



Annual Report 2014
The State Audit Office
of the Republic of Latvia

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INTRODUCTION BY THE AUDITOR GENERAL

Dear readers,

Every inhabitant of Latvia has the right to know how his/her money paid in taxes is being spent, i.e. whether it is used properly and creates new value, especially now when public funds are limited but needs tend to increase.

At the same time, the State is not an abstract concept, which is not connected with people. The State means ourselves, thus it is highly important to ask ourselves occasionally, whether regarding small or, especially, great matters: would I do this for myself, my family, or my land? And what would the honest answer be?

The State Audit Office is an institution that not only provides truthful information to the public about the actual state of matters, but also helps institutions to use the tax payers' money more expediently, as well as actively cooperates with law enforcement institutions in the event of discovered unlawful activities.

I am very pleased that during 2014, the State Audit Office has achieved significant progress in all these areas.

Being aware of the fact that timely audits are crucial, the State Audit Office has established a new structural unit, where audits are carried out in response to topical events in the country. For instance, one of the issues the auditors inspected during the last year was the validity of prices for *Rīgas satiksme* public transport tickets and the audit revealed significant deficiencies and violations. The results of the audit were in the centre of attention in the society for several months and currently, the issue of determining public transport tariffs is included in the agenda of several institutions; moreover, the officials of the government and Saeima are involved in seeking solution to this issue.

I am also pleased that we have succeeded in timely preventing unnecessary spending of State funds. For instance, as we discovered that the fee for renting medical transportation in Riga district was exceedingly high and did not comply with the contract, the government decided to terminate outsourcing in this area and provide emergency transportation by itself, thus saving several million euros.

A lot of attention and discussions for the lawfulness and expediency of different expenses were triggered by audits in local governments. According to our Action Plan, it is planned to carry out at least one inspection in each of the 119 Latvian local governments within three years. Although this plan has caused concern among local authorities and the Latvian Association of Local and Regional Governments, we are convinced that it is a necessary step, since the number of complaints from residents about the activity of municipalities increase every year. For that reason, in 2014, the State Audit Office carefully examined the spendings of local authorities and discovered illegal use of funds, use of funds from capital companies for personal needs, cases of insufficient defending of public interests and other significant violations.

The State Audit Office also has more successful cooperation with law enforcement institutions. I am gratified that at the annual meeting of prosecutors, the Prosecutor General stated that one of the tasks is to increase supervision over those criminal proceedings which had been initiated based on the audit materials of the State Audit Office. During 2014, law enforcement institutions have been informed of 13 violations discovered during audits and some positive outcomes can already be seen: in one case, a judgement of conviction was ruled and criminal prosecution was initiated against two persons. In 2014, two judgements of conviction were made and criminal prosecution was initiated against three persons for violations discovered over the previous years. I hope that this cooperation will further increase the pace of investigation of violations and cases will be brought before court sooner.

I can mention a new instrument we have recommended to help in holding offenders liable for their actions, which is amendments to the Law On Prevention of Squandering of the Funds and Property of the State and Local Governments that stipulate that within five months after an audit report has entered into force, the audited entities or their higher institutions must inform the State Audit Office about the results of assessing the liability of offenders. Thus, it must be clarified in institutions, which persons have committed the discovered violations and whether they have disciplinary liability or civil liability. It is becoming more difficult for offenders to escape liability for their actions.

We are grateful for increasing support among the public to the State Audit Office work. In order to contribute to the more effective achievement of our objectives, we use new ways of communication with the society: we make videos about the issues discovered during audits; on our new website, we provide information about both completed audits and planned audits; moreover, we report on the implementation process of our recommendations, their financial impact and how violations are



Auditor General
Elita Krūmiņa

investigated at law enforcement institutions. Both on our website and in social networks, we encourage the society to share useful information and we visit regions to directly answer questions from local residents.


I believe that by continuing our professional and consistent work, next year we will be able to further improve the performance of our institution and come closer to the objective determined for 2017: achieve that with 1 euro invested in the activity of the State Audit Office 5 euros will be saved from the State budget or inexpedient expenditure prevented.

I also hope that we will be able to convince the legislator that it is necessary to increase the competence of the State Audit Office to the extent audit institutions have in other European Union Member States, granting the State Audit Office the right to claim losses for the violations of regulatory enactments caused to the State or a local government discovered during audits, which would promote trust in the State, allow for regaining misused funds and serve as a preventive measure in making economic decisions.

A lot has been achieved over the last year and for that I am truly grateful to the entire team of the State Audit Office. We have determined new, challenging goals for this year as well. I hope and believe that we will achieve our new objectives as well.

Auditor General of the State Audit Office

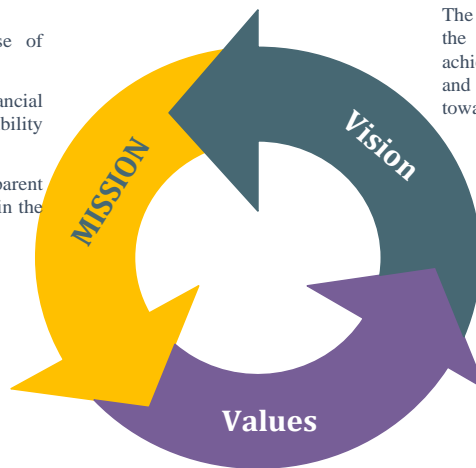
Elita Krūmiņa



1. BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

1.1. Vision, Mission, Values

To promote:
effective and lawful use of taxpayers' money;
development of financial management and responsibility for used funds;
accountable and transparent decision making process in the public sector.



The State Audit Office promotes the effective use of funds achieving that the funds are saved and state administration is oriented towards definite results.

Accountability. Openness. Development.

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

1.2. Legal Framework and Competence

The State Audit Office is an independent, collegial, supreme audit institution in the Republic of Latvia and is subject only to law.



The State Audit Office is a member of the International Organisation of Supreme Audit Institutions INTOSAI and European Organisation of Supreme Audit Institutions EUROSAI and documents of these organisations are binding to the State Audit Office.

EUROSAI

The State Audit Office is an active participant in the cooperation platform between the supreme audit institutions of the European Union Member States and the European Court of Auditors, where it is a member of the Contact Committee.



As it is laid down in the Lima Declaration on guidelines of financial control¹, supreme audit institutions can accomplish their tasks objectively and effectively only if they are independent from the audited entity, protected against outside influence and are provided with funds necessary for performing their functions.

The principles established in the Lima Declaration are also enshrined in UN General Assembly Resolution "Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions"² adopted on 22 December 2011 and UN General Assembly Resolution "Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions"³ adopted on 19 December 2014.

The objective of the audits carried out by the State Audit Office is to ascertain whether the use of resources of the state and local governments is lawful, proper, economical and efficient, as well as to provide recommendations for eliminating the identified deficiencies.

Any person who is acting with funds or property owned by the state and local governments, as well as persons organising state or local government procurements are subject to audit by the State Audit Office. Only Saeima is not subject to the audits. In order to ensure the independence of the State Audit Office, the legislator has delegated it with the right to determine the audited entities, as well as the time, type and objective of audits.

¹ Lima Declaration of Guidelines on Auditing Precepts: <http://www.intosai.org/documents/intosai/general/declarations-of-lima-and-mexico/lima-declaration/ii-independence.html>.

² 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>.

³ UN General Assembly Resolution A/C.2/69/L.25/Rev.1 „Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions”: <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N14/642/37/PDF/N1464237.pdf?OpenElement>.

1.3. Structure

Auditor General, the Chairman of the Council of the State Audit Office Elita Krūmiņa	
Council: six members — Directors of Audit Departments	Supporting structural units
<p>First Audit Department</p> <p>Director of the Department: Laura Graudiņa; two sectors; 26 employees.</p> <p>Performs audits in the Ministry of Foreign Affairs, the Ministry of Culture, the Ministry of Education and Science, the Ministry of Economics, the Ministry of Transport, the National Electronic Mass Media Council and the Public Utilities Commission. Coordination of cooperation with international organisations and supreme audit institutions of other countries.</p> <p>Second Audit Department</p> <p>Director of the Department: Ilze Grīnhofa; three sectors; 22 employees.</p> <p>Audits in the Ministry of Defence, the Ministry of the Interior and the Ministry of Justice; the Ombudsman's Office, the Prosecutor's Office, the Supreme Court, the Constitutional Court and the Constitution Protection Bureau.</p> <p>Third Audit Department</p> <p>Director of the Department: Inga Vārava; three sectors; 23 employees.</p> <p>Audits in the Ministry of Welfare, the Ministry of Health, as well as operative audits for prompt response to the latest events in the country.</p> <p>Fourth Audit Department</p> <p>Director of the Department: Marita Salgrāve; three sectors; 38 employees.</p> <p>Audits in the Ministry of Agriculture, the Ministry of Finance, the Ministry of Environmental Protection and Regional Development, the Chancellery of the President, the Cabinet of Ministers, the Corruption Prevention and Combating Bureau, the Cross-Sectoral Coordination Centre, the Central Land Commission.</p> <p>Fifth Audit Department</p> <p>Director of the Department: Aivars Ērglis; three sectors; 22 employees.</p> <p>Audits in local governments and their institutions, audit on the Annual Report of the Republic of Latvia on State budget execution and local government budgets, reports of local governments.</p> <p>Audit and Methodology Department</p> <p>Director of the Department: Lelde Dimante; two sectors, 17 employees.</p> <p>Develops audit performance methodology, audit on the Annual Report of the Republic of Latvia on State budget execution and local government budgets, audits on State budget revenues and in the Central Election Commission, ensures the maintenance of information technology auditing support tools, performs the duties of information systems auditors during audits.</p> <p>Organises and carries out audit quality control, training for new State Audit Office employees, as well as seminars for the exchange of experience for all State Audit Office employees.</p>	<p>Office of the Auditor General</p> <p>Five employees.</p> <p>Maintains communication between the State Audit Office, the Saeima and the Cabinet of Ministers, implements development projects, ensures the public availability of information and cooperation with mass media.</p> <p>Quality management system specialist</p> <p>One employee.</p> <p>Maintains and improves the quality management system at the State Audit Office.</p> <p>Human Resources Division:</p> <p>Three employees.</p> <p>Develops personnel management strategy and procedures and ensures their implementation, carries out personnel analysis, planning and selection, organises work assessment, training process and promotes personnel development.</p> <p>Legal Division</p> <p>Six employees.</p> <p>Ensures the rule of law in the State Audit Office work, takes part in the organisation of procurement procedures, provides legal advice in audits, and represents the interests of the institution in the state and local government institutions and courts.</p> <p>Chancellery</p> <p>Accounting and Financial Planning Division, Planning and Analysis Division. Information and Technology Division, Maintenance Division, Record Keeping Division.</p> <p>18 employees.</p> <p>Provides budget planning and accounting records, organisation of record-keeping, economic activities, information technology support, planning and assessment of the State Audit Office work.</p>

Image 2. Structure of the State Audit Office.⁴

The State Audit Office is comprised of the Auditor General, Council of the State Audit Office, six audit departments and supporting units, which ensure organisational, financial, and economic activity of the State Audit Office.

The Auditor General and members the Council of the State Audit Office are elected by the Saeima for the period of four years. The Auditor General and the members the Council of the State Audit Office may be appointed repeatedly, but no longer than for two consecutive terms.

⁴ The number of employees on 31 December 2014 in accordance with the list of staff positions of the State Audit Office.



Image 3. Council of the State Audit Office, November 2014 (from left: Inga Vārava, Laura Graudiņa, Lelde Dimante, Elita Krūmiņa, Aivars Ērglis, Marita Salgrāve, Ilze Grīnhofa).

1.4. Action Strategy

The State Audit Office operates in accordance with the Action Strategy of the State Audit Office for 2014–2017 adopted on 27 December 2013.

State Audit Office Action Strategy for 2014-2017	
Activity directions	Goals
Support to the Saeima of the Republic of Latvia and executive power in improving work in the public sector, thus promoting the effective use of public funds in the public interests.	<p>To promote the effective, lawful and efficient management of public institution resources, implementation of programmes and attainment of goals pursuant to government objectives, state development priorities confirmed by the Saeima and the public interests.</p> <p>To facilitate coordinated and productive cooperation between the audited entities, the Saeima, law enforcement institutions, and the public.</p> <p>To strengthen supervision over the implementation of the State Audit Office recommendations.</p>
Ensuring the sustainable development of the State Audit Office.	<p>to improve the human resources management system ensuring the attraction and motivation of result-oriented employees with high qualifications.</p> <p>To guarantee the principles of high quality in every activity carried out by the State Audit Office ensuring improvements in quality control system, transparent monitoring of processes and continuous analysis of activities.</p> <p>To ensure the conformity of methodology used in audits to international auditing standards and best practices.</p> <p>To ensure the implementation of communication strategy by promoting the understanding of impact of the State Audit Office on forming the public administration.</p> <p>To take active part in international activities, thus promoting the professional growth and recognition of Latvia at international level.</p>
Improving the efficiency of the State Audit Office work.	<p>To carry out effective resources management by improving performance quality, productivity, and standardisation of processes.</p> <p>By using opportunities provided by information technologies, to develop new and improve the existing audit support and other software, as well as to ensure the continuity of information technology systems.</p>

Image 4. Action Strategy of the State Audit Office for 2014–2017,

Each year, the Council of the State Audit Office adopts an Action Plan in order to implement its action strategy. The Action Plan includes an audit plan, activities for achieving the goals and results of the Action Strategy for the current year, tasks for supporting units to be carried out during the reporting year, and the responsible structural unit designated for each activity, deadlines, planned man-hours and the budget.

1.5. Human Resources

Result to be achieved in accordance with the Action Strategy.⁵

Taking into account the defined objectives of its activity, the State Audit Office employs the necessary number of employees with the required qualifications, providing that the proportion of Senior State Auditors account for at least 30% of the total number of the audit personnel.

At the end of the reporting period, there were 175 staff positions with 138 positions for audit personnel and 37 positions for supporting personnel. 167 employees had terminated employment relationships with the State Audit Office, among them 129 audit personnel employees and 38 supporting personnel employees. **20.16%** (26 employees) of the total number of personnel involved in auditing were **Senior State Auditors**.

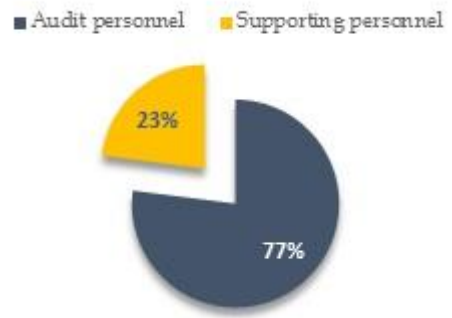


Image 5. Structure of the State Audit Office personnel.

During the reporting period, in accordance with the Action Strategy of the State Audit Office for 2014-2017, a list of staff positions is being developed, which will be the basis for ensuring staff with required qualification levels and necessary number of employees for each structural unit in order to ensure that each structural unit is able to fully perform the determined tasks providing the work of best quality, promote the added value of the audit work, thus saving increasingly greater amount of State budget resources and preventing inexpedient expenditure.

In order to ensure the selection and employment of the required number of employees with the necessary qualifications, 10 vacancies for the position of state auditor, state auditor-lawyer, senior state auditor, information systems auditor, and international cooperation specialist were opened, and a consistent advertisement for the position of the state auditor is placed on the website.



Image 6. Staff of the State Audit Office, November 2014.

⁵ Result to be achieved during year 2017, which is the last year of the Action Strategy.

Result to be achieved in accordance with the Action Strategy.⁶

The State Audit Office promotes the well-being of its employees by providing organised and professional work environment and congenial psychological microclimate, as the result, the work environment satisfaction index is at least 2.5 and the employee turnover rate is at least 15%.

In 2014, an employee satisfaction survey was conducted. 126 employees participated in the survey. 94 of the questionnaires, which were fully completed, were analysed. A significant share of the survey participants were employees with the length of service of up to three years (53.2%).

Within the scale from 1 to 3 points, the total employee **satisfaction index** in 2014 was **2.52 points**. In 2013, the average index was 2.28 points. The respondents of the survey mostly appreciated that they are a part of the State Audit Office as an institution and have proven their loyalty and understanding of the role of the State Audit Office in the state administration system, as well as their determination to improve their competence in order to enhance the overall work performance of the institution and strengthen trust among the public.

In 2014, the average number of employees was 168 persons. During the reporting period, 43 employees entered into employment relationships with the State Audit Office, whereas 32 employees terminated their employment relationships. During this period, the **employee turnover rate was 17%**, which has not changed as compared to the previous year of 2013.

The employee turnover rate at State Audit Office is still high due to the specific nature of the State Audit Office work (necessity for specific knowledge, skills and ability to carry out auditor's work) and intensity of the work (ability to get acquainted with the audited area within a short period and comply with the requirements of international auditing standards).

Result to be achieved in accordance with the Action Strategy.⁷

The State Audit Office will carry out the structured planning and assessment of work performance, in order to achieve better work results of the institution by improving the individual performance of each employee. **As the result of the assessment of work performance, usually at least 20% of employees receive grade A.**

The work of the State Audit Office employees is assessed on the basis of individual tasks determined for a particular employee and results achieved in the performance of these tasks assessing employees in accordance with the confirmed assessment criteria for the relevant position and qualification level. The work is evaluated in accordance with five assessment categories: A and A/B (exceeds the requirements for the position), B (complies with the requirements), C (partly complies with the requirements) and D (does not comply with the requirements).

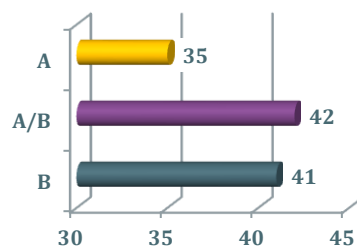


Image 7. Work performance assessment.

During the reporting period, work performance assessment of employees was carried out, where 119 employees took part. As a result, 35 employees or 29% (23 audit personnel employees and 12 support structure employees) received grade A, 42 employees were assessed with grade A/B, and 41 employees received grade B. After assessment, 13 employees were awarded with a higher qualification level, and four employees were promoted and were granted a higher qualification level.

⁶ The result must be achieved within each year of the Action Strategy, and satisfaction index is estimated once in two years.

⁷ The result must be achieved within each year of the Action Strategy.

Result to be achieved in accordance with the Action Strategy.⁸

Each and every State Audit Office employee demonstrates high-level work performance and devotes at least 20 hours a year for professional development related to his/her work duties by taking part in organised training for promoting professional competence.

The training needs of employees are identified and defined in the Action Strategy of the State Audit Office for 2014-2017, a sheet of individual tasks and development needs for each employee, work performance assessment sheet, as well as questionnaires for assessing the content of training and quality of its organisation.



Finanšu ministrija



Valsts administrācijas skola



Korupcijas novēršanas un
apkarošanas birojs



Konkurences padome

During the reporting period, the employees took part in 63 various promotional training sessions, courses and seminars, 33 of them were organised for one or several groups of employees, of them 14 training sessions and seminars were held by the State Audit Office employees. The external training sessions were provided by the Latvian School of Public Administration, the Latvian Association of Certified Auditors, the Ministry of Finance, the Competition Council, the Corruption Prevention and Combating Bureau, *SLA Ernst & Young Baltic* and other providers of training services.

The topics of the training sessions included international financial auditing standards, international public sector accounting standards, amendments to tax regulations, performance of financial and performance audits, use of *MS Excel*, audit management software *TeamMate*, and software *IDEA* in audits, preventing conflict of interests in the work of public officials, creation of information sheets and visualisation of text, unlawful agreements in public procurements, application of the Law On Prevention of Squandering of the Funds and Property of the State and Local Governments, policy planning and supervision system, creation of public speeches and presentations, etc.

On average, one employee has devoted 59.5 hours a year for professional development related to his/her work duties.



LATVIJAS ZVĒRINĀTU REVIDENTU ASOCIĀCIJA



Quality In Everything We Do

Result to be achieved in accordance with the Action Strategy.⁹

The officials and **employees of the State Audit Office comply with the basic principles of professional ethics established in the Code of Ethics of the State Audit Office** and general behavioural norms, thus promoting lawful and fair work in the public interests, improving work culture at the institution and strengthening the confidence of the audited entities and the public in the State Audit Office.

During the reporting year, the State Audit Office **adopted new, improved Code of Ethics**. The Code of Ethics has been developed in accordance with INTOSAI guidelines¹⁰ and following EUROSAI recommendations for forming the ethical infrastructure in the audit institutions of the public sector¹¹.

Stressing that the everyday activity of the employees, which is based on ethical attitude, has an important role in strengthening the values established in the State Audit Office, i.e., Accountability, Openness and Development, the Code of Ethics determines five basic principles of ethics: integrity, objectivity, professional competence, confidentiality, and professional behaviour.

Result to be achieved in accordance with the action strategy.¹²

⁸ The result must be achieved within each year of the Action Strategy.

⁹ The result must be achieved within each year of the Action Strategy.

¹⁰ *ISSAI 30 - INTOSAI Code of Ethics*: http://www.issai.org/media/12926/issai_30_e.pdf.

¹¹ *Supporting SAI to enhance their ethical infrastructure*: [http://www.eurosai-](http://www.eurosai-tfae.tcontas.pt/activities/Activities/Ethics%20within%20SAIs%20-1st%20paper/TFAE_Ethics%20within%20SAIs%201st%20paper.pdf)

[tfae.tcontas.pt/activities/Activities/Ethics%20within%20SAIs%20-1st%20paper/TFAE_Ethics%20within%20SAIs%201st%20paper.pdf](http://www.eurosai-tfae.tcontas.pt/activities/Activities/Ethics%20within%20SAIs%20-1st%20paper/TFAE_Ethics%20within%20SAIs%201st%20paper.pdf).

The State Audit Office promotes further development of the auditor's profession by organising debates on auditing standards in cooperation with professional associations once every year.

The State Audit Office has been actively collaborating **with the administration of the Faculty of Economics and Management of the University of Latvia** and reached an agreement that the professional master's programme "Accounting and Audit" and professional bachelor's programme "Accounting, Analysis, Audit" will be supplemented with themes related to international public sector accounting standards, role of internal audit function in the operation of the state administration institutions and other significant issues in the operation of the public sector institutions.

As a part of this collaboration, the officials of the State Audit Office have **held lectures to the students of the University** on the activity, objectives, and main tasks of the State Audit Office (held by the Auditor General Elita Krūmiņa) and on the most significant mistakes in accounting practices and annual reports of 2013 of local governments (held by the Senior State Auditor Guna Krūmiņa).

In 2014, the State Audit Office **initiated a discussion with the Ministry of Finance** proposing the Ministry as the policy maker of the sector to develop a concept for the development of the audit sector in Latvia. Such a concept would allow for further developing and submitting for approval regulatory enactments that would ensure long-term development of the audit sector by effectively seeking solutions to the issues in both public and private sector, auditing and eliminating the risks identified in the sector. In the opinion of the State Audit Office, it is necessary to review, at the level of national policy and legal framework, such issues as the adoption of international public sector audit standards, inexpedient use of state and local government budget resources due to repeated audits in local governments in cases when the State Audit Office cannot rely on audits performed by sworn auditors, equal rights to access audits and determine the number of enterprises which are subject to audits and mandatory inspections in order to prevent unjustified administrative burden for business, and other issues. The State Audit Office has called upon the Ministry of Finance to include the referred to concepts and the development of the binding regulatory enactments on the list of priorities for 2015.

1.6. Funds

Table 1.

Revenue and expenditure of the State Audit Office

Type of revenue and expenditure	Plan for 2014 (EUR)	2014 implementation (EUR)	Plan for 2015 (EUR)
Resources for covering expenditure	4,798,046	4,832,304	5,433,420
Grants from general revenue	4,798,046	4,798,046	5,211,695
State budget transfers ¹³	0	34,258	221,725
Total expenditure	4,798,046	4,778,358	5,433,420
Remuneration	3,625,835	3,586,259	4,210,835
Goods and services	1,048,218	976,873	1,182,460
Capital expenditure	122,288	214,063	38,418

¹² The result must be achieved within each year of the Action Strategy.

¹³ Transfer from the state budget programme 63.07.00 "Introduction of structural reform in state administration (2007-2013) within the project co-financed by the European Social Fund 1DP/1.5.1.1.1./10/IPIA/CFLA/004/002 „Support to implement structural reforms in the public administration" for activity "Strengthening the capacity of the State Audit Office"

In 2014, the State Audit Office commenced the activity “Strengthening the capacity of the State Audit Office” carried out within the framework of the project 1DP/1.5.1.1.1./10/IPIA/CFLA/004/002 implemented by the European Social Fund “Support for the Introduction of Structural Reforms in State Administration”. The total available funding from the European Social Fund for the activity is EUR 270 thousand, which is intended for the following: (1) strengthening capacity in the area of performance audits and (2) independent assessment of work of the State Audit Office.

In 2014, the State Audit Office was granted additional funding of EUR 1 million in accordance with the application for a new policy incentive, designed to provide for increasing the number of inspections in local governments, expanding the scope of assessment of expediency issues in audits and implementing audits for ensuring prompt response to current events in the country. In order to ensure that these goals are attained, there has been a separate sector established at the State Audit Office, where audits are performed in response to current events in the country. In order to increase the number of inspections in local governments, an action plan was adopted, pursuant to which it is planned to conduct audits at least one time in each of 119 local governments within a three-year period, including 46 regulatory and performance audits. The measures for strengthening the capacity of performance audits are being implemented within the scope of the activity co-financed by the European Social Fund in cooperation with the supreme audit institution of Sweden. Additionally, in order to provide for the independent assessment of the State Audit Office (*Peer review*), which was initiated in 2015, an agreement has been reached with the supreme audit institutions of Poland, Slovakia, Denmark, Netherlands, and USA.

1.7. Quality Management and Internal Control System

The quality management system of the State Audit Office has been developed on the basis of the Latvian standard LVS EN ISO 9001:2009 “Quality Management Systems. Requirements (ISO 9001:2008)”. The work of the institution is defined in 23 descriptions of work processes, eight of which are principal activity processes, three are administration processes, and 12 are supporting processes.

The supervision of the activity is ensured by tasks integrated in the everyday activities (approval, coordination, work quality assessment, division of duties and responsibility) and by targeted control measures (supervision of audit quality, assessment of audited systems, internal audit, conformity inspections).

Control measure	Objective	Periodicity	Person responsible for control measures
Audit quality control	To gain assurance that the institution and its employees observe professional standards and provisions of regulatory enactments, as well as to identify good practices and improvements necessary for audit methodology.	Once a year	Working group for quality review of completed audits
Assessment of audited systems	To determine the impact of risk factors on the audit environment of the institution and to identify the systems to be audited first.	At least once within two years	The Auditor General, directors of audit departments, Audit Committee, directors of the structural units responsible for audited systems
Internal audit	To provide the assessment of the internal control system in order to enhance the work of the internal control system.	On average one or two internal audits a year.	Audit Committee
Conformity inspections	To provide the assessment of conformity of the work and quality management system of the State Audit Office to external and/or internal regulatory enactments, requirements for the quality management system, and international standards.	Five conformity inspections annually.	Quality management system specialist

Image 8. Measures for the supervision of the State Audit Office.

Result to be achieved in accordance with the Action Strategy.¹⁴

The State Audit Office carries out high-level audits and regularly performs the quality control of at least six closed audits annually, ensuring quality control for completed performance, regulatory and financial audits, thus timely improving audit methodology and preventing identified deficiencies.

The State Audit Office performs audit quality control in accordance with the requirements of ISSAI 40 "Quality Control for Supreme Audit Institutions"¹⁵.

During the reporting period, quality control with an aim to assess whether the auditing approach for performing financial audits is effective was performed for **four financial audits**: on the proper preparation of annual reports for 2013 of the Ministry of Economics, Ministry of Finance, and the Ministry of the Interior and Annual Report of the Republic of Latvia on State budget execution and local government budgets for 2012 (revenue). Quality control, assessing whether at the time of acquiring evidence, audit inspections are carried out in regard to each topic included in the audit scope, and whether audit programmes are implemented within the initially planned scope, was performed in **two regulatory audits**: "Does the policy implemented by the Ministry of Health in the area of reimbursable medicinal products operate in compliance with the interests of the society?" and "Compliance of the actions of Riga City Municipality with the requirements of regulatory enactments, when providing children a place in a preschool education institution".

After the financial audit quality control, 11 recommendations were provided, including 9 recommendations for audit groups for improving their work and two recommendations for improving methodology by complementing financial audit methodology with practical examples on the application of comparative analytical procedures and on recognising identified mistakes as clearly insignificant. During the quality control, two examples of good practice were identified, where required audit procedures were documented traceably and transparently.

As a result of the regulatory audit quality controls, five recommendations were provided, including three recommendations for audit groups for the improvement of work and two recommendations for the improvement of regulatory audit methodology on providing detailed description of inspected volume and identification of necessary procedures in audit planning documents and on the preparation of documentation of work in case of analysing large volume of data. During the quality controls, one example of good practice was identified, where analysing large volumes of data, a digital data analysis tool was used (*IDEA*).

Result to be achieved in accordance with the Action Strategy.¹⁶

The internal control system of the State Audit Office is effective and may serve as a model for the organisation of work in state and local government institutions, provision of internal audits, for closed audit quality control and implementation of the recommendations provided after conformity inspections within the determined deadlines in no less than 95% cases.

During the reporting period, five conformity inspections were carried out: on the use of telecommunications services, on the processing of personal data, on the assessment of work environment and fire risks and establishing preventive measures, on drafting internal regulatory documents and strategic and work planning of the institution, and one internal audit on information technologies management. As a result of the conformity inspections and the internal audit, in total 52 recommendations were provided to structural units.

In 2014, structural units were required to implement 39 recommendations provided after conformity inspections and internal audits carried out in 2013 and 2014. All the recommendations were implemented.

The State Audit Office established a risk management work group, which carried out the **assessment of risks in achieving objectives defined in the Action Strategy of the State Audit Office for 2014–2017**. The goal of the risk management is to prevent or reduce the possible risks which might prevent achieving the strategic goals of the State Audit Office and promote confidence that the planned results will be completely acquired. To identify the risks brainstorming method was used and in total 50 risks were identified.

¹⁴ The result must be achieved within each year of the Action Strategy.

¹⁵ ISSAI 40 - Quality Control for SAs: http://www.issai.org/media/12938/issai_40_e_.pdf.

¹⁶ The result must be achieved within each year of the Action Strategy.

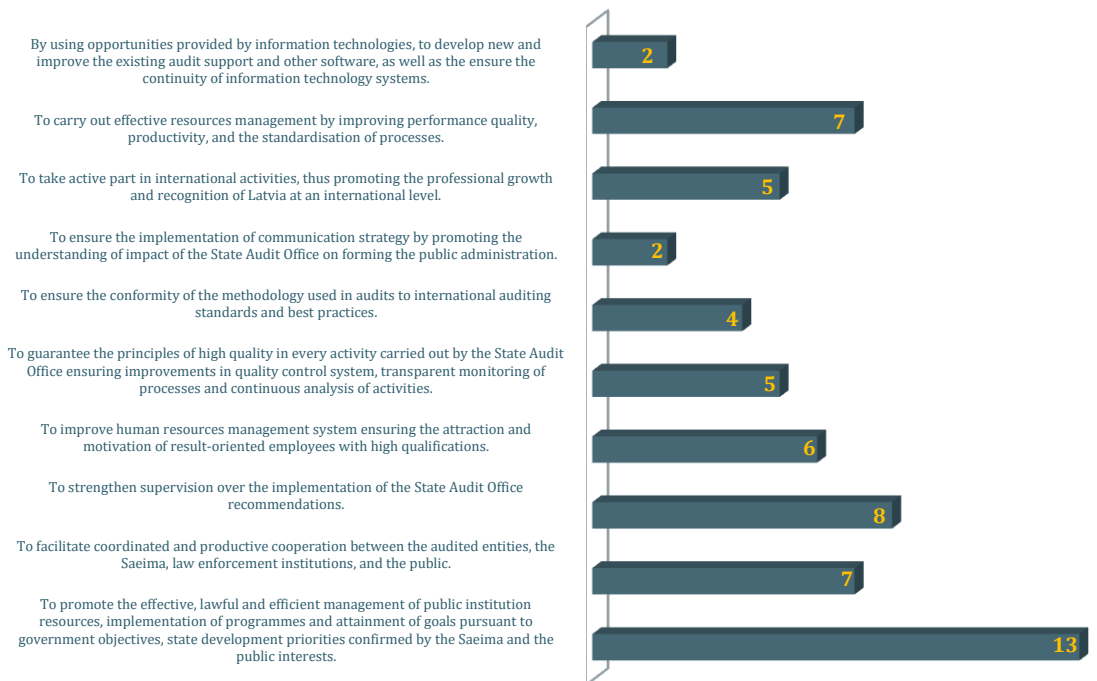


Image 9. Division of identified risks by goals.

Description of each risk was prepared, and for risks of high or very high level, measures were proposed to reduce these risks, which are included in the Action Plan of the State Audit Office for 2015.

Pursuant to the State Audit Office Law, the audit of the annual financial statements in the State Audit Office shall be performed by a sworn auditor or a commercial company of sworn auditors, which shall be selected by the Saeima by means of a competition. The audit on the annual financial statement of the State Audit Office for 2013 was carried out by *SIA Auditorfirma Padoms*. Every year, the results of the audit of the State Audit Office annual report are reviewed by the Public Expenditure and Audit Committee of the Saeima and during the presentation of results of the financial statement of the State Audit Office for 2013, a sworn auditor emphasized that **the State Audit Office received extremely positive evaluation**.

1.8. European Social Fund Project

Result to be achieved in accordance with the Action Strategy.¹⁷

The State Audit Office is implementing projects and activities for strengthening its capacity by attracting external funding for at least one project for the period of 2014-2017.

During the reporting period, a project application for receiving funding from the European Social Fund was prepared and a tripartite agreement was entered into by and between the State Audit Office, the Central Financial and Contracting Agency, and the State Chancellery. In accordance with the agreement, the State Audit Office is involved in the European Social Fund project implemented by the State Chancellery 1DP/1.5.1.1.1./10/IPIA/CFLA/004/002 "Support for the Introduction of Structural Reforms in State Administration" as a cooperation partner by implementing the sub-activity "Strengthening the capacity of the State Audit Office". The sub-activity is financed from the funds granted by the European Social Fund. The total planned funding of EUR 270 thousand is provided for the following: (1) strengthening capacity in the area of performance audits and (2) the assessment of the work of the State Audit Office.

The State Audit Office has entered into a Cooperation Agreement with the supreme audit institution of Sweden. Within the framework of the Agreement, the Swedish experts share their experience in audits (the audit institution of Sweden carries out performance audits since 1960s), which included employee training/events for exchange of experience, and providing consultations on the performance of audits.

¹⁷ The result must be achieved during the period of the Action Strategy.

Within the framework of the Cooperation Agreement, the State Audit Office organised a training seminar on conducting performance audits, which was held by the Sweden audit experts, where 25 State Audit Office employees participated. The obtained theoretical knowledge is used in practice by carrying out the pilot projects of performance audits in cooperation with the Swedish experts, involving feasibility study (planning) carried out in 2014 and feasibility reports (audit plans).

After the assessment of the feasibility reports, the following two pilot audits were selected: “Are the projects co-financed by the European Regional Development Fund sustainable and do they promote the attainment of objectives of the European Regional Development Fund?” and “Information systems in healthcare”, which will be carried out in cooperation with the supreme audit institution of Sweden and will be completed in 2015. During the pilot audits, the auditor of the State Audit Office will get acquainted with the opinions and suggestions from the experts of Sweden on the development of the audit approach, applied expediency criteria, making conclusions, as well as making reports more understandable for the public.

Ten auditors were granted an opportunity to take part in an experience exchange event, which was organised in Sweden, where the audit experts of Sweden shared their experience on the development of the audit approach, as well as on the selection and application of audit methods, and the assessment of results of information and/or data analysis. The audits presented by the experts included areas such as education, migration and management of the European Union structural funds.

Result to be achieved in accordance with the Action Strategy.¹⁸

The work of the State Audit Office conforms to the best practices of the supreme audit institutions of Europe and the assessment of work of the institution carried out in collaboration with international partners promotes the development and transparency of management, improves audit performance, and at least one assessment of the State Audit Office has been carried out and necessary improvements have been implemented.



In 2013, the State Audit Office carried out the self-assessment of its work. However, the State Audit Office as an independent institution attributes particular importance to the professional and **independent assessment of its work (Peer review)**, which is carried out by the experts of foreign supreme audit institutions in accordance with INTOSAI guidelines¹⁹. Such assessment will provide to the Saeima and the society an independent evaluation of effectiveness of the State Audit Office work, and will confirm its compliance with international standards and good practices. The supreme audit institutions of Poland, Slovakia, Denmark, Netherlands, and USA, as well as the European Court of Auditors have confirmed their involvement in the assessment. The assessment was commenced in 2015 and it is conducted by the supreme audit institution of Slovakia.

¹⁸ The result must be achieved during the period of the Action Strategy.

¹⁹ ISSAI 5600 – Peer Review Guidelines: http://www.issai.org/media/13216/issai_5600_e_.pdf.

2. AUDIT WORK

2.1. Organisation of Audit Work

Financial audits	Regulatory and performance audits
In accordance with the State Audit Office Law, financial audits are performed annually.	The themes of regulatory and performance audits are selected by performing the strategic assessment of the audited sectors.
 Are financial reports prepared in accordance with the regulatory enactments and do they provide truthful information on the financial position and work results of institutions?	 Do transactions and activities comply with the requirements stipulated in regulatory enactments and does the audited entity carry out its activities effectively and productively and ensure the efficient use of resources?
Required inspections: <ul style="list-style-type: none"> - selective inspections of amounts and explanations specified in reports; - assessment of used accounting practices; - assessment of the overall format of a report. 	Required inspections: <ul style="list-style-type: none"> - assessment regarding the conformity of operation of a system to regulatory enactments; - assessment of expenses for ensuring operation; - assessment of planned and achieved goals; - assessment of invested resources and achieved results.



During the reporting year, the State Audit Office has initiated measures in order to provide two types of opinions on financial audits as of 2016: on the accuracy of financial statements and on the compliance of important transactions related to the report with regulatory enactments, planning documents, and established practices.

Image 10. Audits of the State Audit Office.

The audits were performed in accordance with the Action Plan for 2014 adopted by the Council of the State Audit Office. The Action Plan defines a calendar period for each audit dividing it into certain stages (planning, acquisition of evidence, and conclusion), as well as man-hours required for each stage. During 2014, 45 audits were completed in total, including 28 financial audits and 17 regulatory and performance audits.

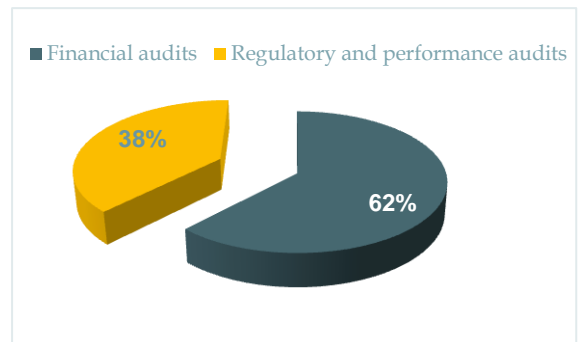


Image 11. Proportion of audit types of the State Audit Office.

Result to be achieved in accordance with the Action Strategy.

30% of audit resources the State Audit Office allocates for performance audits and regulatory audits with an expediency aspect, ensuring the gradual increase of resources (20% in 2015; 25% in 2016, and 30% in 2017), thus promoting the lawful and expedient management of State and local government resources and increasing the quality of attainment of goals.

The duty to perform annual financial audits is stipulated in the State Audit Office Law. The audits carried out during the previous years have resulted in significant improvements: financial statements include accurate information, the putting in order of asset accounts has been facilitated, and comprehensive accounting policy has been implemented in many institutions. The number of institutions where the State Audit Office does not discover any violations in financial accounting is increasing with each year.

Accurate financial accounting is significant, however, it is more important for the legislator and the public that the state administration complies with the legal acts and ensures the efficient use of state resources and acts in the public interest. Therefore, the State Audit Office with great determination strengthens the

capacity of assessment of expediency issues. During the reporting period, **35% of all the audit resources are invested performance audits and regulatory audits with an expediency aspect.**

Result to be achieved in accordance with the Action Strategy.

To ensure the selection of topical audit themes, assessing risks arising from the use of funds and property of State and local governments, public interest and topical issues related to activity in the public sector, and annually updating strategic assessment of audited sectors.

During the reporting period, the strategic and risk assessments of foreign affairs, economics, internal affairs, education and science, culture, welfare, local governments, public sector funding, regional development, legal affairs, transport and communications, health care, environment protection, and agriculture sectors were updated.

In accordance with the Action Plan for 2014, during the reporting period, **in total 17 regulatory, performance, and regulatory/performance audits were completed**, including:

- the work was finished in audits, which were commenced in 2013 on the material supply of the State Police, on the provision of medical care to prisoners, on the use of funds and property by the municipality of Ķekava District, activity of administration of Liepāja Special Economic Area, as well as in the parallel audit on activity of the responsible institutions, carried out in collaboration with the Accounts Chamber of the Russian Federation, ensuring the execution of provisions of the agreement on international motor vehicle traffic entered into by and between both countries;
- the expediency aspects of activity in the public sector were assessed in audits in regard to the provision of various services (for instance, provision of operative medical vehicles in Riga and Riga District, daily maintenance of national roads), as well as in connection with the management of capital companies (for instance, operation of *VAS Latvijas Loto*);
- by increasing the scope of audits in local governments, audits were performed on the expediency of organisation of public transport and its conformity to regulatory enactments, as well as on issues regarding social services provided by local governments.

Result to be achieved in accordance with the action strategy.²⁰

The auditors of the State Audit Office allocate at least 80% of their productive working time for audit work.

The share of working time dedicated to audit work is calculated proportionally to the productive working time (total working time minus working time used for vacations and sick leave), which is the total number of man-hours spent for audit work and other direct work duties related to auditing (supervision of implementation of recommendations, cooperation with the Saeima committees, sector analysis, employee training, consultations, methodology development and updating, etc.).

During the reporting period, it was determined that the auditors dedicated **81.4% of their working time to audit work.**

Result to be achieved in accordance with the action strategy.²¹

The State Audit Office employees ensure that at least 90% of audits are completed within the planned deadline.

During the reporting period, **91% of audits were completed within the planned deadline.** For four audits, decisions on the approval of audit reports were made within one to nine working days after the planned conclusion stage of the audit.

Result to be achieved in accordance with the Action Strategy.²²

²⁰ The result must be achieved within each year of the Action Strategy.

²¹ The result must be achieved within each year of the Action Strategy.

²² The result must be achieved within each year of the Action Strategy.

The methodology of the audits performed by the State Audit Office is based on the international audit standards, ensuring the updating of audit methodology, standards and handbook no later than within six months after changes to international audit standards have been introduced.

The State Audit Office audit methodology **complies with ISSAI (*International Standards of Supreme Audit Institutions*)**, and is updated after reviewing changes to the international standards.

The Action Strategy of the State Audit Office for 2014–2017 has been developed pursuant to the ISSAI 12 guidelines. The Action Strategy provides for the activity of the State Audit Office for promoting transparency, accountability, and honesty in the public sector, and for the continuous demonstration of significant role of the State Audit Office to the public and the Saeima.

During the reporting period, the analysis of the updated ISSAI 100 and ISSAI 200 standards was carried out and it was concluded that the audit methodology of the State Audit Office complies with these standards.

Performance audit methodology within the context of ISSAI 300, ISSAI 3000 and ISSAI 3100 is reviewed in cooperation with the Swedish National Audit Office within the framework of European Social Fund project activity “Strengthening the capacity of the State Audit Office”.

ISSAI 400, ISSAI 4000 and ISSAI 4200 standards are reviewed in regard to drafting amendments to the financial audit methodology and including conformity inspections in these audits, in order to ensure that as of 2016, the State Audit Office will be able to provide two types of opinions.

The ISSAI 5500-5540 guidelines refer to a specific field related to the elimination of disaster effects; these guidelines will be applied without review, in case during an audit, the help provided in disasters will be assessed.

Result to be achieved in accordance with the Action Strategy.²³

The State Audit Office implements the INTOSAI audit standards in Latvia and the standards are developed pursuant to the regulatory enactments.

The State Audit Office has undertaken to implement these standards. In order to ensure the implementation of these standards, they must be translated into the **official language, and the translation is planned to be commenced in 2015**. This plan will be implemented gradually, considering the budget resources of the State Audit Office and the capacity of the human resources.

2.2. Audit Support Tools and Processes

For the more effective performance of audits, the State Audit Office uses audit support tools that ensure the planning of working time, documentation of audit work, and assist in the supervision of implementation of audit recommendations, as well as ensure more efficient analysis of data collected in the State administration. During the reporting year, the latest version of the audit support software *TeamMate* was installed.



- Planning of time for employees.
- Documentation of audit progress.
- Accounting of actual working time.
- Supervision of implementation of audit recommendations.



- Creation of selected transactions.
- Identification of atypical data values.
- Data analysis and preparation of analytic reports.
- Verification of calculations.
- Data comparison in two systems.

Image 12. Audit support tools.

²³ The result must be achieved within each year of the Action Strategy.

Result to be achieved in accordance with the Action Strategy.²⁴

The State Audit Office ensures that **information systems are available during working time at least 95% annually.**

In order to ensure the availability of information systems, for each information system, which is used in the State Audit Office, information system tool administration procedures and updating plans have been approved. The maintenance of specific information systems and software (for instance, dossier system, accounting system, internal document management system, e-council system, audit support software *TeamMate*, encryption software) is ensured by outsourced service providers in accordance with signed contracts.

In regard to the available funds, activities have been initiated and the necessary software has been acquired for this purpose in order to ensure the connection of servers into a single cluster. This solution will ensure that in the event of faults in one server included in the cluster, the uninterrupted operation of information systems or their operation with interruption only for a very short period, will be ensured by the remaining servers included in the cluster.

The availability indicator of information systems was **99.4%**.

Result to be achieved in accordance with the Action Strategy.²⁵

The security of information technologies complies with the standard of best practices for information security for at least 80%.

An assessment was carried out on the conformity of information technology administration and security processes of the State Audit Office to international best practices. **The assessment was carried out in accordance with the ISF (*Information Security Forum*) information security standard of best practices**, assessing conformity to all the 118 criteria set in the standard.

As a result, the **Action Plan for 2015-2017** was prepared, in order to gradually implement measures defined in the security standard and ensure the conformity of information technology security administration at the State Audit Office to the standard of best practices. Pursuant to the Plan, it is planned to set requirements and develop procedures for the following sectors of information technology administration in 2015: security policy, infrastructure, administration of external suppliers, technical operation, life cycle of systems, digital communication, human resources security, management of threats and incidents, and in 2016: provision of access to clients, access rights management, administration of systems and values of information technologies and network administration, computer software, systems development management and physical and environment security, and in 2017: information risks management, compliance with regulatory enactments, security audit, execution of security measures, access to security administration, and elements of security administration.

Result to be achieved in accordance with the Action Strategy.²⁶

The digital management of the documents specified in the descriptions of support work processes organised by the State Audit Office has been ensured, including preparation, coordination, approval, circulation, execution and storage.

During the reporting year, public procurement was organised and an agreement on the implementation of digital document management system was entered into at the State Audit Office. The system is designed for the management of documents and more efficient organisation of audit and support processes, including registration and submission of received external documents for execution, preparation, registration and sending of documents, preparation of internal correspondence documents and their submission for execution, preparation of work organisation documents, preparation of personnel management documents and their submission for execution, preparation and registration of administrative documents, preparation, registration of audit documents and their submission for execution, execution of documents and execution control, resolving of cases, submission and storage at the State Audit Office archive, as well as submission for storage in the National Archives of Latvia. The system was available for a limited number of users as of the beginning of 2015; in the middle of 2015, it was available for all employees, and it is planned to put the system into operation completely by the end of 2015.

²⁴ The result must be achieved within each year of the Action Strategy.

²⁵ Result to be achieved during year 2017, which is the last year of the Action Strategy.

²⁶ Result to be achieved during year 2017, which is the last year of the Action Strategy.

2.3. Results of Audit Work

2.3.1. First Audit Department

Member of the Council of the State Audit Office since 24 April 2015.

Director of the First Audit Department

Laura Graudiņa



First Sector (Head of the Sector: Sandra Zunde; 14 employees)	The Ministry of Foreign Affairs: budget — EUR 58.17 million; two subordinate institutions.
	The Ministry of Culture: budget — EUR 146.41 million; 32 subordinate institutions; 16 supervised capital companies.
	The Ministry of Education and Science: budget — EUR 678.08 million; 72 subordinate institutions; seven supervised capital companies.
	The National Electronic Mass Media Council: budget — EUR 18.95 million; two supervised capital companies.
Second Sector: (Head of the Sector: Ilze Pavāre; seven employees)	The Ministry of Transport: budget — EUR 645.47 million; four subordinate institutions; 12 supervised capital companies.
	The Ministry of Economics: budget — EUR 159.84 million; five subordinate institutions; seven supervised capital companies.
	The Public Utilities Commission: budget — EUR 5.02 million.

Image 13. Entities audited by the First Audit Department²⁷

²⁷ The number of employees on 31 December 2014 in accordance with the list of staff positions of the State Audit Office.



2.3.1.1. Foreign Affairs

The annual financial audit of the State Audit Office in the Ministry of External Affairs was concluded with an unqualified opinion. Although there were no serious violations discovered in respect to financial data, the State Audit Office identified deficiencies in the preparation process for the presidency of the European Union Council. In preparing for this important event, the first problems were related to the use of funding. The State Audit Office recommended the Ministry of Foreign Affairs to take all the necessary measures to ensure that the funding is used according to the principles and guidelines of forming budget of the Latvian presidency in the EU Council, as well as continued and still continues to supervise the use of funds granted for ensuring the presidency.

The State Audit Office discovered deficiencies in the preparation process for the presidency of the EU Council.

2.3.1.2. Culture

Although the **financial audit at the Ministry of Culture in 2013** was concluded with an unqualified opinion, several violations were discovered during the audit: some officials might have been involved in the conflicts of interests; no revenue was obtained in issuing invitations to events, as well as there were deficiencies in procurements and transactions.

The diversity of violations is related to the great number of subordinate (32) and supervised (16) institutions, where the State Audit Office carries out financial audits and inspections as a part of auditing the Ministry of Culture every year. In one of the institutions subordinated to the Ministry of Culture, i.e. Jānis Ivanovs Rēzekne Secondary School of Music, a possible conflict of interests between officials was discovered, regarding which the State Audit Office informed the Corruption Prevention and Combating Bureau.

During the audit, several general issues in the field of culture were discovered as well: lack of regulations on events, to which the state administration institutions as organisers have rights to grant invitations to officials, legal entities, and natural persons.

During the audit, it was discovered that the Latvian National Centre for Culture granted invitations to the Latvian XV Song Festival and XV Dance Festival TO AT LEAST 3,234 PERSONS, AND AS THE RESULTS, REVENUE OF AT LEAST EUR 27.61 THOUSAND TO EUR 138.05 THOUSAND WAS NOT OBTAINED.

Deficiencies related to the Latvian XV Song Festival and XV Dance Festival were discovered also in *VSIA Latvian Television* and *VSIA Latvian Radio* where payments for festival advertisements for the total amount of EUR 114.6 thousand were settled by mutual accounting entries. Both companies had received subsidies of EUR 308.7 thousand including funds for advertising services for the Song and Dance Festival, and the auditors discovered that there was a risk that the advertising of the Song and Dance Festival was financed in double.

During the reporting period, a regulatory/performance audit performed in the field of culture: "Legality, expediency and efficiency of subsidies granted to associations and establishments by the Ministry of Culture". The audit was carried out in the Ministry of Culture, the State Culture Capital Foundation, eight associations and one foundation.

The auditors discovered the duplication of functions with the main conclusion that the administration of the State Culture Capital Foundation and the Ministry of Culture basically perform the same functions both when granting subsidies and supervising the use of subsidies. The auditors have concluded that the administrative costs of the Ministry of Culture in granting and supervising subsidies are inexpedient. In 2012 and 2013, this amount was EUR 64 thousand.

This audit has highlighted another problem: taking into account that regulatory enactments provide for simplified procurement procedures for associations, they frequently assist in the implementation of MC (the Ministry of Culture) projects for which funds area already provided from the State budget; moreover, procurement procedures are unnecessary.



Image 14.28

²⁸ The State Audit Office The existing system for teacher remuneration is inefficient. Website: www.apollo.lv. Available on-line at <http://apollo.tvnet.lv/zinas/valsts-kontrolē-esosa-pedagoga-atalgojuma-sistema-nav-efektiva/638802>

During the reporting period, the State Audit Office auditors, which are responsible for audits in the field of culture, prepared a report on the **impact assessment of recommendations provided after audits of the State Audit Office** carried out within the period of 2008-2012.

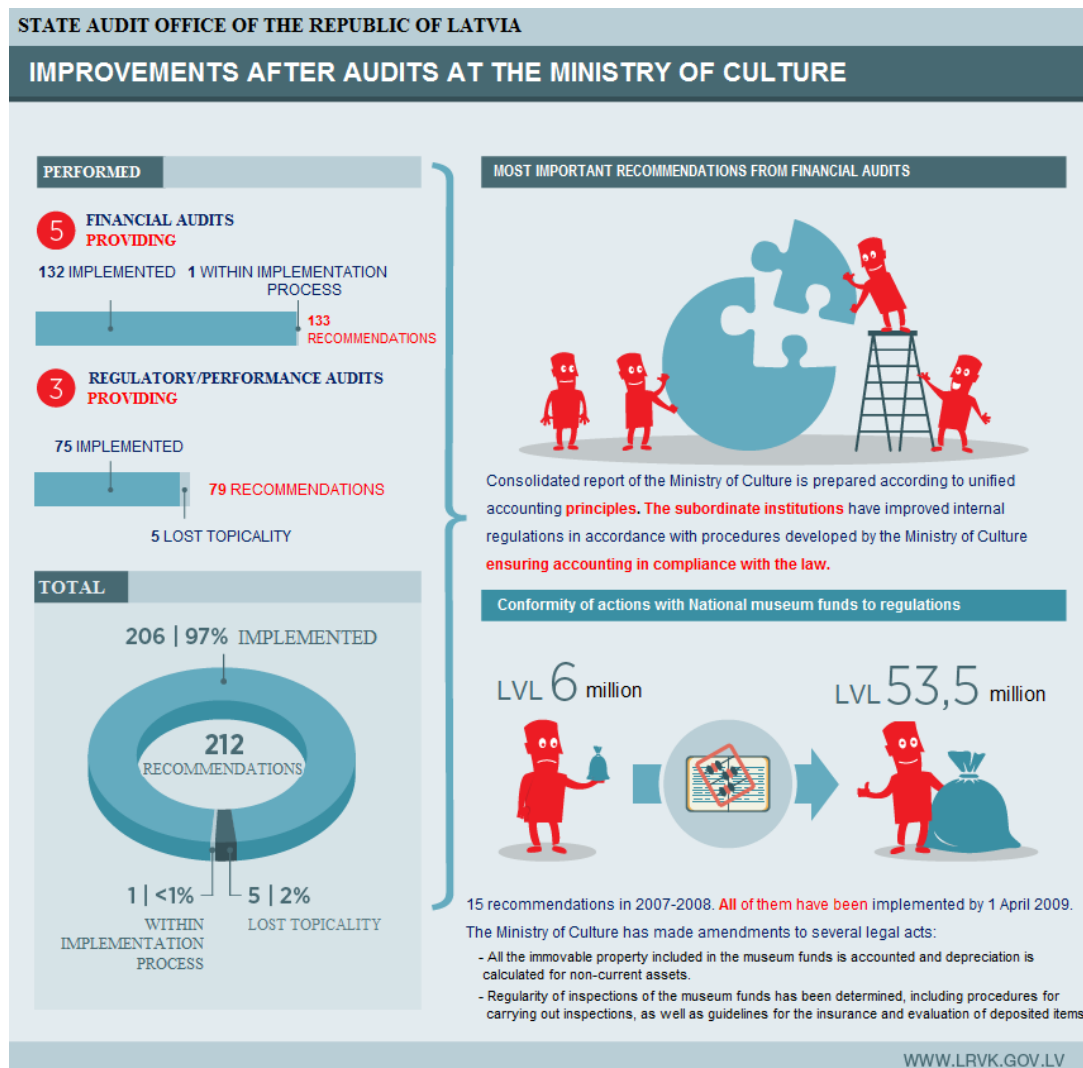


Image 15. Assessment of the impact of audit recommendations

2.3.1.3. Education, Science, and Sports

During the financial audit at the Ministry of Education and Science in 2013, inspections were carried out at the ministry, educational institutions, and institutions subordinated to or supervised by the Ministry of Education.

Subordinate or supervised institutions of the Ministry of Education have not fully observed regulatory requirements applied to public procurements, have not successfully implemented projects, or chosen outsourcing.

During the audit, it was discovered that Priekuļi un Jāņmuiža State Technical School had unreasonable expenditure for implementing European Regional Development Fund projects; hence, the director of Priekuļi un Jāņmuiža State Technical School used the State budget funds inefficiently without using the funds for the intended purpose and did not follow the approved estimate, in order to attain the goal by using funds and property as little as possible.

Due to the activities of the director of the Priekuļi and Jāņmuiža State Technical School, the losses caused to the State budget amount to EUR 423.69 thousand.

By not carrying out procurement procedures and entering into agreements, the Priekuļi un Jāņmuiža State Technical School did not comply with the Public Procurement Law for the amount of

EUR 44.01 thousand, – the vocational education competence centre *Riga State Technical School* — for the amount of EUR 21.2 thousand, the vocational education competence centre *Riga Technical College* — for the amount of EUR 12.96 thousand, thus restricting the free competition of suppliers and causing the risk of inefficient use of State budget funds.

The Ministry of Education and Science, by entering into agreements on services in matters included in the competence of the Ministry itself, used State budget funds of EUR 150.37 thousand, thus failing to comply with the Law On Prevention of Squandering of the Funds and Property of the State and Local Governments, which prohibits from entering into agreements on services related to matters to be resolved by the Ministry.

In some institutions, e.g., Murjāpi Sports Gymnasium, the control environment, as compared to the assessment for the last year, has not improved, or even worsened, since there were another possible conflict of interests discovered, which the State Audit Office repeatedly reported to the Corruption Prevention and Combating Bureau.

2.3.1.4. Economics

During the financial audit at the Ministry of Economics carried out in 2013, several discrepancies were discovered in relation to remuneration, such as payments for additional work, which was already included in the job descriptions, payments for additional leave and granting additional leave by issuing regulations and paying vacation pay or premiums which are not stipulated in the Law On Remuneration of Officials and Employees of State and Local Government Authorities without carrying out the assessment of employees' contribution in the attainment of goals of the institution, which is stipulated in the Law.

During the audit, the State Audit Office also identified deficiencies in signing of contracts for performance of work, service agreements and legal agreements, for instance, the Consumer Rights Protection Centre entered into four agreements with the total cost of EUR 7.9 thousand in the area already to be managed by the Centre; the Investment and Development Agency of Latvia entered into an agreement for EUR 7.1 thousand and the Latvian Tourism Development Agency entered into one agreement, which cost EUR 1.4 thousand.

The Consumer Rights Protection Centre had not properly implemented recommendations provided for it during the previous audit and repeatedly allowed for the unlawful use of State budget funds by paying for leased premises and catering costs for organising the meeting of the board.

During the audit, discrepancies between the representation expenses of the Ministry of Economics and its subordinate institutions were also discovered, which, in the opinion of the State Audit Office, shows that the directors of institutions differently interpret the requirements stipulated in the Law On Budget and Financial Management related to the efficient and economical use of State budget funds for the intended purposes and the necessity to establish basic principles for creating representation expenses.

2.3.1.5. Transport and Communications

After the financial audit on **financial statement of the Ministry of Transport for 2013**, the State Audit Office provided one recommendation in regard to the necessity to ensure the observance of economy and efficiency principles, as well as to the necessity to achieve objectives using the smallest possible amount of funds in planning and covering the administrative and representation expenses of the Ministry of Transport.

During the audit, the State Audit Office gained assurance that the issue related to target grants for record/accounting classification for motorways (streets) of the municipalities, which was being resolved for several years, has been finally resolved.

However, the general result of the audit is to be assessed positively, as the year of 2013 was the first year

In the transport and communications sector, three audits on the implementation of recommendations were carried out at the Ministry of Transport and its capital companies.

for which the Ministry of Transport received an unqualified opinion.

During the reporting period, the State Audit Office inspected, whether the deficiencies identified during audits performed in 2008 at VAS Riga International Airport (Riga Airport), in 2011 at *VAS Latvijas autoceļu uzturētājs* (Latvian autoceļu uzturētājs) and in 2012 at VAS Latvijas Pasts (Latvian Pasts) had been eliminated and recommendations had been implemented as planned.

The State Audit Office concluded that the situation with the implementation of recommendations in different capital companies of the Ministry of Transport varied from the proper implementation of all recommendations, such as at Riga Airport to yet unresolved and even new problems, such as at *Latvijas Pasts*, thus the State Audit Office prepared the same number of recommendations as after the previous audits.

Valsts kontrole pārmet Latvijas Pastam ieteikumu ieviešanu «tikai uz papīru»

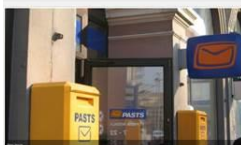


Image 16.²⁹

The audit carried out at Latvijas Pasts unfortunately showed that the activities carried out by the Ministry of Traffic and Latvijas Pasts with an aim to implement the recommendations of the State Audit Office were not sufficient enough for eliminating deficiencies discovered during the previous audit, as be seen from the fact that the Ministry of Traffic hesitated to implement five recommendations regarding improvements in the supervision of Latvijas Pasts, which the Ministry and the company justified by the lack of unified regulatory framework, although the existing regulations and recommendations for good practice in capital company management allowed for improving the management of Latvijas Pasts, as well as the total number of unimplemented recommendations — out of 30 verified recommendations, only 17 were recognised by the State Audit Office as properly implemented, which is slightly less than a half of total number of recommendations. Despite that access to information regarding the most important recommendations from the State Audit Office is limited, as the secrecy is related to assessment from the State Audit Office on the postal payment system administered by Latvijas Pasts, which contain information on its clients; however, the publicly available findings of the State Audit Office alone clearly show the consequences of the unimplemented recommendations, i.e., consequences arising from the activities carried out by the members of the board, as well as deficiencies in the use of company's vehicles.

Lidosta 'Rīga' novērsusi nelietderīgas investīcijas 194 miljonu eiro apmērā, secina Valsts kontrole (9)



Image 17.³⁰

The evaluation of activities carried out by Riga Airport to implement the recommendations of the State Audit Office is positive, since Riga Airport, by cancelling its unrealistic plans, obtained the revenue of several million.

Although there are financial improvements noticeable, the level of profitability has decreased. This is related to complex and lengthy legal proceedings costing millions of euros, in which Riga Airport is involved (with *AS Air Baltic Corporation*, *SIA Rixport*, *Ryanair Ltd* and bankrupted Lithuanian airline *flyLAL*). The referred to legal proceedings are related to bulk discounts to two airlines, and the later decision from the Ministry of Traffic on airline tariff and discount policy.

Riga Airport gained additional revenue of EUR 34.6 million as well as prevented illegal investments of EUR 194.2 million.

The results of audits at the Latvian Motorway Maintaining Company allowed the State Audit Office to conclude that the Latvian Motorway Maintaining Company had significantly reduced its costs, thus ensuring notable financial gains. However, after the evaluation of implementation process of recommendations, the State Audit Office concluded that the recommendations had not been fully implemented.

²⁹ The State Audit Office rebukes Latvijas Pasts for implementing recommendation only "on paper". Portal www.lsm.lv. Available on-line at <http://www.lsm.lv/lv/raksts/latvija/zinas/valsts-kontrole-parmet-latvijas-pastam-ieteikumu-ieviesanu-tikai-uz-papira.a119532/>.

³⁰ The State Audit Office: Airport Riga eliminated inexpedient investments of 194 million euros Portal www.delfi.lv. Available on-line at <http://www.delfi.lv/business/transport-logistika/lidosta-riga-noversusi-nelietderigas-investicijas-194-miljonu-eiro-apmera-secina-valsts-kontrole.d?id=45539716>.



VK: Latvijas autoceļu uzturētājs izmaksas samazinājis, bet investīcijas tiek plānotas haotiski

Image 18.³¹

One positive aspect is that in response to the findings of the State Audit Office, the Latvian Motorway Maintaining Company recalculated unit prices for the complex maintenance of the state motorways already during the last stage of the audit, thus reducing prices for services which, according to the calculations of the Latvian Motorway Maintaining Company, would ensure decrease in prices for complex maintenance works by at least EUR 1.4 million.

The financial impact is savings on costs in the amount of EUR 5 million, as well as the additional revenue of EUR 350.7 thousand.

2.3.1.6. Independent Institutions and Other Institutions

The audit of the annual report of the National Electronic Mass Media Council for 2013 resulted in an unqualified opinion, but there were certain deficiencies discovered in relation to the effective and economical use of funds pursuant to set goals and regulations.

The Council failed to comply with the requirements of the Public Procurement Law and ensure the efficient use of State funds, as it did not organised procurement procedure for the provision of transportation services for business trips, as well as entered into an agreement on the settlement of payments with *SIA Latvia Tours*.

After the financial audit at the Public Utilities Commission regarding its annual report for 2013, the State Audit Office provided two recommendations. During the audit, it was concluded that despite that the job duties of employees of the Public Utilities Commission include the representation of the Public Utilities Commission in court on the basis of authorisation and within their competence, payments for the total amount of EUR 29.96 thousand were made in 2013 for the provision of legal services, i.e. representation in the Administrative Regional Court, thus failing to ensure the efficient and economical use of State funds.

During the audit, it was concluded that as the Public Utilities Commission did not specify the grounds for particular events and use for representation materials, it provides no assurance regarding the traceability of use of administrative and representative expenses and the efficient and economical use of budget resources.

Additionally, the audit department carried out a **regulatory and performance audit in Mārupe local government: "Lawfulness and efficiency of actions of Mārupe rural municipality and the stock company "Mārupes komunālie pakalpojumi" with funds and property"**. The audit was carried out in Mārupe local government and at the joint stock company "Mārupes komunālie pakalpojumi".

Deficiencies costing EUR 2.45 million were discovered.

Mārupe local government, by not complying with public procurement regulations, might have allowed for the inefficient use of budget funds in the amount of EUR 331 thousand.

The most significant issue in Mārupe local government is related to the area of procurements. In many cases, the local government did not comply with the requirements of the law and did not ensure transparent procurement procedure and free competition among suppliers. Such violations might have resulted in the inefficient use of budget resources of EUR 331 thousand. The largest share of the sum was used for catering services for pupils. Mārupe local government entered into three contracts with limited liability companies for the lease of premises, but did not organise procurement

procedure on catering of pupils.

³¹ State Audit Office: Latvian Motorway Maintaining Company has Reduced Costs but Investments Plans are Chaotic. Portal www.db.lv. Available on-line at <http://www.db.lv/ipasums/vk-latvijas-autocelu-uzturetajs-izmaksas-samazinajis-bet-investicijas-tiek-planotas-haotiski-425274>.

Mārupes pašvaldībā atklāj saubīgus iep



Image 19.³²

By avoiding procurement procedure, the local government transferred to its capital company the functions it could have undertaken itself or employed other members of the market for this purpose. The capital company employed (spending approximately EUR 192 thousand) other capital companies to fulfil these tasks and paid EUR 184 thousand and gained profit of EUR 8.5 thousand. Similarly to the local government, the capital company also violated the Public Procurement Law. The auditors concluded that the unlawfully spent amount was at least EUR 254 thousand. The accounting registers of the capital company show that the provision of public utilities is not separated from other expenditure, which cause suspicions that procurement procedure was not necessary in other transactions (of total sum of EUR 205 thousand) either.

Similarly to the local government, the capital company also violated the Public Procurement Law. The auditors concluded that the unlawfully spent amount was at least EUR 254 thousand.

³² Suspicious procurements revealed in Mārupe local government. Portal: www.tvnet.lv. Available on-line at http://www.tvnet.lv/zinas/regionos/543655-marupes_pasvaldiba_atklaj_saubigus_iepirkumus.

2.3.2. Second Audit Department

Member of the Council of the State Audit Office since 16 May 2013.

Director of the Second Audit Department

Ilze Grīnhofa



First Sector (Head of the Sector: Aelita Jaunroze, six employees)	Ministry of Defence: budget — EUR 230.1 million; five subordinate institutions and Latvian National Armed Forces.
	Ombudsman's Office: budget — EUR 1.2 million
Second Sector: (Head of the Sector: Kaiva Skalbiņa, six employees)	Ministry of the Interior: budget — EUR 283.9 million; eight subordinate institutions; one supervised capital company.
	Prosecutor's Office of the Republic of Latvia: budget — EUR 22.7 million
Third Sector (Head of the sector: Aelita Jaunroze, six employees)	Ministry of Justice: budget — EUR 167.75 million; 12 subordinate institutions; two supervised capital companies.
	Supreme Court of the Republic of Latvia: budget — EUR 4.84 million.
	Constitutional Court of the Republic of Latvia: budget — EUR 1.39 million.

Image 20. Entities audited by the Second Audit Department³³

2.3.2.1. Defence

After the financial audit at the Ministry of Defence in 2013, the State Audit Office provided an unqualified opinion with two recommendations. The implementation of these recommendations will improve internal control and provide traceable procedures for the improvement of capital assets and assessment of long-term investment reconstruction expenses and their inclusion in the value of long-term investments, as well as timely and complete calculation of depreciation of reconstructed long-term investments.

The auditors also carried out extensive inspections in the warehouses of the Latvian National Armed Forces (NAF) in order to verify whether the NAF Logistics Command had carried out measures for eliminating deficiencies in the storage and accounting of inventory discovered during previous audits. The auditors discovered that in the NAF warehouses, extensive work had been done to put the inventory in

In the course of the audit, the quality of the Ministry's annual report was improved, as the errors in the amount of EUR 391 thousand were corrected after a reproof from the auditors.

³³ The number of employees on 31 December 2014 in accordance with the list of staff positions of the State Audit Office.

order, also the military inventory was arranged in a way that allowed for the effective control of inventory use.

During the reporting year, a **regulatory/performance audit** inspecting defence sector was carried out: **“Legality and efficiency in the use of State budget funds in the provision of the National Guard operation”**. The objective of the audit was to determine whether funds granted for the provision of the National Guard (NG) activities were used lawfully and efficiently.

On 29 July 2014, the Cabinet of Ministers approved the NG’s long-term goal for the development of operative subordinate units and the implementation of its first stage with the funding of EUR 69.09 million by 2018. Therefore, the State Audit Office performed assessment to determine whether there were conditions provided for the purposeful and efficient use of the allocated funds.

Considering NG integration within the unified structure of the NAF, the training system of the NG must comply with the prescribed requirements of the NAF, which are established in training regulations, directives and orders of various levels (NAF and NG). The NG has also approved a separate National Guard Training Directive, which stipulates that NAF training requirements must be observed within the NG.

The national guard training system only partly complies with the NAF requirements. The standards for national guard training and necessary training results are not determined for all levels.

In accordance with the rules of the NAF, before the commencement of training at all levels (basic training, special training, collective training), commanding officers must set a clear goal and tasks of the training as well as standards, which must be achieved within definite deadlines. The standards are a mandatory component of the training programme, which determines what kind of requirements under what conditions must be fulfilled. The audit results show that NAF requirements for the planning and organisation of training are observed only in national guard training.



Image 21.³⁴

The NAF admits that NAF specialist training programmes are not applicable to the NG, as the training scope cannot be adapted to the national guard schedules: different frequency of training attendance, intensity of exercises. Despite the above-mentioned facts, there have been no definite qualification requirements established for national guards/specialists, which would be acquired within the existing training regime, taking into consideration the specific features of the NG service, as well as no definite training requirements for acquiring these qualifications have been established and no training programmes for national guards/specialists have been developed. During the audit, NG Infantry Battalions were inspected and necessary specialists training for these battalions were assessed, whereas NG specialised battalions were not assessed.

Regulatory enactments do not require assessing the quality of national guard training results, thus information on the military preparedness of national guards is not immediately available. The NG only keeps record of the quantitative information of training attendance, but does not account for the preparedness of each individual national guard.

During the audit, it was also discovered that, due to deficient accounting system of national guards, the Ministry of Defence is unable to acquire accurate and truthful information regarding the composition of national guards in order to make calculations on resources necessary for operation and development planning for the NG.

During peacetime, military training is the main task of the NAF and NG, for which State budget resources are provided. These resources will be increased over the next years.

The efficient use of resources may be influenced by the discovered deficiencies in the national guard training system, since if the deficiencies are not be eliminated, it will leave a negative impact on the effectiveness of this training system and the ability of border guards to acquire necessary skills with the use of the provided funds.

Detailed information on deficiencies identified during the audit is classified and available only to the military services, as it is related to national security.

³⁴ State Audit Office: National guard training is faulty. Portal www.delfi.lv. Available on-line at <http://www.delfi.lv/news/national/politics/zemessargu-apmaciba-klibo-secina-valsts-kontrolē.d?id=45429374>.

As the result of the audit, the State Audit Office provided eight recommendations, including the task to develop and implement training programmes for the preparation of national guards/specialists, calculate the resources necessary for the preparation of these specialists; agree on NG collective training tasks and content with the NAF, thus ensuring that national guard training corresponds to the NAF training goals; define long-term tasks for NG collective training and calculate the required resources; establish measures for evaluating the quality of national guard training results in the national regulatory enactments; ensure the collection of information on the military preparedness of national guards.

2.3.2.2. Legal Affairs

After the financial audit at the Ministry of Justice in 2013, the State Audit Office provided an unqualified opinion with 11 recommendations. With the implementation of these recommendations, the State Land Service will be able to develop methodology and revise the justifiability of prices for chargeable services by comparing them with the actual costs of these services, as well as internal control within the Ministry of Justice and its subordinate institutions will be improved, ensuring that funds are used for the planned and intended purposes in all cases.

The most significant violations discovered during the audit were related to the improper use of available funds for definite tasks. For instance, the Ministry of Justice did not use a proportion from the funds allocated for the construction of a new prison in amount of at least EUR 22.1 thousand (73% of the funds spent during this year) for the determined purposes, including the payments of full monthly remuneration for several employees from the funds allocated for the construction of a new prison, although the duties of the employees included other tasks as well. It was also discovered that the Ministry of Justice used at least EUR 17.6 thousand from the funds for the Latvian presidency of EU Council for the purchase of computer hardware and furniture, thus violating regulatory enactments, in order to replace the obsolete equipment, which is included in the funds for the regular activity and material supply of the Ministry, which must be requested within the framework of the annual budget for the institutions of the Ministry.

In the course of the audit, the quality of the Ministry's annual report was improved, as errors in the amount of EUR 515.7 thousand were corrected after the objections from the auditors.

The assessment of administration of the resources management system *HORIZON* at the Ministry of Justice was included in the audit as a separate issue. The system is used by the Ministry of Justice and its subordinate institutions for accounting personnel and accounts. It was discovered that the user accounts of the employees, who had already terminated employment relationships, were not closed for a long time and even used for making entries in the system. Although there were no discrepancies discovered in the accounts, the State Audit Office advised to improve user rights administration to prevent discrepancies of data and risks of unauthorised change of data in the future. The internal regulations of the Ministry also did not define requirements for the continuity and restoration of data; moreover, the outsourcing contract with the state joint stock company "Tiesu namu aģentūra" (Courthouse Agency) included no provisions for the regular creation of backup copies, period of storage, and data restoring verification. It generated risks for the provision of long-term data restoration or even increased the risk of permanent loss of data. The State Audit Office provided recommendations for the effective administration of the resources management system *HORIZON*.

During the reporting year, in the legal sector, a **performance audit "Is the insolvency policy implemented in the country effective?"** was carried out, where it was concluded that the Ministry of Justice as the leading state administration authority of insolvency policy did not take the necessary legal insolvency policy measures, and also did not carry out the needed steps for the development of the state policy and coordination of the implementation process. As a result, the implementation of consistent and long-term insolvency policy, legal stability of legal framework, and systematic approach to the identification and resolving of insolvency issues were not promoted.

Regardless of the fact that insolvency issues have been included in the government declarations since 2004, the Ministry of Justice, despite that it is responsible for the development of insolvency matters, failed to prepare an insolvency policy planning document, which would ensure the systematic assessment of the existing insolvency issues, determine priorities, goals and

By failing to develop insolvency policy, the Ministry of Justice has not created preconditions for an effective insolvency system. The objective determined in the Insolvency Law to promote the fulfilment of obligations of the debtor and, if possible, renewal of insolvency is not being reached.

results to be achieved in relation to insolvency policy.

The Ministry of Justice noted that in drafting of the Insolvency Law of 2010, the policy direction was determined by the obligations of the Republic of Latvia to the international creditors, therefore the development of a policy planning document would not be expedient.

The measures carried out by the Ministry of Justice have ensured that the insolvency policy is governed only by regulatory enactments, while insolvency solutions are not included in the policy planning documents, which does not allow for assessing the results achieved by the policy, since none of them are defined. Thus, no criteria for the assessment of policy effectiveness have been established.

Proposals for conceptual changes in regulatory enactments governing insolvency have been introduced without the sufficient assessment of impact of the proposed solutions on further development in the field of insolvency, for instance, the Insolvency Law of 2010, in accordance with requirements of the international creditors, defined the task to make legal protection procedures and insolvency proceedings simpler and faster by speeding up the procedures and decreasing their number, simplifying the sale of property, extending administrative authorities and decreasing the role of creditors in the supervision of insolvency proceedings. The simplified mechanisms (simplified property sale, extended administrative authorities, decreasing the role of creditors etc.) were not compensated by strengthening the supervision by the Insolvency Administration and court, as well as necessary traits and ethical norms for insolvency administrators were not stipulated in the law.

The audit results show that the priority is to complete insolvency proceedings as soon as possible; moreover, measures carried out in the field of insolvency have not helped to preserve and recover economic values. This is shown by the low rate of recovered assets (14% of the claimed sum³⁵), high costs of insolvency proceedings (the costs of insolvency proceedings constitute 53% of the recovered assets), small number of successfully implemented legal protection proceedings (6% of the number of terminated legal protection proceedings) etc.

During less than two years (from 01.01.2013 to 30.09.2014), the State budgetary institutions and State capital companies have lost (written off) (100% state investment) of at least EUR 434 million in the terminated insolvency proceedings, EUR 402 million of this sum are tax debts written off by the State Revenue Service.

Insolvency issues also have an impact on the public sector, since not only the funds of the private sector are excluded from the economy, but also funds are being lost by the State as the creditor within the merchant insolvency

proceedings.

The amount of at least EUR 603 million is claimed in the ongoing insolvency proceedings as on 01.10.2014; according to data from the State Revenue Service, EUR 359 million of them are tax debts of insolvent companies.

During the audit, it was also concluded that the Ministry of Justice had not taken sufficient measures to develop an effective supervision system for insolvency proceedings and had not promoted the unified standards of insolvency proceedings regulations, since neither the Insolvency Administration, nor court supervision of insolvency proceedings is effective.

Supervision powers established for the Insolvency Administration are not coordinated with the objective determined in the Insolvency Law, since the insolvency policy goals to be achieved and effective indicators have not been determined and regulatory enactments do not stipulate that the Insolvency Administration has the duty to analyse information on the process of insolvency proceedings and achieved result. Furthermore, the Insolvency Administration has no access to complete information regarding the course of insolvency proceedings and the achieved result — fulfilment of obligations of the debtor, i.e., claimed and recovered funds of creditors. Information regarding the course of the proceedings may only be obtained partially from publicly available registers and reports on the activities of administrators.

The Insolvency Administration is able to inspect only 4% of the active processes by mainly reviewing claims. Furthermore, if violations are discovered, the Insolvency Administration is not authorised to immediately get involved in proceedings and request information from administrators. The Insolvency



Image 22.³⁶

³⁵ The calculations by the State Audit Office are made by selecting insolvency proceedings of legal entities following certain criteria.

³⁶ The state loses EUR 434 million in insolvency proceedings, reforms are needed, as warned by the State Audit Office. Portal: www.delfi.lv. Available on-line at http://www.delfi.lv/business/biznesa_vida/maksatnespejas-procesos-valsts-zaudejusi-434-miljonus-eiro-vajadzigas-reformas-bridina-vk?id=45714558

Administration is authorised to request information and documents from administrators only during active proceedings or no later than within a year from the termination date of proceedings.

Likewise, courts mainly review claims. Also, the regulatory enactments do not stipulate that all the documents prepared for insolvency proceedings must be submitted to the court, except for one document, i.e., an announcement by the administrator on the execution of plan of creditors' claims. One of the amendments to the insolvency process is that the Insolvency Law of 2010 revokes the requirement that an insolvency administrator shall estimate the debtor's assets, liabilities and economic activity and submit to the court a report on the debtor's state for the estimation of its insolvency.

In turn, insolvency administrators, acting within the framework of the existing system, are unable to ensure neutral and objective actions in administering insolvency proceedings, i.e., administrators are granted extensive authority to make unilateral decisions; however, at the same time, the law does not prescribe any personal properties and ethical norms necessary for the administrator's profession.

There are no unified ethical standards for insolvency administrators: in at least 12% cases assessed during the audit, the administrators did not indicate possible conflicts of interests or circumstances that would prevent them from performing their duties, although any such information should be provided. By leaving the supervision of insolvency administrators to the creditors, the Ministry of Justice has not estimated whether in Latvia, creditors are able to fully control insolvency administrators, due to problems in the field of insolvency and issues related to false creditors.

During the audit, the existing insolvency system of Latvia was compared with the insolvency systems of other countries (Estonia, Lithuania, the Czech Republic, and Finland), mainly focusing on regulatory enactments and monitoring mechanisms, which have helped to organise and improve insolvency proceedings in other countries.

The experience of other countries shows that by taking policy measures to put insolvency matters in order and putting effort to develop reforms, it is possible to create an effective and internationally recognised system.

The State Audit Office also noted to the Cabinet of Ministers the need to improve insolvency matters for the public interest. The State Audit Office provided six recommendations to the Ministry of Justice for the improvement of insolvency monitoring system: to define the role of the state in the provision of insolvency monitoring, by reviewing the functions of the Insolvency Administration and courts, as well as to take measures to increase the professional qualification of judges and court employees and provide training on insolvency matters. The State Audit Office also recommended to carry out the comprehensive assessment of the insolvency administrator's profession, mainly focusing on the personal traits required for an insolvency administrator and determining high ethical standards and preparing proposals for amendments to regulatory enactments to implement these standards in practice.

During the reporting period, the State Audit Office auditors, who are responsible for audits in the field of justice, prepared **a report on the impact assessment of recommendations provided by the State Audit Office after audits** carried out within the period of 2008-2013.

IMPROVEMENTS AFTER AUDITS AT THE MINISTRY OF JUSTICE

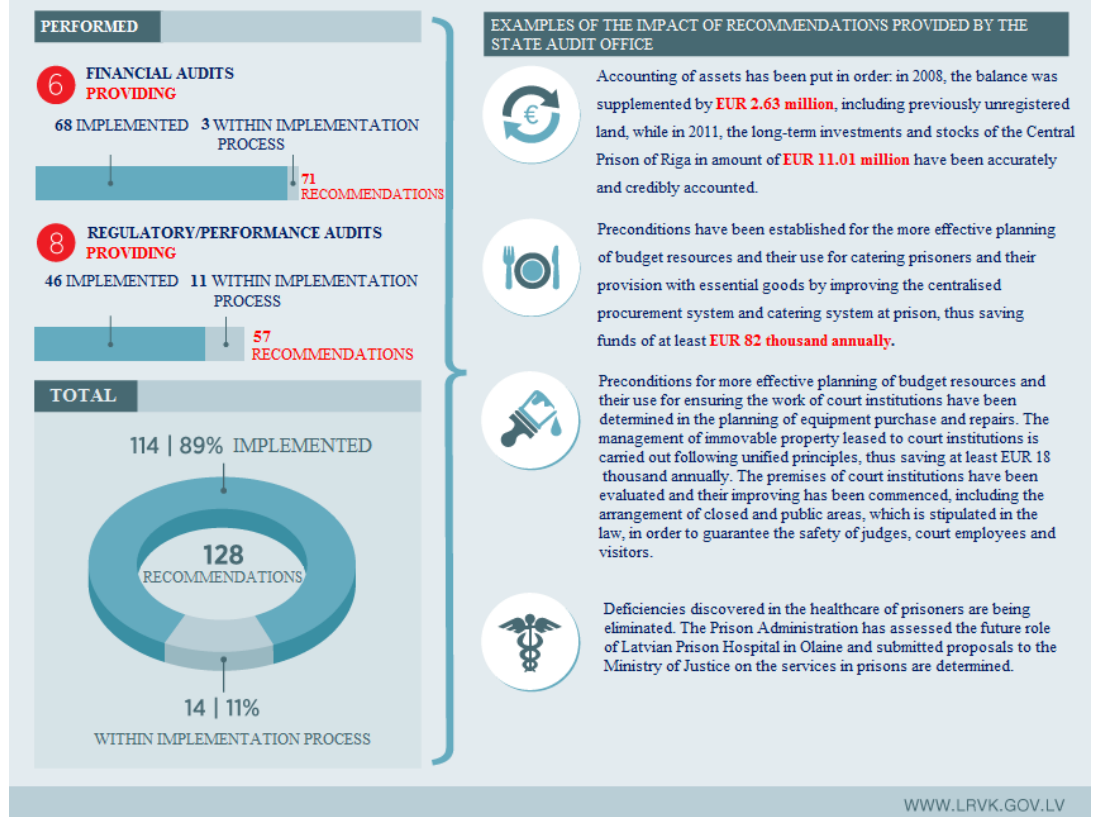


Image 23. Assessment of the impact of recommendations provided by the State Revenue Service.

2.3.2.3. Interior

After the financial audit at the Ministry of the Interior in 2013, the State Audit Office provided an unqualified opinion with nine recommendations. These recommendations will improve the accounting of long-term investments and savings of internal department institutions, ensure that the calculations of employee remunerations (sick leave payments, vacation pays and allowances, premiums etc.) comply with regulatory enactments, as well as improve the monitoring of survey and demarcation of border between Latvia and Russia.

Already during the audit on the Annual Report 2012 of the Ministry of the Interior, the State Audit Office concluded that the Provision State Agency had not sufficiently monitored the execution of agreement on the survey and demarcation of the Latvian-Russian border, and as a result the merchant was paid for works which were not actually carried out. Furthermore, during the period of validity of the agreement, it was amended, which made it difficult to examine the scope of the work; moreover, the payment terms of the works defined in the agreement were made more profitable for the provider of these works. Likewise, the audit on the Annual Report 2013 of the Ministry of the Interior discovered similar violations, thus the State Audit Office provided recommendations to improve the monitoring of execution of the agreement.

In implementing the recommendations provided by the State Audit Office, in 2014, the Provision State Agency carried out another assessment of all the source documents of works submitted during the period of validity of the agreement, determined a new format of delivery and acceptance documents, where precise information regarding borderline land units and completed works will be required. In 2014, the Provision State Agency reviewed the survey works of the Latvian-Russian borderline and the funds of EUR 130 thousand, which were unreasonably paid to the merchant during the previous years, were recognised as an advance payment instead of the payment for already completed works, which means that the merchant would have to carry out the works which had not been completed, but were already paid for.

In the course of the audit, the quality of the Ministry's annual report was improved, as errors costing EUR 3.3 million were eliminated after a reprimand from the auditors.

During the reporting year, a performance audit **“Implementation of asylum policy and immigration control”** was carried out in the field of internal affairs.

The Ministry of the Interior has carried out measures to implement EU requirements for the provision of asylum in the legal acts of Latvia; however, the Ministry of the Interior has not carried out all the necessary tasks to ensure the successful implementation of the asylum policy.

All the directives and regulations adopted within the EU are binding for Latvia as an EU Member State, including mandatory minimum standards for taking in asylum seekers. Pursuant to the Asylum Law adopted in Latvia, the State budget resources allocated for the basic functions of the institutions involved in the accommodation of asylum seekers should be used for covering the following expenses: provision of foodstuffs and hygiene products for asylum seekers; keeping, equipping, and provision of premises where asylum seekers are accommodated; provision of health examinations and healthcare; escorting; remuneration for employees directly involved in all the processes related to asylum provision.



Image 24.³⁷

The costs and range of services provided to asylum seekers vary (living conditions, foodstuff, healthcare, essential goods), whether they are remaining in the accommodation centre of the State Border Guard or the Office of Citizenship and Migration Affairs.

Latvia has adopted EU asylum requirements at a national level by developing regulatory enactments, where definite tasks for the provision of asylum are determined for the Office of Citizenship and Migration Affairs (OCMA) and the State Border Guard; however, the State budget funds necessary for these purposes have not been estimated. Without the strategic vision of the required State budget funds for the provision of asylum, a part of the necessary funding for asylum seekers is provided from the EU funds, which are allocated for the additional improvement of conditions for asylum seekers (from 1 January 2013 to 30 June 2014, at least 25% of the available funding from the EU funds), for that reason asylum seekers are not provided with additional security to the maximum extent possible (for instance, secondary healthcare services, medicaments etc.).

For instance, the State Border Guard spends on average EUR 5.15 a day per asylum seeker for catering, whereas for OCMA, the catering of one asylum seeker costs EUR 2.15 a day including also hygiene and essential goods.

At the same time, OCMA, in addition to visits to a general practitioner, have provided asylum seekers with an opportunity to receive free services also from other specialists and prescribed medication, whereas in the accommodation centre of the State Border Guard, other doctors and medicines are accessible only if asylum seekers are able to pay for it.

During the audit, it was concluded that the necessity of the planned new accommodation centre for foreigners and asylum seekers detained by the State Border Guard should be examined, because the existing premises for asylum seekers and foreigners are not fully occupied. In 2013, the average number of persons simultaneously accommodated in the closed centre *Daugavpils* was 23% of the capacity of the centre, and 43% in the first 10 months of 2014, while Liepāja accommodation centre was not used at all.

In Latvia, measures for the integration of refugees and persons with alternative status are not established.

Furthermore, the State Audit Office has not acquired evidence that building plans for a new accommodation centre contain the necessary calculations and forecasts, evaluating the need for building a new closed regime accommodation centre and estimating the number of persons to be accommodated in the new centre. The State Audit Office recommends to consider alternative options as well, such as in case of the need to extend the *Daugavpils* accommodation centre, where it was initially

³⁷ Office of Citizenship and Migration Affairs illegally extends residence permits for foreigners, the State Audit Office discovers in audit Portal www.delfi.lv. Available on-line at <http://www.delfi.lv/news/national/politics/pmlp-nelikumigi-pagarina-uzturesanas-atlaujas-arzemniekiem-revizija-secina-valsts-kontrole.d?id=45619356>

planned to build three floors, but in 2009, the State Border Guard, in order to reduce the building costs, proposed to build only two floors, thus also decreasing the number of persons the centre could accommodate.

During the audit, it was also concluded that Latvia does not have a clear policy for the integration of refugees or persons with alternative status. The provided State support, which is foodstuff and learning official language, is not sufficient enough to include the refugees or persons with alternative status in the environment and society of Latvia, and the integration of these persons to a great extent depends on the availability of EU funds and initiative from non-government organisations for attracting these funds, which generates the risk that the stable and continuous provision of necessary services and support to these persons will be endangered.

Although pursuant to the legal framework, persons who have been granted the refugee or alternative status have rights to employment, education, healthcare, and several social services and social aid, but the experience of non-governmental organisations shows that without actual practical and consultative assistance, it is difficult for these persons to start an independent life, such as to find housing, work, etc.

In surveying local governments, during the audit, it has been established that local governments offer no separate support activities for persons of the refugee's or alternative status. Local governments provide assistance to the residents of their administrative territories, thus a person has no opportunity to seek assistance from the local government, unless he/she is a resident of this municipality, except for services which are available for any person, such as night shelters or shelters. The State Audit Office believes that there is a lack of definite measures and tasks for the responsible institutions for the integration of refugees and persons with alternative statuses in the environment and society of Latvia.

During the audit, immigration control issues were also examined, assessing whether the foreigners, for whom the legal right to stay in Latvia has expired, are accounted for.

In some cases, it was discovered that the OCMA had not ensured that criteria for the registration (extension) of a temporary residence permit were observed (payment of taxes in the State budget in determined amount, no tax debts etc.) in cases when the residence permit was issued on the basis of business investments in Latvia or for a member of the board at a Latvian company. The Immigration Law stipulates that the objective of issuing such permits is the benefit for the national economy of Latvia, which means that foreigners with these residence permits are obliged to carry out business activities and pay a definite sum in taxes. The auditors discovered several cases when the OCMA was acting in the benefit of a foreigner and extended the residence permit also in cases when the above-mentioned condition was not fulfilled, for instance, a foreigner had to pay at least EUR 28.46 thousand in taxes within a year, yet only roughly EUR 3 thousand were actually paid in taxes. Furthermore, the residence permit was extended, although the required amount of taxes was not been paid. Failure to observe the required criteria creates a risk that the benefit prescribed by the Immigration Law for the development of the national economy of Latvia may not be provided.

The Office of Citizenship and Migration Affairs has unlawfully extended residence permits issued on the basis of business investments or to a foreigner as a member of the board.

In 20% of cases verified during the audit, temporary residence permits were annulled exceeding the actual annulment date by up to 559 days, and in 75% cases, permanent residence permits were annulled exceeding the actual annulment date by up to 3,861 days late.

During the audit, it was also discovered that activities carried out by the OCMA in order to control residence permits are not sufficient enough to ensure the timely annulment of residence permits in cases stipulated in the Immigration Law.

20% of the verified temporary residence permits and 75% of permanent residence permits were annulled after the annulment deadline. It must be noted that every foreigner is obliged to submit documents for extending his/her residence permit within the due term; if the documents have not been submitted, a foreigner may face administrative liability. In most of the cases, the OCMA begins to seek such persons only when the permit should have already been annulled.

Based on the audit results, the State Audit Office has provided five recommendations for eliminating the discovered deficiencies, including establishing procedures for the timely annulment of residence permits and assessment of criteria for the registration of temporary residence permits in cases when it is necessary to examine the tax payments of a capital company.

The State Audit Office also informed the Cabinet of Ministers about the need to comprehensively seek solutions for the integration of refugees and persons with alternative statuses in Latvia, as well as requested the Prosecutor's Office to assess the discovered facts in order to determine whether the OCMA officials are not required to be held liable in accordance with regulatory enactments for failing to comply with provisions for the registration of residence permits.

During the reporting period, the State Audit Office auditors, who are responsible for audits in the field of internal affairs, prepared a report on the **impact assessment of recommendations provided by the State Audit Office after audits carried out within the period of 2008-2013.**

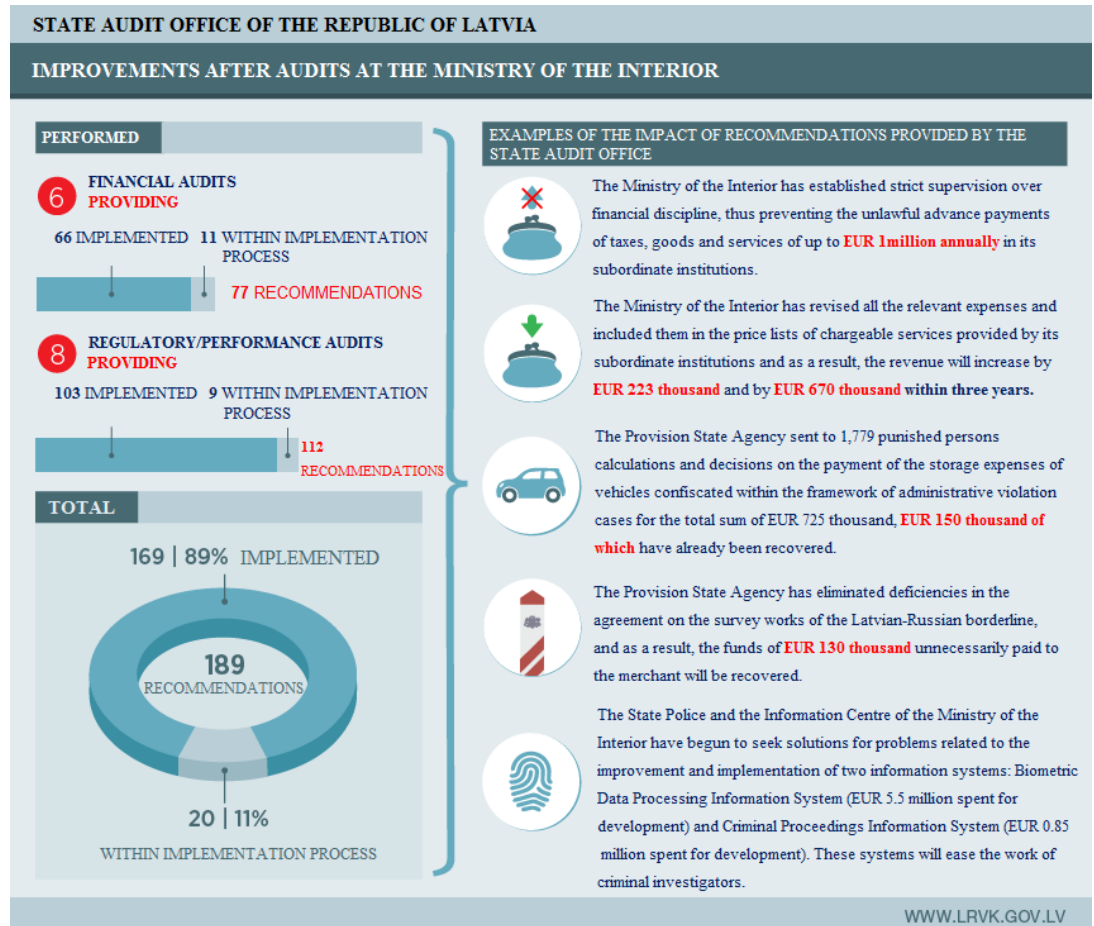


Image 25. Assessment of the impact of recommendations provided by the State Audit Office after audits.

2.3.2.4. Independent Institutions and Other Institutions

The State Audit Office carried out annual audits of **financial statements for 2013 at the Ombudsman's Office, Prosecutor's Office of the Republic of Latvia, and the Supreme Court of the Republic of Latvia** in order to inspect the preparation of accounting records and annual reports, and provided unqualified opinions.

2.3.3. Third Audit Department

Member of the Council of the State Audit Office since 21 February 2013.

Director of the Third Audit Department

Inga Vārava



<p>First Sector (Head of the Sector: Ieva Pīpiķe, eight employees)</p>	<p>Ministry of Welfare principal budget — EUR 562.5 million; special budget — EUR 2,196.6 million; 11 subordinate institutions; one supervised capital company.</p>
<p>Second Sector: (Head of the Sector: Agnese Jaunzeme, nine employees)</p>	<p>Ministry of Health: budget — EUR 725 million; 10 subordinate institutions; 13 supervised capital companies.</p>
<p>Third Sector (Head of the Sector: Linda Freidenfelde – Purgaile, two employees)</p>	<p>Audits on the compliance of selected transactions with regulatory enactments (audits for ensuring prompt response to current events in the country.)</p>

Image 26. Entities audited by the Third Audit Department³⁸

2.3.3.1. Welfare

As a result of **the financial audit on the accuracy of the Annual Report of the Ministry of Welfare for 2013**, the State Audit Office provided an unqualified opinion, but noted the fact that at the end of the reporting year, the Ministry made unplanned advance payments of EUR 122.1 thousand, thus deliberately spending the maximum amount of annual budget funds, which is a violation of the basic principles of safe financial management and failure to comply with the provisions of the regulatory enactment, which stipulates that State budget funds may be used only for the purposes determined in the Annual State Budget Law.

The greatest deficiencies in the preparation of the Annual Report were discovered in the Social Integration State Agency, since by 31 December 2013, the Agency still had not completely eliminated deficiencies in its accounting control system, as well as in real estate lease discovered during the regulatory audit³⁹ carried out in 2012 and during the previously performed financial audit⁴⁰.

After the audit, the Ministry of Welfare and its subordinate

In the course of the audit, the quality of the Ministry's annual report was improved, as errors costing EUR 17.2 thousand were eliminated after a reprimand

institutions were provided with 20 recommendations from the State Audit Office, which will improve the

The lack of the unified social aid policy and different understanding of the principles of provision of social assistance among the local governments generates inequality and injustice, as families (persons) with equal income and material status are not provided with an opportunity to receive equal social assistance.

³⁸ The number of employees on 31 December 2014 in accordance with the list of staff positions of the State Audit Office.

³⁹ Regulatory audit "Allocation, provision and administration of social care services for persons suffering from mental disorders in long-term social care and social rehabilitation institutions and day-centres financed from the state budget resources".

⁴⁰ Financial audit "On correctness of preparation of the Annual Report for 2012 of the Ministry of Welfare".

internal control environment ensuring the lawful, efficient and expedient use of State budget funds.

In 2014, an extensive regulatory audit “**Lawfulness and efficiency of social assistance provided by local governments**” was carried out in the field of welfare, including inspections at the Ministry of Welfare, which is responsible for developing the national policy for social assistance, and in 10 local governments⁴¹. During the audit, 11 audit reports were prepared for the Ministry of Welfare and each of the 10 inspected local governments.



Image 27.⁴²

During the audit carried out in order to assess what the Ministry of Welfare had achieved in the development of the national policy, it was discovered that although the decrease in poverty was determined already in 2010 as one of the long-term priorities, the development of the unified poverty policy was commenced only in 2014 by ordering studies and preparing informative reports. Definite activities for resolving identified social assistance problems still have not been proposed and reduction of poverty is still a challenge for the Republic of Latvia.

The Ministry of Welfare has also failed to ensure a unified approach to the basic principles of social assistance and the types of support among the local governments, also in regard to the freedom to act in granting the status of a low-income family (person) provided for in the relevant regulatory enactments as well as on the need to introduce the status of an indigent family (person).

Only a handful of local governments have carried out comprehensive assessment on the social status and basic needs of their residents, thus the existing social assistance systems are ineffective and do not respond to the actual social situation in these regions.

The assessment of the binding regulations of local governments showed that local governments extensively use their freedom to act in order to determine additional criteria for assessing the financial position of persons for granting the status of a low-income family (person).

For instance, some local governments have stipulated that a family (person) may be recognised as a low-income family (person), even if it owns up to six items of immovable property and up to nine vehicles. Whereas in other local governments, a family (person) is not entitled to the status of a low-income person if it owns a tractor which is only used for maintaining its household territory. Likewise, in certain local governments, apartment allowances are granted only to low-income families with children, whereas in other local governments, various allowances are granted to families with the monthly income of up to EUR 320 per person.

During the audit, after inspecting in detail practices for granting the status of an indigent family (person) or a low-income family (person) and provision with social allowances in ten local governments, it was discovered that during the period from 01.10.2012 to 30.04.2014, a sum of at least EUR 124.2 thousand was spent unlawfully, which includes unlawfully granted allowances and immovable property tax relief. Out of all the inspected local governments, no deficiencies were discovered in Liepāja City local government only.

During audits in local governments⁴³, the auditors concluded that the activities of local governments in the provision of social assistance are mainly determined by their funds.

Furthermore, in every third local government, the status of an indigent family was not introduced, which would otherwise grant families (persons) the right to receive immovable property tax relief, as well as various legal benefits (such as the right to legal assistance provided by the State, as well as the right to power supply with reduced tariff). The binding regulations established in some of local governments stipulate unlawful restrictions on allowances, for instance, the tenants of social apartments cannot receive apartment allowance, or a family (person) has no right to receive other types of social assistance allowances, if the family (person) already receives the guaranteed minimum income and apartment allowance.

In Latvia residents with equal income and material status in one local government are entitled to allowances, but in other not.

⁴¹ The audits were performed in Daugavpils City, Jelgava City, Kandava District, Kuldīga District, Liepāja City, Ludza District, Sigulda District, Rezekne District, Rezekne City and Rundale District local governments.

⁴² Social allowances — both generous and stingy. Portal: www.la.lv. Available on-line at <http://m.la.lv/socialie-pabalsti-gan-dasni-gan-skopi/>.

⁴³ During the audit, the binding regulations of all 119 local governments were analysed, the activities carried out by 10 randomly selected local governments and their social services in developing the social assistance policy and providing social assistance were verified.



After the audit, 109 recommendations were provided, 13 of them were provided to the Ministry of Welfare and 96 — to the inspected 10 local governments. The implementation of these recommendations will prevent deficiencies in the social allowance systems of local governments, the status of a low-income family (person) or an indigent family (person), and ensure that social allowances determined by the local governments will be granted in accordance with regulatory enactments, as well as ensure that families (persons) with equal income and financial status will have the right to equal social allowances.

During the reporting period the auditors of the First Sector of the Third Audit Department also completed the parallel regulatory audit “Analysis (of types) of errors in EU and National public procurement within the Structural Funds programmes”, which was carried out within the scope of the Working Group of Structural Funds of the EU Contact Committee in collaboration with the supreme audit institutions of 10 countries. The goal of the audit was to assess violations related to public procurements within the scope of structural fund programmes discovered at EU and national level within the period of 2010-2013. The summary report of the parallel audit is planned to be ready by June 2015 and its results will be presented at the meeting of the Contact Committee of the EU supreme audit institutions, which will take place in Latvia.

As a part of the audit in Latvia, errors discovered in public procurements related to the structural fund projects organised by the responsible institutions of Latvia were classified and assessed, as well as the established procedures for the identification, accounting and elimination of possible deficiencies were assessed. After the audit, three recommendations were provided to the Ministry of Finance, which will ensure that detailed information regarding deficiencies discovered within the public procurements will be collected, the nature of each discovered deficiency will be explained as well as reduce the number of unclassified deficiencies.

During the audit, the **monitoring of implementation of 94 recommendations provided after financial and regulatory audits** carried out during previous years in relation to welfare was carried out. The monitoring was mainly focused on the elimination of problems at the Social Integration State Agency identified during the regulatory audit, which was carried out in 2012. After almost two years of work, where the Agency also received assistance from the State Audit Office auditors, by the end of 2014, the Agency had finally eliminated all the deficiencies discovered during the audit, which were related to the accounting of rehabilitation and treatment services provided by the Agency, as well as accounting of its revenue, thus ensuring the accounting and traceability of all the Agency's economic activities, and also providing adequate fee for services. Since 1 January 2015, in accordance with the State Audit Office recommendations, the Agency has also improved the price list for its chargeable services by differentiating fees for rehabilitation and guest accommodation according to the level of comfort in rooms.

2.3.3.2. Healthcare

During the financial audit on the correctness of preparation of the Annual Report of the Ministry of Health for 2013, the State Audit Office provided a qualified opinion.

The Agency did not compare claims and liabilities with the clients, as well as in accruing savings for the insecure debts of the debtors, did not analyse the payment discipline of its clients and in accruing savings, did not use the accurate data for accounting records.

In its opinion, the State Audit Office also noted that the Ministry of Health violated the basic principles of secure financial management and failed to observe the requirements of the regulatory enactment regarding the appropriations of State budget funds may be used only for the purposes defined in the Annual State Budget Law, as the National Health Service made advance payments at the end of the reporting year, which did not comply with the relevant agreements, as well as covered expenditure for the period of 2014 for healthcare services and reimbursable medicines in the amount of at least EUR 1.42 million, including EUR 320.6 thousand, which were covered from the budget programme “Funds for Unforeseen Events”.

The auditors were not convinced about the fullness and existence of balance-sheet items “Debtors”, “Execution of the reporting year budget”, and “Revenue during the consecutive periods and received advance payments” of the subordinate institution of the Ministry, i.e. the State Agency of Medicines, which were indicated in the report in the total amount of EUR 4.65 million.

In the course of the audit, the quality of the Ministry's annual report was improved, as errors costing EUR 7.60 million were eliminated after a reprimand from the auditors.

After the audit, the Ministry of Health and its subordinate institutions were provided with 25 recommendations, the implementation of which will ensure the accurate accounting of

transactions and preparation of a qualitative annual report, as well as improve the internal control environment ensuring the lawful, efficient and expedient use of State budget funds.

Laikraksts: Ātrās palīdzības transporta iespējams, izšķērdēta nauda



Image 28.⁴⁴

The objective of the performance audit “Performance efficiency of the State Emergency Medical Service in purchase of the operative medical vehicles service, including drivers’ services, in the city and region of Riga” was to assess activities carried out by the State Emergency Medical Service (the Service) in purchase of the operative medical vehicles (OMV) service, including drivers services, in the city and region of Riga, as well as to determine whether the goal of the policy implemented by the Ministry of Health for the provision of the Service with the OMV required for emergency medical treatment ensures the economic, efficient and expedient use of State budget resources.

In the regional centres of Vidzeme, Latgale, Kurzeme, and Zemgale, emergency medical treatment is provided using OMV owned or managed by the Service, whereas in Riga regional centre, OMV with drivers services are ensured by outsourcing providers. As the result of the procurement procedure, the Service and joint stock company *Rīgas Sanitārā transporta autobāze (Autobāze)* entered into a contract for the provision of OMV and drivers services to the Riga Regional Centre of the Service on 29.04.2010. The term of the contract is five years, until 28.04.2015, and the total contract price is EUR 30.73 million.

In the course of the audit, the State Audit Office concluded that the control of the obligations under this outsourcing contract is insufficient, as well as there were risks that might both influence the quality of services provided by the Service in the Region of Riga and generate financial losses.

In addition to that, until the expiry of the term of the contract, the total costs of the service may amount to EUR 42 million instead of the planned EUR 30.73 million.

During the audit, the State Audit Office discovered that the Service had agreed several times to make amendments to the contract, which were beneficial for the outsourcing provider.

Initially the contract stipulated that already by the middle of 2011, the *Autobāze* had to provide vehicles no older than seven years for the services; however, by 30.06.2014, a half of emergency vehicles were older than seven years. Pursuant to the contract, for the car park which had not been timely repaired, the tariff for working hours had to be reduced by 20%, but as the Service did not apply the decreased tariff, it overpaid at least EUR 784.99 thousand from 01.01.2012 to 30.06.2014;

- Although the duties of *Autobāze* medical vehicle drivers during working time include the washing and sanitation of interior of the vehicles, moving of equipment, transportation of patients, etc., there was an additional contract for the purchase of sanitary services entered into with *Autobāze*, which basically specified the same works as those defined in the previously signed contract. As a result, the Service inefficiently used the funds of EUR 483.07 thousand within the period from 17.08.2010 to 30.06.2014;
- The Service agreed to increase the tariffs for the service due to increase in fuel prices, thus the provider received additional EUR 707.15 thousand.

The auditors estimated that the expenses of the Service related to the use of OMV in the regional of Latvia per covered kilometre were smaller than the costs for the services provided by *Autobāze* within the region of Riga. The costs for the Service for one covered kilometre in 2013 amounted to EUR 0.756 without savings for the purchase of new vehicles or EUR 1.034 with savings for the purchase of new vehicles, whereas the costs of services provided by *Autobāze* amounted to EUR 1.492 per covered kilometre.

It was planned to gradually purchase new state-owned OMV for the region of Riga as of 2012, but after assessing the policy of the Ministry of Health in the field of emergency medical treatment, the State Audit Office discovered that the Ministry had not implemented its plans; moreover, the funds of EUR 2.7 million allocated for the purchase of OMV were redistributed for other healthcare sector needs. Also, it was not considered to attract EU funds for the purchase of OMV in the future.

⁴⁴ Possible misuse of money in the provision of emergency transportation. Portal www.tvnet.lv. Available on-line at http://www.tvnet.lv/zinas/latvija/537192-laikraksts_atras_palidzibas_transporta_nodrosinasana_iespejams_izskerdeta_nauda.

In the opinion of the State Audit Office, the Service is able to ensure this service within the transitional period, if it withdraws from the outsourcing contract and starts gradually forming a new OMV provision infrastructure in Riga and Riga region. For instance, the Service is able to use a part of 70 spare vehicles available in the regions, which are even in a better technical condition than those vehicles offered by *Autobāze* and have smaller prime cost of fuel per kilometre.

Before the audit report entered into effect, the State Audit Office already submitted an interim report to the Public Expenditure and Audit Committee of the Saeima and the Minister for Health on the problems discovered during the audit, which resulted in suspended procurement procedure for entering into a new outsourcing contract at the end of 2014.

After the performance audit, the Ministry of Health received five recommendations.

During the reporting period, the State Audit Office summarised information regarding **the implementation process of the recommendations provided as a result of audits** in the health sector, as well as assessed the impact of these recommendations on the improvement of the quality of services, ensuring accessibility to these services, and, where possible, estimated the financial impact, i.e., saved funds and/or increased revenue, and prepared a report on the State Audit Office audits at the Ministry of Health. Within the period from 2008 to 2013, the State Audit Office has provided in total 525 recommendations in the course of the audits in the healthcare sector. The most essential improvements gained from the implementation of the State Audit Office recommendations are the following:

- The Ministry of Health and its subordinate institutions have ensured important improvements in their accounting and internal control, providing that all the transactions are accounted and annual reports are prepared accurately;
- The Ministry of Health has stopped using its funds for payments to employees, which are not defined in regulatory enactments. Since 2010, the State Audit Office has discovered no violations of this type;
- The State Emergency Medical Service has implemented effective control over its economic activity, as well as adjusted the prices for chargeable services, added new service items in its price list and improved internal control over the calculation of revenue from chargeable services, thus ensuring that accurate profits are gained from the provided chargeable services;
- As estimated by the State Audit Office, the number of unjustified calls, to which State Emergency Medical Service has responded within the period from 2010 to 2013, has decreased by more than 20 thousand, thus saving EUR 2 million from State budget funds;
- The capital companies (hospitals) supervised by the Ministry of Health have established preconditions for the efficient use of funds, including improvements in internal control over the functions and tasks of the personnel, as well as the organisation of procurement procedures. The capital companies have improved the organisation of management accounting records, improved the efficiency of actual costs and optimised the costs of administrative personnel;
- In 2013, the State Blood Donor Centre discontinued the provision of benefits for one merchant, thus eliminating further losses for the State budget.

2.3.3.3. Audits for Ensuring Prompt Response to Current Events in the Country

Result to be achieved in accordance with the Action Strategy.⁴⁵

In response to topical events in the country, it is planned to carry out at least four audits in order to prevent deficiencies in the activities of the public sector.

In January 2014, the Third Sector was established in the Department to carry out operative audits for prompt response to current events in the country. During the reporting year, criteria for the selection of audit themes were determined and the performance methodology of audits on the compliance of separate transactions with the requirements of regulatory enactments was improved. The audit themes are determined taking into account information in mass media, complaints from non-governmental

⁴⁵ The result must be achieved within each year of the Action Strategy.

organisations, individuals, and other institutions, as well as other criteria. In 2014, the new Sector completed three audits so far and commenced the fourth fast-response regulatory audit.

The objective of the **regulatory audit “Establishment of public transport tariff by Riga municipal limited liability company “Rīgas satiksme”**” was to determine whether the public transport tariff of EUR 1.20 had been calculated according to the formula defined in the Cabinet Regulation “Procedures for Determining and Compensating for Losses and Expenses Related to the Provision of Public Transport Services and for Determining the Public Transport Tariff”, as well as to randomly verify whether the costs included in the tariff were economic and expedient.

Pursuant to the Cabinet Regulation, the public transport tariff is determined by calculating the prime cost for one passenger. It is calculated by dividing the forecast total costs of a particular network route with the forecast number of passengers. However, it should be noted that neither the aforementioned Cabinet Regulation nor other external regulatory enactments define the principles of determining the forecast number of passengers.

After the audit, the State Audit Office applied to the Ministry of Transport and informed about the discovered deficiencies in forecasting the number of passengers and asked the Ministry to seek possible solutions for this situation.

During the audit, it was also concluded that the data used by *SIA Rīgas satiksme* regarding the forecast number of passengers are not based on objective estimates, since:

- It was assumed that all the inhabitants, who work in Riga, yet are declared outside the city, use Riga public transport and that the number of passengers in this category after the increase of the price of public transport ticket will decrease by 12.3 million, thus reducing the initially forecast number of passengers from 152 million to 140 million. The State Audit Office did not gain assurance that a study to determine the moving habits of this category of inhabitants and regularity of public transport use had been carried out;
- Factors that could influence demand for public transport services, such as the reduced public transport ticket price for people declared in Riga and the possibility that the number of such passengers could increase, were not considered;
- Estimates on unaccounted passengers that belong to the categories of passengers who have the right to use the public transport for free, such as preschool children, employees of the state or municipal police and all passengers on public holidays, were not calculated.



Vk pasażierī maksā arī par SIA Rīgas satiksme amatpersonu dārgsām automašīnām

Image 29.⁴⁶

After inspecting the costs of the *SIA Rīgas satiksme services*, it was discovered that the expenditure of EUR 1.03 million was determined as the costs of public transport services, although they were actually related to other costs (e.g., administrative costs) or other economic activities (e.g., park car services). The prime cost of the public transport includes transactions which are considered by the auditors as inexpedient and inefficient or without traceable justification of their necessity, for instance:

- lease payments of EUR 190.15 thousand for 67 vehicles granted for employees for fulfilling their work duties. Despite that monthly lease payments for these vehicles reach EUR 815, the fee set for employees for the lease of these vehicles range only from EUR 47 to EUR 71;
- Source documents for used fuel include neither routes, nor the purpose of a trip, nor justification, thus it is impossible to determine whether the trip is related to work duties;
- After inspecting the company's agreements, it is discovered that not in all cases, the deeds of conveyance specify the works that are carried out during the reporting period and their scope. Moreover, contracts for the execution of tasks, which are not included in the work duties of *SIA Rīgas satiksme* employees and which could be carried out more effectively by outsourcing providers, have not been signed;
- The funds of EUR 16.09 million for the supply of diesel fuel for public transport might have been used inefficiently, as the fuel supply was organised via *SIA Degvielas apgāds*, a company owned by *SIA Rīgas satiksme*, which, pursuant to the regulatory enactments governing public procurements, may not be defined as a client. In the opinion of the State Audit Office, there is a risk that procedures for entering into this contract were defined so as to avoid public procurement procedures.

⁴⁶ State Audit Office: passengers also pay for the expensive cars of the *SIA Rīgas satiksme* officials. Portal www.db.lv. Available on-line at <http://www.db.lv/razosana/transports-logistika/vk-pasazieri-maksa-ari-par-sia-rigas-satiksme-amatpersonu-dargajam-automasinam-416086>.

After the audit, *SIA Rīgas satiksme* received 14 recommendations, which are to be implemented by 02.01.2015, with the exception of one recommendation regarding the improvement of the remuneration system for senior employees and administration specialists, for which the deadline is 30.12.2016.

During the regulatory audit “**Lawfulness of actions of the Provision State Agency in administrating the immovable property in Jūrmala, 6/14 Piestātnes Street**”, it has been concluded that the actions of the Provision State Agency (Agency) as the administrator of the immovable property located in Jūrmala, at 6/14 Piestātnes Street, in regard to the organisation of auctions on lease rights, development of a draft agreement on the lease of premises and building (the Lease Agreement), agreeing on amendments to the signed Lease Agreement, as well as monitoring the obligations under the Lease Agreement, were not based on the protection of interests of the State, since the provisions of this Agreement are more beneficial for the lessor: reduced rate of contractual penalty, rights to lease the property to third parties, extended investment terms and provision that the increased amount of investments will be compensated by the reduced lease payment.

Actions of the Provision State Agency were not based on the protection of interests of the State.



Valsts kontrole: Aizdomīgi iznomāts vērtīgs iekšlietu ministrijas īpašums Jūrmalā

Image 30.47

The Agency, by failing to observe the Cabinet Regulation “Regulations regarding the Procedures for Leasing the Property Owned by the of State and Local Governments, Methodology for the Determination of Lease Payment and Standard Terms of Lease Agreements”, agreed to reduce the lease payment for the period when a year had not lapsed since the signing of the lease agreement, thus failing to obtain the revenue of EUR 28.12 thousand (excl. VAT).

During the audit, discrepancies were established in the actions of the Agency in recognising lessor’s investments, for instance:

- The auditors did not gain assurance regarding the true value of investments made by the lessor at the first reconstruction stage. Furthermore, the results of the audit show that the estimated value of investments for the first reconstruction stage, i.e., EUR 1.07 million, was unreasonably increased, and the Agency recognised non-existent material values as an investment, as well as the value of equipment of the 24 hotel rooms was unreasonably increased;
- The Agency recognised the equipment of the hotel, such as furniture, textile items, home and kitchen items, with the value of EUR 530 thousand as investments in the immovable property, thus failing to ensure that the lessor would make the necessary investments for improving the condition of the building and its premises, i.e., replacing windows and doors.

The results of the audit show that the Ministry of the Interior as a supervisory institution of the Agency and the administrator of the immovable property located in Jūrmala, at 6/14 Piestātnes Street, did not ensure sufficient control over the activities of its subordinate institution in the administration of the immovable property. The lack of control has created a risk that the Lease Agreement does not provide for the preservation, improvements, increase of value of the property, and after the expiry of the Lease Agreement, the property will not be usable for the provision of State functions.

Within the framework of the audit, the Ministry of the Interior and the Agency received seven recommendations.

The objective of the regulatory audit “**On the compliance of activities of limited liability company *Baložu komunālā saimniecība* with the requirements of regulatory enactments**”

As *SIA Baložu komunālā saimniecība* has no internal control system, the everyday activities, assets and obligations of the company are not monitored at all.

was to assess the organisation of activities, efficiency and expediency of costs, financial indicators and accounting records of the limited liability company *Baložu komunālā saimniecība* (*SIA Baloži komunālā saimniecība*) in order to determine whether the activities of the company comply with regulatory enactments and its determined

⁴⁷ The State Audit Office Suspicious lease of valuable property of the Ministry of the Interior in Jūrmala. Portal: www.db.lv. Available online at <http://www.db.lv/ipasums/valsts-kontrole-aidzomigi-iznomats-vertigs-iekšlietu-ministrijas-ipasums-jurmala-419010>.

goals.

Due to the absence of control, the unauthorised or ill-considered use of *SIA Baložu komunālā saimniecība* property has not been prevented.



Image 31.⁴⁸

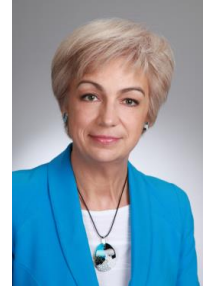
- *SIA Baložu komunālā saimniecība*, by commencing and later suspending projects on the construction of a woodchip boiler house and modernisation of heat distribution networks, has inexpediently spent a sum of EUR 547,659; moreover, within the next four years (as of 2015), the company will have to repay a loan by making payments of EUR 100,000 a year;
- *SIA Baložu komunālā saimniecība* has failed to develop the terms of employee remuneration and agree thereon with Ķekava District local government. It allowed a member of the board (until June 2013) to make unilateral decisions, which were very beneficial for several employees, for instance, providing in their contracts of employment severance pays in amount of 6 monthly salaries or one-time bonuses for work related to EU structural fund projects;
- Two members of the board, after they had terminated employment relationships with the company, received bonuses, despite that such bonuses are not stipulated in regulatory enactments;
- Likewise, the accounting system and accounting of transactions of *SIA Baložu komunālā saimniecība* are not properly organised, all the economic activities are not accounted, the depreciation of non-current assets is not accurately calculated, debtor balances are not specified in the relevant amount, etc.;
- In implementing heating and reconstruction projects for two residential buildings, *SIA Baložu komunālā saimniecība* did not act as a reliable authorised representative of apartment owners, since the Investment and Development Agency of Latvia reduced its support aid by 25% due to improperly carried out procurements. As the result, apartment owners will have to repay loans by EUR 39,094 more than planned.

Within the framework of the regulatory audit, *SIA Baložu komunālā saimniecība* received 12 recommendations.

⁴⁸ *Baložu komunālā saimniecība* grants rewards to its employees for works that are not done. Portal: www.db.lv. Available on-line at <http://www.db.lv/finanses/balozu-komunala-saimnieciba-preme-darbiniekus-par-nepadaritiem-darbiem-424028>.

2.3.4. Fourth Audit Department

Member of the Council of the State Audit Office since 12 March 2007,
 Director of the Fourth Audit Department
Marita Salgrāve



<p>First Sector (Head of the Sector: Uldis Kalniņš, seven employees)</p>	<p>Ministry of Agriculture: budget — EUR 582.66 million; 13 subordinate institutions; seven supervised capital companies.</p>
<p>Second Sector: (Head of the Sector Aija Feldmane, six employees)</p>	<p>Ministry of Environmental Protection and Regional Development Budget — EUR 256.64 million; eight subordinate institutions; three supervised capital companies.</p>
	<p>Central Land Commission budget — EUR 124.01 thousand</p>
	<p>Ministry of Finance: budget — EUR 961 million; six subordinate institutions; five supervised capital companies.</p>
<p>Third Sector (Head of the Sector Baiba Apine, six employees)</p>	<p>Chancellery of the President budget — EUR 3.1 million.</p>
	<p>Cabinet of Ministers: budget — EUR 8.61 million</p>
	<p>Corruption Prevention and Combating Bureau: budget — EUR 5.44 million</p>
	<p>Cross-Sectoral Coordination Centre: budget — EUR 559.32 thousand</p>

Image 32. Entities audited by the Fourth Audit Department⁴⁹

⁴⁹ The number of employees on 31 December 2014 in accordance with the list of staff positions of the State Audit Office.

2.3.4.1. Agriculture, Fishery and Forestry

As a result of the financial audit “On the correctness of preparation of the annual report of the Ministry of Agriculture for 2013”, an unqualified opinion was provided, but certain conditions were noted, as the violations discovered during the audit show that financial discipline at the department still requires improvements. For instance, at the end of the year, several amendments to the procedures for the settlement of payments under procurement contracts were adopted and additional advance payments in amount of EUR 395.65 thousand were made to contracts, thus paying for orders not only for the next year, i.e., 2014, but also more than 65% of the payment sum — for 2015. It was also discovered that a sum of EUR 142.12 thousand from the funds for the Latvian presidency of the EU Council was used unlawfully, as well as several problems regarding the calculation of remuneration, accounting of non-current assets and intangible investments were discovered.

During the audit, the quality of the Ministry’s annual report was improved, since errors costing EUR 50.1 thousand were eliminated after a reprimand from the auditors.

During the audit, it was discovered that the extent of errors influencing the annual report was equal to EUR 72.35 thousand and the amount of violations, which may influence the report by its meaning (characteristics, content), amounted to EUR 671.64 thousand.

As a result of the financial audit, the State Audit Office provided nine recommendations, which were to be implemented by 31.12.2014, and the Ministry of Agriculture informed that the recommendations had been

implemented. This will be verified in the audit of the financial statement for 2014.

During the reporting period, the performance audit “Assessment of the Sustainability of Projects Financed by the European Agricultural Fund for Rural Development (EAFRD) and the European Agricultural Guidance and Guarantee Fund (EAGGF), and Their Conformity to the Conditions of Projects” was initiated and completed in March 2015.

Latvia was planning to use the EAFRD funding of EUR 1.383 billion for projects that would promote the competitiveness of agricultural enterprises as well as differentiate and develop businesses in rural area, thus stopping economic and social recession.

In the course of the audit, it was discovered that the selection and monitoring system of projects supported by the EAFRD did not motivate the recipients of support to attain the determined goals and facilitate development. Instead, the system is oriented mostly to the preservation of purchased non-current assets and their use during five years after receiving the support. However, the non-preserved investments of EUR 57.89 thousand were identified in this case as well. The system allows for that after receiving the last payment, the beneficiary may not ensure the further growth of economic activities and even not ensure the indicators of economic activities in the amount they were before receiving the EAFRD support. If current assets are not sold and insolvency has not occurred, the EAFRD support for the particular project is deemed eligible and having promoted the attainment of the project objective.

Such situation is partly caused by the imperfect regulatory framework, which, in the majority of cases, does not provide for that the recipient of support is obliged to achieve the results determined in its project application, as well as have not established powers for the Rural Support Service as the EAFRD administrator on how to act in cases when a project has promoted neither development, nor growth.

The only indicator which must be achieved in accordance with regulatory enactments is increase in net turnover; moreover, this provision applies only for some EAFRD projects; nevertheless, there are certain inconsistencies in this provision as well. For instance, within the framework of the activity “Support to New Farmers”, the recipient of support must retain the net turnover of overtaken economic activities in amount of at least EUR 14 thousand, whereas within the framework of the activity “Creation of Added Value of Agricultural Products”, the minimum net turnover to be achieved for large processing businesses is not determined at all. Likewise, in cases when regulatory enactments do not provide for increasing net turnover as a mandatory result of a project, the administrative institution recognises projects as compliant, if the increase is at least 50% of the planned result.

The determination of only one obligatory indicator (net turnover), and only in some activities, does not promote that planned results will be achieved, despite that support recipients must promise in their project applications many other results to be achieved (such as certain profit or volume of produced items). At the same time, it suggests unjustified administrative load for both support recipients in



developing their projects and the Rural Support Service in carrying out inspections, the results of which affect nothing.

The influence and sustainability of projects co-financed by the EAFRD is also reduced by project selection criteria and the method how assessors apply these criteria. Neither selection criteria, nor their application are oriented towards the attainment of EAFRD goals and results.

During the selection process, projects are not examined sufficiently. The logical analysis of the business assumptions specified in applications is not always carried out and the analysis of financial return indicators of investments for large investment projects is not performed at all. Thus, the EAFRD does not determine investment return periods, economic viability indicators are exaggerated, and the projects incapable of achieving planned indicators even theoretically qualify for EAFRD support. For instance, within the framework of the project, funding is allocated for investments in the improvement of a camping place. During the last year, the turnover of the support recipient before the submission of the project was EUR 11 thousand, whereas within the first year after the project implementation, the planned net turnover is EUR 122 thousand or 11 times greater.

The inspections of randomly selected projects allow for concluding that the effectiveness of least two EAFRD activities is doubtful. The use of the funding of EUR 71 million allocated for the activities has failed to promote the development of agricultural holdings and competitive business.

The activity “Early Retirement” is considered failed (EUR 46.63 million). The goal of this activity was to promote the taking over and development of agricultural holdings by involving young and/or economically active persons, while the activity “Support for the Restructuring of Partially Natural Farms” (EUR 24.34 million) was developed for promoting the development of commercial and competitive economic activities.

In the case of the activity “Early Retirement”, the funding of EUR 46.63 million was divided between 694 persons — the transferors of agricultural holdings. One person receives on average EUR 67 thousand within the relevant period, which shows disproportionate social support for a small number of farmers (1.1% (!) of the number of those farmers who could theoretically qualify for the support).

The support planned for the development of agricultural holdings and involvement of young, economically active people in agriculture was granted to the transferors of agricultural holdings, yet the difference in years between the transferor of a farm and the transferee of a farm was often small. In 104 projects when the transferor or transferee of a farm was a natural person, in 27% of cases, the age difference of the transferor and transferee of a farm did not exceed five years. Moreover, in 12% of projects, the transferee of a farm was older or the same age with the transferor of a farm. Requirements for the future development of agricultural holdings were not established, which can be proved by one example: the average monthly net turnover of a farm was EUR 336, whereas the European Union pension paid to the transferor of a farm a month is EUR 495, which exceeds the monthly turnover of the overtaken farm 1.5 times.

Moreover, legal acts do not provide for a duty of the transferee of a farm to continue carrying out agricultural activity also after five years, i.e., within the period, during which the transferor of a keeps receiving support, despite that this requirement was included in the regulation since 1999.

In turn, the activity “Support for the Restructuring of Partially Natural Farms” has failed to significantly promote the development of competitive businesses, yet promotes the existence of farms at the previous level as a social support, since a small payment is being made within five years; in 73% of projects included in the selection, the expenses of farms exceed net turnover for one or more years, which means that the projects are not viable without EU support.

The number of employees and the amount of manufactured products specified in the reports of recipients of EAFRD support suggest possible illegal employment at supported farms, since the limited number of employees seemingly produce unbelievably large volume of products.

In the event EAFRD support to “small” agricultural holdings is provided also during the planning period of 2014–2020, the State Audit Office has invited the Ministry of Agriculture to ensure the target investment of funding, i.e., to determine actual support objectives, define support allocation conditions subordinated to the objective and develop a support administration system that would motivate beneficiaries to attain the objective.

Based on the evaluation of statistical data on support from the European Agricultural Guidance and Guarantee Fund (EAGGF) during the period of 2004-2006, it was concluded that the majority of supported companies, which did not suspend their activities, had retained their initial economic indicators, yet



showed no significant growth. Thus, the planned impact of the EAGGF has not been ensured and the investments have not reached their objective, i.e., are not effective.

Investments in the activity “Promotion of Rural Tourism and Crafts” are considered as unsuccessful, since investments in 1/3 of the projects are considered as lost (6% of projects have lost the funding of EUR 1.74 million, as tourism activities are not being carried out, and for 23% projects, it can be doubted that such activities are being carried out).

As the result of the audit, 18 recommendations have been provided, the implementation of which will ensure that the system of selection and supervision of EAFRD projects during the planning period of 2014–2020 will motivate beneficiaries to attain planned support objectives and facilitate agricultural development;



In April 2015, a similar State Audit Office audit will be completed: **“Are the Projects Co-funded by the European Regional Development Fund Sustainable and Do They Promote the Attainment of Objectives of the European Regional Development Fund?”**, within the framework of which it is assessed whether activities carried out by the Ministry of Economics and the Investment and Development Agency of Latvia provide for promoting impact of structural fund and, particularly, ERDF investments.

This audit is carried out in collaboration with the Swedish National Audit Office, which is considered to be an auditing “pioneer” and an example of good practice in carrying out performance audits in the European Union.

It can already be seen that the conclusions of the audit will be similar to the conclusions of the EAFRD audit, which means that responsible officials must seriously reconsider their approach to EU funding investments for the period of 2014-2020 by shifting focus from just spending the funds to promoting the impact.

The audits on impact of EAFRD and ERDF funding are being carried out simultaneously in order to compare the advantages and deficiencies of both control systems developed for the management of both funds, since both systems have been developed and operating independently from each other.

During the reporting period, the State Audit Office auditors, who are responsible for audits in the field of agriculture, forestry, and fishery, prepared a report on **the impact assessment of recommendations provided after the audits of the State Audit Office** carried out within the period of 2008-2013.

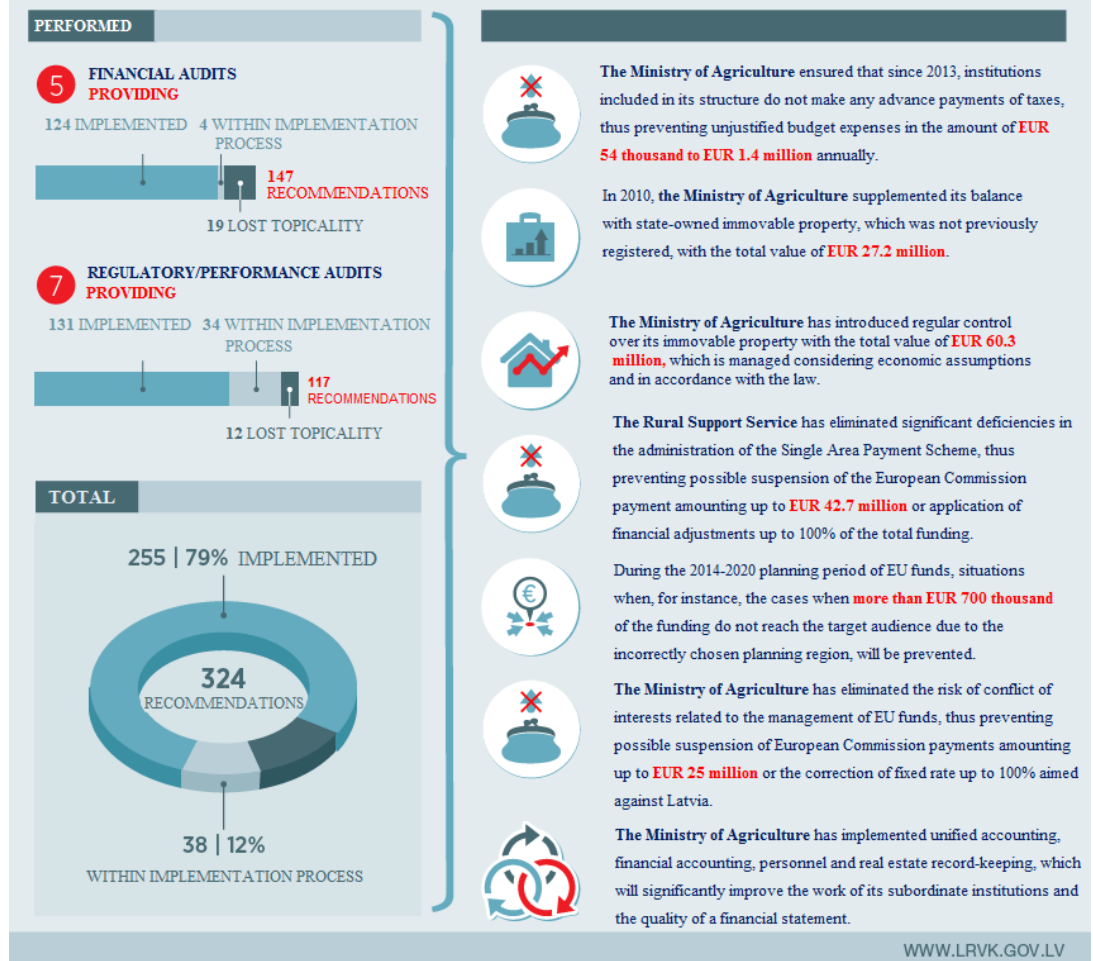


Image 33. Assessment of the impact of recommendations provided by the State Audit Office after audits.

2.3.4.2. Environmental Protection and Regional Development

During the reporting period, the financial audit “The Accuracy of the Annual Report of the Ministry of Environmental Protection and Regional Development for 2013” was performed and resulted in an unqualified opinion, yet highlighting several circumstances. Despite that in 2013, the Ministry and its subordinate institutions eliminated unlawful advance payments, the Zemgale Planning Region supervised by the Ministry still made unlawful advance payments in total amount of EUR 14 thousand in 2013.

In the course of the audit, the quality of the Ministry’s annual report was improved, as errors costing EUR 1.05 million were eliminated after a reprimand from the auditors

In the opinion of the State Audit Office, the Ministry as an authority responsible for the amount of subsidies granted to planning regions should particularly assess how State budget funds are spent in cases when planning regions regularly request for increasing State budget subsidies for the performance of their functions.

After the financial audit, 12 recommendations were provided; the implementation of these recommendations will ensure that State budget resources in future will be used for covering justified and planned obligations, and State budget resources will not be used for covering expenses for funding collective events, which do not comply with regulatory enactments, and expenses will be classified appropriately.

In 2014, a voluminous performance audit “**Compliance of Household Waste Management Organisation with Intended Objectives and Regulatory Enactments**”. Inspections were carried out at the Ministry of Environmental Protection and Regional Development, eight local governments and three waste landfill site management companies; 12 reports were prepared for audited entities and one informative report.

During the audit, several systemic violations were identified. Within the period from 1 January 2012 to 30 June 2014, in 44 local governments, the waste management fee was unjustifiably collected from waste producers, including inhabitants, for the total amount of EUR 3.6 million, including the following:

- The amount of EUR 2 million was overpaid by artificially increasing the weight of collected waste;
- The amount of EUR 1.6 million was paid as natural resources tax for the burial of waste, despite that waste is no longer buried in full as the result of installation of sorting lines.

Fee for waste management of EUR 3.6 million was charged unjustifiably and could be prevented. Is the sector supervised properly and are public interests taken into account?

In the opinion of the State Audit Office, the Ministry as an authority responsible for the amount of subsidies granted to planning regions should particularly assess how State budget funds are spent in cases when planning regions regularly request for increasing State budget subsidies for the performance of their functions.

The State Audit Office believes that this situation can be promptly fixed, if the Ministry of Environmental Protection and Regional Development and local governments are willing to do it, since within the territories of the selected seven local governments, waste managers impose a more or less proper rate and inhabitants do not pay for the non-existent amount of waste.

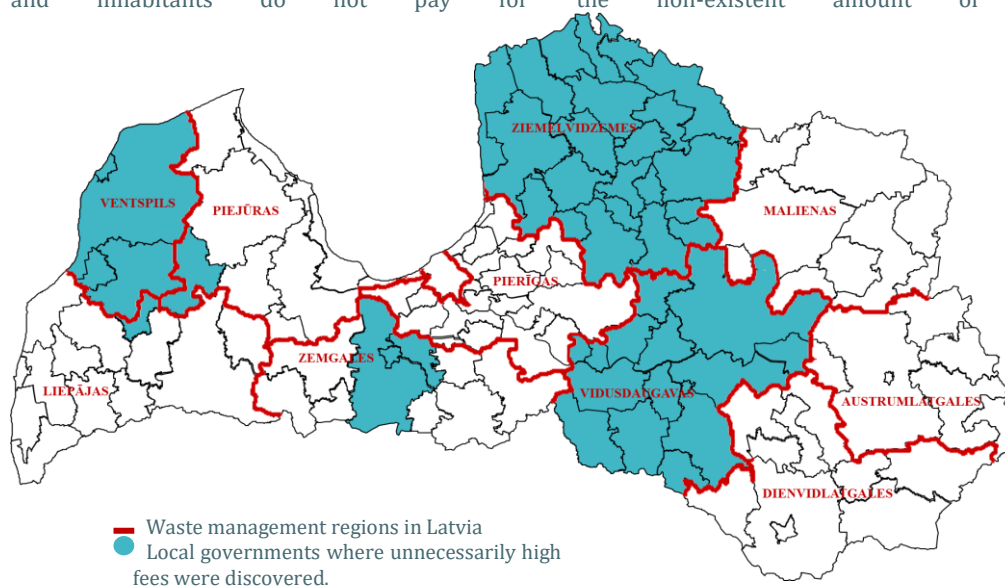


Image 34. Waste management administration in Latvian regions.

Contracts entered by and between local governments and waste management companies and contracts entered into by and between waste management companies and inhabitants in most cases do not protect public interest (unfair provisions of contracts) and do not provide opportunities for effective organisation of waste management in the territories of local governments (local governments have no legal right to request quality services from waste management companies).

Valsts kontrole: iedzīvotāji par atkritumiem pārmaksā 3,6 milj. eiro⁵⁰

Izveidots raksturojums par pārvaldības sistēmu, pamatojoties uz šīs ziņas saturu.



Image 35.⁵⁰

In selected local governments, on average 56% of households of private houses have not entered into waste management contracts. This means that households that have not entered into waste management contracts either pollute environment or throw out their waste in containers belonging to other people, thus inhabitants who have entered into waste management contracts are forced to pay for waste management services for these households as well.

The audit also discovered the violations of regulatory enactments and the inexpedient use of tax payers' money; however, these violations were identified for certain local governments or organisations only, for instance:

- **SIA Jelgavas komunālie pakalpojumi** of Jelgava local government has been renting specialised waste collection vehicles from one of its shareholders **SIA KULK** for years. By purchasing these vehicles, this limited liability company of Jelgava local government would have save at least EUR 575 thousand within the period from 01.03.2006 to 30.06.2014;
- Within the period from 01.01.2012 to 30.06.2014, Jelgava City local government granted over EUR 196 thousand to **SIA Zemgales EKO** for maintaining the sites of sorted waste management. Within the same period, this company gained profit of more than EUR 232 thousand from selling recyclable raw materials, yet failed to proportionally deduct this revenue from the subsidy, despite that the revenue was obtained from maintaining the sites of sorted waste management;
- Vārkava District waste producers, including inhabitants, pay for the separately collected (sorted) waste management service, which is actually not being provided.
- In Kuldīga District, the requirement that household waste must be stored in definite waste landfill sites is not being observed, although it is necessary to recover resources invested therein. The local government was granted an opportunity to justify its actions and propose amendments to the relevant regulatory enactments, but it has not been done;
- In 2011, **SIA Vidusdaugavas SPAAO** acquired and installed a waste sorting line for non-sorted household waste. Contrary to the requirements of the regulatory enactment, the line was installed indoors instead of outdoors. As a result, the line can be operated only few months a year, and currently only 21% of the planned waste volume is being recycled. The acquisition of the sorting line equipment cost almost EUR 874 thousand and these costs are included in the landfill site tariff. Thus, waste producers, including inhabitants, pay also for the operation of the inefficiently used sorting line;
- Within the period from 01.01.2012 to 30.06.2014, the Latvian Association of Waste Management Companies unlawfully collected fee for provision of opinions in the amount of EUR 32.51 thousand from waste management companies. In the opinion of the State Audit Office, the involvement of the Association in the process of granting waste management permits is inexpedient and should be reconsidered.

To eliminate deficiencies established during the audit, the State Audit Office provided 26 recommendations; as the result of their implementation, amendments will be introduced to legal acts and the possibility of including the fee for uncollected household waste in the invoices of waste producers will be eliminated, natural resources tax will be collected only for the part of waste which is stored at the waste landfill site and the fee for the collection and removal of waste and landfill site tariffs will be revised.

In 2014, the Ministry of Environmental Protection and Regional Development provided information regarding the implementation of recommendations provided as the result of previous audits during the reporting year, for example:

- Unjustifiably paid compensation to public transport passenger carriers in local routes, which amounted to EUR 87 thousand, has been collected;
- The Nature Conservation Agency has increased the lease payment, in leasing land parcels for using natural resources.
- The Ministry of Environmental Protection and Regional Development has initiated activities to recover inefficiently spent State budget resources of EUR 464 thousand by applying to the State Police in order to initiate criminal proceedings to claim losses caused to the State due to lack of management and conservation works of Olaine hazardous waste incineration facilities.

⁵⁰ State Audit Office: people overpay EUR 3.6 million for waste. Portal: www.db.lv. Available on-line at <http://www.irir.lv/2015/2/6/valsts-kontrole-iedzivotaji-par-atkritumiem-parmaksajusi-3-64-milj-eiro>.

However, the State Audit Office is unable to conclude that the Ministry of Environmental Protection and Regional Development has sufficiently implemented the recommendation of the State Audit Office for determining the role of planning regions. The Ministry has prepared and submitted an informative report project on improvements to the activities of planning regions to the meeting of State secretaries for approval. Within the framework of the project, the Ministry has analysed activities for improving the functional operation of planning regions, yet has not assessed the institutional and territorial framework issues of planning regions. The State Audit Office believes that the scope of functions and tasks of planning regions must be completely clear, as well as justification explaining why these functions should be designated to planning regions must be traceable. Considering that this decision influences the amount of possible State budget funding for planning regions, the State Audit Office will continue the careful inspection of activities of the Ministry and monitor the traceability of decisions.

During the reporting period, the State Audit Office auditors, who are responsible for audits in the field of regional development and environment protection, prepared a report on the **impact assessment of recommendations provided by the State Audit Office after audits** carried out within the period of 2008-2013.

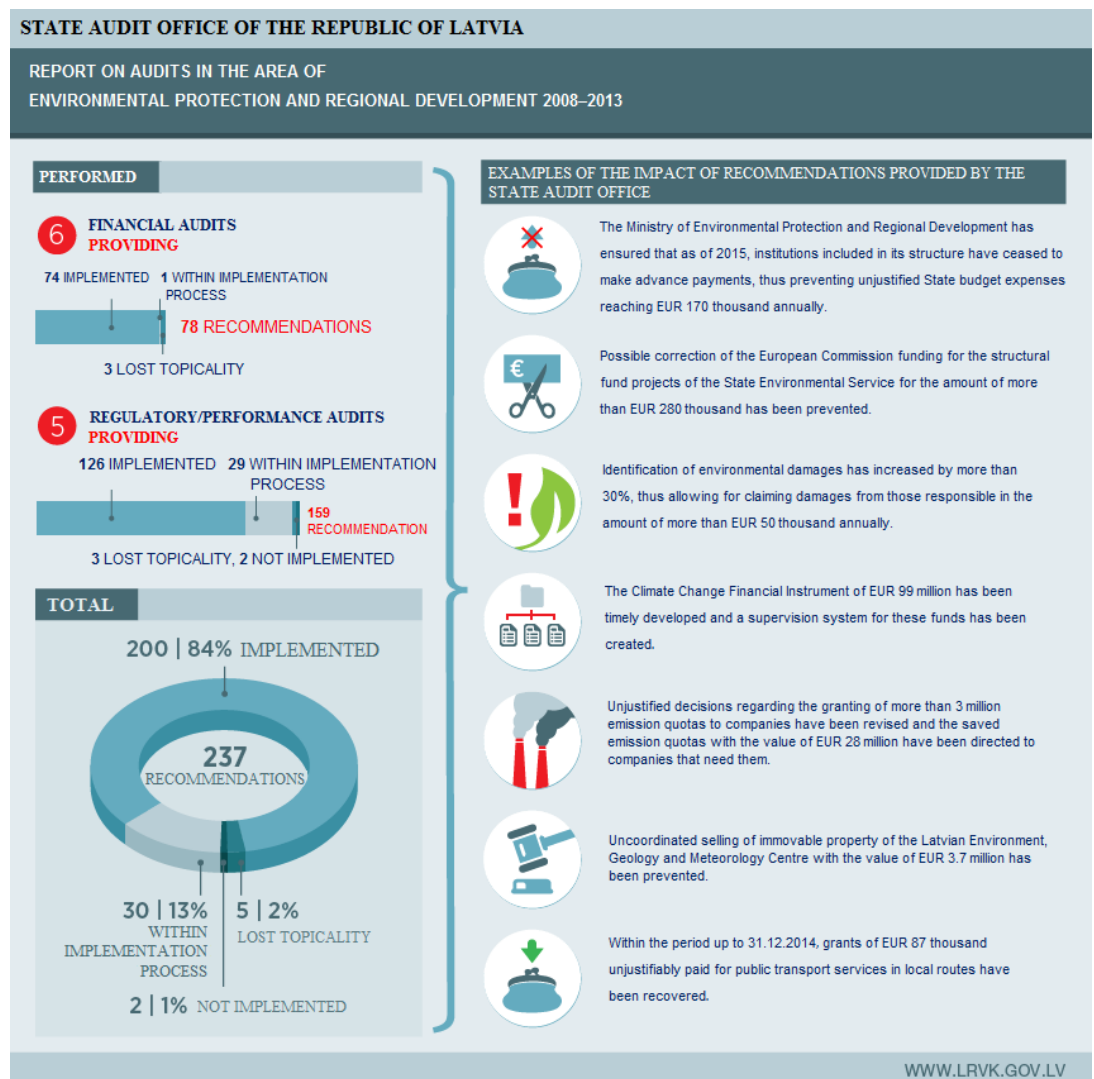


Image 36. Assessment of the impact of recommendations provided by the State Audit Office after audits.

2.3.4.3. Independent Institutions and Other Institutions

During the financial audit of the Cabinet of Ministers in 2013, the legality of use of expenses for the provision of the Latvian presidency of the EU Council for the period of 2015 was assessed additionally. The State Audit Office did not gain sufficient evidence that the expenses of the State Chancellery and Latvian School of Public Administration of EUR 34.84 thousand are directly related to the provision of the Latvian presidency of the EU Council and were spent in accordance with the legal act. The State Audit Office provided one recommendation to the Cabinet of Ministers; the implementation of this

recommendation will provide an opportunity for making expenses directly unrelated to the provision of the presidency from the funds allocated for the presidency.

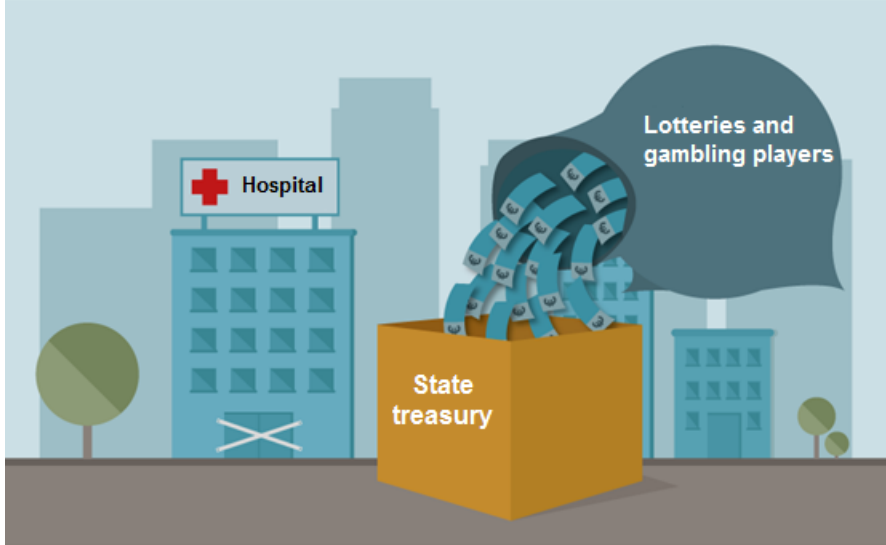
During the financial audits on the correctness of preparation of Annual Reports of the Chancellery of the President, Cross-Sectoral Coordination Centre and Corruption Prevention and Combating Bureau for 2013, no significant deficiencies were discovered. After the financial audit, the Chancellery of the President did not receive any recommendations. The Corruption Prevention and Combating Bureau was provided with six recommendations from the State Audit Office, the most essential of which was to improve the accounting procedures of funding granted to political organisations (parties) and improve the control system.

2.3.4.4. Public Sector Financial Management

During the financial audit “On the Correctness of Preparation of the Annual Report of the Ministry of Finance for 2012”, an unqualified opinion was provided. However, during the audit, deficiencies were discovered, for which three recommendations were provided aiming at the attainment of goals of the institution with the possible efficient use of funds and property and ensuring the accounting of long-term investments in accordance with the requirements of regulatory enactments.

In 2014, a regulatory/performance audit **“Evaluation of Actions of the Ministry of Finance in Determining the State Lottery and Gambling Policy and Administrating Its Capital Company *Latvijas Loto*, and Assessment of Legality and Expedience of Activities of the Capital Company *Latvijas Loto* in Implementing of Its Mission”** was carried out.

The State must develop the lottery and gambling policy



In the area of gambling and lotteries, a unified, target policy based on the analysis of issues that would determine goals, development directions and results, determine the development perspectives of market participants and simultaneously promote the compensation of increase in addictions caused by gambling and lotteries has not been developed.

Turnover from lotteries and gambling in Latvia in 2013

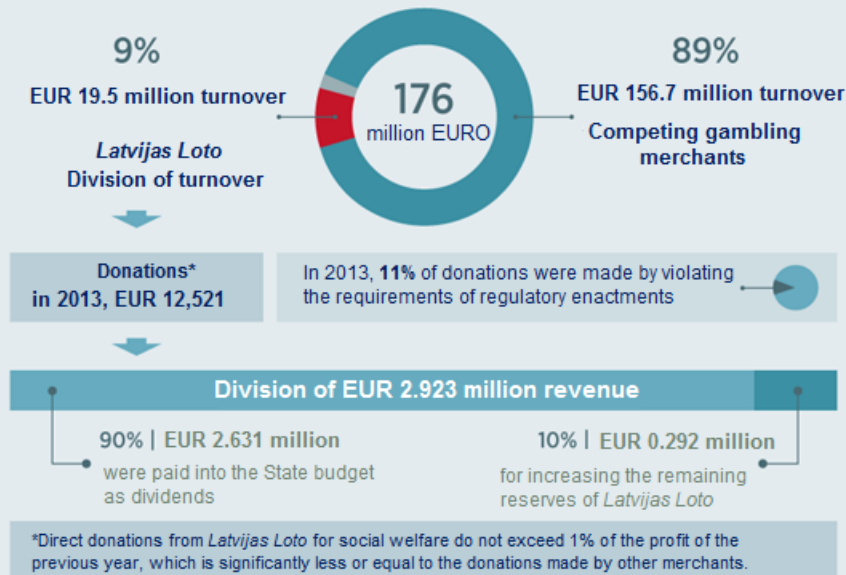


Image 37. Audit on lottery and gambling policy.

The State is willing to increase revenue at the expense of addiction of the society. Is that a sustainable policy?

The State Audit Office has concluded that the State does not carry out purposeful activities in order to compensate to the public negative consequences caused by the growth of the lottery and gambling market. The Ministry of Finance, which is responsible for the lottery and gambling sector, only ensures that taxes and duties are collected from this sector and is interested in the development of the sector without

examining what kind of measures should be implemented to compensate the harm caused by gambling to the society in a socially responsible way. The cooperation with the Ministry of Health, which is responsible for eliminating addiction consequences, in the development of the sector policy does not exist.

Likewise, the Council of the Lotteries and Gambling Supervision Inspection has failed to perform its duties for a long time, which was established by the legislator with an aim to facilitate adherence to the public interests, ensure the development and stability of the market of lotteries and gambling, and the contribution of which is crucial in the current situation.

It must be noted that the turnover from gambling in 2013 exceeded EUR 176 million; 89% of this amount was provided by competing lottery and gambling merchants and 9% (EUR 19.3 million) was provided by the monopoly company *VAS Latvijas Loto*, which is the only company with the right to organise national lotteries.



Image 38.51

Without the policy for organising lotteries and gambling, it is impossible to answer the question why monopoly exists in some sub-sectors and is absent in others. During the audit, it was discovered that monopoly is justified by the norm stipulated in the State Administration Structure Law concerning the opportunity for a public person to carry out commercial activities, if it is required to provide higher standards of quality. At the same time, it was not answered why the organisation of national lotteries required higher quality standards than the organisation of gambling, if lotteries account only for 9% of the market and gambling causes more serious addiction. It must be considered that the effective legal framework, apart from monopoly, provides for other different instruments that can assist in the application of quality standards compliant with public interests.

The basis for involving the State in business activities could be the attainment of definite social objectives. The Ministry of Finance as the shareholder has not used its powers to determine social objectives in the Articles of Association of the State capital company *Latvijas Loto*, thus clearly and repeatedly demonstrating that the only goal of the capital company is to increase financial indicators and gain profit.

The public is not provided with an opportunity to see the special role of *Latvijas Loto* in implementing projects, which are important for the public. Direct donations from *Latvijas Loto* for the welfare, health and education of children did not exceed 1% of the profit of the previous year. Furthermore, in 2013, 11% of the total amount of donations were made by violating the requirements of regulatory enactments.

The State Audit Office also objected to the availability of information regarding the approach to the selection of members of the board of the State capital company by State capital companies and the shareholder, which is highly crucial, since Latvia has expressed a wish to join the Organisation for Economic Cooperation and Development (OECD) and agreed to observe all the principles of good administration of capital companies established by the OECD in order to attain this goal.

Publicly available information regarding *Latvijas Loto* in comparison with other capital companies, which, unlike *Latvijas Loto*, face competition, is very limited. *Latvijas Loto* action strategy, determined short-term and long-term goals and information regarding *Latvijas Loto* performance is classified as restricted access information. In the opinion of the State Audit Office, such unavailability of information to the public is unjustified, since *Latvijas Loto* implements a definite task of the State and operates as monopoly.

In turn, the number of members of the board has been increased without assessing the performance of the existing board and without defining tasks for the new members of the board. The new members of the board are also allowed to have several positions; moreover, one of them works full time at another public institution. The principles of good administration prescribe that the members of the board must be full-time employed, since they ensure the operational activities of a company.

Certain aspects in the commercial activities of *Latvijas Loto* subsidiary *SIA Latloto nams* show that the existence of the subsidiary may not be expedient. *Latloto nams* was initially established as an administrator of properties of its parent company, but currently, it also purchases prizes for the needs of its parent company, obtains these prizes with a discount and then resells them to the parent company for a retail price without a discount.

Within the period from 2011 to 2013, as the result of these activities, *Latloto nams* have gained additional revenue of EUR 132 thousand and these activities account for 84% of the parent company's revenue. Such purchase procedures of *Latvijas Loto* prizes are not only profitable for the parent company, as it gains no revenue from such intermediary service provided by its subsidiary, but also contradicts the

⁵¹ The State Audit Office is not satisfied with the work of *Latvijas Loto*: lottery and gambling policy must be developed. Portal: www.delfi.lv. Available on-line at <http://www.delfi.lv/business/uznemumi/vk-neampierina-latvijas-loto-darbs-jaizstrada-izlozu-un-azartspelu-nozares-politika.d?id=45349448>.

interests of consumers, since if *Latvijas Loto* itself acquired prizes with a discount, the lottery participants would be provided with an opportunity to compete for a greater range of prizes.

It must be noted that for carrying out its functions, the subsidiary also involves the workforce and funds of its parent company.

In order to ensure the sustainable and successful development of the sector with the account of public interest, the State Audit Office has recommended the Ministry of Finance to develop the appropriate policy of the sector that would illustrate to the participants of the market the development perspectives of the sector and ensure balance between the revenue of the sector and addiction-reducing measures, determine strategic activity goals and directions for *VAS Latvijas Loto*, improve its capital company management practices, as well as examine the expediency of *Latvijas Loto's* subsidiary *Latloto nams*.

In 2014, the State Audit Office closely assessed the progress of implementation of recommendations provided in the course of two regulatory audits, which were related to financial management and were performed in 2013: “**Legality and Effectiveness of the Actions of the State Revenue Service with the Property Seized within the Framework of Administrative Violation and Criminal Proceedings and the Property under the Jurisdiction of the State**” and “**Compliance of the Activity of the Ministry of Finance and *VAS Valsts nekustamie īpašumi* with the Requirements of Regulatory Enactments and the Efficiency Thereof, When Developing and Alienating State Immovable Properties**”.

By implementing these recommendations, the State Revenue Service created preconditions for the transparent accounting and control of revenue and State-owned property, as well as for applying a unified approach to the structural units of the Service in regard to the accounting and storage of property. In 2014, *VAS Valsts nekustamie īpašumi* developed its action strategy for 2014-2018 and the Ministry of Finance as the shareholder approved this strategy. The strategy determines strategic goals and activity directions for the State capital company. *VAS Valsts nekustamie īpašumi* has also prepared condition for the work remuneration of employees, granting material benefits, tuition fee compensation and motivation.

During the reporting period, the State Audit Office auditors, who are responsible for audits at the Ministry of Finance, prepared a report on the **impact assessment of recommendations provided after by the State Audit Office** after audits carried out within the period of 2008-2013.

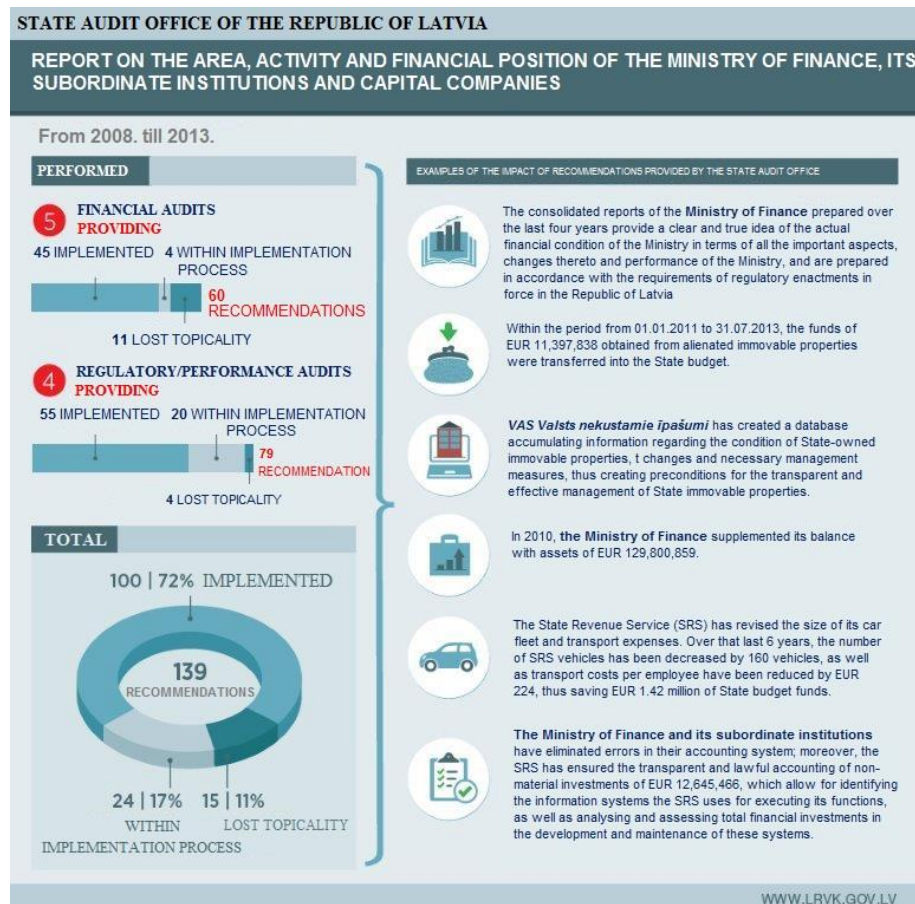


Image 39. Assessment of the impact of recommendations provided by the State Audit Office after audits.

2.3.5. Fifth Audit Department

Member of the Council of the State Audit Office since 20 December 2007,

Director of the Fifth Audit Department

Aivars Ērglis



<p>First Sector (Head of the Sector: Terēze Mazbērziņa, six employees)</p>	<p>Section of the Annual Report of the Republic of Latvia on the State budget execution and on local government budgets: budget expenditure of local governments — EUR 2,185.3 million; assets of local governments: EUR 8,465.5 million.</p>
<p>Second Sector: (Head of the Sector : Elita Andruce,, six employees)</p>	<p>Society Integration Foundation: budget — EUR 6.7 million. Local governments, local government institutions and agencies, capital companies established by local governments</p>
<p>Third Sector (Head of the Sector: Oskars Erdmanis, six employees)</p>	<p>Local governments, local government institutions and agencies, capital companies established by local governments, derivative public legal entities.</p>

Image 40. Entities audited by the Fifth Audit Department⁵²

2.3.5.1. Local Governments

The financial audit “On the Annual Report of the Republic of Latvia on the State Budget Execution and Local Government Budgets for 2012” included 29 local governments, which were selected from among 119 local governments in the selection of annual reports of local governments, including the following:

- six local government of republican cities (Daugavpils, Jelgava, Jūrmala, Liepāja, Riga and Ventspils);
- 23 district local governments (Aglona, Aloja, Baldone, Dundage, Jēkabpils, Krimulda, Ķegums, Līgatne, Mālpils, Mērsrags, Nereta, Ogre, Pārgauja, Pāvilosta, Pļaviņas, Riebiņi, Ropaži, Rundāle, Sala, Strenči, Tērvete, Vecpiebalga and Viesītes District local governments).

On 31 December 2013, the total sum of balance assets of the selected local governments amounted to EUR 5,524 million or 65.25% of the total sum of assets and the total sum of expenditure of the cash flow statement of all local governments amounted to EUR 1,298 million or 53.22% of all the total expenditure of all local governments.

During the audit, in accordance with the international audit standards, the State Audit Office auditors collaborated with sworn auditors and used the results of their annual report audits, as well as carried out audit procedures in several local governments on matters important for the audit of the Annual Report of the Republic of Latvia.

During the audit, significant deficiencies were discovered in the presented information regarding long term investments, savings and expenses related to their purchase, cash transactions and obligations.

As the result of the audit, it was discovered that the value of long-term investments of local governments is unjustifiably decreased by at least EUR 9.8 million, since properties, including underground assets (sand, grave, peat), were not accounted or are accounted incorrectly, or other properties

In the course of the audit, the quality of the annual reports of local governments was improved, as errors costing EUR 10.6 million were eliminated after a reprimand from the auditors.

⁵² The number of employees on 31 December 2014 in accordance with the list of staff positions of the State Audit Office.

are accounted. In several local governments, accounting data on immovable properties differed from the data recorded in public registers, while the properties with the value of EUR 186.6 million were not compared with the data of public registers at all. Five of the selected local governments did not present forest stands of 163.7 ha and three local governments failed to present biological assets of 45 ha. Hence, the value of these assets is unknown.

After inspecting the accounting of cash transactions, in six local governments, it was discovered that in five of them it was impossible to trace the flow of cash transactions, i.e., analytical accounting was not ensured for all the place of cash receipt in the structural units of local governments and it was not monitored whether all the collected money was paid into the treasuries of local governments, as well as accounting records did not provide an opportunity to gain evidence, whether all the money was collected. In three local governments, the funds of at least EUR 5.59 thousand were withdrawn from the cash register without justification.

In total, 65 recommendations were provided as the result of the audit. The Ministry of Finance and the State Treasury received four recommendations, as the result of the implementation of which, the regulatory enactments governing the accounting procedures of budgetary institutions will be improved, the fullness and comparability of information provided in the Annual Report will be improved, and the internal control system at local governments will be introduced or improved. The Ministry of Transport was provided with one recommendation, the implementation of which will improve monitoring processes on the use of action grants for the maintenance of motorways and streets. Five district local governments (Baldone, Līgatne, Mālpils, Ogre and Rundāle District local governments) received 60 recommendations, as the result of the implementation of which, the quality of information provided in annual reports and accounting records will be improved, as well as control procedures will be introduced in order to prevent the inexpedient and unlawful use of local government property and funds.

Within the framework of the **regulatory audit “Conformity of Actions of Liepāja Special Economic Zone Authority to the Requirements of Regulatory Enactments”**, the State Audit Office discovered that activity of Liepāja Special Economic Zone (SEZ) Authority carried out during the period of 2012-2013 was ineffective, since the determined goals were not attained. Only one out of the six planned projects for promoting the development of the port was implemented within the planned period. The implementation of two important projects is delayed: the port deepening project is delayed by four years and cleaning of Karosta channel is delayed by three years. The reconstruction of breakwaters, which should have been implemented already in 2010, and one of land access road reconstruction projects, which should have been implemented already in 2012, have not been commenced yet.

As a result, the planned port development indicators have not been achieved: cargo turnover at the Port of Liepāja is by 26.1% smaller than planned and in 2013, it reduced to the level of 2011; the number of served ships is by 34.3% smaller than planned, thus the own revenue of the Liepāja SEZ Authority from port fees; services provided by the port decreased by 42.2% and revenue from the use of port gateway decreased by 44.9% in comparison to the planned indicators.

The financial management of Liepāja SEZ Authority is not being carried out according to the recognised management principles, the planned amount of revenue has not been obtained and funds are used inefficiently.

Within two years, the debts of debtors have increased by 35.6% or EUR 654.32 thousand and on 31 December 2013, the sum of debts amounted to EUR 2.49 million, whereas credit line resources are frequently used for ensuring current assets, thus undertaking liabilities which amounted to EUR 639.48 thousand at the end of audited period, without considering repayment possibilities and deadlines.

Without controlling the execution of signed contracts, Liepāja SEZ Authority, during the audited period, failed to gain the planned revenue of at least EUR 231.53 thousand, including EUR 134.29 thousand as the result of not calculating compensation for failure to ensure the required volume of handled freight determined in lease agreements; EUR 38.62 thousand as the result of failure to calculate payment for the use of port's objects of common use, as well as due to failing to impose contractual penalty for the outstanding lease payment of at least EUR 53.29 thousand.



Image 41.⁵³

Liepāja SEZ Authority, by violating the requirements of regulatory enactments governing the use of funds and property, has spent the funds of EUR 145.26 thousand, including EUR 98.8 thousand paid to outsourcing providers for performing the tasks included in the work duties of Authority employees determined in the job descriptions, EUR 43.87 thousand used for marketing events unrelated to the popularisation of the Authority and its activities, and EUR 2.58 thousand spent for fuel purchased for employees during holidays, sick leave and business trips.

By carrying out procurements for the sum of EUR 19.21 million, Liepāja SEZ Authority violated EU recommendations on the application of regulatory enactments governing the prevention of misuse of funds and property, thus generating the risk of inefficient use of funds.

As the result of the audit, 16 recommendations were provided, as the result of the implementation of which, the administration of Liepāja SEZ will be improved, including operational planning, financial management, administration of revenue and operational control.

The goal of the **regulatory audit “Legality and Efficiency of Actions of Ķekava County Local Government with Its Funds and Property”** was to gain assurance that within the period from 1 January 2012 to 31 December 2013, the actions of Ķekava County local government with funds and property was lawful and expedient.

During the audit, it was concluded that in Ķekava County local government, the effective internal control system had not been created and control on the preparation of Ķekava County local government budget was not being carried out in accordance with regulatory enactments.

The local government failed to ensure the proper administration of its institutions: agencies and capital companies, which follows the principles of good administration. The local government has not entered into contracts with its institutions, which would define the necessary tasks and establish criteria for the evaluation of fulfilment of these tasks. The prices for services purchased from these capital companies are not economically justified.

Ķekava County local government failed to ensure institution administration in line with regulatory enactments and the principles of good administration, which resulted in the unlawful use of funds of EUR 73.53 thousand and there was a risk that EUR 1.47 million was used inexpediently.



Image 42.⁵⁴

Violating the prohibition to enter into agreements on services regarding matters, the resolving of which is included in the duties of officials or employees of an institution, contracts have been signed with legal outsourcing providers for the sum of EUR 57 thousand. The State Audit Office has informed the Prosecutor’s Office of the Republic of Latvia about this violation.

The lack of control was also seen in the monitoring of use of local government vehicles. The waybills do not indicate the aim of trips and employees are permitted to use vehicles for getting to their residences, fuel consumption limits are not determined or are not justified. Thus, control over the expenditure of EUR 968.46 thousand was not ensured.

The auditors also did not gain assurance that representation and catering costs were legal and expedient, since there were no proper documents, which would confirm the relation of expenditure to administration tasks, for the expenditure of EUR 82.87 thousand.

Ķekava County local government has spent EUR 124.31 thousand for support to non-governmental organisations of the county, but the decision making process in regard to this support has not been transparent and justified; therefore, there is no assurance that the funds were used for public interests and not in the interests of definite persons.

After the audit, 11 recommendations were provided, as the result of implementation of which, the internal control environment at the local government, budget planning, implementation control, as well as

The activities and events planned for sports, recreation and culture and their budget is not being planned by assessing and justifying how the events will promote the attainment of goals defined in development planning documents, including determining and assessing the number of residents and visitors interested in these events.

⁵³ State Audit Office: Liepāja SEZ is managed by the incompetent or passive administration. Portal: www.db.lv. Available on-line at <http://www.db.lv/razosana/vk-liepajas-sez-saimnieku-inefektiva-veidneme-iesle-izstrade>, 17.03.2013.

⁵⁴ The State Audit Office Ķekava Rural Municipality demonstrates complete lack of internal control. Portal: www.lsm.lv. Available on-line at <http://www.lsm.lv/lv/raksts/latvija/zinas/valsts-kontrol-kekavas-pashvaldiiba-ir-absoluts-iekshijas-kontr>.a87112/.

administration of agencies and capital companies will be improved.

Within the framework of the **regularity audit “Expediency of the Use of Local Government Funds for Culture, Recreation and Sport Activities and Its Conformity to the Requirements of Regulatory Enactments”**, the State Audit Office assessed the expediency of use of funds granted in 2013 for culture, recreation and sport activities and its conformity to the requirements of regulatory enactments in 13 local governments (Rēzekne City, Balvi County, Bauska County, Cēsi County, Dobele County, Ērgļi County, Limbaži County, Nīca County, Salaspils County, Sigulda County, Skrīveri County, Talsi County and Tukums County local governments).

During the audit, no sufficient assurance was gained regarding that the local government funds of EUR 44.5 million used for culture, recreation and sport events were used efficiently, failing to ensure that by using allocated funds, the goals defined by local governments in the field of culture, recreation and sports are attained as fully as possible, since the activities carried out by local governments in the field of culture, recreation and sports are not planned and organised according to previously developed planning documents, the activities defined in the planning documents are implemented only partly or not organised at all, as well as activities related to these events are not carried out in accordance with regulatory enactments government the planning of development, budget and institution activities and implementation control for the determined plans.

The strategic goals in the field of sports recreation and culture defined in the planning documents of local governments are not determined in compliance with the Development Planning System Law, since they are not based on previously identified problems and the needs of inhabitants, thus the choice of activities determined for the attainment of goals has not been justified as well as other alternatives have not been considered, thus creating the risk that the planned activities will not be a good tool for achieving the determined goals.

Contrary to the provisions of regulatory enactments, local governments have not planned the budget following the goals, priorities and activity directions defined in development planning documents, as the budget requests and estimates, as well as explanatory notes do not reveal the link between the budget and particular goals defined in development planning documents.

Local governments have failed to implement or have implemented only partly the activities specified in development planning documents, including institution management documents; moreover, they have not performed the assessment of activities in accordance with supervision procedures established in development planning documents; hence, it is impossible to evaluate the extent to which the determined goals have been attained and justify the expediency of use of funds during the reporting period.

As the result of the audit, 13 local governments and their institutions received 137 recommendations concerning development planning and financial management, as the result of the implementation of which, the compliance of management documents prepared by institutions with regulatory enactments and their updating will be ensured, the supervision of institutions will be improved and the risk of inexpedient and unjustified use of funds will be eliminated.

The Fifth Audit Department of the State Audit Office has collected information regarding the implementation of recommendations provided after financial and regulatory audits in local governments, their institutions and capital companies, as well as assessed the **impact of audit recommendations** and prepared a report on audits carried out by the State Audit Office in local governments.

Within the period from 2008 to 2013, the State Audit Office completed five financial audits in local governments, their institutions and capital companies in relation to the section of annual reports of local governments in the Annual Report of the Republic of Latvia on the State budget execution and local government budgets, providing provided 42 recommendations, and 14 regulatory audits, providing 152 recommendations. The most essential improvements gained from the implementation of the State Audit Office recommendations:

- New laws and Cabinet Regulations on the accounting records of budgetary institutions, preparation of an annual report and taxes have been improved and developed;
- Proper accounting records of long-term investments and current assets is promoted, thus ensuring that complete and comparable information is presented in the Annual Report;
- In seven local governments, necessary regulatory enactments and process descriptions have been developed, aiming at the creation of a unified management system of capital companies and agencies and the elimination of management deficiencies;
- In capital companies and agencies of local governments, the internal control system has been improved by developing necessary internal regulations and methodological guidelines on the determination of remuneration, use of vehicles, alienation of property, and planning of economic activities and finances;

-
- Seven local governments has developed an approach to assessing the quality of implementation of tasks delegated to the capital companies and agencies of local governments by defining goals and results;
 - Four local governments have suspended commercial activities, which violate the State Administration Structure Law;
 - Local governments have acknowledged that they are responsible for the provision of utility services of good quality to residents.

2.3.5.2. Independent Institutions and Other Institutions

During the financial audit “On the Correctness of Preparation of the Annual Report of the Society Integration Foundation for 2013”, an unqualified opinion was provided. The Society Integration Foundation did not receive any recommendations.

2.3.6. Audit and Methodology Department

Member of the Council of the State Audit Office since 21 December 2007,
Director of the Audit and Methodology Department

Lelde Dimante



First Sector (Head of the Sector: Iveta Burkāne, nine employees)	Annual Report of the Republic of Latvia on the State budget execution and local government budgets:
	consolidated budget expenditure — EUR 7,397 million.
Second Sector: (Head of the Sector: Ingrīda Kalniņa-Junga, five employees)	Central Election Commission budget — EUR 6.16 million.
	Audit methodology, audits in the area of State budget revenue, quality control of closed audits, employee training.
	Maintenance of information technology support tools for audits, information systems audits.

Image 43. Entities audited by the Audit and Methodology Department and areas of competence.⁵⁵

2.3.6.1. Public Sector Financial Management

During the reporting period, the Department carried out the **financial audit “On the Annual Report of the Republic of Latvia on the State Budget Execution and Local Government Budgets for 2013”**.

Unfortunately, as compared to 2013, our findings have not changed significantly: accounting issues are being eliminated, but good administration is a challenge for the government for the subsequent years as well.

The government have had no long-term vision on State budget revenue or expenditure for years, the analysis of taxpayer risks is not carried out sufficiently, as well as the remuneration system and management of State capital companies has not been organised properly.

Since 2006, the government fails to ensure the approval of the tax policy planning document, thus promoting unpredicted and hasted changes to regulatory enactments. For instance, at the end of 2012 and at the beginning of 2013, amendments to tax legislation were made repeatedly, including several amendments to the same regulatory enactments (up to five times): in total 21 amendments were introduced to laws governing taxes.

It is difficult to make prognoses of the tax environment, since it is formed for the current budget year with an aim to provide funds only for covering the expenses of the current year.

Due to the lack of long-term vision, the government also does not see the need to annually receive information regarding the fullness of tax and duty revenue. As a result, during the previous year, the amount of non-recoverable taxes has increased by 28% as compared to 2012, reaching almost 540 million lats.

In order to achieve the more complete collection of taxes, the scope of the analysis of taxpayer risks should be as wide as possible; however, within three years, the State Revenue Service has analysed data only on 15% of merchants and 1% of natural persons, which have received risk points.

⁵⁵ The number of employees on 31 December 2014 in accordance with the list of staff positions of the State Audit Office.

Likewise, there is a lack of long-term vision in the area of expenditure, thus funding for the implementation of the national policy is not planned in accordance with measures to be implemented within the framework of the budget programme, but is adjusted to the needs of the current year. As they tend to change, the government is often obliged to discuss on the use of funds. In 2014, the re-distribution of funds of EUR 98.18 million for previously forecast and planned needs was carried out. Such *ad hoc* actions also cause the unlawful and unjustified granting of advance payments, which is ensured by various institutions for several years now and in 2013, the total sum of such advance payments increased more than six times reaching EUR 2.42 million, as compared to the previous year.

The lack of assessment of budget requests also promote unreasonable expenses. For instance, in 2013, at least EUR 276 thousand of the funding granted for the provision of the Latvian presidency of the EU Council were used by nine of the 14 departments for matters unrelated to the presidency.

By subjectively interpreting regulatory enactments, these institutions financed collective events, purchased gifts and flowers, granted invitations to different important events, as well as purchased informative and advertising services in media. The State Audit Office has called upon the Cabinet of Ministers to clearly stipulate limits or restrictions for such expenses in regulatory enactments.

Remuneration in state administration has not been put in order yet either. State and local government institutions are not ensured of equal financial opportunities to provide monthly salaries and bonuses stipulated in regulatory enactments (variable part of the salary) in order to motivate employees.

Likewise, information regarding the areas where it is necessary to involve experts and specialists for a limited period is not being analysed at a national level, thus each separate institution enters into agreements on its own terms, although a coordinated approach would ensure better results and economy of funds. In 2013, the audited institutions involved 3,072 natural persons for short-term specific work on the basis of a contract for the performance of works, 378 or 12% of these contracts were entered into with the employees of these institutions, and 997 natural persons were employed on the basis of a freelance contract of employment, spending EUR 4.55 million in total.

After the audit, the State Audit Office provided 18 recommendations for the development of tax policy, reduction of administrative burden, stricter supervision of State guarantees, determining more transparent salaries, stricter provisions for determining the need for outsourcing and other proposals for the more effective and rational use of State resources.

The auditors performed the impact assessment of recommendations provided by the State Audit Office after audits during previous years. Within the period of 2008–2013, 366 recommendations were provided by the State Audit Office after the financial audits of the public sector. The most essential improvements gained from the implementation of the State Audit Office recommendations:

- Over the last four years, the consolidated reports of the Ministry of Finance in terms of all the important aspects provide a clear and true idea of the financial position of the Ministry, changes thereto and performance of the Ministry.
- The Ministry of Finance and its subordinate institutions have eliminated mistakes in accounting records, thus providing a unified approach to planning expenses for upcoming periods, unified principles for the accounting of subsidies and grants, as well as proper inventory procedures for the inspection of existence of obligations.
- The Ministry has taken measures to promote the development of the unified state immovable property management policy, including the medium-term action strategy for *VAS Valsts nekustamie īpašumi*, which includes economic and development goals and results. *VAS Valsts nekustamie īpašumi* has created a database, accumulating information regarding the condition and changes in State immovable properties.

A crucial part of the financial sector is the development and implementation of budget, as well as the provision of necessary accounting. The results of the implementation of budget and accounting of transactions of the public sector are presented in the Annual Report on State budget execution and local government budgets. Within the framework of the audit on the Annual Report, the State Audit Office carries out inspections concerning the report consolidation and financial balance, horizontal assessment of important matters related to the annual report at ministries and central state institutions, and carries out audits in local governments and audits on State budget revenue. The most essential improvements gained from the implementation of the State Audit Office recommendations:

- The quality of the Annual Report on the financial year has been improved by revealing complete information regarding the immovable properties of the State, long-term investments and savings, below-line obligations, state and local government assets, tax debts and tax overpayments, as well as providing explanations in the annual report regarding the impact of changes in the accounting policy. Thus, the revealing of complete and accurate information regarding the implementation of the budget and use of resources in the public sector to the public and decision-makers is ensured, as well as the unified principles of financial accounting and provision of information are ensured.
- Administrative burden has been reduced for taxpayers, thus saving taxpayers' money, ensuring sooner tax refund, reducing the circulation of paper documents and introducing and improving an electronic declaration system for the submission of taxpayers' declarations and effective communication between taxpayers and the State Revenue Service.
- Tax revenue administration has been improved, including regulatory enactments have been improved, requirements have been simplified, the fulfilment of tax liabilities and reduction of informal economy has been ensured, work organisation at the State Revenue Service and information systems have been improved, the recovery of tax debts has been improved, and corruption risks in tax administration have been reduced, thus ensuring greater State budget revenue.

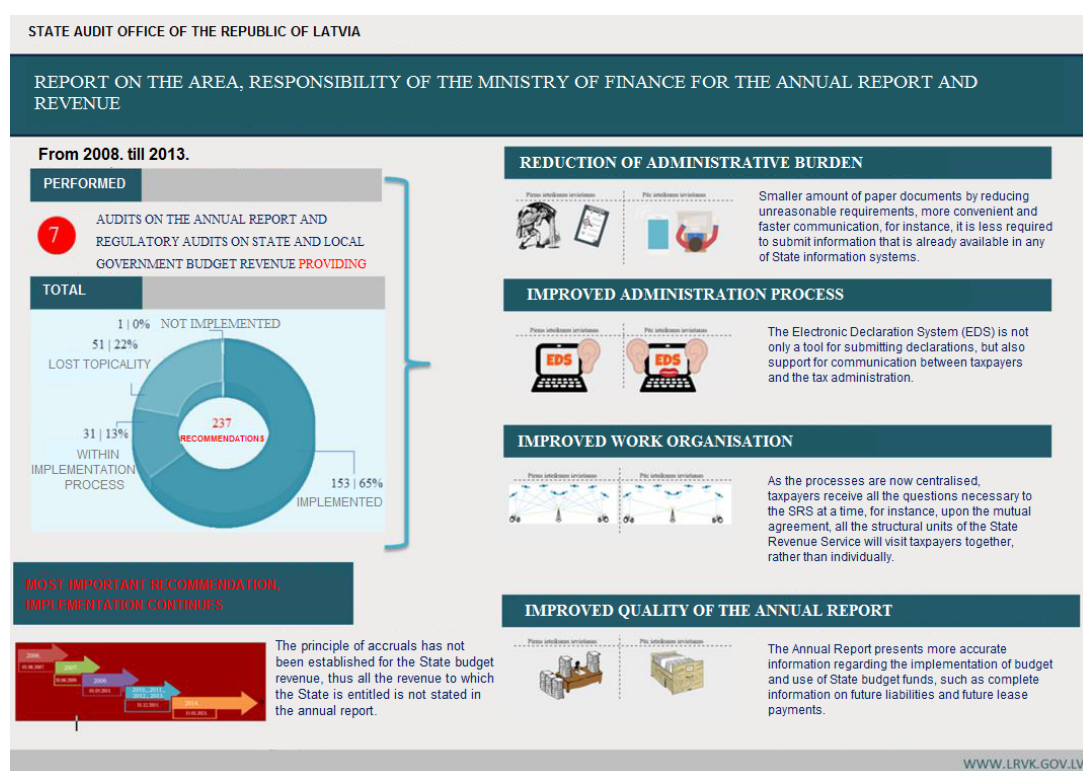


Image 44. Assessment of the impact of recommendations provided by the State Audit Office after audits.

2.3.6.2. Independent Institutions and Other Institutions

During the financial audit on the annual report of the Central Election Commission for 2013, the State Audit Office did not identify any mistakes in accounting records and in the internal control system, thus, just as in the previous year, the Commission received a positive opinion.

During the reporting period, the performance/regulatory audit “Efficiency of the Process of Issuing Biometric Passports and Supporting Information Systems” was performed. The audit was carried out as a parallel audit: the audit work was performed simultaneously in several countries following unified methodology. The participants of the audit included Belgium, Norway, Portugal, Turkey, and Latvia. The audit was conducted by the supreme audit institution of Switzerland.

The issue of personal identification documents to inhabitants could be faster, more cost-effective and convenient.

The system of issuing identity documents, which has been introduced in Latvia, is secure, transparent and complies with the set requirements. However, the auditors concluded that the work of the Office of Citizenship and Migration Affairs (OCMA) could still be improved.

One of the aspects is the period of issue of documents. Pursuant to the relevant regulatory enactment, documents shall be issued within ten business days. If a person wishes to receive the documents sooner, he/she must pay double stamp duty. During the audit, it was discovered that in practice, documents are produced within a significantly shorter period and are available within six business days. Therefore, the auditors advise to reconsider the term of issue of documents.

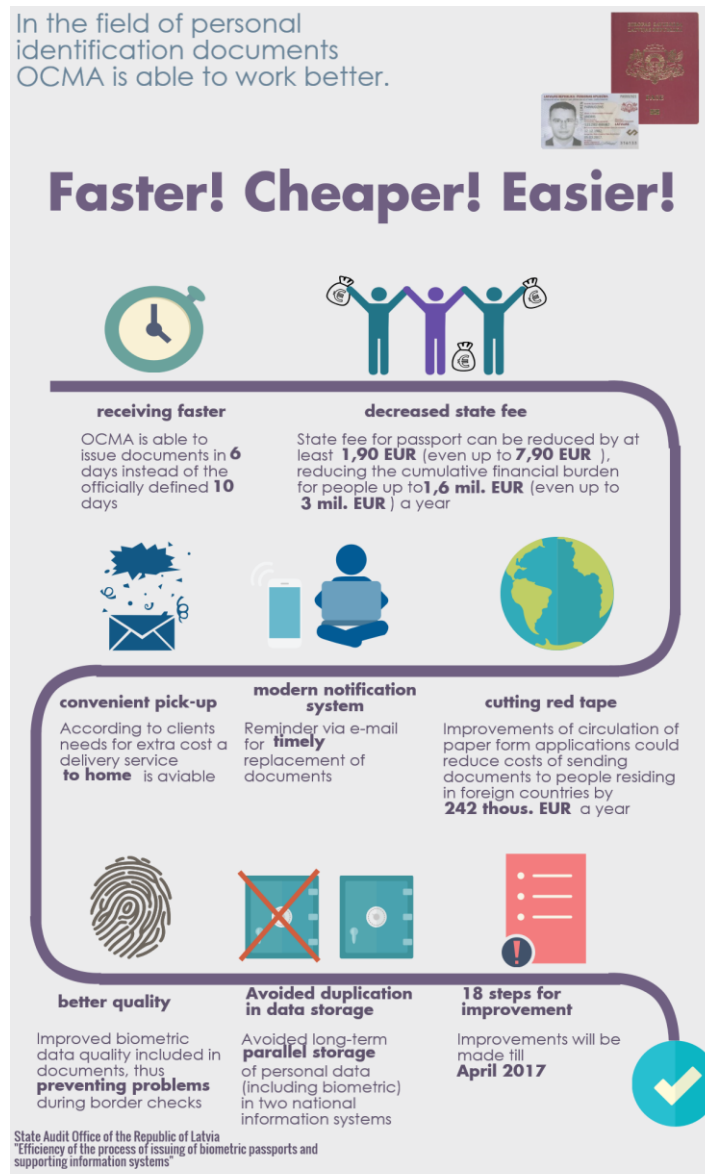


Image 45. Audit on the efficiency of the process of issuing biometric passports



Image 46.⁵⁶

The audit also stressed that as no methods for calculating the fee had not been developed for a long time, it would influence the work of the OCMA. The rate of the fee for a passport (standard fee: EUR 28.46) depends on the age of a person, urgency, relief and other factors. According to calculations made by the auditors, inhabitants are overpaying EUR 1.90 for a passport. Moreover, as from this year, residents overpay even more due to the fact that as from 2015, the costs of preparation of passport have been reduced by EUR 6. The reduced stamp duty for passports might reduce financial burden for the inhabitants of Latvia at least by EUR 1.6 million.

It is possible to reduce financial burden also for those living abroad. By completely refusing from or improving the circulations of documents between embassies and the OCMA, the total costs would be

⁵⁶ The State Audit Office: Personal identification documents could be issued sooner, cheaper and more conveniently. Portal: www.diena.lv. Available on-line at <http://www.diena.lv/latvija/zinas/valsts-kontrole-iedzivotaji-personu-apliecinosos-dokumentus-var-sanemt-atrak-letak-un-ertak-14089559>.

reduced by EUR 242 thousand a year. Currently, the nationals of Latvia staying abroad send paper documents to the OCMA via expensive diplomatic post although necessary information is available in digital format in the Information System of Personal Identification Documents (ISPID). **Likewise, the path of a paper document is longer, for instance, documents travel to Australia via Japan.**

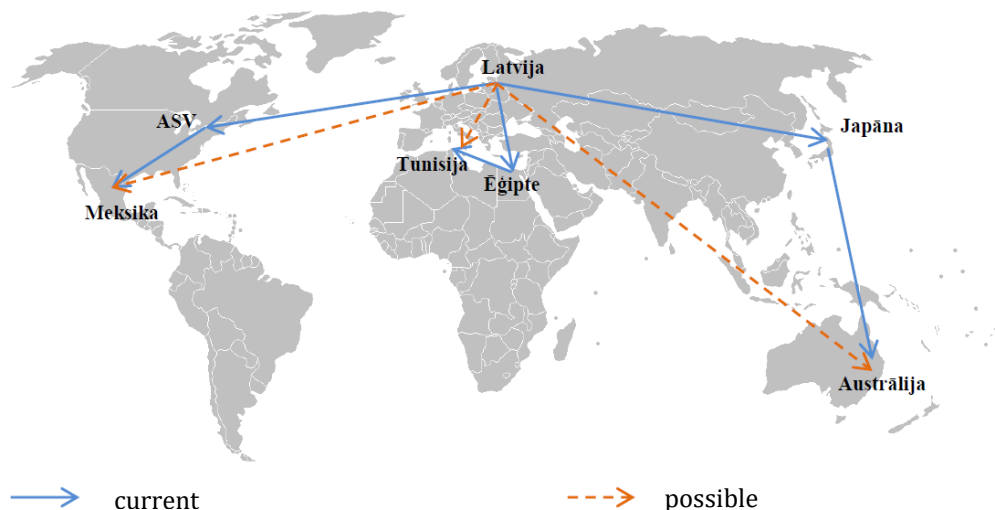


Image 47. Current and possible document flow.

According to calculations made by the auditors, OCMA employees work in summer twice as much as in winter. Likewise, the flow of inhabitants tend to vary depending of the day of week. Moreover, the amount of work differ among OCMA divisions. To avoid long queues, inhabitants should arrive at the OCMA on Fridays to submit application for a document and back on Mondays to receive the necessary document, or go to Gulbene or Bauska divisions where the amount of work is significantly smaller. Therefore, the State Audit Office invites the OCMA to use client contact information more actively in order to send reminders and informative messages to inhabitants encouraging them to change their documents during the period when workload is lower. Likewise, it would be useful, if documents were safely delivered at home or to work for inhabitants who are willing to pay more for saved time and convenience.

The State Audit Office also provided recommendations, which would promote safe storage and destruction of documents and electronic data, and recommended verifying biometric data storage terms and the need for the parallel storage of data in two different information systems of the Ministry of the Interior. In total, 18 recommendations were provided as the result of the audit.

2.4. Implementation of Audit Recommendations


Non-financial impact: 	Financial impact 
<ul style="list-style-type: none"> - the internal control system is improved for accounting and preparation of annual reports, by introducing proper accounting policy and accounting procedures; - the legal framework of various sectors and monitoring of compliance with regulations is improved; - the effective execution of functions and tasks of institutions is promoted; - the management of state and local government immovable properties are improved; - the efficient operation and management of state and local government capital companies is promoted; - the economic and expedient use of technical resources managed by institutions is promoted and the control of signed contracts is improved; - compliance with legal acts in public procurements is promoted; - other systemic improvements in public sector administration are achieved. 	<ul style="list-style-type: none"> - state and local government budget expenditure is reduced; - state and local government budget revenue is increased; - illegal payments of taxes, services and advances for goods are prevented; - illegal entering into services contracts is prevented; - the accounting of state and local government assets is put in order.

Image 48. Assessment of the impact of recommendations provided by the State Audit Office after audits

Result to be achieved in accordance with the Action Strategy.⁵⁷

The audited entities, pursuant to agreed terms, have implemented **at least 85% of the State Audit Office recommendations.**

During the reporting period, the audited entities **had to implement 610 recommendations, 534 or 87.5% of which** were at the stage of implementation at the end of the reporting period, including 478 recommendations that were implemented completely and 56 recommendations that were initiated.

Table 2.

Status of the State Audit Office recommendations to be implemented in 2014 (by 30.12.2014).

Sector/area	Recommendations to be implemented in 2014	Completely implemented	Initiated	At the stage of implementation	Lost topicality
	(number)	(number)	(number)	(%)	(number)
Defence	9	9	-	100.0	-
External Affairs	2	2	-	100.0	-
Economics	31	21	-	67.7	-
Interior	16	16	-	100.0	-

⁵⁷ The result must be achieved within each year of the Action Strategy.

Sector/area	Recommendations to be implemented in 2014	Completely implemented	Initiated	At the stage of implementation	Lost topicality
	(number)	(number)	(number)	(%)	(number)
Education, Science, and Sports	26	12	8	76.9	3
Culture	11	8	3	100.0	-
Agriculture, Fishery and Forestry	47	23	9	68.1	5
Independent institutions and other institutions	109	102	2	95.4	1
Public sector funding	129	95	12	82.9	22
Regional development and local governments	33	25	8	100.0	-
Welfare	49	39	9	98.0	1
Justice	14	14	-	100.0	-
Transport and Communications	27	18	2	74.1	1
Healthcare	50	41	-	82.0	9
Environmental protection	57	53	3	98.2	1
TOTAL	610	478	56	87.5	43

The monitoring of audit recommendations is ensured in the environment of the audit support system *TeamMate*. In order to gain assurance that recommendations are implemented, if necessary, the State Audit Office carries out separate audits on the implementation of recommendations provided after closed regulatory or performance audits. In 2014, one of these audits was completed on the implementation of recommendations issued as the result of the audit "Evaluation of Legality and Cost Efficiency of Actions of State Capital Companies in the Daily Maintenance of State Roads". Two more similar audits were carried out on "Assessment of Compliance of Revenue from the Economic Activity of JSC Riga International Airport with Ensuring the Operations, and Assessment of the Need of State Budget Subsidy for Ensuring Aviation Security, Rescue and Medical Assistance" and "Evaluation of the operation of Ministry of Transport by administrating state joint-stock company (SJSC) "Latvijas Pasts" and evaluation of conformity of the operation of SJSC „Latvijas Pasts” to the requirements of legal acts, and assessment of the efficiency of operation”.

Result to be achieved in accordance with the Action Strategy.⁵⁸

As the result of implementation of the **State Audit Office recommendations**, **State budget funds** were saved **and** **inexpedient expenses** were eliminated, **thus achieving that with EUR 1 invested in the activity of the State Audit Office EUR 5 will be returned in the form of saved State budget funds or eliminated inexpedient expense (principle 1:5).**

⁵⁸ Result to be achieved in 2017, which is the last year of the Action Strategy.

During the reporting period, reports on the impact assessment of recommendations provided by the State Audit Office after audits carried out in the period of 2008-2013 in the area of internal affairs, education and science, culture, agriculture, fishery and forestry, local government, public sector finances, healthcare and environmental protection.

The State Audit Office has provided estimates on the financial impact of implemented recommendations and calculated that the audits carried out within the period of 2008–2013 have promoted decrease in state and local government budget expenditure in the amount of at least EUR 42 million and increase in revenue in the amount of at least EUR 122 million.

2.5. Examining the Violations of Legal Norms Discovered during Audits

2.5.1. Examining Violations at Law Enforcement Institutions



The State Audit Office Law stipulates that the State Audit Office has the duty to inform law enforcement institutions about the discovered violations of legal norms.

In 2014, law enforcement institutions were informed about violations discovered during 13 audits (eight regulatory/performance audits and five financial audits): the Office of the **Prosecutor General** was informed about violations identified in 10 audits **and** the Corruption Prevention and Combating Bureau was informed about **possible conflict situations discovered in three audits.**

The Office of the Prosecutor General was informed about the following:

- cases when the employees of institutions have received material benefits which are not defined in regulatory enactments;
- the use of funds for personal needs (purchase of goods and services, use of work vehicles for personal needs);
- unjustified business trips;
- cases when institutions have unreasonably increased their expenditure by making unjustified payments and unreasonably increasing costs for services;
- cases when institutions have failed to receive the planned State budget revenue by unreasonably reducing lease payments and by not calculating other payments;
- unjustifiably made donations and use of funds for funding events unrelated to the work of an institution;
- unjustified withdrawal of money from a cash register;
- illegal use of funds for entering into contracts related to matters included in the job duties of employees of institutions;
- other violations using the funds and property of the State and local governments.

In regard to information sent by the State Audit Office to the Office of the Prosecutor General in 2014 regarding the violations of legal norms discovered during 10 audits, the State Police has initiated eight criminal proceedings (criminal prosecution against two persons, one verdict of guilty (has not entered into effect yet), two inspections are being continued).⁶⁰

During the reporting year⁵⁹:

- the following verdicts of guilty came into effect:

⁵⁹ Information as on 12 March 2015



- One person was declared guilty for committing a criminal offence pursuant to Section 179, Paragraph three of the Criminal Law, i.e., for misappropriation on a large scale and sentenced with deprivation of liberty for one year without the confiscation of property and with probationary supervision for one year. Pursuant to civil procedures, the sum of EUR 14.5 was collected from the person;
- One person was declared guilty for committing a criminal offence pursuant to Section 177, Paragraph one and Section 275, Paragraph two of the Criminal Law, i.e. for the forgery of documents (for forgery of opinion of a sworn auditor), and punished with a fine in amount of five minimum monthly salaries;
- Criminal proceedings were initiated against five persons pursuant to Section 319 of the Criminal Law, i.e. for failure to act by a public official, and Section 318, Paragraph two of the Criminal Law, i.e. for using official position in bad faith, and in one case, a verdict of guilty was ruled (has not come into effect yet).

Results of inspections initiated at the Corruption Prevention and Combating Bureau:

- One official was held administratively liable and punished with a fine (Murjāņi Sports Gymnasium);
- In one case, the Corruption Prevention and Combating Bureau found that an official was doing a side work, which mean that the objectivity of work of this person may be doubted; as a result, this official requested for terminating the contract (the State Language Centre);
- One inspection is still in progress (Mārupe local government).

In 2014, the Corruption Prevention and Combating Bureau, reacting to the audit materials of the State Audit Office, initiated three inspections.

2.5.2. Cooperation for the Comprehensive Examination of Violations

Result to be achieved in accordance with the Action Strategy.⁶⁰

The State Audit Office improves cooperation with law enforcement institutions by organising meetings with the representatives of the State Audit Office and law enforcement institutions at least once in six months in order to identify factors delaying the examination of cases, assess results, as well as agree on the possibility of initiating the examination of cases, if significant violations have been discovered.

Pursuant to Section 1, Paragraph three of the State Audit Office Law, the State Audit Office performs audits in accordance with the international audit standards. In accordance with audit standard 500 "Audit Evidence":

- The scope of audit is as necessary to obtain sufficient evidence of efficiency, effectiveness and compliance of the audited entity with the requirements of regulatory enactments;
- The task of an audit is not to carry out inspections and calculations for all the transactions of the audited entity within the audited period, but to fulfil these tasks by means of selection;
- Audit evidence may be obtained by using various methods and audit procedures (control procedure inspection, detailed inspections, analytic procedures, relying on the work of other auditors, etc.).

In order to ensure the lawful and expedient use of funds and property of the state and local governments and prevent repeated violations, it is necessary to comprehensively evaluate all the violations of legal norms discovered during audits, determine the persons responsible for violations and decide whether they must face criminal, administrative, disciplinary or civil liability.

The State Audit Office Law stipulates that the State Audit Office has the duty to inform law enforcement institutions about the discovered violations of legal norms. In order to promote the examination of discovered violations, the State Audit Office:

- provides detailed information regarding the violation, analysing legal and actual circumstances;
- sends the copies of documents which prove the violation;

⁶⁰ The result must be achieved within each year of the Action Strategy.

- if there is an evidence on a criminal offence discovered, draws attention to the features of the possible criminal offence and the norm of the Criminal Law that stipulates liability for the offence and, if possible, identifies the possibly guilty officials;
- follows the process of examination of audit materials and regularly requests information regarding decisions made;
- evaluates conclusions specified in the decisions of law enforcement institutions;
- if the State Audit Office believes that audit materials are not thoroughly and objectively examined, repeated asks for the assessment of audit findings and responsibility of officials;
- ensures support to the specialists of law enforcement institutions (if necessary, organises meetings with audit personnel and sends the materials of an audit case).

In 2014, the State Audit Office:

- organised meetings with the representatives of the Office of the Prosecutor of the Republic of Latvia and the State Police, where necessity for the officials of the State Police to meet the officials of the State Audit Office during the examination of audit materials and forward information to law enforcement institutions already during audit, if there is information obtained regarding a possible criminal offence, as well as organise training for the officials of the State Police on audit process and methods used by the State Audit Office, sufficiency of evidence required for attaining the objectives of audit was discussed;
- organised a meeting with the director of the State Forensic Science Bureau, representative of the Forensic Service Department of the State Police in order to discuss issues related to the work methods of experts in carrying out accounting investigations, as well as to consider necessity to discuss violations discovered during audits, if an opinion of an expert differs from the opinion of the State Audit Office auditors;
- organised discussion on main issues related to holding persons liable for violations discovered by the State Audit Office. The participants of the discussion included the members of the Saeima, directors of law enforcement institutions, representatives of the Ministry of Justice, Legal Bureau of the Saeima, the bar, Attorney Association;
- held meetings with the officials of the State Police to provide additional information and necessary explanations on issues discovered during audits;
- took part in the meetings of the Public Expenditure and Audit Committee of the Saeima, where main issues in the examination of violations discovered by the State Audit Office, competence of the State Audit Office and law enforcement institutions and difference in methods used for identifying violations and obtaining evidence, as well as cooperation opportunities between the State Audit Office and law enforcement institutions at the stage of obtaining evidence and during the investigation of cases were discussed.

At the annual meeting of the structural units of the Prosecutor's Office on the performance of the Prosecutor's Office in 2013 and planned priorities for 2014, which took place on 19 February 2014, the Prosecutor General stated that one of the tasks was to carry out enhanced supervision for those criminal proceedings which had been initiated on the basis of audit materials provided by the State Audit Office.



Image 49. Meeting on the performance of the Prosecutor's Office⁶¹

On the new State Audit Office website, a special section has been developed, where it is possible to follow the course of investigation of discovered violations of legal norms at law enforcement institutions and audited entities or their supreme institutions.

2.5.3. Examination of Violations at Other Responsible Institutions

The State Audit Office informed the **State Revenue Service** about discovered violations in the accounting of cash, use of transaction documents and submission of informative declarations to the State Revenue Service and possible risks in payments of personal income tax and value added tax into the State budget.

⁶¹ Kalnmeiers criticises the discipline of procurators and warns to reduce wages. Portal: www.la.lv. Available on-line at <http://www.la.lv/kalnmeiers-kritize-prokuroru-disciplinu-un-piedraud-samazinat-algas/>.



The State Revenue Service was informed about violations discovered at the Tourism Information Centre of Līgatne and crossing, Ogre County local government (Krape Parish Administration, Meņģele Parish Administration, Madliena Parish Administration, Mazozoli Parish Administration, Suntaži Parish Administration), Rundāle County local government (Rundāle County Council, Viesturi Parish Administration, Svitene Parish Administration), Baldone County local government (Baldone County local government, social care centre **Baldone**), Mālpils County local government (Mālpils County local government, Mālpils Library).

On the basis of the information provided by the State Audit Office, one person faced administrative liability and was punished with a fine (in Līgatne County local government), as well as a fine was imposed on the Līgatne County Council for administrative violation.

The State Revenue Service examines violations discovered by the State Audit Office in conjunction with the already obtained information related to the possible risks of unpaid taxes and, if necessary, is ready to carry out tax control measures.



The State Audit Office has reported violations in the organisation of procurements to the Procurement Supervision Bureau.

The Procurement Supervision Bureau has been informed about violations discovered in the National Library of Latvia, the National Electronic Mass Media Council, vocational education competence centre "Riga Technical College", Priekule and Jāņmuiža State Technical School, state limited liability company **Latvijas Televīzija**, Ministry of Finance, and the Ministry of Foreign Affairs.

Administrative proceedings of ten cases were initiated:

- **Six officials were held administratively liable** for failing to apply procedures for granting rights to enter into agreements pursuant to regulatory enactments governing the area of procurements and punished with a fine (the National Library of Latvia, the National Electronic Mass Media Council, vocational education competence centre "Riga Technical College", Priekule and Jāņmuiža State Technical School, state limited liability company *Latvijas Televīzija*);
- **In one case, the administrative violation was recognised as minor**, thus the responsible person did not face administrative liability and received a reprimand (the Ministry of Foreign Affairs).

2.5.4. Examination of Violations at Audited Entities and their Supreme Institutions

Following the proposal from the State Audit Office for ensuring the full responsibility of persons, on 13 March 2014, the Saeima adopted amendments to the Law on Prevention of Squandering of the Funds and Property of the State and Local Governments.

The law stipulates that, if the violations of this law have been discovered by the State Audit Office during the audit, the audited entity, its supreme institution or official, within five months after the decision by the State Audit Office on the approval of the audit report enters into force, shall inform the State Audit Office on the assessment results of the persons who have violated the aforementioned law.

In the annotation of the draft law proposal, the Public Expenditure and Audit Committee of the Saeima noted that the situation, when after the State Audit Office has discovered violations during

audits, neither law enforcement institutions, nor supreme institutions identify the persons responsible for the violations of legal norms and hold them liable in accordance with regulatory enactments, creates the feeling of "impunity" for persons who use the funds and property of the State and local governments and reduces the making of good (responsible, considered, justified) decisions in the State administration. In order to ensure that such evaluation of liability does not become formal and ensure supervision over the implementation of norms, it should be stipulated that the State Audit Office must be informed about the results of assessment of liability. Furthermore, information must be exhaustive for a competent third person to gain assurance that the assessment of liability of officials and their punishment has been carried out in accordance with regulatory enactments.

In 2014, institutions often failed to comply with the term for the assessment of violations discovered during audits and for informing the State Audit Office; information on the results of assessment of liability of responsible persons was often provided only after the institutions received letters from the State Audit Office with a request to fulfil their duty stipulated in regulatory enactments.

At institutions, the assessment of liability was mostly related to the report on the implementation of recommendations provided during audits without determining the persons responsible for violations and without evaluating their liability. Furthermore, only some violations of legal norms are being examined.

The State Audit Office has requested the Prime Minister and the State Chancellery to get involved in promoting fulfilment of duties provided by the law in order to ensure the comprehensive assessment of all the discovered violations of legal norms, as well as guaranteeing that responsible persons face disciplinary or civil liability in accordance with the law. At the same time, the State Audit Office continues to follow the process of examination of legal norm violations at the audited entities and their supreme institutions.

According to the information at the disposal of the State Audit Office, in 2014, **inspections on the findings of 16 audits** (5 performance/regulatory and 11 financial audits) were carried out at several **institutions**.

As the result of inspections, responsible officials received reprimands, remarks, reproofs, or punishments such as reduced monthly salary or terminated employment legal relationships.

Results of inspections carried out in 2014⁶²:

- Two officials received reprimands (Ministry of the Interior, Ķekava County local government);
- Two members of the board of two capital companies were reprimanded and reduced their monthly salary by 10% for three months (*SIA Jelgavas autobusu parks* and *SIA Jelgavas poliklinika*);
- One member of the board was revoked from position (national rehabilitation centre *Vaivari*, state LTD);
- One official received a remark (the State Police);
- With two persons, employment legal relationships were terminated (Murjāni Sports Gymnasium, vocational education competence centre “Kandava State Technical School of Agriculture”);
- Reproof for one person (the Consumer Rights Protection Centre);
- Verbal reproof was expressed for three officials (Liepāja Special Economic Zone, Mālpils District Council, Latvian National Museum of Art).

⁶² Information by 05.3.2015.

3. INTERNATIONAL COOPERATION

3.1. Membership in International Organisations and Working Groups

Result to be achieved in accordance with the Action Strategy.⁶³

The State Audit Office takes active part in activities organised by the Contact Committee of EU supreme audit institutions and INTOSAI/EUROSAI for achieving their common goals, as well as in strengthening auditing and institutional capacity.



INTOSAI is an independent organisation of supreme audit institutions. It was established in 1953 and serves as a forum for strengthening the area of public sector audits, professional development of supreme audit institutions, as well as for the mutual exchange of knowledge and good practices. The organisation has a special consultative role in the United Nations Economic and Social Council (ECOSOC). In order to provide that INTOSAI goals are achieved, the regional organisations of supreme audit institutions have been established, meetings of permanent committees and working groups, as well as other events are regularly taking place and a congress is organised once in three years (INCOSAI). INCOSAI includes supreme audit institutions of 192 countries and **the State Audit Office has been its active member since 1994.**



EUROSAI is a regional organisation of INTOSAI, which was established in 1990 and currently includes supreme audit institutions of 49 countries and the European Court of Auditors. **The State Audit office joined EUROSAI in 1995.** The main goal of the organisation is to promote professional cooperation between European supreme audit institutions, support the exchange of information and documentation, promote the research of public sector audits, stimulate the creation of academic positions in this area and achieve unified audit terminology.

Result to be achieved in accordance with the Action Strategy.⁶⁴

The State Audit office takes part in at least three international events for the exchange of experience among working groups, including areas such as performance, environmental and information technology auditing.

Working group	Activities
INTOSAI	
Working Group on Procurement Contract Audit	The State Audit Office took part in the meeting of the Working Group, where the work assignment and plan for 2014-2016 was discussed, the structure of the Working Group website, and role of supreme audit institutions in monitoring procurement procedures were discussed.
Working Group on Key National Indicators	The State Audit Office provided information and exchanged experience in accordance with its competence.
Working Group on Environmental Auditing	The State Audit Office provided information and exchanged experience on its audits on environmental issues.
EUROSAI	
1 st strategic target group "Capacity Building"	The State Audit Office provided information and exchanged experience, as well as shared its opinion on the updated Action Plan and Articles of Association of the Working Group.
2 nd strategic target group "Professional Standards"	The State Audit Office organised the meeting of Working Groups. The participants of the meeting included the representatives of the supreme audit institutions of Belgium, Denmark, Germany, Romania, Hungary and other European supreme audit institutions, who gathered to exchange experience on the application of professional standards. Regular seminars for the exchange of experience among the Member States create good conditions

⁶³ The result must be achieved within each year of the action strategy.

⁶⁴ The result must be achieved within each year of the action strategy.

Working group	Activities
	for strengthening auditing standards and implementing increasingly better practices.
Working Group on Environmental Auditing	The State Audit Office took part in the meeting of the Working Group where experience was exchanged on the performance of environmental audits in infrastructure projects, as well as audits on the biodiversity and collection of survey data and their use in environmental audits.
Working Group on Information Technologies	<p>A meeting of subgroup “E-administration” of the EUROSAI Working Group on Information Technologies took place at the State Audit Office , where representatives from Poland, Netherlands, Estonia, and Portugal participated. The goal of the meetings was to exchange knowledge and experience on the auditing of areas related to information technologies, as well as on the best methodology to use for this area and on risks identified in this area.</p> <p>The State Audit Office participated in the International Symposium on Information Technology, which was organised by the supreme audit institution of Germany, where over 200 members from 47 countries took part. At the Symposium, the State Audit Office held a presentation on its audit on e-administration and participated in a panel discussion on the e-administration audit.</p>
Contact Committee	
Working Group on Fiscal Policy Audit	The State Audit Office took part in the meeting of the Working Group, where the coordination and topical issues of European economic policy, sustainability of State funds: efficiency of State expenditure and “Europe 2020 Strategy for smart, sustainable and inclusive growth” were discussed. The State Audit Office held presentations on audit on the Annual Report of the Republic of Latvia .
Working Group on Value Added Tax	Within the scope of the Working Group, two directions were implemented: on the application of a reverse VAT and general matters related to VAT (countermeasures for VAT frauds, implementation of unified information systems, etc.). Within the scope of both directions, in 2014, the surveys of supreme audit institutions were carried out, as the result of which it is planned to propose the themes of parallel audits. Likewise, the State Audit Office contributed to the surveys by completing questionnaires prepared by the Working Group, as well as obtained the necessary additional information from the Ministry of Finance and the State Revenue Service.
Working Group on Structural Funds	The State Audit Office took part in the meeting of the Working Group, where the draft plan, period, scope, provision of necessary information and publishing procedures of reports prepared by the Member States of the parallel audit “Analysis (of types) of errors in EU and National public procurement within the Structural Funds programmes” were discussed.
Working Group on Public Sector Accounting Standards for European Member States (EPSAS)	The State Audit Office participated in the meeting of the Working Group, where matters related to the development of EPSAS and principles on which they are based (accountability, professional independence, objectivity, legitimacy and transparency, credibility, etc.) were discussed.

Image 50. Membership in international organisation and working groups of the State Audit Office.

3.2. Cooperation with the Supreme Audit Institutions of Other Countries

Result to be achieved in accordance with the Action Strategy.⁶⁵

The State Audit Office provides professional support and shares its experience with other supreme audit institutions within the framework of bilateral/multilateral cooperation or as a part of separate projects by organising training for at least two supreme audit institutions.

⁶⁵ The result must be achieved within each year of the Action Strategy.

During the reporting year, the State Audit Office was visited by the representatives of the **State Budget Audit Committee of the Estonian Parliament** in order to exchange experience. The meeting was organised by the Public Expenditure and Audit Committee of the Saeima and during the visit, the representatives of the Estonian Parliament were informed about the activities of the State Audit Office, planning process of audits, conclusions made by the State Audit Office on state and municipal budget expenses.



Image 51. Representatives of the Estonian Parliament visit the State Audit Office



Image 52. Delegates of the supreme audit institution of Poland visit the State Audit Office

The State Audit Office was visited by the delegates of the **supreme audit institution of Poland**. The representatives of both institutions shared their experience on the strategic directions of their activity planned for the next years, as well as discussed their cooperation so far and the areas of further cooperation.

Within the framework of the cooperation project between the **State Audit Office of Georgia** and the **Swedish National Audit Office**, a seminar for the exchange of experience on performance audits was organised in Riga. The seminar also involved colleagues from the **supreme audit institution of Moldova**. During the seminar, new professional goals were determined and ideas were discussed how to not only maintain, but also improve the existing system for the control and ensuring of quality. The participants of the seminar analysed the reports on performance audits carried out by the auditors of Georgia and Moldova in the health sector.

The State Audit Office took part in the meeting for the exchange of experience organised by the **supreme audit institution of Lithuania** on audits in local governments, taking into account that one of the strategic goals of the State Audit Office is to increase the number of audits in local governments.

In Lithuania, a seminar for the exchange of experience on conformity audits, good practices and current trends in this area was organised as well. This exchange of experience was highly significant taking into account that as from 2016, the State Audit Office plans to increase the scope of financial audits and provide two types of opinions: on the accuracy of financial reports and the compliance of transactions included in the report with regulatory enactments, as well as the principles of good administration. During this seminar, the State Audit Office also shared its experience on the implementation of international auditing standards.

During the visit for the exchange of experience at the **supreme audit institution of the Czech Republic**, the State Audit Office shared its experience on audit on the State budget revenue, including tax administration, the impact of the audit on the Annual Report of the Republic of Latvia and the opinion of the State Audit Office on the completeness of the State budget revenue.



Image 53. EUROSAT IX congress in Hague.

The State Audit Office took part in the **EUROSAT IX congress** which was organised in Hague. The participants of the congress included the supreme audit institutions of 50 countries and during the congress, the Overall Progress Report on EUROSAT Strategic Plan Implementation for the period from June 2011 to June 2014 and reports from EUROSAT Working Groups on the progress of execution of their tasks were approved. The congress included informal negotiations with the management of other supreme audit institutions and the European Court of Auditors on the possible involvement of their representatives in the performance of independent assessment of the State Audit Office work.

During the reporting period, a memorandum of understanding on cooperation was signed between the State Audit Office and the **supreme audit institution of Turkey**. The memorandum is based on communication between both institutions in events for the exchange of experience in order to promote the professional development of auditors and the more extensive implementation of international auditing standards. The exchange of information and organisation of consultations, seminars and conferences have been emphasized in particular.



Image 54. Meeting at the supreme audit institution of Turkey.



Image 55. Signing of a memorandum with the Court of Accounts of the Republic of Moldova

A memorandum between the State Audit Office of the Republic of Latvia and the **Court of Accounts of the Republic of Moldova** was signed. This agreement establishes further cooperation between both countries in regard to public sector audits with an aim to improve the work methods of both countries. The representative of the supreme audit institutions of both countries agreed to ensure regular contribution to the exchange of experience and knowledge on strategic planning, audit methodology, quality management, as well as the development of human resources.

The representatives of the State Audit Office took part in the first regional conference for the Supreme Audit Institutions of the European Neighbourhood organised by **SIGMA**⁶⁶ which was held in order to inform the supreme audit institutions of the EU neighbouring countries about EU experience in the application of international auditing standards and, in particular, in strengthening the role of audit institutions in protecting public interests. The representatives of the European Court of Auditors, supreme audit institutions of Sweden and France, as well as the State Audit Office were invited to the conference as SIGMA experts/lecturers.



Image 56. SIGMA regional conference for Supreme Audit Institutions of the European Neighbourhood Countries

During the conference, the State Audit Office presented its experience and approach to strategic and operational planning, organisation of its work and quality management.

Result to be achieved in accordance with the Action Strategy.⁶⁷

The State Audit Office carries out at least one parallel audit annually in cooperation with other supreme audit institutions.

During the reporting period, two parallel regulatory audits were performed.

The regulatory audit **“Effectiveness of the Process of Issuing Biometric Passports and Operation of their Support Information Systems”** was conducted by the supreme audit institution of Switzerland and involved six supreme audit institutions (Latvia, Lithuania, Belgium, Norway, Portugal and Turkey). The goals of the audit were to assess the passport management process and the effectiveness of supporting systems in comparison with results obtained by the involved supreme audit institutions, compliance of passport issue with regulatory enactments, attainment of goals determined in the European Regional Development Fund project, security management of biometric data collected by the Office of Citizenship and Migration Affairs, as well as effectiveness of management of passport data processing information systems.

The leaders of the audit **“Analysis (of Types) of Errors in EU and National Public Procurement within the Structural Funds Programmes”** were the supreme audit institutions of the Netherlands and Germany, and, apart from Latvia, involved supreme audit institutions of ten more countries. The audit was carried out to assess the compliance of procurements with regulatory enactments, the risks for the implementation of projects caused by financial adjustments, application of EU regulations on public procurements, supervision of procurements organised within the framework of structural fund projects, as well as identification and elimination of possible errors.

⁶⁶ Programme funded by the OECD and the European Union for strengthening public administration in the EU candidate countries, the EU neighbourhood countries and Croatia.

⁶⁷ The result must be achieved within each year of the Action Strategy.

3.3. Contact Committee Meeting

Result to be achieved in accordance with the Action Strategy.⁶⁸

The State Audit Office is organising the Contact Committee meeting of 2015 and is acting as a member of the Committee management group, thus contributing to the strengthening of financial management and secure administration of EU.



The Contact Committee meeting, which will take place in Riga on 18 and 19 June 2015 (with approximately 150 members), upon the proposal by the State Audit Office, was included in the schedule of events of the Latvian presidency of the EU Council.

The State Audit Office has been an acting member of the Contact Committee management group since October 2013 and from October 2014 to June 2015, the Auditor General Elita Krūmiņa was the acting chairman of the Contact Committee.

During the reporting period, the Contact Committee meeting took place in Luxembourg and it was organised and chaired by the European Court of Auditors. The main agenda items included the strengthening of cooperation between EU supreme audit institutions and the European Court of Auditors, implementation of the strategy "Europe 2020", single supervisory mechanism of European banks, as well as activity of the Contact Committee and future cooperation opportunities. This meeting had a significant role in planning the agenda of the meeting organised in Riga in 2015.



Image 57. Poster of the State Audit Office "10 years since EU enlargement" (artist: E.Kļaviņš)

⁶⁸ Result to be achieved in 2015, which is the second year of the Action Strategy.

4. COMMUNICATION OF THE STATE AUDIT OFFICE

4.1. Public availability of information

Result to be achieved in accordance with the Action Strategy.⁶⁹

The State Audit Office provides comprehensive and clear information useful for a particular target audience regarding the tasks of the State Audit Office and its activity in general and explains its role in the life of the country and every individual. **Opinion polls show that over 50% of inhabitants of Latvia trust the work of the State Audit Office.**

The State Audit Office **has approved its Communication Strategy for 2014–2017**, which is based on the will to reach every individual of the society in a manner which is clear and understandable to him or her. The goal of the Strategy is to achieve that the State Audit Office is seen as a professional, modern, non-political institution operating in public interests, the added value is the amount of saved or additionally collected funds and improved public sector administration system as the result of implemented audit recommendations, rather than the number of punished persons.

The communication of the State Audit Office is mainly aimed at the following external target audiences: the public, the legislator, law enforcement institutions, executive power, non-governmental organisations, central and regional mass media, international organisations, and foreign partners.

In order to promote communication with the public, the State Audit Office, in addition to press releases, has started to create videos on themes important for the public, which are placed on its website and the new *YouTube* channel. The institution has also developed a new website which provides information not only regarding the completed audits, but also regarding the planned audits; moreover, the public is invited to share useful information; information regarding the implementation results of recommendations provided during audits and financial impact of recommendations is communicated and the latest information regarding the investigation process of discovered violations is shared. The State Audit Office regularly communicates with the public via its *Twitter* account and has recently created a *Facebook* account, thus ensuring the timely provision of the latest information regarding the State Audit Office work.



Result to be achieved in accordance with the Action Strategy.⁷⁰

The State Audit Office also actively and regularly cooperates with the central and regional mass media and organises meetings with mass media representatives at least once in three months a quarter.



Pursuant to the State Audit Office Law, the State Audit Office shall publish an opinion of a closed audit and an audit report after they have entered into effect. The State Audit Office also prepares press releases on audit results. After audits important for the public are completed, press conferences are organised as well. During the reporting period, **five press conferences** were organised: on the performance of the State Audit Office in 2013, on the efficiency of planning regions of Latvia, on the results of the audit on the financial statements of ministries and central state institutions for 2013, on audit results on the Annual Report of the Republic of Latvia for 2013 and on the results of the audit on the material supply of the State Police.

In response to invitations from the mass media, the State Audit Office has also participated in **television and radio programmes**: radio programmes “Krustpunktā”, “Doma laukums”, “Viedokļu duelis”, “Atvērums” and “Darbojošās personas”, and television programmes “Rīta Panorāma”, “900 sekundes” and “Dombura studija”.

The officials of the State Audit Office have prepared **articles for both web portals and printed media**, e.g., “State Audit Office discovers deficiencies in forestry” and “Does Latvia State Forests try to make formal excuses?” (by the member of the Council Marita Salgrāve); “Accounting of long-term investments in budgetary institutions” (by the senior state auditor Agnis Jakovļevs); “Endless hopes for proper organisation at Latvian ports” (by the member of the Council Aivars Ērglis) “Local governments do not fear performance audits” (by the member of the Council Aivars Ērglis), “Good farmer counts every corn, bad one’s granary is filled with mice” (by the member of the Council Aivars Ērglis) “Who is afraid of

⁶⁹ Result to be achieved during year 2017, which is the last year of the Action Strategy.

⁷⁰ The result must be achieved within each year of the action strategy.



State Audit Office reports?” (by the Auditor General Elita Krūmiņa) “State Audit Office insists on control over healthcare funding” (by the member of the Council Inga Vārava), “Mistakes in the application of economic classification codes” (by the member of the Council Lelde Dimante).

Result to be achieved in accordance with the Action Strategy.⁷¹

The State Audit Office **involves the public in the provision of information** regarding possible violations and deficiencies in the activity of state and local government institutions and capital companies, and the State Audit Office website includes information regarding the commenced performance and regulatory audits.

The State Audit Office **website includes a section on initiated audits**. During several audits, the State Audit Office regularly called upon the public inviting to provide useful information.

Upon beginning the audit “**Assessment of the Sustainability of Projects Financed by the European Agricultural Fund for Rural Development and the European Agricultural Guidance and Guarantee Fund, and their Conformity to the Conditions of Projects**”, the State Audit Office invited inhabitants to share information regarding projects carried out in their surroundings for both those projects in which implementers had suspended their business and those projects which operate successfully.

Upon initiating the audit “**On the Expediency of the Use of Local Government Funds for Culture, Recreation and Sport Activities and Conformity to the Requirements of Regulatory Enactments**”, the State Audit Office addressed and invited the inhabitants of the local governments included in the audits to inform, whether the goals of activities organised by these local governments were achieved, whether the inhabitants were satisfied with the themes of the activities and their availability, and whether the events promoted the preservation of cultural heritage, creative development, and healthy lifestyle.

The involvement of the public was important for the **performance audit “Compliance of the Household Waste Management System with the Intended Objectives and Regulatory Enactments”**. Inhabitants were asked to share their opinion on what would be an appropriate fee for waste management, on its presentation in invoices, their satisfaction with the provided service, and recycling opportunities and their use.

Information received from inhabitants provides a better insight and understanding of work of particular institutions and development of definite sectors and helps assessing, whether the state and local government administration is organised to serve public interests.

4.2. Cooperation with the Saeima and the Cabinet of Ministers

Result to be achieved in accordance with the Action Strategy.⁷²

The State Audit Office strengthens cooperation with the Committees of the Saeima, including the Public Expenditure and Audit Committee, in order to promote the lawful and expedient use of budget funds, increase the responsibility of officials and employees for violations discovered during audits and facilitate the elimination of discovered deficiencies by preparing at least 30 informative reports annually.

During the reporting period, the State Audit Office officials participated in total **44 meetings of the Public Expenditure and Audit Committee of the Saeima**, where they informed about the audits on the financial statements of ministries and central state institutions for 2013, the results of regulatory and performance audits carried out in 2013 and 2014, the implementation of recommendations provided after audits carried out during previous years, and cooperation with sworn auditors and law enforcement institutions.

In March 2014, the State Audit Office organised a meeting on the report on the performance of the State Audit Office, priorities defined for 2014, where the representative of all ministries, members of the Public Expenditure and Audit Committee of the Saeima, and mass media representatives were invited to take part.

⁷¹ The result must be achieved within each year of the Action Strategy.

⁷² The result must be achieved within each year of the Action Strategy.

Result to be achieved in accordance with the Action Strategy.⁷³

The State Audit Office has informed the Public Expenditure and Audit Committee of the Saeima about the results of regulatory and performance audits, as well as financial audits (where significant violations were discovered) and recommendations provided as the result of the audits by preparing reports on the implementation of audit recommendations during the previous year in accordance with deadline defined by the decision of the Public Expenditure and Audit Committee of the Saeima.

At the meetings of the Committee, the State Audit Office has reported on the results of 16 regulatory and performance audits: on the activities of the State Forest Service; on the activities of the Ministry of Finance and *VAS Valsts nekustamie īpašumi* in developing and alienating state immovable properties; on the expediency and legality of expenses made by the national rehabilitation centre *Vaivari*; on the administration of Jelgava local government capital companies; on activities carried out by the State Revenue Service with the property seized within the framework of administrative violation and criminal proceedings; on the activities of planning regions; on the policy implemented by the Ministry of Health in regard to reimbursable medicaments; on the use of State funds for remuneration for teachers; on the healthcare of prisoners; on the execution of the agreement on international motor vehicle traffic between the governments of the Republic of Latvia and the Russian Federation; on the material supply of the State Police; on the use of funds and property by Ķekava County local government; on the establishment of public transport tariff by "Rīgas satiksme"; on the activities of Liepāja Special Economic Zone authority; on the activities of the Provision State Agency in administrating the immovable property in Jūrmala, at 6/14 Piestātnes Street, and on the activities of the State Emergency Medical Service in providing the operative medical vehicles in the city and region of Riga.

The State Audit Office has informed the Public Expenditure and Audit Committee of the Saeima about the **results of financial audits** on the financial statements of ministries and central state institutions for 2013 and on the Annual Report of the Republic of Latvia on the State budget execution and local government budgets for 2013.

During the reporting period, the State Audit Office sent to the Public Expenditure and Audit Committee of the Saeima **29 informative reports on the implementation process of the recommendations provided after audits.**

Result to be achieved in accordance with the Action Strategy.⁷⁴

Four times a year, the State Audit Office prepares information for the Saeima and the public regarding the implementation results of the recommendations provided during audits and the financial impact of the recommendations.

The State Audit Office has provided **information on the implementation process of the recommendations provided after audits at 11 meetings of the Public Expenditure and Audit Committee of the Saeima**: on the state policy in the railway transport sector and the activities of the company *Latvijas Dzelzceļš*; on the implementation of supervision and control of construction; on the administration of greenhouse gas emission quotas; on the activities of the Freeport of Riga Authority; on the activities of planning regions; on software management in local governments and local government educational institutions; on the use of resources from the funds of the Ministry of Environmental Protection and Regional Development and the Ministry of Agriculture.

The State Audit Office has **informed the Public Expenditure and Audit Committee of the Saeima about the implementation of recommendations provided after audits carried out within the period from 2018 to 2013 in the area of internal affairs, public sector financial management, education and science, justice, and environmental protection.**

Reports on the impact of implementation of recommendations provided as the result of audits are publicly available on the State Audit Office website.

⁷³ The result must be achieved within each year of the Action Strategy.

⁷⁴ The result must be achieved within each year of the Action Strategy.

Result to be achieved in accordance with the Action Strategy.⁷⁵

The State Audit Office improves cooperation with the Prime Minister and other ministers by organising meetings on important issues in the sectors once a year.

The management of the State Audit Office organised meetings with each of the ministers at least once a year, where it informed the officials of each ministry about the most essential problems discovered in its sector, the progress of implementation of audit recommendations, the positive examples of implemented recommendations, such as the weaknesses and strengths of the sector and other matters related to the administration of the sector.

The Auditor General had a meeting with the Prime Minister, where they agreed that the executive power must show greater initiative in the assessment of results of the State Audit Office audits and actions of the responsible officials.

During the drafting of the State budget, the Auditor General informed the Cabinet of Ministers about issues discovered in audited sectors, which must be taken into account in assessing budget requests from ministries responsible for these sectors, emphasizing that additional funding should not be granted to departments which had unlawfully and inefficiently used State budget funds over the previous years.

The Auditor General also had a meeting with the President of the Republic of Latvia, discussing the results of financial audits of the Annual Report, including the provision of the Latvian presidency of the EU Council, as well as other important aspects of the State Audit Office work.



Image 58. The President of Latvia meets the Auditor General E.Krūmiņa.⁷⁶

4.3. Cooperation with Audited Entities

Result to be achieved in accordance with the Action Strategy.⁷⁷

The State Audit Office develops cooperation with the directors of the audited entities, thus promoting improvements in the internal control systems of the audited entities. The results of surveys conducted by the State Audit Office show that at least 60% of directors of the audited entities have the understanding of the State Audit Office goals, tasks, and contribution to improving the internal control systems of institutions.

In response to an initiative from the State Chancellery, a meeting of the State Audit Office, the State Chancellery, the Prosecutor's Office, officials and State secretaries of ministries was organised, revealing different views on the place and role in state administration among institutions, and the members of the meeting agreed that such meetings should be held on a regular basis in order to promote the common view on the secure state administration.

At the end of the reporting period, a survey questionnaire was developed in order to gather information regarding the opinions of audited entities. The survey will be carried out and its results will be analysed during the first six months of 2015.

Result to be achieved in accordance with the Action Strategy.⁷⁸

The State Audit Office develops cooperation with internal auditors and in assessing the internal control system of audited entities during the audits, it takes into account the performance of the structural units of internal audits.

The methodology for the performance of financial audits is being improved in order to ensure the assessment of internal audits in audited entities and determine possibilities of including it in the scope of financial audits. During the reporting period, the internal audit plans of all the ministries have been examined.

⁷⁵ The result must be achieved within each year of the Action Strategy.

⁷⁶ Portal: www.prezident.lv. Available on-line at http://www.prezident.lv/pk/content/?cat_id=601&type=image&id=3074&lng=en.

⁷⁷ Result to be achieved in 2017, which is the last year of the Action Strategy.

⁷⁸ The result must be achieved within each year of the Action Strategy.

Aiming to discuss the possibilities of promoting cooperation, the management of the State Audit Office had a meeting with the Chairperson of the Internal Audit Council. The Internal Audit Council is an advisory body, which promotes the improvement of the quality of internal audit, as well as implements and develops internal audit policies and methodologies in ministries and institutions. During the reporting period, **a member of the Council of the State Audit Office Ilze Grinhofa was appointed as the Deputy Chairperson of the Internal Audit Council.**

A meeting of internal audit structural units of ministries and central state institutions was organised at the State Audit Office, where topical issues in the sector and cooperation issues were discussed, as well as reports on annual performance prepared by internal auditors were presented.

4.4. Cooperation with Other Organisations



At the seminar organised by the **State Treasury** “Important Issues in the Preparation of Annual Report 2014”, where the employees and sworn auditors of ministries, central state institutions and local governments took part, the State Audit Office informed about the most significant mistakes in accounting practices and annual reports of local governments for 2013 in order to promote greater understanding and prevent mistakes in the future.



The State Audit Office also informed about the audits of annual reports of local governments and the most significant mistakes in accounting practices and annual reports local governments for 2013 at the seminar organised by the **Trade Union of Local Governments**, as well as at the seminar for the employees of local governments held by the Local Government Training Centre of Latvia.



The State Audit Office officials also participated in the meeting of the Kurzeme Planning Region Development Board, informing about the results of regulatory, performance, and financial audits in local governments, noting the most significant problems in the work of local governments, including deficiencies in the management of local government capital companies, work of local government agencies, accounting and other issues.



In order to promote closer cooperation, the Auditor General had a meeting with the Chairperson of the Board of the **Latvian Chamber of Commerce and Industry**, where the incomplete tax policy and its long-term planning in the work of both individual companies and the state was noted as one of the main issues and it was concluded that the involvement of state and local governments in commercial activities is a hazardous tendency which distorts the market.



The Auditor General also had a meeting with the Director of the **Consumer Rights Protection Centre**, discussing the significant role of both institutions in forming the civil society and promoting honest public administration, and agreeing on further cooperation and mutual support in auditing and exchange of information.



The necessity of cooperation was also discussed with the Director of the organisation **Transparency International Latvia “Delna”**, stressing that such cooperation would be of the greatest importance in implementing the goal of the State Audit Office which is to draw more attention to audits in local governments and prompt response audits.



During the meeting with the Chairperson of the **Latvian Association of Local and Regional Governments**, the State Audit Office officials discussed issues in the development of planning regions and further cooperation opportunities.



The State Audit Office officials had a meeting with the representatives of the **Latvian Umbrella Body for Disability Organisations SUSTENTO**. During the meeting, the representatives of the organisation were informed about the audits performed in the sector and the opinion of the State Audit Office on several topical issues which influence the everyday life of people with disabilities and changes in the regulatory enactments related to disability matters, and the State Audit Office stressed that its goal was to achieve that taxpayers’ money granted for healthcare is used for planned purposes.



The State Audit Office took part in the annual conference “Latest Accounting and Financial Management Issues and Their Solutions”, which was organised by the magazine “Bilance”. Its goal was to analyse the topicalities of the financial sector and discuss the most significant issues related to accounting, taxes, finances and financial management. The State Audit Office held presentations on theme “Most Frequent Mistakes in Financial Documents and Accounting of State and Local Government Institutions and Other Organisations”, with an emphasis on good practices, which include the centralisation of functions within one department, unified approach to accounting matters, automated inventory system of fixed assets, as well as elimination of mistakes already within the course of audit among the responsible officials of

institutions involved in the consolidation process.

The State Audit Office took part in a conference organised by the **Riga Managers School**, the **Association of Accountants of the Republic of Latvia** and financial experts “Auditing, Taxes and Accounting 2014”, which gathered accountants, auditors, entrepreneurs, managers, and tax specialists in discussion on the most significant changes to regulatory enactments binding for the financial sector. The members of the conference also had an opportunity to obtain information and take part in discussions on topical issues in accounting and preparation of financial statements, changes in taxes, as well as regulatory requirements on auditing. The State Audit Office also held a presentation on audits carried out in local government capital companies by providing examples characterising the attitude of local governments towards the management of their capital companies.

The State Audit Office read a lecture at the **Latvian School of Public Administration**: “Role of Supreme Audit Institutions in Promoting Good Management”. The objective of the lecture was to improve the understanding of good management principles, basic principles of auditing and provision of internal control among the directors of state administration institutions and internal auditors.

In order to discuss the priorities of the State Audit Office activity, as well as the findings of audits on the activities of agencies established by Jelgava local government, management of capital companies, and on the activities of Zemgale Planning Region, the State Audit Office officials had a meeting with the representatives, non-governmental organisations, and local residents of Jelgava local government.

In 2014, the State Audit Office organised an annual round-table discussion on accounting and financial management in the state and local government institutions. The discussion involved the representatives of the **Ministry of Finance**, the **State Treasury**, and the **Latvian Association of Sworn Auditors**.



Valsts administrācijas skola



Valsts kase



5. PRIORITIES FOR 2015

One of the main priorities of the State Audit Office is to promote the effectiveness of audits by providing two types of opinions for financial audits (on the correctness of accounting and legality of transactions) following international practices and increasing the added value of the State Audit Office performance in regard to the impact of its recommendations.

The State Audit Office is planning to develop its activities in three directions:

- To transfer to the provision of **two types of opinions for annual financial audits**: (1) on the correctness of preparation of annual reports; and (2) on the compliance of important transactions presented in the report with regulatory enactments, planning documents and established practices.

Currently, the State Audit Office provides only one opinion on the results of annual financial audits: on the correctness of preparation of annual reports.

The financial audits carried out during the previous years have ensured significant improvements in the management and accounting of State funds. State institutions now tend to present accurate information regarding finances, state-owned assets are identified and accounting of assets has been improved, ministries implement a unified accounting policy and resource management systems, which promote more effective management of limited resources, have been established in the majority of cases. The number of institutions where the State Audit Office discovers no violations in financial accounting is increasing with each year.

Although correct financial accounting is highly important, as it reflects the financial situation of the current reporting year, it would be more important for the legislator and the public to gain assurance that state administration complies with regulatory enactments and uses State funds efficiently and in public interests without benefiting any political or economic organisations.

Therefore, the State Audit Office has proposed to the legislator that the scope of annual financial audits should be increased, ensuring the comprehensive assessment of regulatory aspects in addition to accounting issues.

In order to provide two types of opinions after financial audits, the State Audit Office:

- will carry out the examination of international auditing standards and analysis of experience gained by the supreme audit institutions of other countries;
 - will develop methodology, training programme and will organise employee training;
 - as from 2016, will implement the developed methodology in its financial audits.
- To promote the attainment of its **strategic goal: principle 1:5**. As a result, with EUR 1 invested in the activity of the State Audit Office EUR 5 will be recovered in the form of saved State budget funds or eliminated inexpedient expenditure. The State Audit Office is planning to achieve this goal completely in 2017.

This result can be achieved by carrying out qualitative inspections and by obtaining sufficient evidence in order to make reasoned conclusions and provide recommendations with the estimated financial impact.

The assessment of financial impact of recommendations provided by the State Audit Office after audits in 2013 and 2014 allowed for gaining assurance regarding that the work of the State Audit Office results in significant savings on State budget funds. The State Audit Office has carried out calculations on the financial impact of implemented recommendations and calculated that the audits carried out during within the period of 2008–2013 have promoted decrease in state and municipal budget expenditure in the amount of at least EUR 42 million and increase in revenue of at least EUR 122 million. For instance, in the field of welfare, the State Audit Office recommendations have saved EUR 9.3 million or recovered expenditure into the State budget; in the implementation of military education, the funds of at least EUR 1.2 million will be saved annually; EUR 11.4 million received from alienating state immovable property have been timely transferred into the State budget, etc.

In 2015, the State Audit Office will carry out measures to analyse the experience of supreme audit institutions of other countries and their practices for the assessment of financial impact and will improve the impact assessment methodology of the State Audit Office audits, thus providing opportunities for the regular assessment of financial impact of audit recommendations in all institutions and gathering evidence that the amount of saved State budget funds as the result of audits can be measured. Thus, third parties could also gained assurance that with each euro invested by the State Audit Office 5 euros will be recovered in the form of saved State budget funds or eliminated inexpedient expenditure.

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- To assess the possibilities of extending **the competence of the State Audit Office in the application of punishments for violations discovered during audits** by granting rights to the State Audit Office to claim losses for the violations of regulatory enactments identified during audits, particularly for the unlawful use of funds and property, as well as the right to claim losses from responsible officials in case the audited entity has not taken necessary measures against the responsible persons.

In order to carry out this task, the regulations and practices of supreme audit institutions of the European Union Member States will be analysed; likewise, it is planned to prepare several amendments to laws for increasing the competence of the State Audit Office, which will be submitted to the Saeima.

Thus, it will be ensured that the violations discovered during the State Audit Office audits will be effectively eliminated by creating such a preventive measure, which will promote public confidence in the work of state administration institutions and ensure that the lost state or local government funds will be at least partly recovered (remedy of losses).