

### 1.7.1. Types of audit

FINANCIAL AUDITS¶	LAWFULNESS AND REGULATORY AUDITS¶
<ul style="list-style-type: none"> <li>■ Review of correctness of preparation of reports and regulatory compliance of transactions, as well as review the progress of elimination of errors revealed during previous years.</li> <li>■ Opinion on the correctness of preparation of annual reports by Ministries and other central state institutions.</li> <li>■ Opinion to the Saeima on the annual report submitted by the Minister of Finance on State budget execution and budgets of local governments.</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Regulatory audits:</b> review of regulatory compliance and compliance with the planned results of transactions and actions of audited entities.</li> <li>■ <b>Performance audits:</b> review of economy, efficiency and productivity of operations of audited entities. <ul style="list-style-type: none"> <li>Assessment of economy: are operations performed with the lowest possible costs at the same time maintaining quality?</li> <li>Assessment of productivity: is the lowest possible amount of resources spent for a certain aim?</li> <li>Assessment of efficiency: to what extent are the intended goals achieved?</li> </ul> </li> </ul>

Image 1.6. Types of audit

According to the Law on the State Audit Office any person who is acting with financial resources or property owned by a public person, as well as persons executing State or local government procurements are subject to audit by the State Audit Office. The Saeima is not subject to audits by the State Audit Office. In order to ensure independence of the State Audit Office the legislator has delegated it with right to choose the audited entity, as well as the time, type and objective of audits.

According to the Law on State Audit Office each year the State Audit Office must issue an opinion on correctness of preparation of annual reports of ministries and other central state institutions, as well as on the Annual Report of the Republic of Latvia on State budget execution and local government budgets.

***Financial audits and regulatory audits with assessment of performance aspects were conducted***



The State Audit Office determines topics of regulatory audits based on the strategic evaluation of audit fields. Until now the State Audit Office did not perform separate performance audits and evaluated aspects of performance within the scope of regulatory audits. The selected audit topics and the performed performance audits during 2013 were focused on following priorities:

- Assessment of topics of public interest or interest of certain group of public.
- Assessment of complaints filed by private individuals and institutions.
- Assessment of state sectorial reforms.
- Assessment of efficiency and performance of capital companies.

**1.7.2. Audit support tools**

*Audit support tools TeamMate and IDEA were used during audits:*

In order to increase audit efficiency the State Audit Office continues to use audit support tools which provide opportunity to ensure planning of work time, documentation of audit work and supervision over implementation of audit recommendations, as well as increase the efficiency of analysis of data gathered by state administration.

During 2013 maintenance of the *TeamMate* software was retained in the scope of the installed volume, at the same time evaluating the necessary improvements in the newest version and performing preliminary actions in order to ensure introduction of the newest version and simplification of transition to the centralised *TeamMate* database in 2014.

TEAMMATE	IDEA
<ul style="list-style-type: none"> <li>■ <i>TeamSchedule</i> - planning of work time of employees</li> </ul>	<ul style="list-style-type: none"> <li>■ Creation of transaction sample</li> </ul>
<ul style="list-style-type: none"> <li>■ <i>TeamMate EWP</i> - documenting the progress of the audit</li> </ul>	<ul style="list-style-type: none"> <li>■ Identification of unusual or suspicious data values</li> </ul>
<ul style="list-style-type: none"> <li>■ <i>TeamMate TEC</i> - entering and registration of work time or employees</li> </ul>	<ul style="list-style-type: none"> <li>■ Data analysis and creation of analytical reports</li> </ul>
<ul style="list-style-type: none"> <li>■ <i>TeamCentral</i> - supervision and control over audit recommendations</li> </ul>	<ul style="list-style-type: none"> <li>■ Verification of calculations</li> </ul>
	<ul style="list-style-type: none"> <li>■ Comparison of data in two systems</li> </ul>

**Image 1.7. Audit support tools**

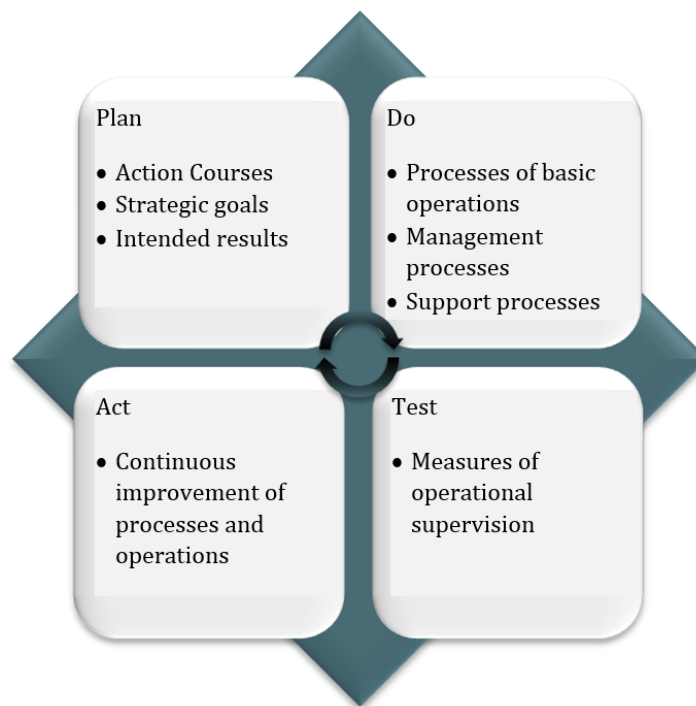
In order to ensure compatibility with newest versions of other software used by the State Audit Office, introduction of the newest version of the *IDEA* data analysis tool was started. The

*The system of  
quality  
management  
has been  
developed and is  
working*

user handbook was updated according to the visual and functional changes in the new version of *IDEA*.

### 1.8. The system of quality management and internal control

The system of quality management of the State Audit Office was developed in accordance with the standard of Latvia LVS EN ISO 9001:2009 “Quality management systems. Requirements (ISO 9001:2008)”, and the State Audit Office is applying a process approach “Plan — Do — Test — Act”.



**Image 1.8. Application of process approach by the State Audit Office**

The State Audit Office plans its activities in accordance with the determined action courses, strategic aims and achievable results. The activities of the State Audit Office are described in 22 descriptions of working processes, eight out of which refer to the processes of basic activities, three — to management processes, and 11 — to support processes. Performance of functions and achievement of goals of the State Audit Office and each structural unit is ensured in accordance with the descriptions of working processes.

**Internal control environment** includes monitoring activities and risk detection and assessment activities. Monitoring activities provide overall assurance on continuity of operations, transparency of management, reliability and completeness of information and compliance with the aims of the State Audit Office. Monitoring of operations of the State Audit Office is ensured on everyday basis (for example, approvals, coordination, work quality

assessment procedures, procedures for allocation of tasks and responsibilities) and with the help of purposeful control activities (for example, audit quality control, internal audit, compliance reviews).

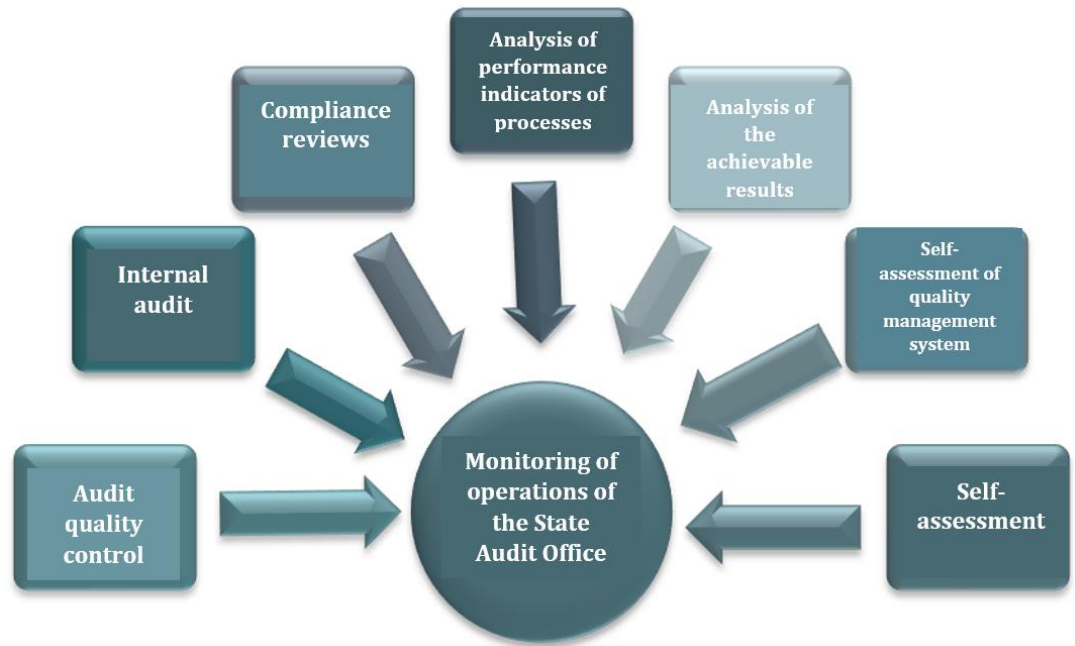


Image 1.9. Performance monitoring activities of the State Audit Office

#### 1.8.1. Audit quality control

**Quality control of completed audit engagements was performed in order to assess determination and application of materiality**

The aim of audit quality control is to review whether audits are performed in accordance with requirements of the International Standards on Auditing and the procedures stipulated by the State Audit Office, and as well as to identify the best practices and necessary improvements in audit methodology. The State Audit Office performs audit quality control measures in accordance with the *ISSAI 40 Quality Control for Supreme Audit Institutions*.

In 2013 **quality control of completed audit engagements** was performed in order to assess the process of determination and application of materiality, as well as to gather information on errors. In order to ensure that at least one audit engagement of every audit department is subject to quality control, quality control was performed on the audits of 2012 on annual reports of the Ministry of Education and Science, the Ministry of Defence, the Ministry of Welfare and Agriculture, the Central Election Commission and the Society Integration Fund. 10 recommendations were issued at the result of the audit, one of which referred to work of audit teams and the others were aimed at supplementing information included in handbooks on financial audit and improving descriptions of audit work processes by adding guidance on

determination of materiality, documentation of conclusions and assessment of the effect of errors on the annual report and the audit opinion.

**Quality control during audit engagements** is performed in accordance with audit work descriptions as stipulated by the State Audit Office. In accordance with those descriptions the heads of sector and the director of the audit department supervise the work of audit teams during all stages of audit (planning, obtaining of evidences and completion) in order to ensure efficient and qualitative performance of audit by completing sections of Quality Review sheet for the respective audit stage.

Before submitting draft financial audit reports for review to the Council of the State Audit Office and sending them to the audited entities, reports are reviewed by the Legal unit and the Audit and Methodology department according to the **measures for increasing of audit quality**. The aim of these measures is to facilitate issuance of clear and understandable audit reports, including consistent translation and application of legal norms, conclusions drawn in accordance with findings and issuance of recommendations which facilitate introduction of significant changes in operations or the sector of the audited entity. 26 draft audit reports were evaluated in accordance with the measures of quality assurance during 2013.

In 2013 for the first time in the history of the State Audit Office information was gathered on the **best practices and typical errors** identified in the audited entities during financial audits. This information was aggregated and disseminated to the audited entities by pointing out the opportunities for advancing the system of internal control, accounting and other processes thus facilitating improvement of public sector administration. The State Audit Office presented this information to accountants of institutions during seminars held by the State Audit Office on current matters in preparation of annual statements.

#### 1.8.2. Internal audits and compliance reviews

The aim of internal audit is to evaluate operations and efficiency of the system of internal control. Compliance reviews are aimed at evaluating compliance with descriptions of work processes of the State Audit Office, internal and external legislation and the requirements of the standard of Latvia LVS EN ISO 9001:2009 on "Quality management systems".

During the reporting year no **internal audits** were performed. Seven **compliance reviews** were performed on following subjects:

- Arrangement of employees' performance evaluation.
- Use of vehicles, parking places and public transport.
- Arrangement of operational transactions and business trips.

*For the first  
time  
information was  
gathered on the  
best practices  
and typical  
errors*

- International cooperation.
- Registration and accounting of vacations and work disabilities.
- Administration of computerised devices and software.
- Oversight over the process of annual stock-taking (for the year 2012).

No material deficiencies were identified during compliance reviews; 19 recommendations were issued aimed at improvement of operational processes, out of which 15 were implemented during the reporting period and 4 were set to be implemented in 2014.

### **1.8.3. Analysis of indicators for assessment of descriptions of work processes and the achievable results**

The aim of analysis of indicators for assessment of descriptions of work processes is to identify potential risks for implementation of processes and to obtain assurance as to compliance of activities, processes and work results of the institution with certain requirements. 34 indicators were determined for assessment of processes. During the reporting year three recommendations were issued aimed at improvement of the processes and the system.

The aim of analysis of the achievable results is to assess fulfilment of goals and results stipulated in the strategy of the State Audit Office.

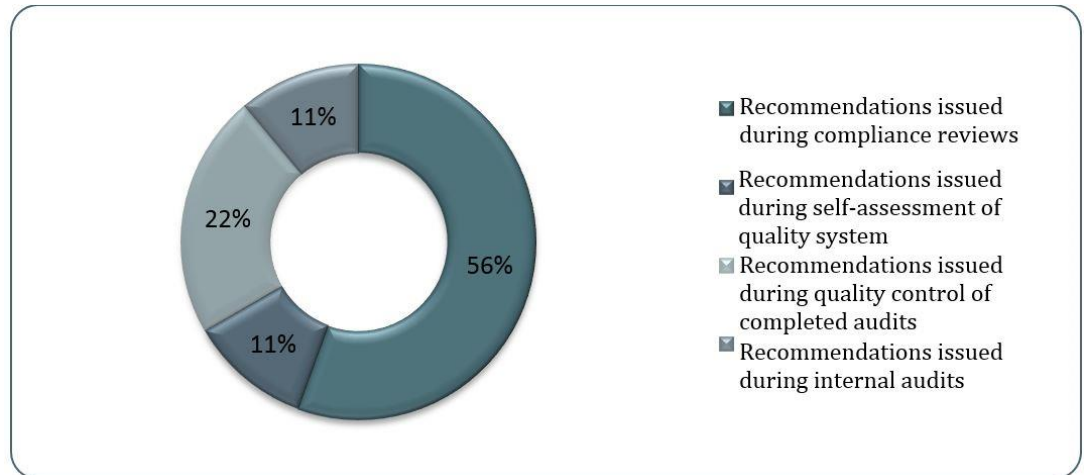
### **1.8.4. Self-assessment of the system of quality management**

Self-assessment of the system of quality management is performed once a year in order to evaluate compliance of the developed system with the requirements of the standard of Latvia LVS EN ISO 9001:2009 on "Quality management systems. Requirements (ISO 9001:2008)". According to the results of the self-assessment in general the State Audit Office complies with the requirements of the standard however two recommendations were issued aimed at improvement of the developed system.

### **1.8.5. Implementation of recommendations issued at the result of monitoring activities**

At the result of performance **monitoring activities** of the State Audit Office **32 recommendations** were issued aimed at improvement of audit processes and administrative processes of the State Audit Office. **27 recommendations** issued during the time period from 2011 up to 2013 still **need to be implemented**.

*Self-assessment  
of the system of  
quality  
management  
was performed*



**Image 1.10. Breakdown of recommendations to be implemented**

26 recommendations were implemented in 2013 and in case of one recommendation a new term of implementation was set for year 2014. Implementation of recommendations resulted in:

- Reviewed requirements of internal regulations by eliminating duplication of activities and ensuring faster and more efficient processes, as well as ensuring operative response measures of everyday activities to changes in general activities of the State Audit Office.
- Simplified requirements for layouts of descriptions of work processes so that they are clear and easy to use.
- Reviewed and updated requirements for planning of updates of computerised devices, software and information systems and ensured control over accessibility of software and information systems to employees.
- Reduced expenses for provision of public transport and reviewed documentation requirements on documentation of material values.
- Clarified requirements for assigning of vacations to employees and updated criteria for performance evaluation.

#### 1.8.6. Self-assessment

#### *Self-assessment of performance of the State Audit Office was performed*

In 2013 the State Audit Office performed self-assessment based on the indicators stipulated in the *Supreme Audit Institutions Performance Measurement Framework* prepared by working groups of *INTOSAI*. Taking into account the fact that the *INTOSAI* framework was not yet approved and several countries are applying it for performance evaluation of institutions in order to introduce the necessary clarifications, the State Audit Office used the version 2.1. of the framework from 26 February, 2013.

The aim of the self-assessment is to provide an objective evaluation as to whether the actions of the State Audit Office comply with the criteria determined by *INTOSAI*. Self-assessment was performed in accordance with internal regulations of the State Audit Office and the order of their application.

During the self-assessment seven performance areas of the State Audit Office were evaluated:

- Performance results of the State Audit Office.
- Independence and legal framework.
- Development strategy of the institution.
- Auditing standards and methodology.
- Management and supporting personnel.
- Personnel management and leadership.
- Communication.

The results of the self-assessment revealed that in general the action mandate of the State Audit Office secured by the Constitution of the Republic of Latvia and the Law on State Audit Office is compliant with the criteria on independence and legal framework, and the State Audit Office fully complies with the criteria in the field of methodology and performance of financial audits.

Meanwhile it was revealed that improvements were necessary in several performance areas, including increase in the volume of performance audits and improvement of State Audit Office auditors' knowledge in the field of performance audits, evaluation of possibility to provide opinion both on correctness of statements and on regulatory compliance of transactions reflected in the statements during financial audits, and improvement of the assessment of financial impact from implementation of recommendations issued by the State Audit Office.

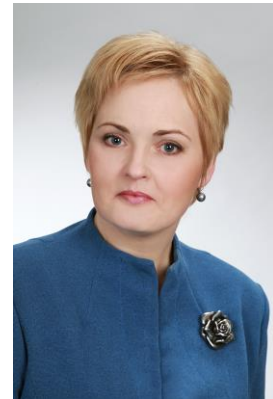
## 2. RESULTS OF FINANCIAL AND REGULATORY AUDITS

### 2.1. The First Audit Department

- Member of the Council, the Director of the Department

**IEVA BRAUNFELDE**

- Total budget of the audited fields in 2013:  
1172.38 million LVL<sup>5</sup>



THE FIRST SECTOR (THE HEAD OF THE SECTOR, 11 AUDITORS)	THE SECOND SECTOR (THE HEAD OF THE SECTOR, 6 AUDITORS)
<p><b>The Ministry of the Foreign Affairs</b> the budget 37.37 m LVL 2 subordinate institutions</p>	<p><b>The Ministry of the Finance</b> the budget 565.38 m LVL 5 subordinate institutions 6 capital companies</p>
<p><b>The Ministry of Culture</b> the budget 100.12 m LVL 32 subordinate institutions 16 capital companies</p>	<p><b>The Chancellery of the State President</b> the budget 2.05 m LVL</p>
<p><b>The Ministry of Education and Science</b> (incl. special purpose grants for teacher salaries) the budget 446.25 m LVL 72 subordinate institutions 7 capital companies</p>	<p><b>The sector of the Cabinet of Ministers</b> the budget 4.60 m LVL</p>
<p><b>The National Electronic Media Council</b> the budget 13.32 m LVL 2 capital companies</p>	<p><b>Corruption Prevention and Combating Bureau</b> the budget 2.95 m LVL</p>
	<p><b>The Cross-sectorial Coordination Centre</b> the budget 362.26 k LVL</p>

**Image 2.1. Audited fields by the First Audit Department**

During the annual financial audit of **THE MINISTRY OF FOREIGN AFFAIRS** the State Audit Office ascertained that the consolidated report for the year 2012 of the ministry complied with applicable laws and regulations and there were no material misstatements or errors. No recommendations were issued at the result of the **financial audit**.

<sup>5</sup>Data on State budget execution for the year 2013 according to the Report of the State Treasury. Home page of the State Treasury. Online: [http://www.kase.gov.lv/?object\\_id=8343](http://www.kase.gov.lv/?object_id=8343)



At the result of the **financial audit** for the year 2012 of the **MINISTRY OF CULTURE** the State Audit Office issued eight recommendations to the Ministry aimed at ensuring compliance of accounting of cash transactions with the applicable laws and regulations, introduction of necessary control functions in the unified accounting system, and elimination of conclusion of contracts with employees of the institution for performance of duties which were included in their job descriptions. The Ministry has already implemented six recommendations.

At the result of financial audits of the Ministry of Culture during the time period from 2008 up to 2012 the State Audit Office issued 133 recommendations, 132 out of which were implemented and one recommendation is not yet due. The measures performed by the Ministry and its subordinate institutions resulted in significant improvements in the accounting control environment and introduction of unified management system of resources in 2013.

VK, iespējams, atklājusi izšķērdēšanu J3B projektos (74)



Image 2.2.

***Expenses of the  
Latvian National  
Library were  
reduced by  
58.97 million lats***

As to the most significant improvements resulting from regulatory audits performed during previous years, the Ministry of Culture reviewed the existence of collections based on recommendations issued during regulatory audit of 2008 on “Regulatory compliance of management of collections of the National Museum” and determined the value of collections, which resulted in increase of the value of assets of the Ministry by 53.5 million lats.

Meanwhile during the regulatory audit performed in 2010 on “Regulatory compliance of actions performed by the Ministry of Culture and the state agency “Jaunie “Trīs brāļi” (Image 2.2.<sup>6</sup>) in ensuring design, construction and funding of State cultural objects” material deficiencies were identified in all fields which were included in the audit scope, and it was concluded that the actions of the Ministry in ensuring design, construction and funding of State cultural objects do not comply with public interests. Implementation of recommendations issued by the State Audit Office resulted in improvement of control process which helped to decrease the expenses of the Latvian National Library by 58.97 million lats.

At the result of the **FINANCIAL AUDIT** for the year 2012 of the **Ministry of Education and Science** 16 recommendations were issued aimed at improvement of control over revenue from of paid services, ensuring accounting of revenue in accordance with the applicable laws and regulations, and determination of salaries in accordance with the applicable laws and regulations.

<sup>6</sup>The SAO has identified possible misappropriation in J3B projects. The portal: delfi.lv. Online: <http://www.delfi.lv/news/national/politics/vk-iespejams-atklajusi-izskerdesanu-j3b-projektos.d?id=29533699>

The State Audit Office reported to the General Prosecutor's office on audit findings in Murjāņi Sports Gymnasium related to illegitimate use of vehicles. A criminal procedure was initiated on the aforementioned facts; the investigation continues. The Ministry of Education and Science performed official investigations. A warning was issued to the official of Murjāņi Sports Gymnasium.

Kandava State Technical Agricultural School used services of two intermediaries for cadastral measurement of buildings and the service fee was for 4.09 thousand lats higher than the fee for the same services provided by the State Land Office, resulting in a loss of the mentioned amount by the State budget. This was reported to the General Prosecutor's office. The violation is being examined by the State Police. A warning was issued to the official of Kandava State Technical Agricultural School.

Valsts kontrole: Esošā pedagogu atalgojuma sistēma nav efektīva

Apollo, redakcija@apollo.lv      Pēdējais, 2014. gada 24. februāris 10:30      16 komentāri

Valsts kontrole (VK) secinājusi, ka Izglītības un zinātnes ministrijas (IZM) rīcība ar mērķdotācijām pedagogu darbu samaksai - vairāk nekā 200 miljoni latu gadā - nav bijusi efektīva, dažos gadījumos bijusi pretrunīga. «Apollo» informācija VK.



Image 2.3.

During the reporting period a **regulatory audit** was performed in the sector of education on “Lawfulness, economy and efficiency of use of State funds for provision of salaries for the teachers” (Image 2.3.<sup>7</sup>). Despite the fact that improvement of remuneration system of teachers is one of topical issues of State budget planning and the annual amount of special purpose grants for salaries exceeds 200 million lats, the results of the audit revealed that the Ministry had not established efficient mechanism of supervision over use of special purpose grants in local governments and the developed remuneration system of teachers was violating the Labour Law. At the result of the audit 16 recommendations were issued aimed at improvement of the model of granting of funds to educational institutions and its and regulatory compliance, as well as improvement of control over use of special purpose grants for salaries of teachers in local governments to achieve compliance with the aims of the funding.

The aim of the audit on correctness of preparation of the consolidated statement of the **MINISTRY OF FINANCE** for the year 2012 was also to review administration of information technology (IT) resources in the Ministry and its subordinate institutions. Auditors of the State Audit Office concluded that administration of IT systems in the sectorial institutions is not organised according to unified principles, and does not facilitate compliance of the IT system with the goals and needs of the institutions, as well as planning and use of IT expenses in the most efficient way. At the result of the **financial audit** the State Audit Office issued five recommendations aimed at elimination of the revealed deficiencies.

<sup>7</sup> The State Audit Office: the present remuneration system of teachers is inefficient. Home page of the news portal apollo.lv. Online: <http://www.apollo.lv/zinas/valsts-kontrole-esosa-pedagogu-atalgojuma-sistema-nav-efektiva/638802>

In 2013 two regulatory audits were completed in the field of public financial management. The results of the **regulatory audit** on “Lawfulness and efficiency of actions of the State Revenue Service with belongings and property cognizable to the State alienated in case of administrative violations and criminal procedures” revealed that the State Revenue Service has not received all the property cognizable to the State in accordance with the decisions on administrative violations and the State has not gained all the respective revenue from realisation of the property cognizable to State. The State Audit Office issued 11 recommendations aimed at development of appropriate system of control, transparent system of registration and control over realisation of property cognizable to the State, and introduction of unified approach in structural units in relation to registration and storage of property alienated in case of administrative violations.



Valsts kontrole: Valsts nekustamie īpašumi neapņēma informāciju par īpašumu stāvokli, neizvērtē remontu un būvdarbu vajadzību. ■

**8 million lats  
gained from  
alienation of real  
estate were timely  
included in the  
State budget**

The aim of the **regulatory audit** on “Regulatory compliance and efficiency of actions of the Ministry of Finance and the PLC “Valsts nekustamie īpašumi” in developing and alienating state-owned real estate” (image 2.4.<sup>8</sup>) was to review the progress of implementation of recommendations issued during the regulatory audit of 2009, and the results of the audit revealed that the State budget revenue has increased and also the State assets in the financial report of the Ministry have increased. By stipulating a deadline for inclusion in the State budget of resources gained by capital companies from alienated property, during the time period from start of 2011 up to 31 July 2013 the amount of resources gained from alienation of state-owned real estate timely included in the State budget reached 8 million lats. Meanwhile by including real estate objects registered on behalf of the Ministry of Finance in the accounting registers based on corroborative documents starting from 2010 the value of the State assets in the financial report of the Ministry on 31 December 2012 reached 136.38 million lats. The results of the audit on the order of administration of state-owned real estate revealed that the PLC “Valsts nekustamie īpašumi” was not gathering information on the condition of real estate, was not assessing priorities for repair and construction works, and was not analysing the needs of State institutions for new premises and planning provision of State institutions with appropriate premises in the medium and long-term. At the result investments in real estate were made only on request by their users after respective funds from the State budget were allocated. At the result of the audit the State Audit Office issued 10 recommendations aimed at improving administration and management processes of state-owned real estate.

<sup>8</sup> The State Audit Office: “Valsts nekustamie īpašumi” has not collected information on condition of real estate and has not assessed repair and construction needs. Business portal db.lv Online: <http://www.db.lv/citas-zinas/valsts-kontrole-valsts-nekustamie-ipasumi-neapkopo-informaciju-par-ipasumu-stavokli-neizverte-remont-407334>

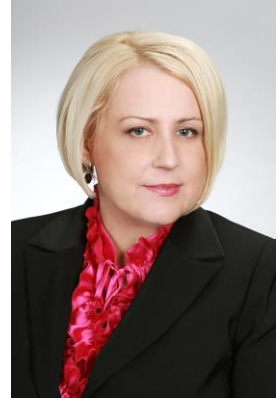
During the **financial audit** of 2012 of the sector of **CABINET OF MINISTERS** assessment of internal control environment in the State Administration School was performed, and it was concluded that the internal control environment is incomplete, it does not ensure efficient operations, reliability of reports and regulatory compliance of the institution. At the result of the audit nine recommendations were issued aimed at introduction of unified approach in the accounting systems of the sectorial institutions towards recognition of sums levied on behalf of third persons, arrangement of remuneration system and improvements in accounting of value added tax, and organisation of procurements and performance of stock-counting procedures in the State Administration School.

During the **financial audits** of 2012 on correctness of preparation of annual reports of the **CHANCELLERY OF THE STATE PRESIDENT**, the **CROSS-SECTORIAL COORDINATION CENTRE** and the Corruption Prevention and Combating Bureau no material misstatements were identified. No recommendations were issued to the Chancellery of the State President and the Cross-Sectorial Coordination Centre. The State Audit Office issued three recommendations to the **CORRUPTION PREVENTION AND COMBATING BUREAU** aimed at adjustment of accounting of long-term investments and ensuring transparent and equal procedure for granting of bonuses, benefits and monetary allowances to personnel.

During the audit of the **NATIONAL ELECTRONIC MEDIA COUNCIL** deficiencies were identified in efficiency of use of resources. The aim of the **financial audit** was to evaluate whether the Council as a shareholder was administrating activities of Latvia Radio and Latvia Television, and it was concluded that the administration was inefficient thus creating a risk for long-term development of the capital company. At the result of the audit six recommendations were issued aimed at increasing the quality of preparation of the report of the Council, and improving the administration of radio and television by determining long-term development goals, achievable results and performance indicators of the capital companies.

## 2.2. The Second Audit Department

- Member of the Council, the Director of the Department  
**ILZE GRĪNHOFA**
- Total budget of the audited fields in 2013:  
457.94 million LVL<sup>9</sup>



THE FIRST SECTOR (THE HEAD OF THE SECTOR, 6 AUDITORS)	THE SECOND SECTOR (THE HEAD OF THE SECTOR, 6 AUDITORS)	THE THIRD SECTOR (THE HEAD OF THE SECTOR, 6 AUDITORS)
<ul style="list-style-type: none"> <li><b>The Ministry of Defence</b> the budget 150.28 m LVL 5 subordinate institutions and the National Armed Forces</li> <li><b>The Ombudsman's Office</b> the budget 688.80 k LVL</li> </ul>	<ul style="list-style-type: none"> <li><b>The Ministry of Interior</b> the budget 184.94 m LVL 8 subordinate institutions 1 capital company</li> <li><b>The Prosecutor's Office</b> the budget 14.94 m LVL</li> </ul>	<ul style="list-style-type: none"> <li><b>The Ministry of Justice</b> the budget 103.33 m LVL 12 subordinate institutions and 2 capital companies</li> <li><b>The Supreme Court of the Republic of Latvia</b> the budget 3.15 m LVL</li> <li><b>The Constitutional Court of the Republic of Latvia</b> the budget 815.84 k LVL</li> </ul>

Image 2.5. Audited fields by the Second Audit Department

VK: Aizsardzības nozares iestāžu darbinieku  
atbildības aprēķinos nav ievēroti normatīvie akti



Image 2.6.

The aim of the **FINANCIAL AUDIT** of 2012 of the **Ministry of Defence** was to obtain assurance as to correctness of preparation of the annual statement. At the result of the audit the State Audit Office issued three recommendations aimed at ensuring compliance of determination of bonus payments for overtime work with applicable laws and regulations, and achieving unified understanding about determination of the amount of long-service allowances for soldiers (image 2.6.<sup>10</sup>).

<sup>9</sup>Data on State budget execution for the year 2013 according to the Report of the State Treasury. Home page of the State Treasury. Online: [http://www.kase.gov.lv/?object\\_id=8343](http://www.kase.gov.lv/?object_id=8343)

<sup>10</sup>The SAO: determination of remuneration of employees of the sector of defence is not compliant with laws and regulations. fokus.lv Online: <http://www.fokus.lv/latvija/sabiedriba/vk-aizsardzibas-nozares-iestazu-darbinieku-atbildibas-aprekinos-nav-ieveroti-normativie-akti>

Implementation of recommendations issued during financial audits since 2006 has resulted in significant improvements in the field of financial management and accounting of the Ministry by establishing a unified accounting policy in sectorial institutions and introducing a unified management system of resources. Despite the introduction of progressive accounting system during the audit of the report of 2011 significant deficiencies were identified in accounting of military stock in several warehouses of the National Armed Forces. Meanwhile during the financial audit of 2012 auditors were satisfied with performance of stock inventories, distribution of responsibilities among the officials, improvement of internal control procedures, elaboration of plan for adjustment of warehouses and other activities.

*Savings  
achieved in the  
sector of  
military  
training in the  
amount of at  
least  
854 thousand  
lats*

During the reporting period a regulatory audit was completed in the sector of defence on implementation of recommendations issued during the **regulatory audit** of 2010 on “Lawfulness and efficiency of use of State budget funds by the Ministry of Defence for provision of training of military personnel”. The State Audit Office ascertained that implementation of recommendations by the Ministry had resulted in savings of resources invested in military training in the amount of at least 854 thousand lats annually. Savings in the amount of at least 431 thousand lats were achieved by improving the administration system of schools of NAF and reducing the number of teaching staff involved in provision of military training, and savings in the amount of at least 379 thousands lats resulted from improvement of working procedures of the National Defence Academy of Latvia. Improvement of working procedures of the Academy resulted in decrease in the number of teaching staff in 2012 by 26 persons (43%) in comparison with 2010 and increase in the number of students by 155 persons (180%). It is planned to introduce the mechanism for recovery of costs of master's degree study program of the National Defence Academy of Latvia in cases when soldiers terminate studies. The Ministry of Defence still has to take measures in order to eliminate deficiencies in supervision of the Academy and training of foreign students in the Academy.

During the reporting year the State Audit Office continued to exercise supervision over implementation of other recommendations issued during regulatory audits: the audit of 2007 on “Lawfulness of actions of state agencies of the Ministry of Defence in performing their functions delegated in administration contracts”, the audit of 2010 on “Efficiency and lawfulness of the system of technical provision and supply of the National Armed Forces”, the audit of 2011 on “Lawfulness and efficiency of use of State budget funds for provision of social warranties to soldiers”, and the audit of 2012 on “Lawfulness and efficiency of use of State budget funds in the National Armed Forces for maintenance and use of land vehicles”. For example, implementation of recommendations issued by the State Audit Office resulted in approval of the real estate long-term development plan by the Ministry for the period of 2013-

2014 and establishment of the procedure of administration of property of defence sector, improvement of health care benefit system for soldiers and civil guards of the NAF, and prevention of the risk of inexpedient use of State budget funds by paying for services which have not yet been received. The Ministry of Defence and the NAF still have to continue implementation of audit recommendations by assessing the peacetime health care model of personnel of the NAF and improving cooperation with civil health care institutions, improving provision of NAF units with medication and ensuring control over use of medicines, and reviewing the required provision of administrative vehicles.

At the result of the **FINANCIAL AUDIT** of 2012 of the **Ministry of the Interior** 10 recommendations were issued. Implementation of audit recommendations issued during previous years resulted in improvements in the system of inventory count of material values, liabilities and claims, and in the accounting system of the Ministry. The most significant deficiencies identified during the financial audit of 2012 were related with inefficient supervision over the concluded contracts which resulted in unjustifiable transfer of 92.6 thousand lats by the Provision State Agency to a businessman for work which was not executed during the reporting year. Similar as in previous audits in the State Police deficiencies were revealed in supervision over use of vehicles which the State Police is continuously unable to eliminate; a new tendency was identified for use vehicles with GPS device turned off, driving in such manner up to 2000 km monthly, which reveals a risk of use of vehicles for non-official purposes.

Valsts kontrole: Iekšlietu ministrija netiek galā ar datorsistēmu un autoparka nodrošinājumu policijā

VALSTS KONTROLE



Image 2.7.

During the reporting period a **regulatory audit** was performed on the “Material technical provision of the State Police” (image 2.7.<sup>11</sup>). Audit findings revealed that the Ministry of the Interior had not ensured sufficient control over implementation of the project of development of information systems which caused use of the Biometrics data processing system and the Criminal procedure information systems of the State Police incompliant with their purpose and the planned scope, which resulted in inefficient use of State budget funds in the amount of at least 4.47 million lats allocated for development of these systems. The situation could still improve if the Ministry of the Interior would implement the recommendations issued by the State Audit Office. Initially the total costs for introduction of the Biometrics data processing system were not calculated, instead only costs and measures for development of the software were determined. Introduction of the system will cost at least 6 million lats instead of the

<sup>11</sup> The State Audit Office: the Ministry of the Interior is not able to handle provision of computerised systems and vehicles in the police. Jurista vārds. Online: <http://www.juristavards.lv/zinas.php?id=264031>

initially planned 2.8 million lats, and 1.03 million lats will be necessary for covering increase in prices of licences.

Purchase of rent vehicles for the needs of the State Police has resulted in unjustifiable increase of the number of all-terrain vehicles which caused inefficient use of resources during the terms of rent agreements in the amount of at least 1.05 million lats. The total number of the received vehicles was for 38 vehicles less the amount provisioned by the Cabinet of Ministers. Despite the fact that strengthening of capacity of regional inspectors was defined as a priority of the State Police, regional inspectors received only 102 all-terrain vehicles (47%) out of 216. At the result of the audit the State Audit Office issued eight recommendations aimed at elimination of the identified deficiencies.

During the **financial audit** on the annual report of 2012 of the **MINISTRY OF JUSTICE** the auditors ascertained that implementation of previously issued recommendations by the Ministry has resulted in improvement of the accounting and internal control of penal institutions thanks to introduction of centralised registration system in penal institutions. The most significant deficiencies were revealed in use of financial resources for covering of expenses not related to the basic operations of institutions, for example 11.77 thousand lats were spent for the 20 anniversary celebration of the State Land Office out of which at least 5 thousand lats were spent for hosting services, musical arrangement and catering of participants. At the result of the financial audit four recommendations were issued aimed at elimination of the identified deficiencies and introduction of unified accounting policy in sectorial institutions.

During the reporting period a **regulatory audit** was performed in the sector of legal affairs on “Provision and arrangement of health care services of the imprisoned” (image 2.8.<sup>12</sup>), and audit findings revealed that the Ministry had not provided assessment of the most appropriate model of health care services for the imprisoned and had not taken sufficient measures for stipulating the health care services which were to be provided in penal institutions and the Prison hospital of Latvia from the State budget funds. The Ministry had not evaluated efficiency of use of the functional possibilities of the Prison hospital of Latvia, development of which required investments of the State budget funds in the amount of 6.54 million lats, and had not ensured efficiency of use of infrastructure and equipment of the hospital, as the surgical unit and 25% of the medical equipment of the hospital had not been used since 2009.

#### VK uzskaita problēmas ieslodzīto veselības aprūpes sistēmā

Apollu, redakcija@apollo.lv Pēdējais 2014. gada 3. marta 08:15 1 komentārs

Jauna slimnīca ar modernām iekārtām tiks projektēta un izbūvēta, tirdzniecības tīklu, reģistrācija arā un citā veselības aprūpes pakalpojumu nodrošināšanai nepieciešamās infrastruktūras modernizācija izmaksās aptuveni 6,54 milj. latus. Šādu atmi atšķirīgu vārdi kļūstot, SVK, reāli par veselības aprūpes organizāciju atbilstību norādīto atli prasībām un šim mērķim pieejamo budžeta līdzekļu izmantošanu izvērtēs un ieteiks.



Image 2.8.

<sup>12</sup> The SAO reveals problems in the system of health care of the imprisoned. News portal apollo.lv. Online: <http://www.apollo.lv/zinas/vk-uzskaita-problemas-ieslodzito-veselibas-aprupes-sistema/639905>



The Prison Administration had not stipulated unified principles in relation to the turnover of medicine and medicinal goods, and had not ensured supervision over turnover of such goods in penal institutions, therefore the auditors could not obtain sufficient assurance as to whether medicine in the amount of at least 112.94 thousand lats was used for the needs of the imprisoned. At the result of the audit 10 recommendations were issued to the Ministry of Justice and the Prison Administration aimed at elimination of the identified deficiencies in the system of health care of the imprisoned.

During the **financial audits** of 2012 of the **CONSTITUTIONAL COURT** of the Republic of Latvia, the **SUPREME COURT** of the Republic of Latvia, the **PROSECUTOR'S** office and the **OMBUDSMAN'S** Office the State Audit Office auditors ascertained that the reports in all material aspects gave true and fair view on the financial position and changes in the financial position and performance results of the institutions, and were prepared in accordance with the applicable laws and regulations.

The State Audit Office issued three recommendations to the Prosecutor's Office aimed at ensuring regulatory compliance of the procedure of granting of bonuses, recognition of long-term investments in security system which was implemented in 2012, disclosure of contractual penalties in the accounting registers in accordance with the applicable laws and regulations and transfer of the penalties to the part of the revenues of the State budget.

### 2.3. The Third Audit Department

- Member of the Council, the Director of the Department  
**INGA VĀRAVA**
- Total budget of the audited fields in 2013:  
2219.93 million LVL<sup>13</sup>



THE FIRST SECTOR (THE HEAD OF THE SECTOR, 6 AUDITORS)	THE SECOND SECTOR (THE HEAD OF THE SECTOR, 6 AUDITORS)
<p><b>The Ministry of Welfare</b>            basic budget 253.58 m LVL            special budget 1471.79 m LVL            11 subordinate institutions            1 capital company</p>	<p><b>The Ministry of Health</b>            budget 494.56 m LVL            10 subordinate institutions            13 capital companies</p>

**Image 2.9. Audited fields by the Third Audit Department**

At the result of the **FINANCIAL AUDIT** of 2012 of the **Ministry of Welfare** the State Audit Office issued a qualified opinion by identifying material deficiencies in actions of the Social Integration State Agency and based on the fact that auditors were unable to gather sufficient and appropriate audit evidence on completeness of transactions of the Agency in the amount of 455.81 thousand lats as disclosed in the consolidated part of the report “Revenue from paid services provided by budgetary institutions and other own revenue”. The State Audit Office reported to the General Prosecutor’s office on the identified violations of legal norms in conclusion of service agreements. The State Police has initiated a criminal procedure; the investigation continues. The Ministry of Welfare initiated disciplinary action against the acting director of the Agency, and issued a reproof to the official of the Agency.

***Eliminated errors in the amount of 2.94 million lats***

At the result of the audit 14 recommendations were issued aimed at ensuring completeness of accounting of revenue, adherence to the principle of accruals, and improvement of the system of internal control of the Ministry and the subordinate institutions. Auditors also identified

<sup>13</sup> Data on State budget execution for the year 2013 according to the Report of the State Treasury. Home page of the State Treasury. Online: [http://www.kase.gov.lv/?object\\_id=8343](http://www.kase.gov.lv/?object_id=8343)

errors in the amount of 2.94 million lats which were corrected by the institutions during the audit. The most significant errors were identified in accounting of long-term investments.

VK norāda uz neefektīvu Labklājības ministrijas nekustamo īpašumu pārvaldīšanu



Image 2.10.

During the reporting period one **regulatory audit** was performed in the sector of welfare on “Efficiency and lawfulness of administration of real estate of the Ministry of Welfare and its subordinate institutions” (image 2.10.<sup>14</sup>). During the audit many deficiencies were identified which revealed that the subordinate institutions and the capital company of the Ministry —the public liability company “Šampētera nams”, had not ensured administration of real estate and were not executing its contractual liabilities. For example, the capital company had not performed visual inspections of real estate, had not gathered information on condition of real estate, had not performed all current repair works, but performed other works for which institutions offered to pay. Rent payments in case of subordinate institutions of the Ministry were higher and rent payments determined for businessmen were lower than the actual maintenance costs of the premises, and the amount paid by the Ministry to the public liability company “Šampētera nams” during three years was for 47.72 thousand lats less than the administrative costs of the property. The Ministry of Welfare was purchasing services from the public liability company “Šampētera nams” which were not related with administration of property (for example, office supplies, transport services) which resulted in increase of expenses of the Ministry during three years for at least 15.46 thousand lats, and meanwhile the public liability company “Šampētera nams” lost revenue in the amount of at least 99.23 thousand lats. In order to facilitate establishment of more efficient administration model of state-owned real estate the State Audit Office issued 33 recommendations.

During the reporting period the State Audit Office continued to ensure supervision over implementation of recommendations issued during previous regulatory and financial audits in the sector of welfare.

The main focus was placed on implementation of 34 recommendations issued during the regulatory audit of 2012 on “Lawfulness and efficiency of use of State budget funds for provision of professional rehabilitation services to disabled persons and persons with functional disabilities” (image 2.11.<sup>15</sup>) the aim of which was to achieve improvements in laws and regulations in the field of provision of social and professional rehabilitation services for

Sociālās integrācijas valsts aģentūrā Valsts kontrole konstatē vēl vairākus pārkāpumus<sup>15</sup>

Revīzijas atklājums, ka aģentūra bijusi dāvana privāti biznesa atbalstītāja ar valsts resursiem



Image 2.11.

<sup>14</sup> The SAO points out to inefficiency of administration of real estate by the Ministry of Welfare. Portal puaro.lv. Online: <http://www.puaro.lv/lv/puaro/vk-norada-uz-neepektivu-labklajibas-ministrijas-nekustamo-ipasumu-parvaldisanu>

<sup>15</sup> The State Audit Office identifies several additional violations in the Social Integration State Agency. Ir.lv. Online: <http://www.ir.lv/2012/11/23/socialas-integracijas-valsts-agentura-valsts-kontrole-konstate-vel-vairakus-parkapumus>

disabled persons and persons with functional disabilities, and to ascertain whether the financial resources and property of the Social Integration State Agency is used only for execution of the functions stipulated in the applicable laws and regulations. As a response to the identified violations by the State Audit Office the Ministry of Welfare in 2012 initiated disciplinary action against the officials of the Social Integration State Agency; three officials were dismissed and one official was subject to disciplinary action — reduction of wage. Four criminal procedures were initiated on the violations identified during the audit. In order to implement the recommendations substantial reforms were introduced the aim of which was not only to improve operations of the Agency, but also to review the content, the regulatory order and the costs of the provided services. Implementation of the audit recommendations is due in 2014.

The State Audit Office auditors followed the progress of implementation of recommendations issued during previous regulatory and financial audits also by evaluating the financial impact of the issued recommendations.

During the reporting period a report was prepared on audits performed in the sector of welfare during the time period from 2008 up to 2012 and on the improvements achieved by implementing the recommendations issued by the State Audit Office.

Auditors concluded that implementation of recommendations issued during previous financial audits resulted in significant improvements in the accounting control environment of the Ministry of Welfare and its subordinate institutions, as well as in introduction of comprehensive, unified and efficient system of internal control over the accounting and the preparation of annual reports. Financial audits in the sector of welfare resulted in significant savings of State budget funds, for example, at the result of the audit of 2008 on “Actions of subordinate institutions of the Ministry of Welfare in ensuring recovery of State budget funds used for social and professional rehabilitation services, provision of technical aids and disbursement of pensions and allowances to victims of traffic accidents” recommendations were issued aimed at improvement of efficiency of recovery of State budget funds from insurance companies or the Motor Insurers' Bureau. Implementation of recommendations during the time period from 2009 up to 2012 by the State Social Insurance Agency, which is just one of institutions involved in this process, resulted in recovery of 3.64 million lats or 87.4% of the public funds used for this aim.

***The State  
recovered  
3.64 million lats  
from insurance  
companies***

***Savings of the  
special State  
budget in the  
amount of  
2.56 million lats***

Implementation of recommendations issued during the regulatory audit on “Regulatory compliance of granting and calculation of unemployment allowances” (2008) resulted in elimination of possibility for one and the same person to receive both unemployment benefit and sick-leave allowance. According to auditors' estimates during the time period from 2009

up to 2012 savings of the special State budget reached 2.56 million lats. At the result of the audit the State no longer was making mandatory State social insurance payments for persons who were employed during the period when they receive insurance allowances and on behalf of which the mentioned payments were made also by employee or the employed person, thus resulting in State budget savings.

Implementation of recommendations issued at the result of the regulatory audit of 2009 on “Lawfulness and efficiency of use of funds granted for active employment measures and preventive measures for reduction of unemployment” (image 2.12.<sup>16</sup>) resulted in improved exchange of information on employment between the State Employment Agency and the State Social Insurance Agency, elimination of unjustified granting of allowances and unjustified retaining of the status of unemployed which resulted in State budget savings in the amount of 1.45 million lats.

**Valsts kontrole: NVA izšķērdējusi 1,5 miljonus latu**



Image 2.12.

At the result of the **FINANCIAL AUDIT** of 2012 of the **Ministry of Health** 19 recommendations were issued aimed at improvement of internal control procedures to achieve accounting of revenue based on the principle of accruals and use of budget funds in a lawful, efficient and economic manner in relation to calculation and payment of wages, as well as facilitation of efficiency of use of State and local government resources in relation to receiving and paying for services.

During the financial audit of the annual report for the year 2013 of the Ministry of Health an audit opinion was issued on “Economy, efficiency and lawfulness of expenses of the National Health Centre “Vaivari””. The State Audit Office revealed that the Centre had not elaborated pricing methodology for services, and validity of prices for the paid services is not traceable; also material deficiencies were identified in establishment of working time and wages, performance of procurement procedures, efficiency of expenses, and administration of the queue of rehabilitation patients. The State Police initiated a sectorial inspection in respect to the bonuses paid by the State capital company in 2011 in the amount of 3.96 thousand lats which is incompliant with the requirements of laws prohibiting payments of bonuses and monetary benefits by state capital companies during 2010 and 2011. At the result of the audit the State Audit Office issued 20 recommendations aimed at elimination of the identified faults.

The results of the **regulatory audit** of 2013 in the sector of healthcare “Is the policy followed by the Ministry of Health in the field of compensated medicine aimed at serving public



Image 2.13.

<sup>16</sup> The State Audit Office: the SEA has wasted 1.5 million lats. The portal apollo.lv. Online: <http://www.apollo.lv/zinas/valsts-kontrolle-nva-izskerdejusi-1-5-miljonus-latu/439772>

interests?" (image 2.13.<sup>17</sup>) revealed that the policy followed by the Ministry of Health in the field of compensated medicine is not serving public interests, and the approved pricing policy is incomplete. This resulted in significant increase of financial participation of patients (patient's premium) as to purchase of compensated medicine. During the first half of 2013 the amount of patient's premium for non-reference medicine reached 7.3 million lats or 3.73 lats per prescription. Taking into account the fact that doctors have the main impact on choice of medicine and provision of advice certain activities of health specialists can lead to situation when patient overpays for medicine despite the fact that there were cheaper alternatives. The results of the audit revealed that in many cases patients were not able to purchase cheaper medicine (reference medicine) under the same general name and of the same strength and amount as prescribed by the doctor because no reference medicine is indicated and reference medicine is not available. At the result of the regulatory audit seven recommendations were issued to the Ministry of Health aimed at identifying the reasons for increase of patient's financial participation, and finding more appropriate solutions serving the public interests, including reduction of patient's premium.

VK: pretēji aizliegumam, Latvijā ilgstoši importēti asins pārliešanai nepieciešamie preparāti (40)



Image 2.14.

In the field of supervision over implementation of recommendations the main focus of was on recommendations issued during the regulatory audit of 2012 on "Efficiency, lawfulness of actions of the Blood Service and turnover of plasma preparations" (image 2.14.<sup>18</sup>). The State Audit Office reported to the General Prosecutor's office on actions of the State Blood Donor centre by creating favourable circumstances for "Baltijas Terapeitiskais serviss" Ltd. which resulted in loss of at least 228.85 thousand lats by the State budget. A criminal procedure was initiated on the mentioned facts, and it was terminated due to non-existence of constituent elements of criminal offence. The State Audit Office appealed the decision. The Ministry of Health performed official investigation and reprimanded the official of the State Blood Donor centre. The audited entities performed certain measures for elimination of deficiencies in the actions of the Medicine State Agency in respect to administration of the Blood Service in order to eliminate the deficiencies in planning of necessary administrative funding and blood preparation costs of blood preparation units. Based on the request by the Ministry of Health the implementation term of other recommendations issued by the State Audit Office was extended up to 2014.

<sup>17</sup>Treatment by not over-paying. The web-page of the National health Centre. Online: <http://www.vmnvd.gov.lv/lv/neparmaksajotlv>

<sup>18</sup> The SAO: Despite the prohibition Latvia has continuously imported blood transfusion preparations. The portal: delfi.lv. Online: <http://www.delfi.lv/news/national/politics/vk-preteji-aizliegumam-latvija-ilgstosi-importeti-asins-parliesanai-nepieciešamie-preparati.d?id=42982454>

## 2.4. The Fourth Audit Department

- Member of the Council, the Director of the Department

**MARITA SALGRĀVE**

- Total budget of the audited fields in 2013:  
1156.28 million LVL<sup>19</sup>



THE FIRST SECTOR (THE HEAD OF THE SECTOR, 6 AUDITORS)	THE SECOND SECTOR (THE HEAD OF THE SECTOR, 6 AUDITORS)	THE THIRD SECTOR (THE HEAD OF THE SECTOR, 7 AUDITORS)
<ul style="list-style-type: none"> <li><b>The Ministry of Agriculture</b> the budget 415.32 m LVL 13 subordinate institutions 7 capital companies</li> </ul>	<ul style="list-style-type: none"> <li><b>The Ministry of Environment protection and Regional Development</b> the budget 189.81 m LVL 8 subordinate institutions 3 capital companies</li> <li><b>The Central Land Commission</b> the budget 85.34 k LVL</li> </ul>	<ul style="list-style-type: none"> <li><b>The Ministry of Economics</b> the budget 100.13 m LVL 5 subordinate institutions 7 capital companies</li> <li><b>The Ministry of Transport</b> the budget 448.02 m LVL 4 subordinate institutions 13 capital companies</li> <li><b>The Public Utilities Commission</b> the budget 2.92 m LVL</li> </ul>

**Image 2.15. Audited fields by the Fourth Audit Department**

At the result of the **FINANCIAL AUDIT** of 2012 of the **Ministry of Agriculture** unqualified opinion was issued with emphasis of matter paragraph referring to the fact that at the end of 2012 the Ministry and the State Forest Service repeatedly settled advance tax payments in the amount of 38.22 thousand lats thus violating the applicable laws and regulations. During 2013 the State Forest Service settled advance payments for rent of vehicles in the amount of 81.69 thousand lats and advance payments in the amount of 626.22 thousand lats for purchase of vehicles without establishing warranties for performance of commitments and thus violating the applicable laws and regulations.

During the audit the quality of the annual report for the year 2012 of the Ministry was improved by correcting errors in the amount of 50.90 thousand lats, based on the notice by

***Eliminated errors in the amount of 50.90 thousand lats***

<sup>19</sup>Data on State budget execution for the year 2013 according to the Report of the State Treasury. Home page of the State Treasury. Online: [http://www.kase.gov.lv/?object\\_id=8343](http://www.kase.gov.lv/?object_id=8343)

auditors. At the result of the audit 13 recommendations were issued aimed at improvement of budget planning and execution, improvement of accounting of fixed assets and immaterial investments, and ensuring regulatory compliance of procurement procedures.

Implementation of recommendations by the Ministry of Agriculture issued during previous audits resulted in introduction of unified system of accounting of finances, personnel, vehicles and real estate by ensuring efficient and complete transfer of data from the previously used systems to the new system of resource management. Auditors ascertained that the Rural Support Service had increased control over administration of unified payments for land by reducing the risk of application of persons who were not owners or users of the land but who had access to information on certain land properties and information that no one had applied for the payments. Still the State Audit Office considers that the abovementioned risk is not eliminated and the Ministry of Agriculture has not arranged the matters of land lease in rural areas. The recommendation issued to the State Forest Service aimed at improvement of internal control over use of official vehicles is being implemented formally, as the auditors could not obtain assurance as to whether the vehicles were used only for official needs and were assigned to administrative personnel on justifiable grounds.

During the reporting period a **regulatory/efficiency audit** was performed in the sector of agriculture on “Validity of structural changes in the State Forest Service and regulatory compliance and efficiency of actions of the Service” (image 2.16.<sup>20</sup>). The results of the audit revealed that at the moment of reorganisation of the Service it was not possible to establish organisational structure and operational principles compliant with the achievable results as there was no clear state policy defined on use and supervision of forests. In circumstances of non-existence of policy from the year 2005 the performed actions have practically resulted in impairment of operations of the State Forest Service and have facilitated all kinds of entrepreneurship in forests by threatening sustainability of development of forest. The last reorganisation of the State Forest Service at the result of which 77 forest districts were liquidated and the number of employees who perform basic functions was reduced by approximately 200 people by creating 29 offices, had not resulted in decrease of total administration costs of the service, and fuel costs had even increased. Also the processing time of applications submitted by physical and legal persons had increased. Average wage of employees of the State Forest Service still was for 32% less than average wage for similar positions in other subordinate institutions of the Ministry of Agriculture and up to two times less than average wage in capital companies of the sector of forestry. Taking into account



Image 2.16.

***Increase of economic activities in forests has resulted in impairment of performance of the only supervisor — the State Forest Service***

<sup>20</sup> The State Audit Office is asking for public opinion during the audit of the State Forest Service. The portal: delfi.lv. Online: <http://www.delfi.lv/news/national/politics/valsts-kontrole-ludz-sabiedrības-palīdzību-valsts-meža-dienesta-darba-revizija.d?id=43721992#ixzz2wxXiKPns>



***How much does appropriate forest supervision cost in Latvia? Nobody knows by now.***

***Precluded risk of financial adjustments by the European Commission in operations of the European Fisheries Fund***

administrational management particularities of the State Forest Service it is impossible to determine the time necessary for performance of official duties and therefore it is impossible to verify the validity and credibility of State budget funds necessary for provision of functions of the Service. At the result of the audit 23 recommendations were issued aimed at elaboration of State policy in the field of forestry, establishment of achievable results in the State Forest Service, improvement of supervision over regulatory compliance, and improvement of efficiency of forest fire-fighting systems.

During 2013 the Ministry of Agriculture and its subordinate institutions were expected to provide information on implementation of 23 recommendations issued during regulatory/performance audits. The State Audit Office recognised 16 recommendations as implemented and prolonged implementation term for seven recommendations due to objective reasons.

Implementation of recommendations issued during the regulatory audit of 2012 on "Compliance of administration of the European Fisheries Fund with policy planning documents, applicable laws and regulation, and efficiency of its operations" resulted in preclusion of performance of audit function by the Rural Support service as the organisation responsible for implementation of the program, improvement of planning of resources and control over use of resources of the program "Technical assistance", as well as review of control procedures in order to improve the process of project selection and project review.

Implementation of recommendations issued during the regulatory audit on "Assessment of administration and maintenance of state-owned real estate under the possession and property to the Ministry of Agriculture, its subordinate institutions and the state public liability company "Zemkopības ministrijas nekustamie īpašumi"" (2011) resulted in significant improvements in supervision over administration and management of real estate, including establishment of regular controls over portfolio of real estate and accounting of revenue and expenses for each real estate object, as well as elaboration of appropriate internal regulations by the Ministry and its 11 subordinate institutions in order to create preconditions for maintenance, preservation and improvement of quality of state-owned real estate. However the progress was not sufficient in case of recommendations which were aimed at introduction of systematic changes. For example, the results of the regulatory audit on "Efficiency and regulatory compliance of use of state budget funds allocated to the Ministry of Environment and Agriculture and granting of state credit guarantees for entrepreneurship" (2009) revealed that the Forest Fund, Fisheries Fund and Hunting Development Fund issued grants not only to non-governmental organisations and businessmen, but also to public administration institutions for performance of their standard functions which were funded by the State budget. The State Audit Office issued a recommendation to the Ministry aimed at correction of

***Eliminated  
errors in the  
amount of  
11.76 million  
lats***

the mentioned situation due to its negative impact on traceability of planning and use of State budget funds. Despite the recommendation the Ministry of Agriculture proposed amendments to the Fishery Law which would allow use of resources of the Fisheries Fund for covering expenses related to operations of public administration institutions which resulted in stipulation of requirements of laws and regulations incompliant with the principle of good governance. The expenses of public administration institutions were still financed by the Forest Development Fund and the Shooting Development Fund.

At the result of the **financial audit** of 2012 of the **MINISTRY OF ENVIRONMENT PROTECTION AND REGIONAL DEVELOPMENT** unqualified opinion was issued with emphasis of matter paragraph referring to the fact that in December 2012 the Ministry and its subordinate institutions settled tax advance payments in the amount of 78.61 thousand lats as well as advance payments not stipulated in contracts in the amount of 17.68 thousand lats out of which payments in the amount of 10.68 thousand lats lacked corroborative documents, thus violating the applicable laws and regulations. The audit report also emphasised performance aspects by referring to inappropriateness of disproportionately expensive purchase of portable computers and mobile phones for the employees of the Ministry in situation when the tasks of these employees can be performed using several times less expensive devices. During the audit the quality of the financial statement was significantly improved by correcting errors in the amount of 11.76 million lats, based on the notice of auditors of the State Audit Office.

In order to eliminate the deficiencies the auditors issued 12 recommendations aimed at achieving fairness of disclosure of information on real-estate, claims and accruals of the Ministry, appropriate classification of expenses in the next year's annual report, and reduced risk of financial correction in projects co-financed by the European Union.

The Ministry implemented the recommendations issued during previous financial audits referring to correctness of accounting of expenses, but still the Ministry continued to violate the financial discipline, including illegitimate settlement of tax advance payments. Also assessment of efficiency of expenses had not been the priority of the Ministry — for example, the Ministry was planning to continue purchase of portable computerised devices for the price up to 1511 lats per unit and mobile phones for the price up to 597 lats per unit according to the approach defined in previous regulations (image 2.17.<sup>21</sup>).

Valsts kontrole: VARAM vadībai  
iegādāta nesamērīgi dārga  
"Apple" tehnika <sup>21</sup>

Arī ministrijas akadēmijai par iekārtu iegādi nesmiēdz pārbaucis, ka ministram, ministri  
birojā un valsts sekretāra vietniekiem darbi nepieciešamas tik dārgas ierīces



<sup>21</sup> The State Audit Office: disproportionately expensive Apple devices purchased for needs of VARAM administration. Portal ir.lv. Online: <http://www.ir.lv/2013/5/15/valsts-kontrolle-varam-vadibai-iegadata-nesamerigi-darga-apple-tehnika>

Plānošanas reģionu darbības lietderība ir apšaubāma, secina Valsts kontrole (10)



Image 2.18.

During the reporting period an extensive **regulatory/performance audit** was conducted on “Performance efficiency and regulatory compliance of actions of the Planning Regions in ensuring regional development” (image 2.18.<sup>22</sup>). Reviews were performed in the Ministry of Environmental Protection and Regional Development, the Ministry of Transport, Vidzeme, Kurzeme and Zemgale Planning Regions and the public limited company “Autotransporta direkcija” by issuing one informative report and seven reports on audited entities.

The audit findings raised doubts about the present performance efficiency of the Planning Regions based on their inability to perform their main function — planning and coordination of development of regions. This situation is caused by deficiencies in the applicable laws and regulations and insufficiency of financial resources as well as errors in actions of the Planning Regions themselves. Meanwhile the Ministry of Environmental Protection and Regional Development which exercises oversight over the Planning Regions had not elaborated a model for future operations of the Planning Regions and procedure for execution and funding of priorities stipulated in policy documents.

Doubts were raised about the interest of local governments in operations of the Planning Regions due to unwillingness of local governments to provide financial support for administration of the Planning Regions — 83% of local governments were not ready to co-finance operations of the Planning Regions. The local governments of Zemgale region were the only ones who were co-financing operations of their Planning Region at the times of the audit; during the final stage of the audit by the State Audit Office local governments of Riga, Vidzeme and Kurzeme region expressed willingness to co-finance the operations of Planning Regions.

The Planning Regions were unable to perform their basic functions — planning and coordination of development of regions due to the fact that the present development planning documents in most cases were unusable. Meanwhile the most negative impact on the State budget was caused by insufficiency in execution of functions of the Planning Regions — to ensure control over lawfulness, efficiency and correctness of use of resources allocated to passenger carriers. The Planning Regions had not ensured compliance of accounting documents of carriers with the applicable laws and regulations and traceability of eligibility of compensable costs from the State budget grants. This resulted in a risk that the Planning Regions had not sufficiently validated the costs of all carriers included in annual reports for the year 2011-2012 in the amount of 47.49 million lats. Having performed just several control tests the auditors of the State Audit Office revealed non-attributable costs in the amount of at least 71.83 thousand lats.

***Based on the most modest estimations overpayment by the State for passenger transport was at least 71.83 thousand lats***

<sup>22</sup> The State Audit Office: performance efficiency of the Planning Regions is doubtful. The portal: delfi.lv. Online: <http://www.delfi.lv/news/national/politics/planosanas-regionu-darbibas-lietderiba-ir-apsaubama-secina-valsts-kontrole.d?id=44105573%20-%20ixzz2wOfn2R00>

At the result of the audit 46 recommendations were issued aimed at evaluation of the role of the Planning Regions in facilitation of regional development. If a decision would be taken in favour of retaining of the present status and functions of the Planning Regions it would be necessary to improve the legal framework which governs implementation and funding of support measures for regional development and improve the work quality of the Planning Regions.

The State Audit Office reported to the General Prosecutor's office and law enforcement institutions on potential fraudulent actions of passenger carriers aimed at receiving larger compensations from the State budget. A criminal procedure was initiated on the aforementioned facts; the investigation continues.

During 2013 the Ministry and its subordinate institutions were expected to provide information on implementation of 37 recommendations issued during regulatory audits. The State Audit Office recognised 23 recommendations as implemented and extended implementation term for 14 recommendations due to objective reasons.

Implementation of the recommendations issued by the State Audit Office resulted in improvement of the legal framework of the sector, for example, amendments were introduced to the Criminal Law by prescribing criminal liability for unwarranted acquirement of animals in specially protected natural territories, amendments to the Cabinet of Ministers Regulations by stipulating requirements on cutting trees in forest, as well as two new Cabinet of Ministers Regulations were passed on the procedure for allocation of quotas on greenhouse gas emissions.

Implementation of recommendations resulted in introduction of measures for increased economy of use of administrative resources, for example, improved cooperation between the State Environmental Service and the Nature Conservation Agency in providing control for protection of environment, as well as cooperation between the State Forest Service and the Nature Conservation Agency in management and use of forests and ensuring compliance with the applicable laws and regulations in the field of supervision and control.

Implementation of recommendations issued by the State Audit Office resulted in improvement of the system of internal control of institutions, for example, the State Environmental Service established basic principles for assessment of environmental damage in case of maritime pollution, and the public liability company "Latvijas Vides, ģeoloģijas un meteoroloģijas centrs" ensured correct calculation of cost price of services. Rational use of State budget funds also was facilitated, for example, the Ministry as the shareholder of the public liability company "Latvijas Vides, ģeoloģijas un meteoroloģijas centrs" precluded sales of real estate invested in the share capital during auctions without notifying the shareholder.

***Eliminated  
errors in the  
amount of  
20.74 million  
lats***

During the **FINANCIAL AUDIT** the quality of the report of 2012 of the **Ministry of Economics** was significantly improved by correcting errors in the amount of 20.74 million lats, based on the notice of the auditors of the State Audit Office. At the result of the audit of the annual report for the year 2012 unqualified opinion was issued, however still some deficiencies were identified for elimination of which the auditors issued three recommendations aimed at facilitation of correctness of disclosure of information in the annual report.

In the audit report the State Audit Office also emphasized some performance aspects by referring to inappropriateness of disproportionately expensive purchase of portable computers and mobile phones for the employees of the Ministry in situation when the tasks of these employees can be performed using several times less expensive devices, and indicating to incompliance of actions of the Consumer Rights Protection Centre with the aim of ensuring efficient use of State budget funds as stipulated by the law. The administration of the Ministry acted operatively in order to improve the situation by eliminating inexpedient use of resources in future.

By evaluating the progress of implementation of recommendations issued during previous regulatory audits the State Audit Office paid most attention to recommendations issued at the result of the regulatory audit of 2010 on “Provision of supervision and control after reorganisation of the State Building Inspection” (image 2.19.<sup>23</sup>) aimed at achieving general improvements in the field of supervision and coordination in the sector of construction.



Image 2.19.

***State-level  
supervision over  
the sector of  
construction is  
practically non-  
existent thus  
threatening  
safety of people***

The results of the audit of 2010 revealed that after liquidation of the State Building Inspection the control over the sector of construction has become weaker which impacted life of every person. Direct supervision over the sector of construction at the level of the State was not ensured since June 2009 when this function was crossed out of the agenda of the Ministry of Economics. The State Audit Office also emphasized the significant reduction in the number of inspections by 70%, irregularity of inspections, insufficiency of legal framework which does not require performance of minimal obligatory inspections in construction objects, and insufficiency of control over appropriateness of construction objects. The State Audit Office also questioned the independence of building inspectors in local governments, as the construction works were performed by local governments who at the same time were employing those building inspectors.

<sup>23</sup> The SAO: The reform of the Building Inspection has not resulted in savings; the situation has become worse. The portal: delfi.lv. Online: <http://www.delfi.lv/news/national/politics/vk-buvuzraudzibas-reforma-nav-devusi-ietaupijumu-situacija-pasliktinajusies.d?id=35776575>

The Ministry of Economics repeatedly asked for extension of the initially coordinated deadline for implementation of recommendations (01.12.2011) up to 01.07.2014, referring to continuous process of drafting of the Construction Law. The State Audit Office considered such extension as disproportionate and agreed to set the term to 01.02.2014 assuming that all applicable Cabinet of Ministers Regulations would be drafted by that time.

Similarly as in 2010 and 2011 at the result of the **financial audit** on correctness of preparation of the annual report for the year 2012 of the **MINISTRY OF TRANSPORT** a qualified opinion was issued with reference to incorrectness of classification of utilised funds, complete disclosure of the special purpose grants allocated for roads (streets) of local governments in the amount of 3.5 million lats as maintenance costs despite the fact that significant amount of the grant was assigned to capital expenses. The results of the financial audit also revealed that the Ministry had not ensured lawful and efficient use of financial resources by settling advance payments in December 2012 in the amount of 61.67 thousand lats.

*Eliminated  
errors in the  
amount of  
88.25 million  
lats*

During the audit the quality of the report was significantly improved by correcting errors in the amount of 88.25 million lats, based on the notice of auditors. At the result of the financial audit three recommendations were issued aimed at ensuring fairness of disclosure of allocated grants for roads of local governments in the next year's report, regulatory compliance of settlement of mandatory payments of State social insurance, and improvement of internal control over performance of procurements in the Civil Aviation Agency. In 2013 a parallel **regulatory audit** was performed on "Regulatory compliance of actions of institutions involved in provision of international road transportation services and on evaluation of implementation of agreement concluded between the Republic of Latvian and the Russian Federation on international traffic of road vehicles". During the audit no deficiencies were identified which would negatively impact or threaten the execution of the agreement, but still there was a lack of sectorial cooperation in control over road transportation, deficiencies were revealed in laws and regulations, many errors were identified in operations of competent institutions, including loss of revenue cognizable to the State budget, as well as insufficiency of performance of the public liability company "Autotransporta direkcija" in reduction of administrative burden for businessmen. The State Police had not implemented sufficient measures for collecting warranty fees from drivers of vehicles registered abroad which resulted in loss of revenue by the State budget in the amount of at least 28.41 thousand lats.

*Reduced  
amount  
inspections of  
road haulers did  
not result in any  
financial  
savings*

During the audit also the impact of structural reforms on efficiency of the control over road haulers was evaluated. Liquidation of the Road Transport Inspection and transfer of its functions to the State Police did not result in any savings of the State budget funds, and the amount of performed inspections significantly decreased. Neither the Ministry of the Interior

**Structural reforms were implemented based on unverified facts**

nor the Ministry of Transport stipulated requirements for the volume of inspections, therefore it was impossible to determine the minimal costs of inspections and to assess whether reduction in such controls would result in significant financial impact in the long run.

The State Audit Office also concluded that the decisions on implementation of structural reforms were not backed by sufficient assessment, and the existing assessment was prepared carelessly. The functional audit at the result of which the Road Transport Inspection was liquidated was not performed in compliance with applicable laws and regulations, and recommendations issued at the result of the functional audit were based on data and assumptions obtained during interviews which were documentary unverified, untraceable, and no assurance could be obtained on their correctness.

At the result of the audit 17 recommendations were issued aimed at improving the efficiency of control over road haulers, ensuring lawful and non-discriminating decision-taking process, equal treatment of road haulers in respect to access to the market, as well as timely and full collection of penalties by the State budget.

During the reporting year the State Audit Office continued to follow the implementation of recommendations issued during previous regulatory audits in the sector of transport.

The most significant recommendations issued at the result of regulatory audit of 2012 on “Evaluation of actions of the Ministry of Transport in administration of public liability company “Latvijas Pasts” and assessment of efficiency and regulatory compliance of actions of the public liability company “Latvijas Pasts”” (image 2.20<sup>24</sup>) are treated as information of restricted access. Implementation of recommendations resulted in improvements of performance of the public liability company “Latvijas Pasts”. During 2014 the Ministry would continue to take measures in relation to recommendations aimed at ensuring good governance.

In 2012 the First Audit Department performed a regulatory audit on “Evaluation of actions of the Ministry of Transport in relation to execution of the State policy in the field of railway transportation and administration of the actions of the concern “Latvijas dzelzceļš” and efficiency and regulatory compliance of actions of the concern “Latvijas dzelzceļš”” (image 2.21<sup>25</sup>) in the sector of transport and communications. Implementation of the recommendations by the Ministry of Transport in 2013 resulted in establishment of the

Valsts kontrole pastā konstatē ilgstošus pārkāpumus<sup>24</sup>

Saīkuma ministrija noraida VK pārmetumus, tomēr ieteikumu darbu uzlabošanai prasa



Image 2.20.

Valsts kontrole aicina SM rūpīgāk uzraudzīt VAS Latvijas dzelzceļš

BNN 2012.gada 12.novembrī 1 komentārs (Izdojuma nav)



Image 2.21.

<sup>24</sup> The State Audit Office revealed continuous violations in the Latvia Post. Ir.lv. Online: <http://www.ir.lv/2012/12/11/valsts-kontrole-pasta-konstate-gramatvedibas-dokumentu-sagrozisanu>

<sup>25</sup> The State Audit Office calls the MF to improve supervision over action of the public liability company “Latvijas dzelzceļš”. The portal bnn.lv. Online: <http://bnn.lv/vk-aicina-sm-rupigak-uzraudzit-vas-latvijas-dzelzcelis-92095>

achievable economic and sectorial development aims of the public liability company "Latvijas dzelzceļš", its priorities, the achievable results and the assessment procedure thus improving the efficiency of administration of the company.

During the reporting period a pre-trial investigation and/or legal proceedings were continued on violations of legal norms identified during the regulatory audit of 2009 on "Evaluation of use of operational earnings of the public liability company "Starptautiskā lidosta "Rīga" and use State budget subsidies for provision of aviation safety, rescue and medical assistance services" and the regulatory audit of 2010 on "Lawfulness and efficiency of use of revenues of the public liability company "Latvijas Valsts radio un televīzijas centrs"".

At the result of the **FINANCIAL AUDIT** of 2012 of the **Public Utilities Commission** unqualified opinion was issued and no audit report was prepared for the first time since the State Audit Office was issuing opinions on correctness of the annual report of the Commission. This means that the annual report provided clear view about operations of the institution and its operational results and auditors did not identify any violations of laws and regulations or inexpedient expenses based on the results of selective tests.

Meanwhile the Commission was still insufficiently implementing recommendations issued during previous regulatory/performance audits aimed at introduction of systematic changes. In 2011 the State Audit Office revealed a potential risk that the Commission was using its organisational structure for increasing remuneration based on the fact no employee or just one employee was subordinate to each of 24 heads of structural units. Having repeatedly extended the deadline for implementation of recommendations it was concluded that there is no willingness to solve the issue according to its substance therefore the State Audit Office recognised the recommendation as unimplemented.

The results of the audit on "Regulatory compliance of the procedure of administration of quotas on greenhouse gas emissions and the efficiency of the established system" revealed that the Public Utilities Commission and the regulators of local governments had not inspected whether the quotas on greenhouse gas emissions were used for implementation of measures of reduction of emissions thus violating the requirements of methodologies. Responding to the deficiencies revealed by the State Audit Office the Public Utilities Commission crossed out the requirement on examining the use of revenue gained from sales of quota from its methodologies and thus disclaimed from its responsibilities instead of improving the quality of work. The matter is being reviewed by the Public Expenditure and Audit Committee of the Saeima.



At the result of the **FINANCIAL AUDIT** of 2012 of the **Central Land Commission** qualified opinion was issued referring to the fact that the Commission had incorrectly classified budget expenses in accounting of expenses related with purchase of health insurance policies. During the audit the auditors were satisfied with elimination of material violations identified during previous audits related to use of vehicles caused by deliberate misinterpretation of data and fraud at management level.

## 2.5. The Fifth Audit Department

- Member of the Council, the Director of the Department  
**AIVARS ĒRGLIS**
- Total budget of the audited fields in 2013:  
1541.91 million LVL<sup>26</sup>



THE FIRST SECTOR (THE HEAD OF THE SECTOR, 6 AUDITORS)	THE SECOND SECTOR (THE HEAD OF THE SECTOR, 5 AUDITORS)
<ul style="list-style-type: none"> <li>▪ <b>The part of local government budgets of the Annual report of the Republic of Latvia on State budget execution and local government budgets</b> local government expenditure 1538.00 m LVL</li> <li>▪ <b>Local governments, institutions and agencies of local governments, local government owned capital companies</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>The Society Integration Fund</b> the budget 3.91 m LVL</li> <li>▪ <b>Local governments, institutions and agencies of local governments, local government owned capital companies</b></li> </ul>

Image 2.22. Audited fields by the Fifth Audit Department

The selection of **ANNUAL REPORTS OF LOCAL GOVERNMENTS** included in the scope of the **financial audit** on the “Report on execution of State and local government budget of the Republic of Latvia for the financial year of 2012” incorporated 31 local government out of 119<sup>27</sup> with the total amount of balance assets at the end of the year of 3877 million lats and the total expenditure (based on the principle of cash flow) of 848 million lats.

During the audit in accordance with the International Standards on Auditing the auditors of the State Audit Office cooperated with certified auditors and used their work during audits of the annual reports of local governments, as well as performed audit procedures in several local governments relevant in the context of audit of the Annual report of the Republic of Latvia.

During the audit material misstatements were identified in the disclosure of information on long-term investments, stock, liabilities, reserves and revenue.

<sup>26</sup> Data on State budget execution for the year 2013 according to the Report of the State Treasury. Home page of the State Treasury. Online: [http://www.kase.gov.lv/?object\\_id=8343](http://www.kase.gov.lv/?object_id=8343)

<sup>27</sup> Municipal authorities of Daugavpils, Jelgava, Jūrmala, Liepāja, Rīga and Ventspils and local governments of Aknīste, Alsunga, Alūksne, Baltinava, Beverīna, Cēsaine, Cibla, Durbe, Ērgļi, Jaunpiebalga, Jaunpils, Lubāna, Mazsalaca, Naukšēni, Nīca, Ogre, Rauna, Rucava, Rugāji, Sēja, Skrīveri, Vaiņode, Varakļāni, Vārkava and Zilupe.

***Material  
misstatements  
were identified  
in annual  
reports of local  
governments***

No assurance could be obtained on completeness of the item Land and Buildings in the amount of 25.264 million lats and accounting of stock in the amount of 575.05 thousand lats due to the fact that no corresponding stock-counting was performed; unfair disclosure of long-term investments in the amount of 11.9 million lats; the amount of recoverable expenses for creation of fixed assets and unfinished construction in the amount of 9 million lats was not assessed; disclosure of subterranean assets in the amount not corresponding to the total amount indicated in the certificates of mineral resources (3380.2 thousand m<sup>3</sup>); incomplete disclosure of biological assets in the territory of parks owned by local governments.

The Riga Municipal Authority had disclosed its liabilities against "Deutsche Bank AG" in the amount of 272.76 million lats for funding of construction of Dienvidu bridge as "Long-term trade payables" instead of "Long-term loan" and had not disclosed the borrowing in the amount of 515.25 million lats by disclosing the derivative financial instrument in the value smaller for at least 118 million lats.

55 local governments in their reports had not ensured regulatory compliance of disclosure of financial resources of the European Union funds for implementation of projects, 60 local governments had not ensured regulatory compliance of accounting of reserves.

Introduction of amendments to the laws and regulations according to which the liabilities for funds received during previous periods from residents for implementation of projects co-financed by foreign financial assistance and the European Union policy instruments and the balance of revaluation reserves for long-term investments must to be carried over not later than up to 31 December 2013 resulted in increase of the result (revenue) of local government budget execution for 2013 for at least 493 million lats.

A report was submitted to the General Prosecutor's office on the revealed violations of legal norms in six local governments: illegal provisioning of fire-wood (unwarranted cutting of trees); use of vehicles and use of financial resources for purchase of fuel for needs not related with performance of work tasks in Vārkava local government; illegitimate acquisition of sand/gravel in deposits, use of vehicles and use of financial resources for purchase of fuel, purchase of micro-bus and alienation of timber in Alūksne local government; illegitimate use of vehicles and use of financial resources for purchase of fuel in Cesvaine, Baltinava, Rugāji and Skrīveri local governments. A criminal procedure was initiated on the audit findings in Vārkava, Cesvaine, Baltinava, Rugāji and Skrīveri local governments; a sectorial investigation in the State Police was initiated on audit findings in the Alūksne local government. Based on the aforementioned findings inspection in relation to the materials submitted by the State Audit Office was performed: employment legal relations were terminated with four employees, a claim for termination of employment legal relations was filed at court for one employee,

personnel changes were introduced, disciplinary action was brought against employees — two remarks were made, regulations were adjusted and discussions were held with the responsible employees.

At the result of the audit 27 recommendations were issued; eight of them were submitted to the Ministry of Finance aimed at improvement of laws and regulations governing preparation of accounting registers in local governments and facilitation of completeness and comparability of disclosure of information in annual reports; 19 recommendations were issued to six local governments (Alūksne, Baltinava, Cesvaine, Rugāji, Skrīveri and Vārkava) aimed at ensuring regulatory compliance of actions with property and financial resources of local governments and regulatory compliance of preparation of accounting registers and annual reports.

During 2013 the Fifth Audit Departments of the State Audit Office completed four regulatory audits.

The results of the **regulatory audit** on “Regulatory compliance and efficiency of actions of Rīga Municipal Authority and “Rīgas serviss” Ltd in management and administration of Riga city school and pre-school educational institutions, social care establishments, and real estate under the possession of the Property department of Riga City Council” (image 2.23.<sup>28</sup>) revealed that the decision of the municipality to allocate management and administration functions to the local government owned company “Rīgas serviss” Ltd was not economically justified and did not facilitate achieving of the goals of administration of real estate as stipulated in the planning policy documents of the municipality.

Vaļsts kontrole atklāj izšķērdību un pārmaksāšanu Rīgas domes izglītības iestāžu apsaimniekošanā (24)

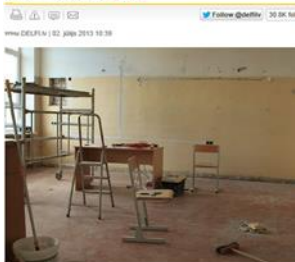


Image 2.23.

The Municipality did not collect information on technical condition of real estate, and did not establish real estate management and administration standards and controls over costs of services. Prices for provided services by “Rīgas serviss” Ltd were economically unjustified; a fraud risk was revealed; procurements were divided in parts in order to evade from application of procurement procedures. The capital company unjustifiably received payments from the budget of the local government in the amount of at least 17.06 thousand lats, and there was a risk identified that the amounts included in the invoices issued to the local government were unjustifiably increased for at least 82.29 thousand lats.

A report on violations of legal norms revealed during the audit was submitted to the General Prosecutor's office, and the State Police is investigating the audit findings.

<sup>28</sup> The State Audit Office revealed squandering of resources and overpayment in administration of educational institutions of Riga City Council The portal: delfi.lv. Online: <http://www.delfi.lv/news/national/politics/valsts-kontrole-atklaj-izskerdibu-un-parmaksasanu-rigas-domes-izglitibas-iestazu-apsaimniekosana.d?id=43449793>

*Riga  
Municipal  
Authority  
allows  
bypassing  
the queue for  
enrolment of  
children*

At the result of the audit nine recommendations were issued aimed at improvement order administration and management of real estate owned by the municipality and elimination of unjustified expenditure. The results of the **regulatory audit** on “Regulatory compliance of actions of Riga Municipal Authority in relation to the order of enrolment of children in pre-school educational institutions” revealed that the order of enrolment of children from the age one and a half years in municipal pre-school educational institutions established by the municipal authority was not compliant with the principle of equal treatment of children as stipulated in the law On General Education, and the risk of bypassing the queue of enrolment in pre-school educational institutions was not eliminated. The procedure of granting of financial resources to private pre-school educational institutions allowed granting resources also for children who had already received pre-school educational service financed by the municipality or had been enrolled in pre-school educational institutions.

Five recommendations were issued aimed at elimination of deficiencies identified during the audit: application of the principle of equal treatment towards enrolment of children and reducing the risk of bypassing of the queue for enrolment in pre-school educational institutions, and elimination of unjustified granting of funds by the municipality to private pre-school educational institutions.

The results of the **regulatory audit** on “Regulatory compliance of actions of Riga Freeport Authority” (image 2.24<sup>29</sup>) revealed that the Authority had not established nor the action plan for achievement of strategic goals nor the supervision mechanism, and the Authority had implemented projects not included in the Riga Freeport development program for 2009–2018 in the amount of 24.9 million lats.

Auditors of the State Audit Office revealed unlawful and inefficient use of funds: 6.1 million lats were unlawfully spent for development of “Rīgas brīvostas flote” LTD and engagement in commercial activities; the selected solution for insolvency of AS “Rīgas jūras līnija” caused additional expenses in the amount of at least 53 million lats; 1.09 million lats were paid to businessmen for covering quayside maintenance expenses thus violating the contract terms; 595.74 thousand lats were spent for paying bonuses, presents, allowances, sick-leave allowances and health insurance bonuses for members of the council thus violating the applicable regulations on remuneration; 378.26 thousand lats were unjustifiably spent for compensating funds invested in reconstruction of quayside to businessman who had not completed the terms of the contract for receiving such compensation; 144.97 thousand lats



Image 2.24.

<sup>29</sup> Riga Freeport promised to eliminate the deficiencies revealed by the State Audit Office by middle of February. Delfi.lv Online: <http://www.delfi.lv/news/national/politics/valsts-kontroles-atrastas-nepilnibas-rigas-brivosta-sola-likvidet-lidz-februara-vidum.d?id=44074117>

*The Riga  
Freeport  
Authority is not  
willing to  
change its  
attitude towards  
administration  
of state and  
municipality  
owned resources*

were donated to the International Association of Ports and Liepaja Maritime College thus violating the order set by the law “On Ports”.

Also loss of revenue was revealed: 2.08 million lats caused by unjustifiable relief of cruise ships from sanitary fees; 501.39 thousand lats caused by handing of tugboats to a businessman; reducing the value of expected cash flow by 1.2 million lats during sales of real estate with payment term of the contract price set for 15 years instead of immediate payment.

Still the mentioned facts did not persuade the board of the Riga Freeport which consists of four deputies from Riga City Council and four members assigned by the government to change their attitude and attitude of their subordinate employees towards administration of state and municipality owned resources in the biggest port of the country. Neither the identified violations and idleness of the Freeport nor the warnings expressed by the State Audit Office and the Public Expenditure and Audit Committee of the Saeima had been sufficient for those responsible for ensuring efficiency and lawfulness of actions of Riga Freeport Authority — the government of Latvia and its assigned governmental supervisor, the Ministry of Transport — to take real measures for bounding the organisers and supporters of the violations identified by the State Audit Office from further operations in the biggest port of the state.

A report on the violations identified during the audit was submitted to the General Prosecutor's office; the State Police has initiated an investigation.

At the result of the audit 23 recommendations were issued aimed at improvement of development planning of the Freeport, improvement of efficiency of use of the territory of the port, and elimination of unfair treatment of businessmen, as well as facilitation of optimisation of revenue and elimination of inexpedient and unjustified use of resources.

The results of the **regulatory audit** on “Efficiency and regulatory compliance of administration of capital companies owned by the Jelgava Municipal Authority” (image 2.25<sup>30</sup>) revealed inexpedient use of resources by the capital companies in the amount of 139.89 thousand lats including payments for bus rent services (55.09 thousand lats) and vehicle rent services (6.06 thousand lats), payments of bonuses by two capital companies thus violating the applicable laws and regulations (in the amount of 30.69 thousand lats), payments for trainings and seminars held by “Jelgava poliklīnika” for persons who were not employees of “Jelgava poliklīnika” LTD and did not fit the criteria of target audience for trainings (14.46 thousand lats), and payments for business trips by four capital companies which were

POLICIJĀ SĀKTI DIVI KRIMINĀLPROCESI PAR  
JELGAVAS PAŠVALDĪBAS UZŅĒMUMOS  
KONSTATĒTO IZŠĶERDĪBU



Image 2.25.

<sup>30</sup> The Police initiated two criminal proceedings on squandering of resources revealed in capital companies of Jelgava Municipal Authority. Mixnews.lv Online: [http://lat.mixnews.lv/lv/kriminalzinas/26020\\_policija-sakti-divi-kriminalprocesi-par-jelgavas-pasvaldibas-uznemumos-konstateto-izskerdibu](http://lat.mixnews.lv/lv/kriminalzinas/26020_policija-sakti-divi-kriminalprocesi-par-jelgavas-pasvaldibas-uznemumos-konstateto-izskerdibu)

not related to performance of duties of the employees (10.56 thousand lats). It was revealed that three capital companies included unjustified expenses in their tariffs for paid services and applied a fee inconsistent with the pricelist thus gaining unjustified revenue in the amount of 106.69 thousand lats.

Audit findings revealed a risk of inexpedient use of resources in the amount of at least 10.93 million lats by a capital company which did not ensure regulatory compliance of the order of procurements and settled payments for repair works not included in the procurement; also the company did not require insurers to cover repair expenses for goods and services which lacked corroborative documentation and did not ensure sufficient control over use of funds allocated to "Jelgava autobusu parks" LTD.

A report on the violations revealed during the audit was submitted to the General Prosecutor's office, and the State Police has initiated two criminal proceedings. Disciplinary action was brought against the board members of "Jelgava autobusu parks" LTD and "Jelgava poliklīnika" LTD — a reprimand and 10% reduction of wage for the period of three months.

At the result of the audit 14 recommendations were issued aimed at improvement of efficiency of administration of capital companies and improvement of control over use of financial resources of the Municipality and capital companies.

In 2013 the SAO continued to supervise implementation of recommendations issued during previous regulatory audits including recommendations issued during audits on actions of certain local governments to administration of local government owned capital companies, and audits on efficiency, economy and regulatory compliance of agencies of local governments.

Implementation of recommendations issued by the State Audit Office resulted in improvements in the system of internal control, elaboration of internal regulations and methodological guidance governing the determination of remuneration of employees of local government owned capital companies, use of vehicles, alienation of property and determination of rent charge; adjustment of legal procedures, performance of procurement procedures in accordance with the Law on Public Procurement, improvement of accounting procedures, as well as general improvements in efficiency of use of resources by ensuring achievement of goals of the institution or its projects.

During the annual financial audit of the **SOCIETY INTEGRATION FUND** the State Audit Office obtained assurance on compliance of the report for 2012 of the Fund with the applicable laws and regulations and on non-existence of material misstatements or faults. No recommendations were issued at the result of the **financial audit**.





## 2.6. Audit and Methodology department

- Member of the Council, the Director of the Department

**LELDE DIMANTE**

- Total budget of the audited fields in 2013:
- 5980.55 million LVL<sup>31</sup>



THE FIRST SECTOR (THE HEAD OF THE SECTOR, 7 AUDITORS)	THE SECOND SECTOR (THE HEAD OF THE SECTOR, 4 AUDITORS)
<ul style="list-style-type: none"> <li>Annual report of the Republic of Latvia on State budget execution and local government budgets the general budget (Net) 5980.00 m LVL</li> <li>The Bank of Latvia expenditure 31.64 m LVL</li> <li>The Central Election Commission the budget 516.12 m LVL, including 254 k LVL for provisioning of local government elections</li> <li>Unified audit methodology</li> <li>Quality control of completed audit engagements</li> <li>Separate regulatory audits</li> </ul>	<ul style="list-style-type: none"> <li>Audits in the information technology environment</li> <li>Elaboration of methodology for IT audits and training of employees</li> <li>Introduction and functional maintenance of audits support tools</li> <li>Analysis of huge amount of data</li> </ul>

Image 2.26. The audited fields of the Audit and Methodology department and provisioning of audit methodology

Each year the State Audit Office submits to the Saeima and the Ministry of Finance an opinion on the **ANNUAL REPORT OF THE REPUBLIC OF LATVIA ON STATE BUDGET EXECUTION AND LOCAL GOVERNMENT BUDGETS**.

Overall the situation with financial accounting has improved which has resulted in increased quality of the annual financial report. In 2012 no deficiencies were identified in accounting and

*No misstatements were identified in financial accounting and internal control systems of nine institutions*

<sup>31</sup>Data on State budget execution for the year 2013 according to the Report of the State Treasury. Home page of the State Treasury. Online: [http://www.kase.gov.lv/?object\\_id=8343](http://www.kase.gov.lv/?object_id=8343)

internal control systems of nine institutions. In 2011 the number of institutions where no deficiencies were revealed as to accounting and internal control systems was five.

At the result of the **financial audit** on the annual report for the year 2012 of the Republic of Latvia a qualified opinion was issued as well as limitations of scope and material misstatements were identified. Execution of the consolidated state budget of 2012 resulted in 5745 million lats in the part of revenue and 5718 million lats in the part of expenses. The audit findings were following:

The state-owned property handed over under the possession (holding) for alienation to the public limited company "Privatizācijas aģentūra" in the amount of at least 124 million lats was not included in the assets part of the balance;

Similarly as in previous years tax revenues were not disclosed according to the principle of accruals and therefore the State Audit Office could not issue an opinion on sufficiency of tax revenue;

Since 2006 fairness and comparability of disclosure of liabilities in the report has not been ensured due to the fact that the Riga Municipal Authority disclosed its liabilities against "Deutsche Bank AG" in the amount of 273 million lats for funding of construction of Dienvidu bridge as "Long-term trade payables" instead of "Long-term loan";

The Riga Municipal Authority also did not disclose the borrowing in the amount of 515 million lats and disclosed the derivative financial instrument in the value smaller for at least 118 million lats.

The results of the audit revealed that similarly as in previous years the necessary funding for execution of the state policy in accordance with the body of the intended measures and services within the budget program has not been determined by the state budget policy. Also problems were revealed in administration of capital companies. Due to the fact that there was no clear policy established for state-owned capital companies as to the aims of investments of state capital and the intended performance results of state-owned companies, no assurance could be obtained as to whether the administration of state and local government owned capital companies was ensured in the most efficient possible manner. Similarly as previously the State Audit Office concluded that neither a purposeful administration of human resources of state administration nor equal conditions for determining remuneration of officials (employees) of state and local government institutions were ensured.

The results of review of the process of granting of state warranties it was concluded that the system of granting and supervision over warranties was not transparent and traceable. Audit findings revealed that in 30 December 2009 the Minister of Finance after receiving of opinion



from the State Treasury granted a warranty to the JSC "Liepājas metalurģs" (image 2.27<sup>32</sup>) on behalf of the Republic of Latvia for receiving of loan in the total amount of 60.16 million lats. It was concluded that granting of the warranty was incompliant both with internal and external regulations and the activities of the competent institutions were inefficient. This resulted in improvident use of state budget funds in the amount of 51.72 million lats by settling of payments to credit institution on behalf of JSC "Liepājas metalurģs".

The State Audit Office reported on the audit findings to the General Prosecutor's office. The State Police initiated a sectorial investigation.

At the result of the audit 41 recommendation was issued aimed at improving the process of state budget planning and facilitating adherence to budget discipline of the institutions, improving the process of granting and supervision over state warranties and loans by ensuring maximal safeguarding of public interests, introduction of unified state policy of human resources management and disclosure of complete and fair information in the annual report.

In order to improve the quality of preparation of annual report for the year 2013 and the arrangement of transactions, as well as to facilitate implementation of the principle of good governance, after completion of financial audits the State Audit Office for the first time prepared a summary of the most typical revealed errors and the identified good practice, and disseminated the report to all ministries and central state institutions.

Implementation of the recommendations issued during previous audits of the Annual report of the Republic of Latvia the Ministry of Finance ensured accessibility of users of annual financial reports to information about the amounts received in the State budget against which claims might exist and which might be reimbursed. Also it resulted in facilitation of equal treatment of all tax-payers in the field of debt recovery, introduction of unified procedure in the structural units of the State Revenue Service before initiation of the procedure of disputeless recovery of debts, and issuance of warning to the tax-payers via the Electronic declaration system before deciding on initiation of disputeless recovery of debt. Implementation of recommendations issued by the State Audit Office resulted in assessment and expansion of the functionality of the Electronic declaration system of the State Revenue Service so that it provided not only opportunity to submit reports by tax-payers but also ensures operative communication between the Service and the tax-payers in various forms.

***Facilitated equal  
treatment in the  
field of debt  
recovery***

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<sup>32</sup> The SAO considers payment of 52 million lats on behalf of JSC "Liepājas metalurģs" as improvident. The portal: delfi.lv. Online: <http://www.delfi.lv/business/uznemumi/52-miljonu-latu-samaksasana-as-liepajas-metalurģs-vieta-ir-nesaimnieciska-uzskata-vk.d?id=43678483>

During the annual financial audit of the **Central Election Commission** the goal of which is to ensure consistent and correct application and execution of election laws the State Audit Office ascertained that the annual report of the Commission for the year 2012 was prepared in accordance with applicable laws and regulations and there were no material misstatements or deficiencies. No recommendations were issued at the result of the audit.

During the financial audit on the annual report for the year 2012 of the **BANK OF LATVIA** the auditors of the State Audit Office and the audit firm “Ernst & Young Baltic” LTD ascertained that the report was prepared in accordance with the applicable laws and regulations, in all material aspects gave true and fair view on the financial position and performance results of the institution, and there were no material misstatements or deficiencies. No recommendations were issued at the result of the audit. According to the law “On the Bank of Latvia” from 1 January 2014 the financial statements of the Bank of Latvia will be audited by independent external auditors appointed by the European Central Bank and approved by the Council of the European Union. The State Audit Office performs lawfulness and performance audit of the Bank. The State Audit Office does not perform audits of the European system of Central Banks.

During the reporting period two regulatory audits were completed.

The results of the **regulatory audit** on “Regulatory compliance and efficiency of actions of Riga Municipal Authority in administration of real estate tax” (image 2.28<sup>33</sup>) revealed that the Municipality had not calculated real estate tax for all real estate objects of the city due to the fact that not all the respective objects were identified. For example, in 2011 and 2012 the rented state and municipality owned land areas within the territory of Riga Freeport were not subject to real estate tax in the amount of 96 thousand lats. Also the tax rate and tax exemptions were not always applied correctly. Audit findings revealed that in 35% of cases tax debt was not collected within seven years from the start of the debt period, which resulted in lapse of the debt. The amount of real estate tax debt in Riga in 2010 exceeded 10 million lats, and in 2011 — 12 million lats.

At the result of the audit eight recommendations were issued aimed at ensuring determination of real estate tax for all real estate objects, improvement of tax administration and reduction of administrative burden for tax-payers.

VK konstatē neatbilstības nekustamā  
īpašuma nodokļa administrēšanā Rīgā

BNN  
2013.gada 4.marts 0 komentāri



Image 2.28.

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<sup>33</sup> The SAO identifies deficiencies in administration of real estate tax in Riga. The portal bnn.lv Online: <http://bnn.lv/vk-konstate-neatbilstibas-nekustama-ipasuma-nodokla-administresana-riga-104210>

Gandrīz piektdaļu no datoros ievietotajām programmatūrām pašvaldības lieto nelikumīgi



Image 2.29.

The results of the **regulatory audit** on “Evaluation of administration of software in local governments and educational institutions of local governments”(image 2.29<sup>34</sup>) which encompassed 14 local governments revealed that in case of 975 or 18% of units included in the audit sample the use of software was incompliant with the licence terms or lacked corroborative documents for purchase of software. Use of non-licenced software was facilitated by several factors including deficiencies both in administration of information technology safety due to incompliant control environment and in practical implementation of security procedures. For example, administrator's rights were assigned to ordinary users, malicious software was installed in computerised devices allowing use of devices for illicit purposes, in average two or three various types of software were used for execution of one function.

At the result of the audit 66 recommendations were issued aimed at facilitation of compliance of use of software with licence terms, elimination of violations of intellectual property rights and respective risks caused by use of software without respective permissions, improvement of IT safety administration, improvement of efficiency of IT administration in the long-term, and improvement of accounting of computerised devices and software.

In order to arrange the matters of IT administration and safety in local governments which were not included in the audit sample audit findings were presented to the Latvian Association of Local and Regional Governments. Information on the audit findings was also submitted to institutions which the State Audit Office considered important for emphasizing the problems in the field of IT — the Minister of Environmental Protection and Regional Development, the State Police, the Information Technology Security Incident Response Institution and the non-profit organisation *Business Software Alliance*.

## 2.7. Reporting to law enforcement institutions

According to the law “On State Audit Office” the State Audit Office has the obligation to report to law enforcement institutions on violations of legal norms identified during audits. In 2013 the SAO reported to law enforcement institutions on violations revealed during **16 audits** (5 regulatory audits and 11 financial audits).

According to the law “On State Audit Office” the State Audit Office has the obligation to report on the identified violations of legal norms. In order to facilitate investigation of the revealed

***The SAO has reported to law enforcement institutions on violations revealed at the result of 16 audits***

<sup>34</sup> Almost one fifth of software programs installed in computers of local governments are used illicitly. The focus.lv Online: <http://www.focus.lv/tehnologijas/datori/gandriz-piektดาลu-no-datoros-ievietotajam-programmaturam-pasvaldibas-lieto-nelikumigi>

violations the State Audit Office submits audit reports and decisions on their approval to the law enforcement institutions, and:

- Provides detailed information on violations and analysis of the legal and actual circumstances.
- Submits copies of corroborative documents.
- If constituent elements of potential criminal offence exist the SAO points out the classifying elements of the potential criminal offence and the certain norms of the Criminal Law which stipulate respective liabilities, and, if possible, indicates the potential guilty parties.

In 2013 information was reported to law enforcement institutions on:

- Cases when institutions had unjustifiably increased their expenses by concluding contracts and making unjustified payments, had lost revenue of the State budget, had unjustifiably increased service costs and had made unjustifiable donations.
- Deficiencies in granting of state warranties and supervision over the granted warranties.
- Violations related to use of official vehicles.
- Regulatory incompliant payment of benefits to employees of institutions.
- Potential conflicts of interests.
- Other violations in use of financial resources and property owned by a public person.

**Violations of legal norms were identified** in the State Blood Donors centre, Riga Freeport Authority, Social Integration State Agency, State Treasury, capital companies of Daugavpils Municipal Authority “Labiekārtošana D” LTD and “Tramvaju uzņēmums” JSC, “Rīgas serviss” LTD, Murjāņi Sports Gimnasium, Riga Trade Technical School, Professional Education Competence Centre “Kandavas Valsts lauksaimniecības tehnikums”, Alūksne Art School, Rēzekne Music Secondary School, Mazsalaca local government, as well as Vārkava, Baltinava, Rugāji, Skrīveri, Cesvaine and Alūksne local governments.

**Ten criminal proceedings were initiated** by the State Police on violations of legal norms identified during audits by the State Audit Office; one of the criminal proceedings was terminated and nine are under investigation<sup>35</sup>:

- The Riga Freeport Authority —illegitimate use of financial resources and property (covering of port quayside expenses of businessmen, unlawful donations, illegitimate remuneration, involvement in illicit commercial activities, outstanding sanitary fees from passenger and cruise ships).

**10 criminal proceedings were initiated in 2013 based on the audit findings by the State Audit Office**

**Iespējamas jaunas disciplinārlietas pret vēl vairākiem SIVA darbiniekiem**

LETA      Sestdienā, 2012. gada 24. novembrī 17:32 | 45 komentāri  
Iespējoties ar Valsts kontroles (VK) atzinumu par konstatētajiem pārkāpumiem Sociālās integrācijas valsts aģentūrā (SIVA), Labiekārtošanas un tirdzniecības uzņēmums (LUT) neizbēdz iespēju kļūst par jaunu disciplināri vēl vairākiem SIVA darbiniekiem, aģentūra LETA informēja LUT.

<sup>35</sup> Information gathered on 20.03.2014.

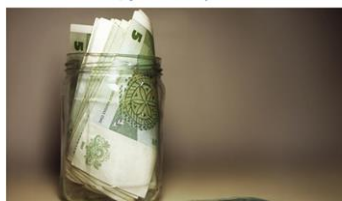


Image 2.30.

- The Social Integration State Agency —illicit payments to businessmen related to acquisition costs and outstanding fees for provided services in accordance with the price-list (image 2.30.<sup>36</sup>).
- Murjāņi Sports Gymnasium —illegitimate use of vehicles.
- Vārkava, Baltinava, Rugāji, Skrīveri, Cesvaine local governments —use of official vehicles for personal needs and inappropriate accounting of material values.
- The Daugavpils Municipal Authority owned the capital companies “Labiekārtošana D” LTD and JSC “Tramvaju uzņēmums” —illegitimate payments of benefits.
- The State Blood Donors centre —loss caused by creating favourable circumstances for a certain businessman (the criminal case was closed due to non-existence of constituent elements of a criminal offence; the decision was appealed by the State Audit Office).

The **STATE POLICE** initiated **four investigations**:

***The State Police  
has initiated  
four  
investigations;  
seven  
investigations  
initiated by the  
Corruption  
Prevention and  
Combating  
Bureau***

- Kandava State Technical Agricultural School —unjustified use of resources by using intermediary services.
- “Rīgas serviss” LTD — unjustified increase of costs for services provided to the municipality which has resulted in a loss to the municipality.
- AS „Liepājas metalurģis” — the provided state warranty.
- Alūksne local government —use of official vehicles for personal needs and incompliant accounting of material values.

**SEVEN INVESTIGATIONS** were initiated by the **Corruption Prevention and Combating Bureau** which resulted in administrative action and penalties for two officials (the officials of Riga Trade Technical School and Mazsalaca local government); in case of one violation the official was not called to liability due to prescription period (the official of “Labiekārtošana D” LTD).

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<sup>36</sup>Potential new disciplinary actions brought against several other employees of SISA. Portal appollo.lv Online: <http://www.apollo.lv/zinas/iespejamas-jaunas-disciplinarlietas-pret-vel-vairakiem-siva-darbiniekiem/541865>

*Official  
investigations  
were performed  
in institutions*

In several cases **OFFICIAL INVESTIGATIONS** were initiated on violations of legal norms identified by the State Audit Office during audits of 2013, and they resulted in:

- Reprimand of one official (expressed by the Ministry of Health to the official of the State Blood Donors centre).
- Warnings issued to two officials (by the Ministry of Education and Science to the official of Murjāņi Sports Gymnasium and to the official of Kandava State Technical Agricultural School).
- Reproof of one official (expressed by the Ministry of Welfare to the official of the Social Integration State Agency).
- Remarks issued to two persons (Vārkava local government and Baltinava local government).
- Termination of employment legal relationship with five employees (Vārkava local government, Skrīveri local government and Alūksne local government), filing of a claim on termination of employment legal relationship (Vārkava local government), introduction of other personnel changes.

In general during the time period from **2006 up to 20 March, 2014**:

- The State Audit Office reported to law enforcement institutions on violations of legal norms identified during **159 audits** (78 regulatory audits and 81 financial audit).
- 76 criminal proceedings were initiated; in nine cases audit materials were added to the materials of previously started criminal procedures (image 2.31<sup>37</sup>).
- 129 investigations of various nature were initiated.
- 41 criminal procedure was terminated (no criminal offence identified, non-existence of constituent elements of a criminal offence in the committed violation, prescription period).
- 38 criminal proceedings are under investigation, two officials were called to criminal liability; applied prosecutor's response measure — a claim regarding illegitimate annulment of legislation.

VK lūgusi Ģenerālprokuratūru izvērtēt  
pārkāpumus Dienvidu tilta būvniecības lietā

LETA Otrdienā, 2013. gada 19. jūnijā 13:58 0 komentāri  
Valsts kontrole (VK) ir nosūtījusi Ģenerālprokuratūrai lūgumu izvērtēt konstatētos pārkāpumus C  
tilta būvniecībā.



Image 2.31.

<sup>37</sup> The SAO has asked the General Prosecutor's office to investigate violations related to construction of the Dienvidu bridge. The portal apollo.lv. Online: <http://www.apollo.lv/zinas/vk-lugusi-generalprokuraturu-izvertet-parkapumus-dienvidu-tilta-buvniecibas-lieta/519455>



- In 29 cases the officials were called to administrative liability, in 16 cases the officials were not called to administrative liability due to prescription period.
- Disciplinary action was brought against the officials (reduced qualification or monthly salary; termination of employment or demotion; reprimands, remarks, warnings, reproofs).

According to information available at the State Audit Office institutions initiate official investigations only in rare cases. In this context the State Audit Office submitted to the Public Expenditure and Audit Committee of the Saeima a proposal for amendments to the law "On Prevention of Devastation of Funds and Property of State and Local Governments" by proposing introduction of a norm which subjects the audited entity to report to the State Audit Office on the results of assessment of responsibility of the persons in case of violations of the mentioned law revealed by the State Audit Office. The draft law was approved by the Saeima on 13 March 2014 in the third reading.

In order to facilitate investigation of violations of legal norms identified during audits the State Audit Office organised meetings with representatives of the General Prosecutor's office and the State Police in 2013. The matters of cooperation with law enforcement institutions were reviewed during sessions of the Public Expenditure and Audit Committee and the Inquiry Committee and Defence, Internal Affairs and Corruption Prevention Committee of the Saeima. During the meetings and sessions of the Committees of the Saeima problematic issues were discussed related to investigation of violations identified by the State Audit Office, competency of the State Audit Office and law enforcement institutions, and different methods for revealing of violations and obtaining evidence, as well as cooperation possibilities between the State Audit Office and law enforcement institutions in obtaining of evidence and investigation.

During the annual meeting on the performance results of the Prosecutor's Office for 2013 and planned actions priorities for 2014 of the heads of the structural units of the Prosecutor's Office, which was held on 19 February 2014, the General Prosecutor described the action priorities for 2014 by stating that one of the aims is to increase supervision over those criminal proceedings which had been initiated based on audit materials of the State Audit Office. The General Prosecutor emphasized that in 2014 the General Prosecutor's office would review materials related to application of civil, administrative and disciplinary liability which were received by the structural units of the Prosecutor's Office from the State Audit Office during 2013.

***Audit materials  
of the State  
Audit Office are  
one of work  
priorities of the  
Prosecutor's  
Office***

### 3. INTERNATIONAL COOPERATION

#### 3.1. Participation in international organisations

During the reporting period the State Audit Office continued its international activities started during previous years, including participation in working groups and information exchange networks of international organisations thus strengthening professionalism of employees of the State Audit Office and contributing to improvement of International Standards on Auditing.

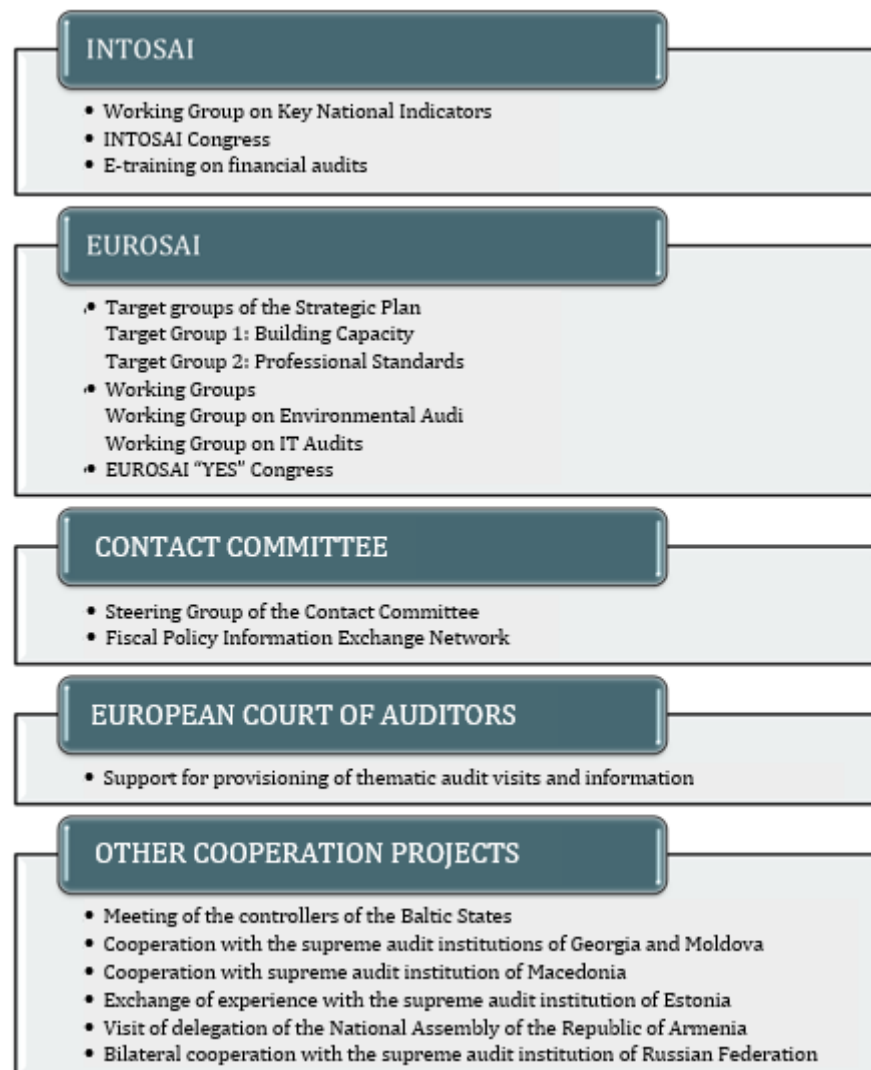


Image 3.1. Activities of international cooperation

The most significant event at the level of *INTOSAI* was the **XXI *INTOSAI* Congress** during which representatives of more than 160 supreme audit institutions were discussing the role of audit institutions in ensuring sustainability of long-term financial policy of states. The *INTOSAI* Congress is held once every four years and the International Standards on Auditing which are elaborated during the intervals between Congress sessions are approved during the Congress. The State Audit Office was represented by the Auditor General E. Krūmiņa and the Member of



the Council of the State Audit Office M. Salgrāve.

**Image 3.2. The XXI Congress of *INTOSAI* in Beijing, China**

In 2013 representatives of the State Audit Office for the first time participated in the e-training course “Financial audit based on risk analysis” which lasted for several weeks and was organised by the *INTOSAI IDI* and *UNITAR* organisations. Two representatives of the State Audit Office received respective certificates on completion of the course.

The State Audit Office continued active participation in two **targeted groups of *EUROSAI***. The activities of the group “Capacity Building” resulted in elaboration of a summary on the introduced innovations in supreme audit institutions of the region of *EUROSAI* the aim of which was to identify the best practice and facilitate its adoption. The activities of the group “Professional Standards” were focused on exchange of experience in introduction of the International Standards on Auditing in the region of *EUROSAI*.

In November 2013 a representative of the State Audit Office participated in the Congress held by the supreme audit institution of the Netherlands *EUROSAI “YES”*. Participation in the Congress ensured interactive exchange of experience with audit institutions of the region of *EUROSAI* on innovative working methods of audit institutions, for example, for making audit results publicly accessible and reach as broad audience as possible.



**Image 3.3.**

The most significant matters reviewed within the **Contact Committee** of the European Union during the reporting period were the role of supreme audit institutions in the context of ensuring supervision over the unified banking system of the European Union and the new financial regulation of the European Union (image 3.3.). This and other matters were reviewed within the working groups and the information network of the Contact Committee. In 2013 the work was started in relation to creation of more efficient mechanism for ensuring

identification and response to current financial and economic events in the European Union by supreme audit institutions and the European Court of Auditors.

In 2013 the State Audit Office of the Republic of Latvia was by the Contact Committee as the organizer of the Contact Committee in 2015. As of 11 October 2013 the State Audit Office started to perform as the member of management team which included participation in arrangement of the next three meetings of the Contact Committee (from 2014 up to 2016) and coordination of daily activities of the Contact Committee.

The meeting of the Contact Committee will be held on June 18 and June 19 2015 in Riga with participation of heads of all supreme audit institutions of the European Union. The meeting will be held within the frameworks of presidency of Latvia in the Council of the European Union. The Auditor General E. Krūmiņa will act as the Chairman of the Contact Committee from October 2014 up to June 2015.

### 3.2. Cooperation with supreme audit institutions of other countries

In addition to participation in international organisations the State Audit Office was acting as an internationally recognised professional partner contributing to building of capacity of audit institutions of other countries.

In cooperation with the supreme audit institution of Sweden the State Audit Office exchanged experience with the **supreme audit institution of Georgia** in the field of performance of financial audits, use of *TeamMate* audit administration software and application of International Standards on Auditing.



Image 3.4.

In September 2013 the State Audit Office organised a visit of a high-level delegations of the **supreme audit institutions of Georgia** and **Moldova** to the State Audit Office. During the visit the delegations were acquainted with the audit and support processes of the State Audit Office and cooperation of the State Audit Office with the Saeima of the Republic of Latvia (image 3.4.).

The State Audit Office elaborated a program and held a seminar of exchange of experience for representatives of the **supreme audit institution of Macedonia** on use of *TeamMate* audit support software.

Experience was also exchanged with the **supreme audit institution of Estonia** on use of audit support software for facilitation of audit work and for improvement of audit efficiency. Estonian colleagues shared their experience on organisation of work within the central *TeamMate* database, and the State Audit Office shared its experience on use of *TeamMate* software for time registration and planning which is not yet done in Estonia.

In June 2013 a tripartite meeting of the heads of the **supreme audit institutions of the Baltic countries** was held in Lithuania during which current matters of cooperation were discussed, including development of institutions, cooperation with the Parliament and law enforcement institutions, use of information technologies during audits, and performance of audits in local governments.



Image 3.5

In cooperation with the Saeima of the Republic of Latvia the State Audit Office shared experience with the delegation of representatives of the **National Assembly of the Republic of Armenia** who visited Latvia in October 2013 (image 3.5.).

## 4. COMMUNICATION

### 4.1. Public availability of information

According to the Law on State Audit Office the State Audit Office has the obligation to make the audit opinions and audit reports of completed audit engagements publicly available after they have become effective except if the reports contain information of restricted access or State secret according to the applicable laws and regulations.

The State Audit Office publishes audit reports in its webpage. During the reporting year **59 reports** on the results of the completed audit engagements **were published**.



Image 4.1.

In order to ensure maximal public exposure of the audit results the State Audit Office prepares and disseminates press releases for mass media which contain brief description of the most significant audit findings, conclusions and recommendations. 16 press releases were prepared in 2013 as well as two press conferences were held (image 4.1.).

The State Audit Office informs the public also on its other activities, including international cooperation (visits of the officials of the State Audit Office and visits of the officials from other countries to the State Audit Office), meetings of the officials of the State Audit Office with the officials of other state and local government institutions and representatives of non-governmental organisations.



Image 4.2.

Activities of the State Audit Office are performed by considering the needs and interests of the public in an accountable and open manner. In order to clarify the opinion of the public and the legislator and to introduce with its future vision the State Audit Office held an **open conference on the "Role of the State Audit Office of the Republic of Latvia in ensuring accountable and sustainable development of the state"** (image 4.2.) in November 2013.



Image 4.3.

Among the participants of the Conference was the Prime Minister V. Dombrovskis, the Minister of Finance A. Vilks, the Head of the Public Expenditure and Audit Committee of the Saeima E. Siliņa, the Chairman of the Constitutional Court G. Kūtris, the Director of the State Chancellery E. Dreimane, the General Prosecutor Ē. Kalnmeiers, the Head of the Corruption Prevention and Combating Bureau J. Streļčenoks, other state officials, representatives of non-governmental organisations and experts (image 4.3.). The most significant factors which enable the State Audit Office to provide the public with comprehensive assurance as to implementation of all necessary measures in the sector of public administration in order to safeguard the public interests are:

- Strengthening of legal responsibility of head of institutions for lawfulness and efficiency of use of tax-payers' money. During the Conference representatives from both the

***A new approach  
towards  
providing  
information on  
activities of the  
State Audit  
Office to the  
public***

executive power and the legislator committed themselves to improvement of the necessary laws and regulations.

- A practice should be established for the Cabinet of Ministers to prepare the State budget taking into account the results of audits performed by the State Audit Office.
- Improvement of cooperation between the State Audit Office and law enforcement institutions in order to ensure efficient system for operative investigation of violations committed by the responsible persons.
- The executive power needs to improve the system of performance indicators for policy development and implementation based on which to evaluate efficiency, quality and implementation of each policy compliant with the public interests.

During year 2013 a new approach was introduced towards provision of information to the public on audits by the State Audit Office and the current events of the State Audit Office as well as towards involvement of the public both in planning and performance of audits and evaluation of implementation of recommendations. Recognising the fact that the State Audit Office had not provided the public with sufficient information on the effects of the issued recommendations during the reporting year the State Audit Office evaluated effects, particularly financial effects, of implementation of recommendations issued in the sector of welfare and defence. In order to cover all the sectors the evaluation of effects of implementation of recommendations will continue in 2014.

Members of the Council of the State Audit Office — the Directors of the respective audit departments — were involved in clarification of audit results and recommendations to the public. This resulted in broader and deeper understanding within the public on the functions of the State Audit Office and on activities of particular departments.

Taking into account the role of the public in improving the results of the public administration the State Audit Office involved the public by asking people to provide information on the audited fields and audited entities during the stage of audit planning and performance.

In search for new forms of public communication the representatives of the State Audit Office visited Daugavpils local government (image 4.4.) where they reported on the results of audits of local government, on the progress of implementation of recommendations, and answered to the questions.



Image 4.4.

During 2013 the State Audit Office represented itself as a modern institution aimed at dynamic development. The State Audit Office was more actively using social networks in communication with the public, and opened a *Twitter* account. The State Audit Office also started development of a new functionally improved webpage.



Image 4.5.

*The results of audits by the State Audit Office were reviewed during 21 meeting of the PEACS*

#### 4.2. Cooperation with the Saeima

The **Public Expenditure and Audit Committee of the Saeima** (PEACS) reviews the results of audits performed by the State Audit Office (image 4.5.<sup>38</sup>) and the process of implementation of recommendations of the State Audit Office by the audited entities. Representatives of the audited entities and ministries of respective sectors also participate in the meetings of the Committee.

During the reporting period the Public Expenditure and Audit Committee of the Saeima reviewed the results of audits by the State Audit Office and the progress of implementation of recommendations within 21 meeting. During the meetings the Committee decided on commissioning of the competent ministries or the Cabinet of Ministers for reporting on the performed activities for elimination of deficiencies revealed during audits within a certain deadline.

In accordance with the State Audit Office Law the Public Expenditure and Audit Committee of the Saeima also organises public procurements for selection of certified auditors (firms of certified auditors) who perform audit of the annual statement of the State Audit Office. The State Audit Office submits its annual financial statement together with the opinion issued by the auditor selected by the Saeima to the Saeima and to the State Treasury for preparation of annual report.

The State Audit Office cooperates in different aspects also with the **Budget and Finance (Taxation) Committee, Legal Affairs Committee** and other **Committees of the Saeima**. Representatives of the State Audit Office are invited to the meetings of the Budget and Finance (Taxation) Committee in order to review budget requests of the State Audit Office included in annual State budget draft law prepared by the Cabinet of Ministers. The Legal Affairs Committee reviews opinions of the State Audit Office on amendments to laws governing operations of the State Audit Office or other fields, if the State Audit Office has submitted respective proposals. The results of audits performed in particular sectors are reviewed during the meetings of the Committees of the Saeima according to their competence.

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<sup>38</sup> The Public Expenditure Committee: the Ministry of Education should not repeatedly allow mistakes in determination of necessary funding for wages of teachers. Homepage of the Saeima of the Republic of Latvia Online: <http://saeima.lv/lv/aktualitates/saeimas-zinas/21981-publisko-izdevumu-komisija-aprekinot-finansejumu-pedagogu-algam-izglitiba-ministrija-nedrikst-atkar>



#### **4.3. Cooperation with other organisations**

During 2013 the State Audit Office more actively engaged in cooperation with both internal auditors and certified auditors. A cooperation with Latvian School of Public administration was started by agreeing on provision of free-of-charge lectures by the State Audit Office on the matters within its competency.

Several meetings with internal auditors were organised in order to agree on conditions in order to increase trust in the work performed by both parties. In future after receiving annual plans of internal audit units of institutions the State Audit Office will jointly evaluate and discuss the audit fields which would be significant also during audits planned by the State Audit Office.

In cooperation with the Latvian Association of Certified Auditors a discussion was held with representatives from the Ministry of Finance and the State Treasury on current topics of audit in local governments and state institutions. During the discussion accounting and audit practice matters were debated.

***Increased  
cooperation  
with internal  
auditors and  
certified  
auditors***

## 5. ACTION PRIORITIES FOR THE YEAR 2014

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The future priorities of the State Audit Office are directly linked with general development of public administration and local governments, and with the aggregate of values, attitudes and convictions of individuals and society as such.

At the meeting of 27 December 2013 the Council of the State Audit Office approved the **Action Strategy 2014–2017 of the State Audit Office** which sets three action courses:

### **ACTION COURSE I — supporting the Saeima and the executive power of the Republic of Latvia in improving public sector administration and facilitating efficient use of public resources in the interests of the public.**

The Action Course is linked to improvements in basic functions of the State Audit Office, and is aimed at increase in the amount of financial and performance audits, performance of audits in local governments and audits on topical issues of public interest, facilitation of cooperation with the Saeima, the audited entities, the law enforcement institutions and the public, and strengthening of supervision over implementation of recommendations issued by the State Audit Office. Action Course I is aimed at achievement of following goals:

- Enhance efficient, lawful and economic management of resources of public institutions, implementation of programs, and achievement of goals in accordance with guidelines issued by the government, state development priorities approved by the Saeima, and public interests.
- Promote mutually coordinated and productive cooperation with the audited entities, the Saeima, the law enforcements institutions and the public.
- Strengthen supervision over implementation of recommendations issued by the State Audit Office.

### **ACTION COURSE II — ensuring sustainable development of the State Audit Office.**

The Action Course is aimed at improvement of professional competency of personnel, improvement of the system of quality of work and audit methodology, provision of clear information to the public, and participation of the State Audit Office in activities of supreme audit institutions and their organisations. Action Course II is aimed at achievement of following goals:

- Improve personnel management system by ensuring motivation and recruitment of result-oriented employees with high qualification.

- Guarantee the principle of high quality of work in every activity of the State Audit Office.
- Ensure compliance of the applied methodology with international standards on auditing and the best practice.
- Ensure implementation of communication strategy aimed at raising awareness about the role of the State Audit Office in the sector of public administration.
- Actively participate in international activities by enhancing professional development and recognition of Latvia at international level.

### **ACTION COURSE III — improving performance efficiency of the State Audit Office.**

This Action Course is aimed at ensuring maximally efficient use and administration of resources of the State Audit Office both in audit work and in the activities of supporting structural units. Action Course III is aimed at achievement of following goals:

- Ensure efficient management of resources by increasing the quality and productivity and advancing the standardization of processes.
- Develop new software and improve the existing audit support software and other software by using opportunities provided by information technologies, and ensure ongoing operation of the system of information technology.

Based on the Action Strategy, the strategic assessment of audit fields and the risk assessment, as well as taking into account the current matters of public sector and the public interests the audit topics were established and the Action Plan for the year 2014 was approved.

As each year it is planned to perform **financial audits** on annual reports for the year 2013 of the ministries and other central state institutions, and also on the Annual report of the Republic of Latvia. Taking into account the fact that the public is interested in assessment of not only correctness of accounting of transactions, but also lawfulness of transactions, during financial audits matters will be reviewed such as conclusion of corporative contracts and contracts for provision of legal services, employment of freelanced employees, organisation of collective events, use of consultations and media services, and provision of the presidency of Latvia in the Council of the European Union.

Review of lawfulness of transactions will continue during audits in 2014 by paying special attention to the current topics within state administration development; also performance audits will be substantially extended. In general **30% of audit resources** will be directed towards **performance audits** and **regulatory audits with aspects of performance**.

***30% of audit resources will be directed towards performance audits and regulatory audits with aspects of performance***

In 2014 the State Audit Office started **ad-hoc audits** for ensuring prompt response to current events in the State and on a timely basis provide the public, the Saeima and the Cabinet of Ministers with a professional opinion on the deficiencies in actions of state and local government institutions. Based on the available resources at least four such audits are planned during the year. The first audit of such kind was started in the beginning of 2014 in the company "Rīgas satiksme".

*Each local government is subject to audit at least one every three years*

During previous years significant violations were revealed in local governments, therefore the amount of reviews in local governments will be increased so that each local government is subject to audit at least once every three years. In addition to auditing the report for the financial year 2013 of the Republic of Latvia which includes review of performance of local governments, separate **audits will be focusing on use of financial resources by local governments** for organising culture, recreation and sports events, on regulatory compliance and efficiency of the process of public transport, as well as on social support provided by local governments.

In 2013 the State Audit Office started preparation of the necessary documentation for implementation of activities during 2014 within the framework of the project "Provision of Support for Implementation of Structural Reforms in Public Administration" financed by the European Social Fund. The project will be implemented in cooperation with the State Chancellery and the Central Finance and Contracting Agency. The activities of the State Audit Office within this project are aimed at building capacity of the State Audit Office in respect to performance audits and evaluation of the performance of the State Audit Office.

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The Auditor General Elita Krūmiņa:

*“I am proud to say that my team is very strong and united by willingness to improve the situation in the State. To achieve this we are ready to do more than our duties require.”*



**Image 5.1. Employees of the State Audit Office in August, 2013**