



Annual Report 2015

The State Audit Office
of the Republic of Latvia

TABLE OF CONTENTS

TABLE OF CONTENTS

	1
Table of Contents	2
INTRODUCTION BY THE AUDITOR GENERAL	5
1. BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE	8
1.1. Vision, Mission, Values	8
1.2. Legal Framework and Competence	8
1.3. Structure	9
1.4. Action Strategy	10
1.5. Human Resources	11
1.6. Funds	15
1.7. Quality Management and Internal Control System	16
1.8. European Social Fund Project	17
2. AUDIT WORK	21
2.1. Organisation of Audit Work	21
2.2. Audit Support Tools and Processes	24
2.3. Results of Audit Work	26
2.3.1. First Audit Department	26
2.3.1.1. Foreign Affairs	26
2.3.1.2. Culture	27
2.3.1.3. Education, Science, and Sports	27
2.3.1.4. Economics	29
2.3.1.5. Transport and Communications	30
2.3.1.6. Independent and Other Institutions	31
2.3.2. Second Audit Department	33
2.3.2.1. Defence	33
2.3.2.2. Justice	34
2.3.2.3. Interior	36
2.3.2.4. Independent and Other Institutions	38
2.3.3. Third Audit Department	39
2.3.3.1. Welfare	39
2.3.3.2. Healthcare	41
2.3.3.3. Audits for Ensuring Prompt Response to Current Events in the Country	44
2.3.4. Fourth Audit Department	47
2.3.4.1. Agriculture, Fishery, and Forestry	47
2.3.4.2. Environmental Protection and Regional Development	49
2.3.4.3. Independent and Other Institutions	50
2.3.4.4. Financial Management of the Public Sector	50

TABLE OF CONTENTS

2.3.5.	Fifth Audit Department	53
2.3.5.1.	Local Governments	53
2.3.5.2.	Independent and Other Institutions	60
2.3.6.	Audit and Methodology Department	61
2.3.6.1.	Financial Management of the Public Sector	61
2.3.6.2.	Independent and Other Institutions	67
2.3.6.3.	Audit of Information Systems	68
2.4.	Implementation of Recommendations Provided as the Result of Audits	69
2.5.	Examining the Violations of Legal Norms Discovered during Audits	71
2.5.1.	Examining Violations at Law Enforcement Institutions	71
2.5.2.	Cooperation for the Exhaustive Examination of Violations	73
2.5.3.	Examination of Violations at Other Responsible Institutions	74
2.5.4.	Examination of Violations at Audited Entities and Their Higher Institutions	75
3.	INTERNATIONAL COOPERATION	79
3.1.	Membership in International Organisations and Working Groups	79
3.2.	Cooperation with the Supreme Audit Institutions of Other Countries	80
3.3.	Contact Committee Meeting	87
4.	COMMUNICATION OF THE STATE AUDIT OFFICE	88
4.1.	Public Availability of Information	88
4.2.	Cooperation with the Saeima and the Cabinet of Ministers	89
4.3.	Cooperation with Audited Entities	92
4.4.	Cooperation with Other Organisations	93
5.	PRIORITIES FOR 2016	98

INTRODUCTION BY THE AUDITOR GENERAL

INTRODUCTION BY THE AUDITOR GENERAL

The State Audit Office is gratified to publish the Annual Report for 2015, providing the public and interested parties with information about the work of the State Audit Office, emphasising the most significant aspects of audits carried out during the reporting period, outlining the cooperation of the State Audit Office with the audit institutions of other countries and its role in international audit institutions and achievements in the field of communications, as well as setting priorities for 2016.

Latvia has set high goals in relation to public welfare, competitiveness of national economy, and good management. Our closest priority is to join the prestigious Organisation for Economic Co-operation and Development (OECD). We are willing to be a progressive and developed country that ensures the widest possibilities to all its inhabitants. However, the attainment of these goals in many areas has not been particularly successful. Therefore, in its activities, the State Audit Office endeavours to attain goals set in its vision and mission: to promote the effective use of funds, ensuring their expedient use and the operation of State administration based on the achievement of particular results, to promote the fair and transparent decision-making process in the public sector, effective use of taxpayers' money, development of financial management and responsibility of officials.

In 2015, we continued our voluminous work on audits in local governments, assessed the degree of success in the management of State and local government capital companies, audited the progress of development and implementation of large information and communication technology (ICT) projects, carried out systematic audits in the field of services crucial for the public such as fire safety, assistant' services for the disabled, maintenance of local government streets and roads, management of apartment buildings, etc. We consider the observance of good management principles in the said areas and insufficient actions of the State in areas that affect the responsibility of officials to be the greatest challenges according to audit findings.

The State Audit Office pays particular attention to the planning of the State budget, since State budget funds are often planned for the attainment of different crucial goals and the satisfaction of different population needs. An invitation to carry out the assessment of budget base expenditure was the priority of the State Audit Office in 2015 as well.

Looking back at audits carried out during the reporting period, we would like to emphasise deficiencies the State Audit Office has discovered in the ability of the State to successfully implement large investment projects, wherein investments amount to millions of euros, yet results are often not achieved. One of examples is the participation of Latvia in the exhibition "Expo 2015" in Milan, which did not take place. The lack of professional project management has significantly hindered the implementation of the Krievu Island infrastructure development project. However, ICT projects are worth being emphasised in particular. These projects include the e-health system project, saving of electronic documents and data in the National Archives of Latvia, etc. The inability to define clear goals and measurable results to be achieved, to ensure professional project management and successful project implementation has prohibited the State from using all of its potential that had to be given for investments in ICT development — neither efficiency improvement, nor more convenient availability of services to inhabitants, nor availability of information to the State administration for making better decisions. To provide support to the executive authority for improving the situation, the State Audit Office has summarised the main conclusions and recommendations, as well as, in cooperation with the State Chancellery, invited all interested parties for discussion: a new practice that is planned to be continued also in other areas, in which the State fails to achieve goods results.

The second area, in which both the State and local governments face significant challenges, is the management of capital companies. The audits carried out by the State Audit Office revealed systemic deficiencies in management with regard to aspects such as the ability of the State and local governments to set goals for capital companies, define results to be achieved, ensure supervision over the achievement of results and control over the activities of capital companies. Capital companies often live an autonomous life non-related to goals defined in the substantiation on the necessity to found a capital company; reporting processes are formal; there is a lack of growth and development; moreover, it often



Auditor General
Elita Krūmiņa

INTRODUCTION BY THE AUDITOR GENERAL

results in losses to be covered by the public. The State Audit Office has applied with its recommendations to both executive authority institutions and local governments, as well as the legislator, thus facilitating the more targeted introduction of good management principles.

In continuing the series of audits in the local governments of Latvia, the State Audit Office has often acted as both an auditor and consultant, as well as an adviser. It is determined by the actual situation that auditors face — there is a lack of understanding of laws, accounting principles, and possibilities available to local governments in providing services in the social and other areas. We hope that the support received within the framework of audits carried out by the State Audit Office in both discovering violations and providing recommendations will allow local governments to meet higher standards in their activities and work for the benefit of the public in a more effective manner.

Phenomena such as possible corruption, misappropriation of funds, use of State and local government resources for private needs and even plain negligence of officials resulting in great losses of State and local government funds are discovered in audits carried out by the State Audit Office increasingly more often. Although certain progress has been achieved in both the assessment of officials' responsibility on the part of higher institutions and cooperation with law enforcement institutions, the criminal actions of officials with public funds must be addressed more strictly, improving the ability of law enforcement institutions to identify the constituent elements of a criminal offence, obtain necessary evidence and hold guilty persons liable. In the opinion of the State Audit Office, this is currently done in an insufficient manner; therefore, we have created a separate department, the main task of which is to provide support to law enforcement institutions in investigating law violations discovered by the State Audit Office, demonstrating that the public has no tolerance towards these types of crime.

Hence, exactly issues concerning the responsibility of officials have been the most significant and prior in cooperation between the State Audit Office and the Saeima. The bill promoted by the State Audit Office, stipulating expanding the authority of the State Audit Office, allowing to recover unlawfully wasted funds from officials, unless it is done by higher institutions, has been adopted in the first reading. In the opinion of the State Audit Office, these amendments to the Law benefit the public and will approximate the responsibility officials for decisions made with regard to the use of funds to the responsibility existing in the private sector. We hope for its near adoption in the final reading. Cooperation with the legislator has manifested also in other areas through both legislative incentives developed by ourselves and set by Saeima committees and incentives promoted by the Cabinet of Ministers, deputies and other interested parties in compliance with recommendations provided by the State Audit Office.

Great support within the framework of audits carried out by the State Audit Office has been provided to the non-governmental sector — by both preparing expert opinions in audited areas and creating a favourable background for the implementation of recommendations provided by the State Audit Office in institutions and mass media. The active involvement of the non-governmental sector in the work of the State Audit Office suggests the public being interested in better solutions, as well as the ability of the State and the public to cooperate for attaining common goals. Aiming at involving the non-governmental sector and the civic society in the attainment of State Audit Office's goals even more, the Social Council of the State Audit Office was founded in 2015.

The State Audit Office has been and remains an important content partner for mass media, informing the public about audit findings and providing its opinion on matters concerning the competence of the State Audit Office. Significant work has been performed for the facts established during audits to reach the widest audience possible. During the reporting period, the State Audit Office has improved the structure of audit reports, made report summaries more transparent, and commenced closer cooperation with media, making information more accessible to a wider audience. In the opinion of the State Audit Office, active cooperation of media in presenting audit findings and public awareness are crucial preconditions for the growth of the State.

The international reputation of the State Audit Office has grown. It is suggested by both the active involvement of the State Audit Office in the work of international audit institutions and the assistance we provide to countries within the framework of Eastern partnership programmes. High results have been achieved in the international audit carried out in 2015, within the framework of which the experts of supreme audit institutions of other countries have audited our work, concluding that the State Audit Office of Latvia is a modern supreme audit institution operating in compliance with international auditing standards and having a clear development mission and orientation towards growth.

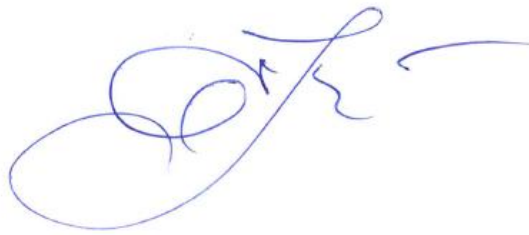
Purposeful work in the fulfilment of direct duties and systematic adoption of the world's best practice has allowed us to move towards the achievement of even higher professional standards in our activities and

INTRODUCTION BY THE AUDITOR GENERAL

promoted the formation of a strong and motivated team of auditors and support personnel. Auditors of the State Audit Office of the Republic of Latvia are gradually becoming opinion leaders and recognised experts in the international community of supreme audit institutions.

I hereby would like to express my gratitude for the invested work to the personnel of the State Audit Office, as well as to all State, local government and non-governmental institutions that have provided contribution to the attainment of our common goals.

Auditor General of the Republic of Latvia
Elita Krūmiņa



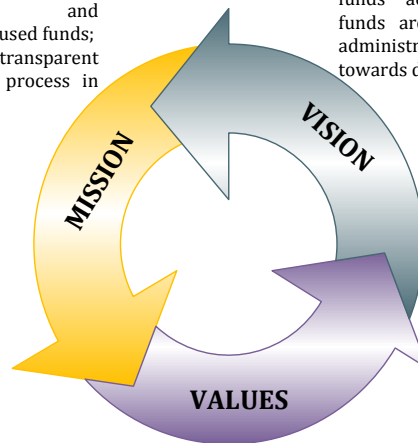
BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

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.

Figure 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.

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.

The Lima Declaration¹ and the UN General Assembly Resolution² determine that supreme audit institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity, protected against outside influence and provided with funds necessary for performing their functions.

The objective of audits carried out by the State Audit Office is to ascertain whether the use of resources of the State and local governments is lawful, economical, productive and effective, 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 an audit by the State Audit



EUROSAI



¹ Lima Declaration of Guidelines on Auditing Precepts: <http://www1.worldbank.org/publicsector/pe/befa05/LimaDeclaration.pdf>.

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/fileadmin/downloads/downloads/0_news/2012/UN_Resolution_A_66_209_E.pdf.

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>.

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

Office. Only Saeima is not subject to audits. In order to ensure the independence of the State Audit Office, the legislator has delegated it with the right to determine audited entities, as well as the time, type and objective of audits.

1.3. Structure

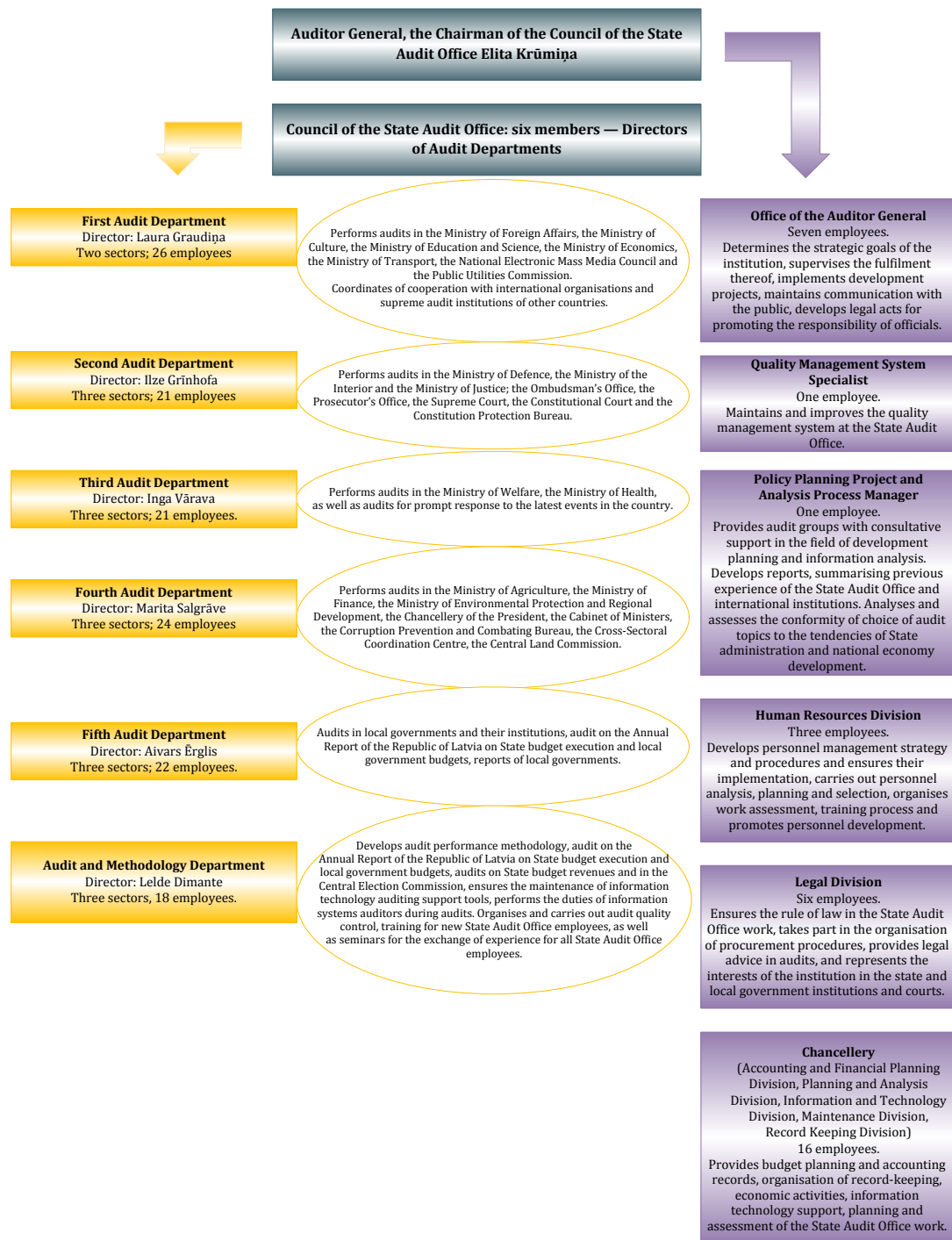


Figure 2. Structure of the State Audit Office.³

³ The number of employees on 31 December 2015 in accordance with the list of staff positions of the State Audit Office.

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

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 the members of 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.



Figure 3. Council of the State Audit Office, November 2015 (from left: Lelde Dimante, Aivars Ērglis, Elita Krūmiņa, Ilze Grīnhofa, Inga Vārava, Ilonda Stepanova).

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.

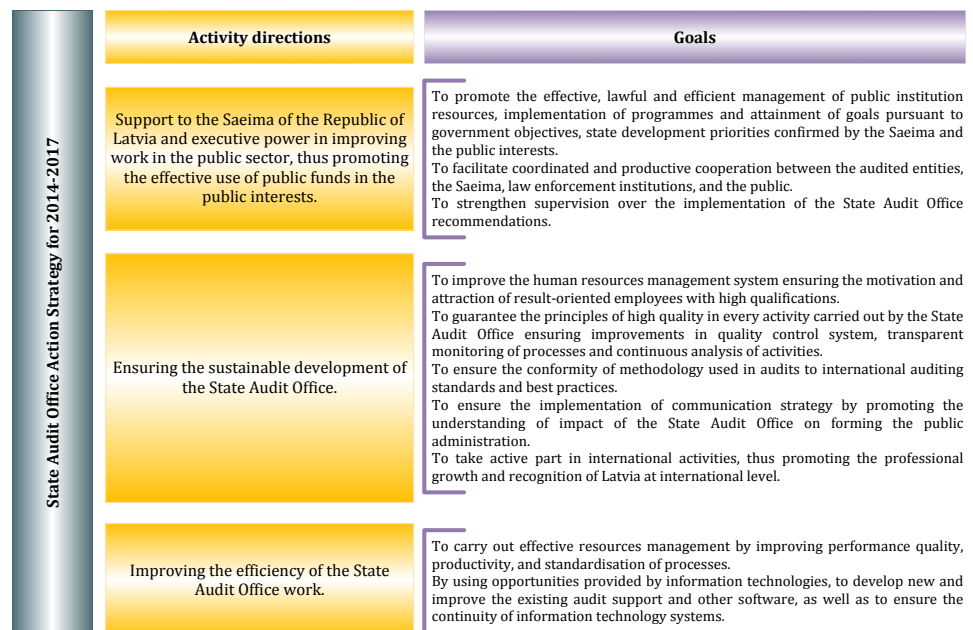


Figure 4. State Audit Office Action Strategy for 2014 – 2017.

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

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, as well as deadlines, planned man-hours and the budget.

1.5. Human Resources

Result to be achieved in accordance with the Action Strategy.⁴

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 share of **Senior State Auditors accounts for at least 30%** of the total number of the audit personnel.

Measures are taken to attain the goal in 2017.

The goal has been defined to strengthen the capacity to carry out complex audits that have a significant impact on the development of the State and the quality of State administration and the performance of which requires persons of the highest class and qualification, i.e. Senior State Auditors.

At the end of the reporting period, there were **175 staff positions** with 132 positions for audit personnel and 43 positions for supporting personnel. At the end of the reporting period, the State Audit Office employed 173 persons, including 131 audit personnel employees and 42 supporting personnel employees.

The share of Senior State Auditors of the total number of personnel involved in auditing amounted to **22%** (29 employees), State Auditors — **49%** (64 employees), State Auditor's Assistants — **8%** (10 employees), other audit personnel employees — **21%** (28 employees).

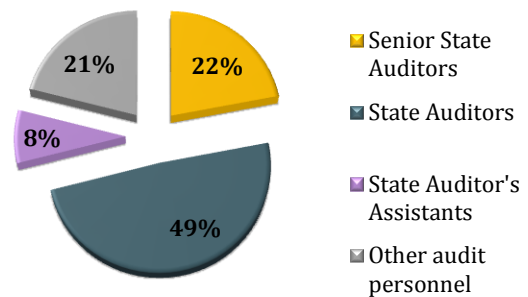


Figure 5. Structure of personnel involved in audits carried out by the State Audit Office.

In order to ensure the selection and employment of the required number of employees with the required qualifications, four vacancies for the position of a Senior State Auditor, State Auditor and Quality Management Systems Specialist were opened, and a consistent advertisement for the position of a State Auditor is placed on the website.

⁴ Result to be achieved during the least year of the Action Strategy, i.e. in 2017.

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE



Figure 6. Staff of the State Audit Office, November 2015.

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

The State Audit Office promotes the well-being of its employees by providing organised and qualitative work environment and congenial psychological microclimate; as the result, the **work environment satisfaction index is at least 2.5 and the employee turnover rate does not exceed 15%**.

Fulfilled.

A satisfaction survey is carried out once in two years. No survey was carried out during the reporting year. In 2014, the total employee satisfaction index was 2.52 points.

In 2015, the average number of employees was 173 persons. During the reporting period, 34 employees entered into employment relationships with the State Audit Office, whereas 26 employees terminated their employment relationships. The employee **turnover rate was 15%**, which is 2% less as compared to the previous year of 2014.

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

The State Audit Office carries 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 performance assessment, usually **at least 20% of employees receive grade A**.

Fulfilled.

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 assessment criteria confirmed 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).

⁵ The result must be achieved within each year of the Action Strategy; the satisfaction index is assessed once in two years.

⁶ The result must be achieved within each year of the Action Strategy.

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

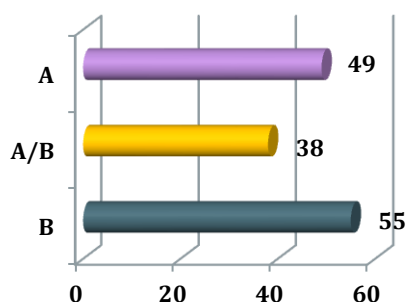


Figure 7. Work performance assessment.

During the reporting period, work performance assessment of employees was carried out, wherein 142 employees took part. As a result, 49 employees or 34.5% (34 audit personnel employees and 15 employees of supporting units) received grade A, 38 employees were assessed with grade A/B, and 55 employees received grade B. After assessment, 14 employees were awarded with a higher qualification level, and seven employees were promoted and were granted a higher qualification level.

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

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

Fulfilled.

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.

The State Audit Office has developed training programmes and practical tasks that are focused exactly on functions important in auditor's work.

During the reporting period, the employees took part in **80 various promotional training sessions, courses and seminars**, of them 18 training sessions and seminars were held by the State Audit Office employees.



It is necessary to emphasise capacity improvement training for carrying out performance audits with the support within the framework of the **European Social Fund project "Support for Implementing Structural Reforms in State Administration"** that was implemented within the period from January to November 2015. Each seminar was attended by 25 audit personnel employees.

Within the framework of training, seminars were organised on topics such as cost/benefit and cost/efficiency analysis method, survey performance methods, statistical methods, business process management and analysis, effective internal control and quality control system within the context of administration of the public sector of Latvia, performance assessment systems, assessment of expediency aspects in verifying public procurements, skills for writing reports and report summaries in performance aspects, preparation of information for mass media, etc.

On average, each employee **has devoted 90 hours a year for mastering knowledge** necessary for fulfilling his/her work duties.

As the result of training, enhanced understanding of the aspects of carrying out performance audits was obtained.

By combining theoretical training with practical knowledge improvement activities, the auditing personnel of the State Audit Office has significantly increased their competence level, allowing for integrating new methods and tools in daily work, as well as ensuring further increase in the quality of audits.

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

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

By developing individual competences, the joint approach to explaining the results of audit work and presenting them to the target audience has been improved.

A new approach to the visualisation of audit reports has been introduced and new methods (use of information and communication technology tools, use of analytical and statistical methods, analysis of opinions of sector professionals and experts and their inclusion in audit reports, development of information charts) are applied in audit work more widely.

The State Audit Office continues improving and developing commenced incentives in ensuring the perceptibility of an audit report.



Figure 8. Visualisation of Audit Reports.

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

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 for the benefit of the public, improving work culture at the institution and strengthening the confidence of audited entities and the public in the State Audit Office.

Fulfilled.

In strengthening the values of the State Audit Office, i.e. accountability, openness and development, a crucial role is attributed to the daily conduct of employees that is based on ethical attitude and activities; therefore, the Code of Ethics lays down five fundamental principles of ethics: honesty, objectivity, professional competence, confidentiality and professional conduct.

To help the officials and employees of the State Audit Office practically understand and observe the fundamental principles of conduct determined in the Code of Ethics in everyday work, the **Handbook on the Code of Ethics of the State Audit Office** has been developed.

After the approval of the Handbook on the Code of Ethics, a seminar has been organised for employees on the practical application thereof.

The fundamental principles of professional ethics determined in the Code of Ethics and recommended behaviour models referred to in the Handbook on the Code of Ethics are paid particular attention during the induction training of newly-hired employees.

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

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

University of
Latvia

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

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.

Fulfilled.

During the reporting period, a lecture by E.Krūmiņa, Auditor General, has been organised within the framework of cooperation with the University of Latvia at the University of Latvia on the functions and activities of the State Audit Office and a lecture by G.Krūmiņa, Senior State Auditor of the Fifth Audit Department, has been organised at the University of Latvia on accounting matters and an internal control system in the public sector.

To encourage students and pupils to get interested in working at the State Audit Office and inform about the profession of a state auditor, the State Audit Office participated in the event "Open Door Days" organised by the BA School of Business and Finance in February 2015 and in the open door day campaign of the State administration in October 2015 (the event was visited by 60 interested persons).

The State Audit Office invited the representatives of the Latvian Association of Certified Auditors and the Treasury for the annual discussion on 7 December 2015 to discuss topical auditing issues. During the discussion, both issues related to the auditing process and issues concerning the stock-taking process and accounting of certain items and transactions were updated. Discussion participants expressed common assurance about the need to "highlight" deficiencies discovered during audits further on, thus, promoting more purposeful actions of responsible officials in eliminating these deficiencies. During the meeting, issues related to the improvement of regulatory enactments and methodological instructions, training, experience and information exchange were also emphasised, making an overall conclusion that mutual communication is one of the most crucial aspects for the successful progress of an audit.

1.6. Funds

The total budget of the State Audit Office during the reporting year amounted to EUR 5.4 million.

Additional State budget funding of EUR 0.5 million was allocated to the State Audit Office for the year of 2015 pursuant to a new policy initiative application to submit two types of opinions prepared as the result of annual financial audits — (1) on the correctness of accounting and (2) on the conformity of transactions.

Table 1

Revenue and expenditure of the State Audit Office

Type of revenue and expenditure	Plan for 2015 (EUR)	2015 implementation (EUR)	Plan for 2016 (EUR)
Resources for covering expenditure	5,433,420	5,433,420	5,534,909
Grants from general revenue	5,211,695	5,211,695	5,534,909
State budget transfers ¹⁰	221,725	221,725	0
Total expenditure	5,433,420	5,379,179	5,534,909
Remuneration	4,116,735	4,064,213	4,534,049
Goods and services	1,170,425	1,169,261	960,735
Capital expenditure	144,518	144,475	38,418

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

¹⁰ Transfer from the State budget programme 63.07.00 "Introduction of structural reforms in public 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 for Implementing Structural Reforms in State Administration" for the activity "Strengthening the capacity of the State Audit Office".

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 22 descriptions of work processes, seven 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).



Figure 9. Measures for the supervision of the State Audit Office.

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. The working group on the quality control of completed audits carries out the quality control of audits once a year.

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. The Auditor General, directors of audit departments, the Audit Committee and heads of structural units responsible for audited systems carry out the assessment of audited systems at least once in two years.

Internal audit — to provide the assessment of the internal control system in order to enhance the work of the internal control system. The Audit Committee carries out on average one or two internal audits a year.

Conformity checks — 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. The quality management system specialist carries out on average five conformity checks a year.

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

Result to be achieved in accordance with the Action Strategy.¹¹

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

Fulfilled.

The State Audit Office performs audit quality control in accordance with the requirements of *ISSAI 40* "Quality Control for Supreme Audit Institutions"¹².

A special working group is created for carrying out the quality control of completed audits. The goal of this group is to gain assurance that the employees of the State Audit Office observe professional standards and provisions of regulatory enactments, as well as to identify good practices and improvements necessary for audit methodology.

During the reporting period, the quality control of completed audits with an aim to assess whether analytical procedures are applied as an effective way of obtaining evidence was performed **for four financial audits**: on the proper preparation of annual reports for 2014 of the Ministry of Foreign Affairs, Ministry of Justice and Ministry of Health and the 2013 Annual Report of the Republic of Latvia on State budget execution and local government budgets.

In assessing the creation of selections, quality control was carried out **for two regulatory/performance audits** — "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" and "Effectiveness of the Process of Issuing Biometric Passports and Operation of Their Support Information Systems".

Result to be achieved in accordance with the Action Strategy.¹³

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 the quality control of completed audits and implementation of recommendations provided after conformity checks within the determined deadlines in no less than 95% cases.

Fulfilled.

During the reporting period, two conformity checks were carried out on the planning, fulfilment and control of the State Audit Office budget and on the planning and organisation of procurements for the needs of the State Audit Office, and one internal audit was carried out on the supervision of implementation of recommendations provided by the State Audit Office. As the result of conformity checks and internal audit, 13 recommendations were provided in total to structural units.

In 2015, structural units had to introduce a total of 16 recommendations that were provided during conformity audits and internal audits carried out in 2014 and 2015. All recommendations were implemented.

1.8. European Social Fund Project

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

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.

Fulfilled.

During the reporting period, the State Audit Office took part in the European Social Fund project "Support for Implementing Structural Reforms in State Administration" organised by the State

¹¹ The result must be achieved within each year of the Action Strategy.

¹² *ISSAI 40 — Quality Control for SAs*: http://www.issai.org/media/12938/issai_40_e.pdf.

¹³ The result must be achieved within each year of the Action Strategy.

¹⁴ The result must be achieved during the period of the Action Strategy.

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

Chancellery as a cooperation partner by implementing the sub-activity “Strengthening the capacity of the State Audit Office”. The sub-activity was 100% financed from the funds granted by the European Social Fund. The total planned funding granted by the European Social Fund for the activity amounted to EUR 255 thousand (EUR 34.3 thousand in 2014, EUR 221.7 thousand in 2015), which was intended for (1) strengthening capacity in the area of performance audits and (2) independently assessing the work of the State Audit Office.

Within the framework of the project during the reporting year:

- strengthening of capacity was ensured for the audit personnel of the State Audit Office within the framework of 12 training seminars;
- consultations by independent experts were completed for six audits: audit “Information Systems in Healthcare”, audit “Effectiveness of Restructuring Carried out by the State Revenue Service”, audit “Effectiveness of Fire Safety Supervision Ensured in the Country”, audit “Expediency and Legality of Actions of VAS “Privatizācijas aģentūra” in Fulfilling Basic Functions Determined Thereto”, audit “Legality, Effectiveness and Efficiency of Actions of the Freeport of Riga Authority in Managing and Implementing the Project “Infrastructure Development on Krievu Island for Transferring Port Activities from the City Centre”” and audit “Legality and Expediency of Use of Funds Intended for the Maintenance and Reconstruction of Local Government Streets and Roads”;
- four business trips of foreign experts (from six partner countries) were organised for carrying out the independent assessment of work of the State Audit Office (*Peer Review*); the report on the international assessment of work of the State Audit Office (*Peer Review*) was approved and submitted to the Saeima;
- an approach to the visualisation of audit reports was developed and adopted in the work of the State Audit Office;
- business trips with the experts of the Swedish supreme audit institution were organised on consultations in the field of performance audits.

The State Audit Office has reached all the goals and results planned in the project application.

In 2015, activities were commenced to attract funding for two new initiatives in 2016:

- for the project “Increasing the Capacity of Supreme Audit Institutions of Ukraine, Moldova and Georgia in the Process of Integrating Standards of Supreme Audit Institutions (ISSAI)”, the implementation of which might be included in 2016 Action Plan of the Development Cooperation Programme of the Ministry of Foreign Affairs. Within the framework of the project, it is planned to ensure the implementation of a training programme for the employees of the supreme audit institutions of the said countries on matters concerning the institutional and practical aspects of financial and performance audits, as well as the activity of audit institutions.
- for the project within the framework of the specific support aim of the planning period 2014 – 2020 “professional improvement of State administration in the development of better legal framework in the field of support of small and medium enterprises, corruption prevention and reduction of informal economy”, ensuring further professional improvement of employees in relevant support fields, developing the process of recognition of international supreme audit institutions’ standards, implementing international cooperation and promoting the adoption of the best practice.

Result to be achieved in accordance with the Action Strategy.¹⁵

The work of the State Audit Office **conforms to the best practices of the supreme audit institutions of the European Union** 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 work of the State Audit Office has been carried out and necessary improvements have been implemented.

Fulfilled.

The State Audit Office is an independent institution that verifies the actions of the State, local governments and other public persons with funds and property. To ensure the observance of the

¹⁵ The result must be achieved during the period of the Action Strategy.

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

principle determined in international legal acts on the independence of supreme audit institutions, the activities of the State Audit Office are not and cannot be subject to any inspections by other institutions of the public sector.

However, the State Audit Office attributes importance to the professional and independent assessment of its work. The only internationally accepted way of carrying out this assessment is peer review: reviews that are carried out by the representatives of supreme audit institutions of other countries in compliance with international auditing standards at a particular audit institution.

On 5 March 2015, E.Krūmiņa, Auditor General, signed a memorandum on the performance of such review at the State Audit Office of the Republic of Latvia.

The effectiveness of activities of the State Audit Office was assessed by a group of experts headed by the supreme audit institution of Slovakia. The assessment group included also the representatives of supreme audit institutions of the Netherlands, Poland, Denmark and the United States of America, as well as the European Court of Auditors.

The assessment comprised all aspects of work of the State Audit Office: strategic and operational planning, conformity of audit methods and their application in financial, regulatory and performance audits, quality management, personnel management and other support functions.



Figure 10. E.Krūmiņa, Auditor General, signs a Memorandum of Understanding on the commencement of international assessment.



Figure 11. An international independent team of experts becomes acquainted with the process of audit work and its results.

To be able to provide objective and qualitative assessment, foreign experts met with the representatives of the Public Expenditure and Audit Committee of the Saeima, as well as with representatives at institutions and organisation, in which the State Audit Office carried out audits or which are directly responsible for the progress of policy initiatives and certification of auditors: at the Ministry of Finance, Latvian Association of Certified Auditors, Ministry of Health, Ministry of Environmental Protection and Regional Development, State Police, Mālpils County local government, and the Ministry of Transport.

On 28 August 2015, experts presented their assessment report to the Council of the State Audit Office. On 16 September 2015, the presentation of the report was organised at the Public Expenditure and Audit Committee of the Saeima of the Republic of Latvia.

The main conclusion of the assessment: the State Audit Office performs its work in an independent and objective manner, in compliance with international auditing standards; it has a significant impact on the management of public funding, and the institution actively informs interested persons, cooperation partners and the public about the results of its work.

The representatives of foreign supreme audit institutions, in approving the work done so far in improving activities, have invited to keep up and continue the work to achieve easier perceptibility of audit reports, as well as to develop further cooperation with audited units, certified auditors and other State institutions to promote the understanding of audit work.

Foreign experts have admitted that the State Audit Office is a modern development-oriented institution, the activities of which comply with the international standards of supreme audit institutions.

BASIC INFORMATION ABOUT THE STATE AUDIT OFFICE

Already during the performance of the assessment, the State Audit Office commenced active work on the implementation of recommendations provided by experts, as well as undertook to continue commenced initiatives in improving its activities:

- to ensure the professional work of the State Audit Office, it continues developing the detailed and substantiated strategic framework, developing an action plan based on serious strategic assessment and substantiated risk analysis, responding to changes in the social and economic environment of Latvia;
- in its Action Strategy for 2014 – 2017, the State Audit Office stipulates increasing the share of performance audits up to 30% of the total number of audits. In 2015, in cooperation with the supreme audit institution of Sweden, the methodology of performance audits was improved and the format of an audit report was significantly updated, making it easier to comprehend for the public. The State Audit Office continues the already commenced training process, explaining the goals of performance audits, audit approach and benefit obtained from these audits to audited entities, their internal auditors and external auditors, as well as to organisations representing audited entities. The further development of perceptibility of reports will be ensured within the framework of both performance audits and financial audits;
- the State Audit Office continues commenced initiatives in the development of human resources at all its structural units, ensuring necessary support for improving competence and skills according to the training needs of employees. Taking into account the need to increase the share of performance audits as stipulated in the strategy, the State Audit Office is ready to consider the possible establishment of an audit group or structural unit, the professional activity of which will be aimed only at carrying out performance audits or financial audits. The most appropriate implementation model will be assessed taking into account available financial and human resources;
- the State Audit Office carries out regular assessment of reasons for employee turnover and searches for problem solutions. Former employees mention non-competitive remuneration as compared to other State administration institutions and the private sector as the main reason for terminating employment relationships, particularly taking into the complexity of work, load and the necessity to know many different fields. Taking into account that the auditors of the State Audit Office assess the work of State administration and local government institutions and provide recommendations on the improvement of work, the remuneration of auditors of the State Audit Office should be both competitive with the remuneration of employees of audited entities and compliant with good practice, i.e. it must be greater to ensure the influence of audits. Taking into account the funding of the State Audit Office that had been drastically reduced during the crisis and still limited budget resources, the immediate elimination of the problem is impossible, and the issue is being resolved by inviting the Saeima and the Cabinet of Ministers to gradually increase the funding of the State Audit Office. In its recommendation, the international team of independent experts also indicated the need to commence discussion with the responsible Saeima committee to eliminate the main reason for staff turnover — ensuring the competitiveness of remuneration with other State administration institutions and the private sector. The same invitation was expressed by the Organisation for Economic Co-operation and Development (OECD) encouraging to restore the funding of the State Audit Office to a pre-crisis level.

2. AUDIT WORK

2.1. Organisation of Audit Work

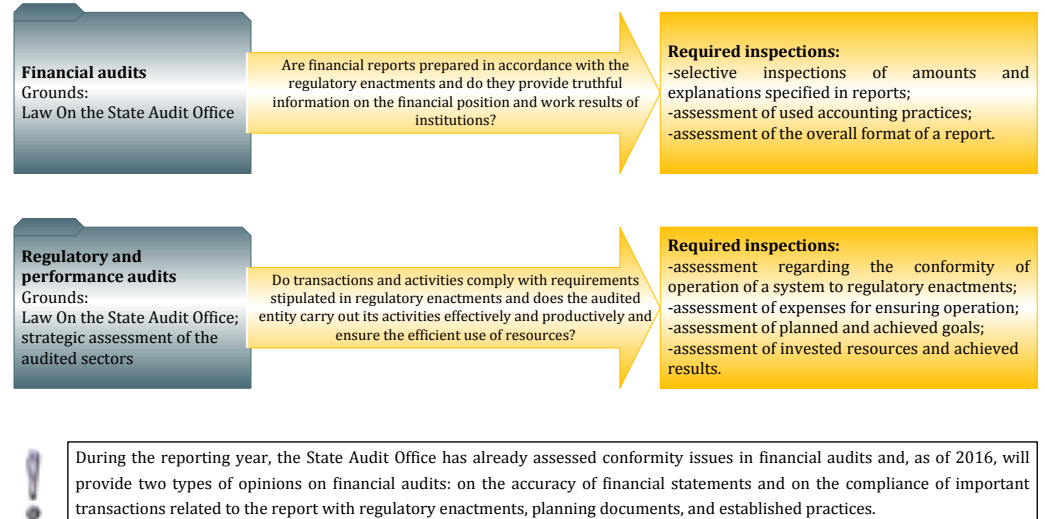


Figure 12. Audits of the State Audit Office.

Audit work was carried out in compliance with the Action Plan approved by the Council of the State Audit Office for 2015.

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 2015, 45 audits were completed **in total**, including **27 financial audits** and **18 regulatory and performance audits**.

As the result of audits, 74 audit **reports were prepared in total**.

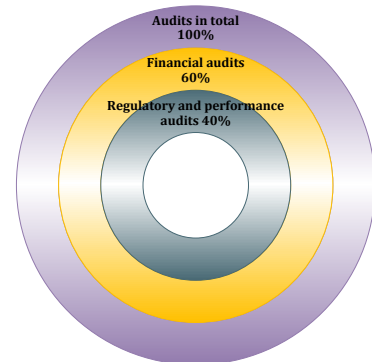


Figure 13. Share of audit types of the State Audit Office.

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

The State Audit Office allocates 30% of audit resources for performance audits and regulatory audits with an expediency aspect, ensuring gradual increase in 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.

Fulfilled.

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.

¹⁶ Result to be achieved during the least year of the Action Strategy, i.e. in 2017.

Accurate financial accounting is significant; however, it is more important for the legislator and the public to gain assurance that the State administration and local governments comply with legal acts and dispose of taxpayers' money in an expedient manner and for the benefit of the public. Therefore, the State Audit Office strengthens the capacity of assessment of expediency issues with great determination. During the reporting period, **40.5%** of all the resources available for audits **were invested in carrying out performance audits and regulatory audits with an expediency aspect.**

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

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

Fulfilled.

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

The State Audit Office carried out **regulatory audits, performance audits and regulatory/performance audits** on the following topics:

- expediency and legality of economic activities of VSIA "Bulduru Dārzkopības vidusskola";
- expediency and legality of actions of VAS "Privatizācijas aģentūra";
- conformity of the allocation and use of the State budget grant to the providers of railway passenger carriage services to regulatory enactments and the activity of AS "Pasažieru vilciens";
- legality and efficiency of management of immovable property in the field of legal affairs;
- effectiveness of fire safety supervision implemented in the country;
- effectiveness of provision of assistant's services necessary to persons with disabilities;
- information systems in healthcare;
- determination of the fee for the administration and management of residential buildings, conformity of activities of SIA "Rīgas namu pārvaldnieks" and SIA "Lielvārdes Remte" to planned goals and requirements set forth in regulatory enactments;
- use of money allocated for the fight against African swine fever and Classical swine fever according to the intended purpose;
- effectiveness of administration of residential apartment buildings and its conformity to requirements set forth in regulatory enactments;
- declarations of State officials as a tool for ensuring the legality and transparency of activities of officials;
- legality and expediency of use of funds intended for the maintenance and reconstruction of local government streets and roads;
- legality, effectiveness and efficiency of actions of the Freeport of Riga Authority in managing and implementing the project "Infrastructure Development on Krievu Island for Transferring Port Activities from the City Centre";
- effectiveness of management of capital companies of Saldus County local government and its conformity to requirements set forth in regulatory enactments;
- effectiveness of restructuring performed by the State Revenue Services;
- storage of electronic documents and data in the National Archives of Latvia.

¹⁷ The result must be achieved within each year of the Action Strategy.

AUDIT WORK

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

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

Fulfilled.

The share of auditors' 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 auditors **dedicated 83.4% of their working time to audit work.**

Result to be achieved in accordance with the Action Strategy.¹⁹

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

Fulfilled.

During the reporting period, **96% of audits were completed within the planned deadline.**

Result to be achieved in accordance with the Action Strategy.²⁰

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

Fulfilled.

The State Audit Office audit methodology **complies with ISSAI (International Standards of Supreme Audit Institutions)**, and is being updated after reviewing changes to the international standards. The conformity of audit methodology of the State Audit Office to international auditing standards has been approved by an international group of experts of supreme audit institutions, which carried out the assessment of work of the State Audit Office during the reporting period.

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

Result to be achieved in accordance with the Action Strategy.²¹

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

Measures are taken to attain the goal.

Taking into account that regulatory enactments do not stipulate that ISSAI standards are binding to the public sector, the State Audit Office has undertaken responsibility for facilitating the introduction of these standards in Latvia. The measure is taken gradually and depending on the budget possibilities and human resources capacity of the State Audit Office. During the reporting year, ISSAI standards were translated into the official language.

¹⁸ The result must be achieved within each year of the Action Strategy.

¹⁹ The result must be achieved within each year of the Action Strategy.

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

²¹ The result must be achieved during the period of the Action Strategy.

The State Audit Office has developed the bill “Amendments to the Law On the State Audit Office” that stipulates determining that the Auditor General shall determine auditing standards to be used in public sector audits, based on the standards and guidelines of independent organisations of supreme audit institutions, as well as requirements set for the quality control of audits. The bill was adopted by the Saeima in the first reading on 10 March 2016.

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 and documentation of audit work, and assist in the supervision of implementation of audit recommendations, as well as ensure more efficient analysis of data accumulated in the State administration.

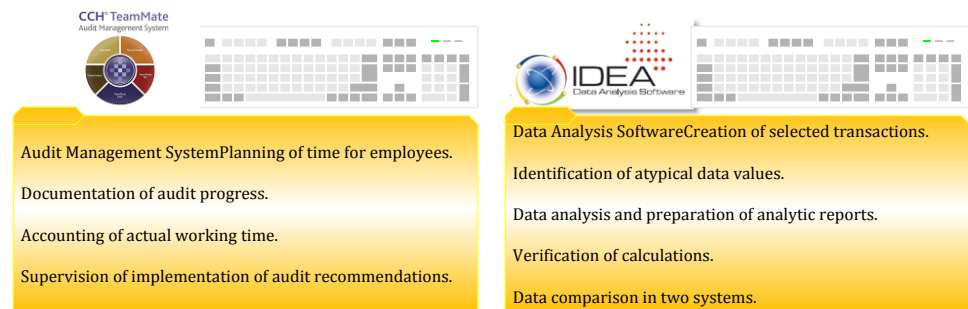


Figure 14. Audit support tools.

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

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

Fulfilled.

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.

In order to ensure the availability of information systems, the visualisation of servers has been introduced and some of servers have been interconnected into a server cluster. The creation of backup copies of data and servers is ensured on a regular basis. 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.

The availability indicator of information systems was 98.8%.

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

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

Measures are taken to attain the goal in 2017.

During the reporting year, the information security policy of the State Audit Office and information technology security regulations of the State Audit Office have been developed and approved.

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

²³ Result to be achieved during the least year of the Action Strategy, i.e. in 2017.

The information security policy determines high-level general requirements, principles and conditions for ensuring the confidentiality, integrity and accessibility of information. In turn, regulations lay down procedures pursuant to which the State Audit Office shall ensure the protection of information and technical equipment belonging thereto, and the aim of these regulations is to ensure a single and systemic approach to the resolving of issues related to the security of information technologies at the State Audit Office, to ensure employees' understanding of issues concerning the security of information technologies and to be the basis for the development and introduction of other necessary security documents at the State Audit Office.

To achieve the set result, in 2016 and 2017, regulations will be improved and supplemented with information technology security areas determined in the good practice standard of information security, which have not been included in regulations yet; likewise, the Cabinet of Ministers and the legislator are invited to consider the possibility of allocating funding for the full-fledged implementation of the information security policy.

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

The digital management of 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.

Fulfilled.

In January 2015, the use of the electronic document management system (EDMS) was commenced. Initially, EDMS ensured the uploading, registration and sending of prepared documents or their transfer for resolution only at the level of managers.

Pursuant to the agreement signed on the implementation of EDMS, on 1 June 2015, all employees of the State Audit Office started using EDMS. The implementation of the second stage of EDMS ensured the electronic preparation of documents, their harmonisation, signing with an electronic signature of the system and with a secure electronic signature, sending to addressees, as well as preparation of resolutions to employees and control of execution.

In September 2015, the implementation of the next stage of EDMS was commenced, wherein, pursuant to the agreement, the archiving and destruction of electronic documents in EDMS, as well as transfer of documents signed with a secure electronic signature for storage with the State Archive of Latvia will be implemented.

²⁴ Result to be achieved during the least year of the Action Strategy, i.e. in 2017.

2.3. Results of Audit Work

2.3.1. First Audit Department

Member of the Council of the State Audit Office since 24 April 2014,
Director of the First Audit Department
Laura Graudiņa

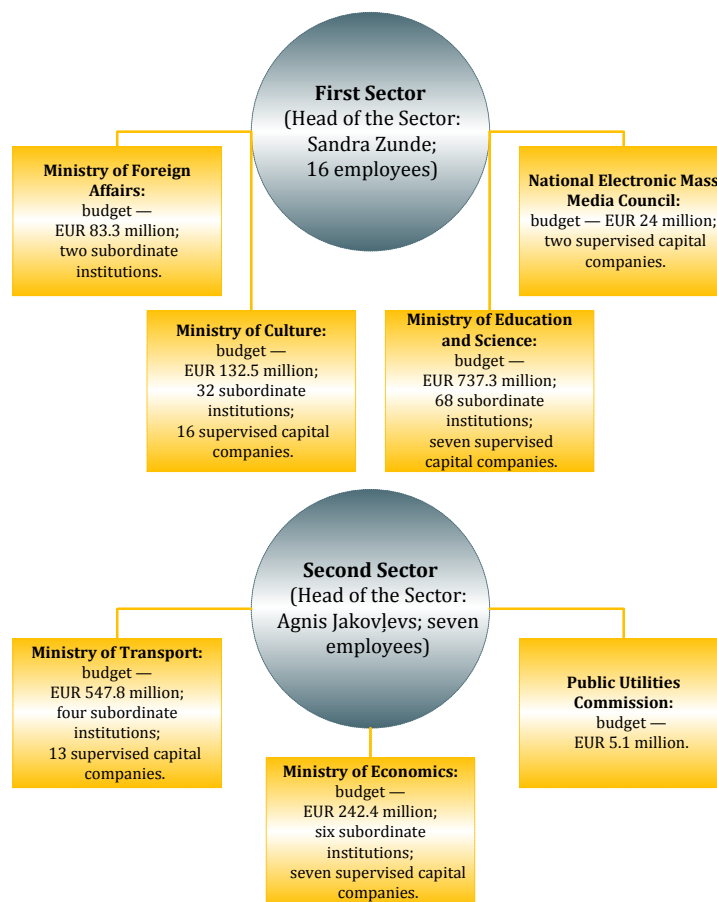


Figure 15. Entities audited by the First Audit Department.²⁵

2.3.1.1. Foreign Affairs

After carrying out **the financial audit at the Ministry of Foreign Affairs regarding the financial statement for 2014**, the State Audit Office provided three recommendations. No significant discrepancies were discovered during reviews, yet it was repeatedly indicated at deficiencies in the organisation of procurements.

State Joint Stock
Company
“Valsts nekustamie
īpašumi”

²⁵ The number of employees on 31 December 2015 in accordance with the list of staff positions of the State Audit Office.

Deficiencies were discovered in the process of immovable property management. The Ministry of Foreign Affairs entered into agreements with VAS "Valsts nekustamie īpašumi" on the management of buildings of the embassy in Russia and the permanent representative office in the European Union in Brussels. In turn, VAS "Valsts nekustamie īpašumi" authorised to carry out the management of buildings to the embassy in Russia and the permanent representative office in the European Union. During the audit, it was discovered that in 2013 and 2014, the total amount of management expenses of the embassy in Russia and the permanent representative office in the European Union was by EUR 288.3 thousand less than the amount the Ministry of Foreign Affairs had transferred to VAS "Valsts nekustamie īpašumi" to cover management expenses. Moreover, at the end of 2013, without taking into account the aforementioned, additional funds of EUR 345.7 thousand were requested and granted by the Decision of the Cabinet of Ministers from the presidency budget to cover the management expenses of the permanent representative office in the European Union in Brussels for 2013 and 2014. As the result, no assurance was gained regarding the effective and efficient use of budget funds of EUR 288.4 thousand for the intended purposes.

2.3.1.2. Culture

Within the framework of the financial audit "On the Proper Preparation of 2014 Annual Report of the Ministry of Culture", the State Audit Office revealed significant discrepancies in the institution subordinate to the Ministry of Culture, i.e. National Library of Latvia; as a result, a qualified opinion was provided to the ministry. Since the year of 2014 was the year the new building "Palace of Light" of the National Library of Latvia was opened, the purchases of thousands of pieces of equipment for the ambitious building took place.

The National Library of Latvia failed to ensure proper accounting for equipment for the total amount of EUR 9.9 million as purchased material values could be identified neither in accounting, nor on site.

The actions of the Ministry of Culture, National Library of Latvia and Latvian National Museum of Art, in making non-scheduled advance payments for the total amount of EUR 223.4 thousand in December 2014, suggest the deliberate maximum use of budget funds of the reporting year, thus violating the fundamental principles of secure financial management and failing to observe requirements set forth in the Law On Budget and Financial Management.

Riga Choreography School, National Film Centre, Latvian National Museum of Art, National Archives of Latvia and Association of Memorial Museums, without carrying out procurement procedures and paying invoices for the purchase of one type of services or goods for the total amount of EUR 83.6 thousand, when set procurement procedures had to be applied pursuant to the Public Procurement Law, failed to ensure the openness of the procurement procedure, free competition of suppliers, and equal and fair attitude thereto, as well as caused the risk of inefficient use of State budget funds.

Pursuant to requirements set forth in the Latvian Administrative Violations Code, the State Audit Office informed the Procurement Monitoring Bureau about violations discovered during the audit in the field of public procurements at the Riga Choreography School and the Association of Memorial Museums.

2.3.1.3. Education, Science, and Sports

Within the framework of the financial audit of 2014, the Ministry of Education and Science was provided with seven recommendations. In 2014, the Ministry of Education and Science made advance payments of EUR 58.3 thousand, including advance payments of EUR 47.7 thousand that had not be stipulated in signed agreements and advance payments for personal income tax and mandatory State social insurance contributions of EUR 10.6 thousand.

The Ministry of Education and Science failed to attain the goal of the project "Portal www.skolas.lv Development. 2nd Stage", and as the result of implementation, the State budget incurred losses of EUR 3.6 million.

Skrunda Vocational Secondary School failed to use funds allocated to the educational institution in a rational manner and failed to ensure the effective and efficient use of budget funds for intended purposes, since in providing catering services to the educational institutions of Skrunda County local government and Skrunda Health and Social Care Centre, losses of at least EUR 15 thousand occurred.

During the financial audit, it was discovered that in 2014, institutions subordinate to the Ministry of Education and Science, failing to carry out the procurement procedure determined in the Public Procurement Law, purchased goods and services and made payments for the total amount of EUR 134.1 thousand (excluding VAT), thus limiting the free competition of suppliers and causing the risk of inefficient use of State budget funds.

The State Audit Office informed the Procurement Monitoring Bureau about audit findings.



Figure 16.²⁶

During the reporting year, the regulatory/performance audit “Expediency and Legality of Economic Activities of VSIA “Bulduru Dārzkopības vidusskola”” was carried out.

VSIA “Bulduru Dārzkopības vidusskola” (Capital Company) is the only educational institution in Latvia providing education in the field of gardening and landscaping, as well as floristics. For the gardening programme students of the Capital Company to be able to master theoretical and practical skills, a modern, functional and efficient training base compliant with the requirements of modern technologies was created. The funds of European Union structural funds were allocated for the reconstruction of the training greenhouse of the Capital Company, planning that it would be used by 724 students. However, on average 149 students were studying within the framework of the programme offered by the Capital Company within the period from 2013 to 2015 and only 10%-20% of them underwent practical training in the training greenhouse.

In addition to the principal goal of its activity, i.e. the implementation of education programmes, the Capital Company carries out economic activities, i.e. breeding and trading of flowers, stands and different types of vegetables, provision of hotel services, lease of immovable property and provision of other services. Own revenues amounted to 29% of resources for covering expenses in 2013, 22% in 2014 and 33% in 2015 (by 30.06.2015).

The Ministry of Education and Science failed to ensure the effective and transparent management of the Capital Company, since it had been unable to make a decision on its legal status for a long time.

The Capital Company is unable to cover expenses related to the implementation of education programmes, covering of utility expenses and maintenance of immovable property by means of own revenues and State budget grants.

The Capital Company is unable to ensure necessary funding for the implementation of EU projects from own funds, therefore it has repeatedly requested to allocate additional State budget funds and received them.

The Capital Company deceived the ministry since it had requested additional funds on an expedite basis, yet the additional grant allocated on 17.12.2014 for the installation of a fire alarm system at the official hotel in the amount of EUR 31.3 thousand was not used even by 30.06.2015.

The Ministry of Education and Science did not look for the reasons for the occurrence of financial problems and solutions for elimination thereof, yet allocated additional funding to the secondary school on a regular basis for covering losses.

The land with an area of 1,426,186 m² and the premises with an area of 44,247 m² were transferred to the disposal of the Capital Company; however, as the result of the audit, it was concluded that the Capital Company failed to act as a thoughtful and careful owner, since immovable properties at the disposal thereof were not used in a manner to ensure the highest return possible for ensuring the training process. To ensure the training process, the Capital Company uses only 13% of lands belonging thereto and 67% of buildings belonging thereto; 55%

²⁶ Inefficient actions with a quarter of a million of euros discovered at Bulduri Gardening College. Portal www.tvnet.lv. Photo: Gatis Dieziņš/ Leta. Online: <http://www.tvnet.lv/zinas/latvija/592035>.

of lands are leased, while 33% of lands belonging thereto are neither leased nor used for the training process.

To eliminate deficiencies discovered during the regulatory and performance audit, the State Audit Office provided three recommendations to the Ministry of Education and Science and 19 recommendations to VSIA "Bulduru dārzkopības vidusskolai".

2.3.1.4. Economics

In carrying out **the audit on 2014 Annual Report of the Ministry of Economics**, assurance was gained regarding the correctness of accounting and preparation of an annual report, and an unqualified opinion was provided. During the audit, errors in the amount of EUR 18 thousand were corrected in the consolidated report of the Ministry of Economics after remarks from auditors.

EXPO
Milano 2015

The Ministry of Economics disposed of funds of EUR 1.3 million in an inexpedient manner, in preparing for participation in the international exhibition "Expo Milano 2015".

As the result of the audit, the Ministry of Economics was provided with recommendations, by implementing which the internal control system of the Ministry of Economics will be improved allowing for eliminating the inexpedient use of State budget funds in the implementation of important projects in future.

During the reporting year, **the regulatory and performance audit "Expediency and Legality of Actions of VAS "Privatizācijas aģentūra" in Fulfilling Basic Functions Determined Thereto"** was carried out.

As the result of the audit, it was concluded that the Ministry of Economics as a State institution responsible for the implementation of the privatisation policy failed to assess the implementation of the policy and necessary solutions for terminating the privatisation process, including in matters related to the use of the remaining privatisation certificates and the management of VAS "Privatizācijas aģentūra" (hereinafter — "Privatisation Agency").

In 2013 already, it was known that the goal of privatisation was achieved and the government approved the State goals of the final stage of privatisation, yet the final deadline was not set. In 2016, the privatisation of objects of State property, including the privatisation of residential buildings and apartments, still continues in the country. Its pace has decreased significantly though: over the recent years, only 3.2% of the total number of State apartments to be privatised were privatised and only 2% of privatisation certificates were used. The forecast of 2003, predicting that privatisation certificates would be used in full for privatising the remaining objects of State property, did not come true.

Although the strategy for the termination of activities of the Privatisation Agency had been repeatedly developed and several solutions had been offered for the termination of the privatisation process, the final decision on the termination of the privatisation process still has not been made and the Privatisation Agency continues its operation.

Significant decrease in the scope of privatisation has created a situation, wherein the Privatisation Agency finances its activities from funds accumulated over previous years.

In 2014, privatisation revenues amounted to EUR 8.4 million, EUR 918 thousand formed contributions to the Privatisation Agency, while the amount of expenses related to the provision of activity of the Privatisation Agency (remuneration to employees, maintenance of the building in Riga, at Krišjāņa Valdemāra iela 31, repairs, etc.) reached EUR 2.3 million.

While the amount of accumulated funds in the reserve fund was EUR 4.2 million at the beginning of 2014, it was only EUR 2.7 million at the end of 2015. As from 9 December 2015, instead of current 7% of funds

obtained from selling immovable property, the Privatisation Agency is allowed to deduct 7 times less, i.e. up to 50% for covering expenses.

The funds of the reserve fund are used also for maintaining the accounts of non-used privatisation certificates (EUR 816.7 thousand during the audited period). The fact that 62% of accounts of privatisation certificates owned by private individuals feature only one privatisation certificate is crucial as well.

Taking into account these aspects, the State Audit Office indicates that the long-term inability to create a solution for the termination of privatisation and failure to make a decision on the deadline for the termination of privatisation in future can cause additional load on the State budget.

Likewise, the administration of the Privatisation Agency implemented by the Ministry of Economics cannot be assessed as sufficiently efficient, since the Ministry of Economics not only failed to approve particular and measurable activity results to be achieved by the Capital Company for the fastest possible termination of the privatisation process and failed to assess the fulfilment of effective indicators, but also failed to ensure the creation of economically-substantiated of Capital Company administration structure correspondent to the actual situation in the field of privatisation and clearly defined criteria for the determination of the number of board members. In the current situation when it is actually impossible to assess the achievement of results as compared to the previous period and it is impossible to assess the contribution of board members to the achievement of Privatisation Agency's results, remuneration is granted to the board in the maximum amount. The Ministry of Economics failed to take measures for controlling the activity of the Capital Company to gain assurance that remuneration determined for the executive body complies with requirements set forth in the regulatory enactment. The internal regulatory enactments of the Capital Company on the most important conditions for the determination of remuneration for employees have not been harmonised; as a result, the Ministry of Economics has no idea of the use of the compensation fund of the Privatisation Agency (for example, in 2014, it was determined in the amount of EUR 1.9 million) and bonuses can be paid to employees (in the amount of EUR 142 thousand during the audited period) practically for any performed daily activity.

In total, 12 recommendations have been provided in the audit. The State Audit Office invited the Ministry of Economics to take necessary measures to assess the effectiveness of measures previously taken to terminate privatisation and the use of privatisation certificates and determine activities to be performed further on, as well as the expediency of further activities of the Privatisation Agency, taking into account the actual situation in the field of privatisation, and the financial influence of expenses related to ensuring the activities of the Privatisation Agency on the State budget. We have also invited the Ministry of Economics to improve the supervision of the Privatisation Agency until the termination of its activities, determining comparisons and measurable results of activities of the Privatisation Agency, as well as clearly defined, comparable and measurable criteria for determining the number of board members and creating a remuneration system.

2.3.1.5. Transport and Communications

In carrying out **the financial audit on 2014 Annual Report of the Ministry of Transport**, assurance was gained regarding the correctness of accounting and preparation of an annual report, and an unqualified opinion was provided.

During the reporting year, **the performance audit "Conformity of the Allocation and Use of the State Budget Grant to the Providers of Railway Passenger Carriage Services to Requirements Set Forth in Regulatory Enactments and the Conformity of Activities of AS "Pasažieru vilciens" to Regulatory Enactments and Their Effectiveness"** was carried out in the field of transport and communications.

During the audit, it was concluded that the Ministry of Transport had implemented a formal approach to the strategic management of AS "Pasažieru vilciens", since AS "Pasažieru vilciens" had operated without any long-term strategic documents approved by the shareholder for almost six years.



Figure 17.²⁷

²⁷ SAO: The MoT allowed "Pasažieru vilciens" to live beyond its means. Portal www.la.lv. PHOTO: Leta. Online: <http://www.la.lv/vk-sm-pielavusi-ka-pasazieru-vilciens-dzivo-pari-lidzekliem/>.

The activities of the Ministry of Transport, AS "Pasažieru vilciens" and VSIA "Autotransporta direkcija" in the field of railway passenger carriage created no preconditions for the funds of EUR 41.6 million to be used in the most effective manner possible.

capital company to promote the financial stability of AS "Pasažieru vilciens" in the long-term. The Ministry has approved the AS "Pasažieru vilciens" losses planned in 2015 in the amount of EUR 8.3 million.

AS "Pasažieru vilciens" ensures the provision of public transport services along regional railway routes of an intercity significance pursuant to the agreement signed with VSIA "Autotransporta direkcija". In assessing the essence and actual fulfilment of the agreement, the State Audit Office concluded that it did not promote cost-effective passenger carriage, reducing to the extent possible the losses of AS "Pasažieru vilciens" that are compensated from State budget funds.

As the result of the audit, several deficiencies in the activities of AS "Pasažieru vilciens" were discovered, including the following:

- actions of AS "Pasažieru vilciens" in elaborating development planning documents for the implementation of investment projects are not aimed at achieving results by using less funds and property;
- AS "Pasažieru vilciens" and the Ministry of Transport lack a single vision about the possibilities of attracting European Union co-funding for investments in the renovation of the rolling stock;
- AS "Pasažieru vilciens" is unable to define the amount of the rolling stock and procurement requirements, as well as has failed to assess the actual expenses and funding possibilities of the last procurement; as a result, the planned contract price in the event of signing the contract would have increased by EUR 49.4 million, i.e. by 18%, reaching EUR 323.2 million;
- measures organised on the restoration of the rolling stock have resulted in additional expenses of at least EUR 1.9 million and obligations regarding the modernisation of six diesel trains in the amount of EUR 22 million;
- maintenance repairs and overhauls of the rolling stocks are organised, without observing the principles of good practice, since the conformity of repair expenses to market prices is not assessed, without ensuring assurance that repair expenses of EUR 26 million are economically justified.

Within the framework of the audit, 21 recommendations were provided, stipulating the implementation of the sustainable policy in the field of railway passenger carriage, improvement of AS "Pasažieru vilciens" management, effective use of the State budget grant, improvement of internal control environment of AS "Pasažieru vilciens", savings on the funds of AS "Pasažieru vilciens" and promotion of financial stability, as well as the promotion of cooperation between different ministries of the sector.

2.3.1.6. Independent and Other Institutions

During the financial audit on the proper preparation of 2014 Annual Report of the National Electronic Mass Media Council, it was discovered that the Council had failed to ensure sufficient control over the use of the State grant allocated to commercial television for the implementation of the public order part. As a result, SIA "Ogres Televīzija" made a payment for the non-executed order in the amount of EUR 54.8 thousand. The National Electronic Mass Media Council paid to SIA "Ogres Televīzija" the contract amount of

One of directions for the implementation of the transport policy is to integrate all types of public transport in a single system of public transport routes. AS "Pasažieru vilciens" is one of transport policy implementers; however, its efforts to become integrated in the public transport system of Riga have resulted in non-received income of EUR 563.1 thousand.

The Ministry of Transport as the holder of 100% capital shares of AS "Pasažieru vilciens" is unable to ensure the management of the

capital company to promote the financial stability of AS "Pasažieru vilciens" in the long-term. The Ministry has approved the AS "Pasažieru vilciens" losses planned in 2015 in the amount of EUR 8.3 million.

AS "Pasažieru vilciens" ensures the provision of public transport services along regional railway routes of an intercity significance pursuant to the agreement signed with VSIA "Autotransporta direkcija". In assessing the essence and actual fulfilment of the agreement, the State Audit Office concluded that it did not promote cost-effective passenger carriage, reducing to the extent possible the losses of AS "Pasažieru vilciens" that are compensated from State budget funds.

As the result of the audit, several deficiencies in the activities of AS "Pasažieru vilciens" were discovered, including the following:

- actions of AS "Pasažieru vilciens" in elaborating development planning documents for the implementation of investment projects are not aimed at achieving results by using less funds and property;
- AS "Pasažieru vilciens" and the Ministry of Transport lack a single vision about the possibilities of attracting European Union co-funding for investments in the renovation of the rolling stock;
- AS "Pasažieru vilciens" is unable to define the amount of the rolling stock and procurement requirements, as well as has failed to assess the actual expenses and funding possibilities of the last procurement; as a result, the planned contract price in the event of signing the contract would have increased by EUR 49.4 million, i.e. by 18%, reaching EUR 323.2 million;
- measures organised on the restoration of the rolling stock have resulted in additional expenses of at least EUR 1.9 million and obligations regarding the modernisation of six diesel trains in the amount of EUR 22 million;
- maintenance repairs and overhauls of the rolling stocks are organised, without observing the principles of good practice, since the conformity of repair expenses to market prices is not assessed, without ensuring assurance that repair expenses of EUR 26 million are economically justified.

Within the framework of the audit, 21 recommendations were provided, stipulating the implementation of the sustainable policy in the field of railway passenger carriage, improvement of AS "Pasažieru vilciens" management, effective use of the State budget grant, improvement of internal control environment of AS "Pasažieru vilciens", savings on the funds of AS "Pasažieru vilciens" and promotion of financial stability, as well as the promotion of cooperation between different ministries of the sector.

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At the meetings of Saeima committees, after examining the report of the State Audit Office and assessing the actions of the Chairperson of the National Electronic Mass Media Council, it was decided to express distrust to the Chairperson, dismissing him from the position held.

EUR 348.6 thousand in full, without taking into account that the commercial television prepared a smaller number of episodes / programmes in 2014.

The funding of EUR 22.1 million was allocated to “Latvijas Radio” and “Latvijas Televīzija” from the State budget funds in 2014, without taking into account the remaining 2013 funding of EUR 209.2 thousand as at 01.01.2014.

The following recommendation was provided to the National Electronic Mass Media Council:

- to plan funding for the particular needs of “Latvijas Radio” and “Latvijas Televīzija”, taking into account the time necessary for their implementation;
- to ensure that the funding that has been allocated for particular needs or a particular period and has not been used is taken into account in planning the amount of funding to be allocated for other activities or period.

In carrying out **the audit on 2014 Annual Report of the Public Utilities Commission**, assurance was gained regarding the correctness of accounting and preparation of an annual report, and an unqualified opinion was provided.

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

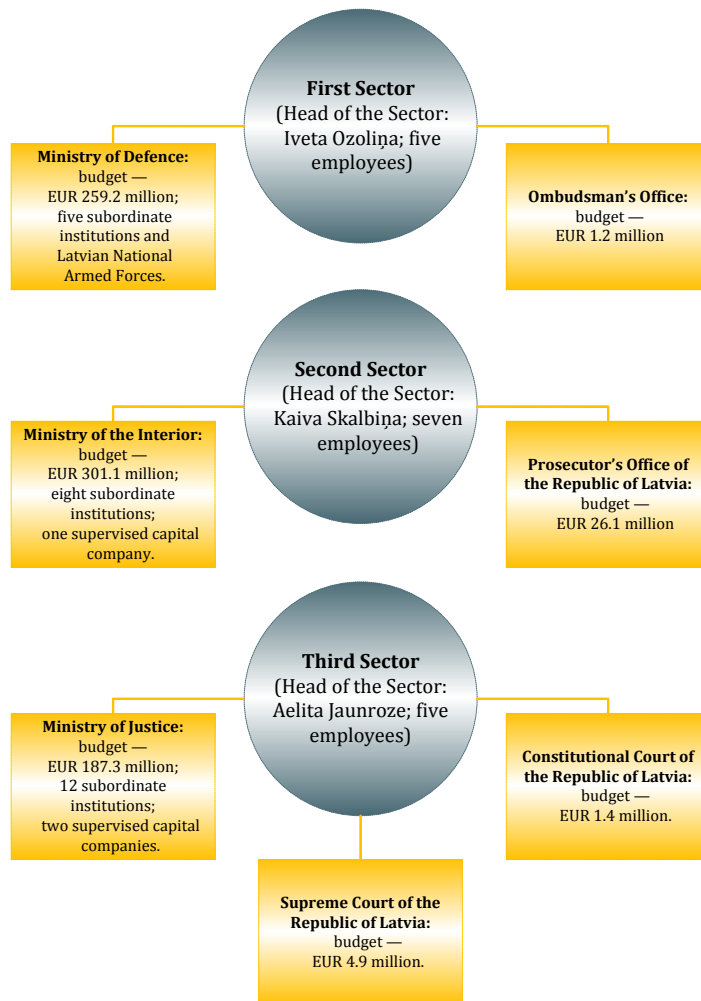


Figure 18. Entities audited by the Second Audit Department.²⁸

2.3.2.1. Defence

As the result of the financial audit on the proper preparation of 2014 Annual Report of the Ministry of Defence, the State Audit Office provided an unqualified opinion. Simultaneously, in verifying the use of funds allocated for the development of the National Guard and increasing of abilities, auditors

²⁸ The number of employees on 31 December 2015 in accordance with the list of staff positions of the State Audit Office.

provided a recommendation to the Ministry of Defence to carry out necessary activities for improving the attendance of the National Guard training and accounting of duty fulfilment.

Due to the geopolitical situation in the region, enhanced attention of the public must be paid to the defence of the country. To gain assurance regarding the thought-through and effective use of State budget funds allocated for the defence of the country in compliance with intended purposes, the State Audit Office invests significant resources in reviews on the implementation of provided recommendations.

During the reporting year, assurance was gained that in implementing recommendations provided by the State Audit Office, the National Guard had made first steps for information available on the activities of national guards and military preparedness to be qualitative and be obtained in an effective manner. The National Guard achieved improvements in the registration of personnel data, attendance and use of finance, as well as carried out the assessment of personnel conformity for service. Likewise, the National Guard took measures on promoting the discipline and activity of national guards, as well as defined results to be achieved in the preparation of national guards. Amendments to the National Guard of the Republic of Latvia Law have been developed, stipulating determining whether a person punished for a criminal offence can be a national guard; training programmes are being developed for the preparation of national guards/specialists, as well as solution for the quality assessment of training results of national guards.

During the reporting year, the implementation of recommendations within the framework of the regulatory audit on the use of State budget funds in ensuring training of military personnel was completed in full. The Ministry of Defence eliminated deficiencies discovered by the State Audit Office in training commanders. Preconditions have been created for increasing the effectiveness of the military education system, its transparency and conformity to regulatory enactments; moreover, it has been ensured that only licensed and accredited study programmes are implemented, classification of military education has been determined and the type of an education document to be issued for obtaining military education of a certain degree and type has been determined.

In assessing the implementation of recommendations provided as the result of the audit “Legality and Effectiveness of Use of State Budget Funds in Providing Social Guarantees of Soldiers” in relation to the organisation of turnover of medicinal products, auditors concluded that the National Armed Forces had introduced improvements to the organisation and control of turnover of medicinal products. As the result the annual amounts of non-used and written-off medicinal products decreased up to 33% as compared to the indicators of 2010 and 2014.

In improving the planning of supply of medicinal products and eliminating the accumulation of unnecessary medicinal products in the warehouses of the National Armed Forces, according to the calculations of auditors, savings of at least EUR 127 thousand form a year.

2.3.2.2. Justice

As the result of the financial audit on the proper of preparation of 2014 Annual Report of the Ministry of Justice, the State Audit Office provided an unqualified opinion. However, the opinion was supplemented with a reference to the observance of requirements set forth in the Law On Budget and Financial Management regarding the use of allocated State budget funds only for needs determined in the annual State budget law, since at the end of 2014, the Prison Administration made non-scheduled advance payments of EUR 125.6 thousand for services, the receipt of which was planned in 2015. During the audit, the quality of the financial statement of the Ministry of Justice was improved since during the audit, errors of EUR 9.2 thousand were corrected in the statement after remarks from auditors.

During the audit, the compliance of significant transactions to be reported with legal acts and the fact whether goals set upon applying for particular funding had been attained were assessed. Auditors discovered no violations of legal acts or discrepancies in significant transactions to be reported, which were verified: construction of a new department in Olaine prison (Addiction Centre) and personnel training, construction of a new prison in Liepāja, event “Promoting Alternatives to the Deprivation of Liberty, Including for the Electronic Supervision of Possible Pilot Projects”; creation of a geospatial data

information systems of the State Land Service and finishing the reconstruction of the boiler house of Jelagava and Jēkabpils prison.

Within the framework of the audit, the State Audit Office provided four recommendations to the Ministry of Justice; by implementing these recommendations, the Prison Administration will improve its internal control system, the Register of Enterprises will develop the method and revise the pricing of chargeable services according to actual expenses, as well as put in order the accounting of revenues from chargeable services pursuant to requirements set forth in the Law On Accounting.

During the reporting year, **the regulatory and performance audit “Are the Immovable Properties of the Field of Legal Affairs Managed in a Legal and Effective Manner?” was carried out in the field of legal affairs.**

The management of immovable properties in the field of legal affairs is partially centralised, leaving the development and management of prison infrastructure within the competence of the Prison Administration, while investing other immovable properties of the sector in the equity capital of VAS “Tiesu namu aģentūra”. The Ministry of Justice is the owner of this capital company and the main purchaser of services rendered thereby. In total, 95% of capital company’s revenues from the management of immovable properties are formed by the payments of State budgetary institutions.

According to the evaluation of the Ministry of Justice, the selected model of managing immovable properties has significant advantages that promote the development of immovable properties of the sector: an opportunity to attract funds from credit institutions, to accumulate funds for the improvement and development of immovable properties outside the framework of the budget year, to unload institutions in the field of legal affairs from performing functions non-typical thereto.

As the result of the audit, it was concluded that the Ministry of Justice had not created any preconditions for the selected model of managing immovable properties to ensure the largest benefits possible to the field of legal affairs.

Creation of fund reserves with the Courthouse Agency is meaningless, if there is no plan for the effective use of accumulated funds. For example, the Ministry of Justice, in implementing supervision over the activities of the agency, failed to assess the results of activities of the capital company and the substantiation for the formation of accumulation of funds over EUR 2 million.

In total, the management of the capital company implemented by the Ministry of Justice is to be assessed as formal since the ministry has failed to set effective results that would allow for objectively assessing the effectiveness of management of immovable properties implemented by the agency.

Lease payments stipulated in lease agreements signed by the Courthouse Agency are not always justified and lease payments are not transferred according to the actual maintenance costs of the immovable property unit.

In 2014, the calculated lease payment was up to 60% lower than the actual administration costs of immovable properties in 67% of assessed cases; the lease payment exceeded the actual administration costs in 33% of cases, and surplus amounted up to 270% in one case.

The agency failed to use the possibilities of receiving revenues correspondent to the market situation from the subjects of private law. For example, according to the calculations of auditors, revenues non-received for the lease of the property at Raiņa bulvāris 15, Riga, basement floor and 1st floor premises within the period from 1 January 2013 to 31 December 2014 amount to at least EUR 124 thousand. At the same time, the agency compensates some of non-received revenues by means of higher lease payment. For example, the share of the loan interest in the lease payment for premises in the property at Z.Meierovica prospekts 1A, Jūrmala, significantly exceeds actual interest payments. Failing to transfer the lease payment, in this particular case, there is a risk of inexpedient budget expenses in the amount of at least EUR 1.3 million during the period of validity of the agreement, i.e. fifteen years.



Figure 19.²⁹

²⁹ SAO: The Courthouse Agency sold immovable properties in Jūrmala contrary to government decisions. Portal www.diena.lv. Photo: Leta. Online: <http://www.diena.lv/latvija/zinas/vk-tiesu-namu-agentura-pretēji-valdibas-lemumam-pardevusi-nekustamos-ipasumus-jurmala-14129290>.

The Courthouse Agency, in expropriating immovable properties, failed to observe the Law On Prevention of Squandering of the Financial Resources and Property of the State and Local Governments, since it had failed to assess the real estate market situation and, despite several unsuccessful auctions of immovable properties, failed to use the possibility of terminating the expropriation procedure. As a result, immovable properties in Jūrmala were sold for a significantly lower price — office premises at Jomas iela 46, Jūrmala, were sold for a price that was 50% less than the initially set auction price, while the land at Pilsoņu iela 12, Jūrmala — 42% less.

The Ministry of Justice and the Courthouse Agency were provided with ten recommendations: to assess the current immovable property management model and decide on necessary improvements, to determine priorities and define goals for further management of properties, to develop the action strategy of the agency and define clear and measurable effective indicators.

2.3.2.3. Interior

As the result of the financial audit on the proper preparation of 2014 Annual Report of the Ministry of the Interior, the State Audit Office provided an unqualified opinion. As the result of the audit, no significant accounting errors were discovered, while, just as in previous years, deficiencies in observing the norms of the Public Procurement Law were discovered in institutions subordinate to the ministry. The State Police, in entering into an agreement on the purchase of vehicles and motorcycles, significantly changed payment conditions determined in the draft procurement contract, making them more favourable for the supplier. The State Audit Office reported findings to the Procurement Monitoring Bureau that applied an administrative fine to the responsible official.

14 recommendations were provided to the Ministry of the Interior on the elimination of discovered discrepancies. During the audit, the quality of the financial statement of the ministry was improved since during the audit, errors for the total amount of EUR 12.6 million were corrected in the statement after remarks from auditors.

State Police

At the State Police, auditors assessed measures on the introduction of the new policy, which were related to the protection of personal rights of persons that suffered from violence and persecution, and discovered that the State Police failed to correctly determine the amount of funds necessary for the implementation of the policy.

EUR 405 thousand i.e. 84% of the total funds allocated for the implementation of the new policy in 2014 were not used by the State Police pursuant to the intended purpose.

The allocated funding is mainly used for the remuneration of previously working employees and equipment of workplaces, additionally determining duties related to the implementation of the new policy for these employees. Auditors concluded that the creation of new staff units for the implementation of the new policy was unnecessary at least initially and it could have been implemented, for example, by allocating additional payments for current employees.

At the State Fire and Rescue Service, the use of funding of EUR 36.3 million allocated for the purchase of vehicles was assessed. It was concluded that the initially set goal, i.e. purchasing 93 vehicles, was not attained. According to the calculations of auditors, by purchasing vehicles for the price obtained within the framework of procurements, EUR 2.2 million more will be necessary. Without obtaining additional funding, the number of purchased vehicles will be smaller than the one planned and necessary for the fulfilment of service functions.

At the State Provision Agency, the use of funds for the storage, disposal and destruction of evidence, seized money and documents was assessed. According to the assessment of the State Audit Office, the fine execution tool introduced in 2005, i.e. seizure of a vehicle, does not achieve its purpose.

Only in 27% of all cases when a fine is imposed and a vehicle is seized for road traffic violations, the punished person voluntarily pays the fine and expenses

By the end of 2014, punished person did not pay to the agency expenses for the movement and storage of vehicles in the amount of over EUR 3 million.

for the seizure and storage of the vehicle.

Over the last two years, the amount to be paid from the State budget increased by over EUR 650 thousand, since revenues from punished persons keep decreasing every year and the agency has to request additional funds from the State budget every year to cover occurred expenses.

The storage of material evidence is not ensured by using the smallest amount of State budget funds possible and not all possibilities of reducing storage expenses are assessed. The regulatory framework fails to clearly stipulate the immediate destruction of items prohibited by law, respectively documenting them and assessing the possibility of storing only a sample if necessary. The regulatory framework also does not stipulate the way of assessing whether long-term storage causes losses to the State. Existing procedures lead to situations when, for instance, the storage of seized diesel fuel costs several times more than the purchase of diesel fuel would cost if the court decided to return property to its owner. Example: 28 tanks with an oil product are being stored for 2 years already; the merchant has already been paid EUR 2.86 for the storage of one litre of this liquid, which is significantly more than the retail cost of one litre of diesel fuel, and the storage still continues. The State Audit Office considers that a clear requirement would have to be set for persons directing proceedings to calculate possible losses to the State and make a decision to terminate the storage of material evidence, the turnover of which is prohibited (smuggled cigarettes, fuel, etc.), as well as to assess cases when it is possible to store a sample of evidence, rather than the entire seized amount.

State Fire and
Rescue Service

During the reporting year, the **performance audit “Effectiveness of Fire Safety Supervision Implemented in the Country”** was carried out in the field of interior affairs.

According to the data of the international organisation CTIF, indicators characterising the fire safety situation in Latvia are among the worst. The number of both fires and fire victims in Latvia exceeds the average indicator of other countries more than twice.

The amount of losses for the national economy in relation to fire victims in 2014 was EUR 47.47 million.*

* Using the indicator defined in the field of road traffic safety, since there is no such indicator in the field of fire safety.

Over the recent years, the number of fires in Latvia has had the tendency to grow, and in the majority of cases, the State Fire and Rescue Service (hereinafter — “SFRS”) is unable to arrive at the place of the accident within 5-10 minutes after the outbreak of fire, which, as studies suggest, is the time, during which the critical values of factors dangerous to humans are reached. Therefore, concerns are caused by the assessment of professional organisations (chimney-sweepers, insurers), which face the fire safety situation in Latvia in their everyday work, the inhabitants’ understanding of fire safety requirements and their motivation to observe them are low in Latvia.

Audit findings suggest that the observance of audit findings in the country is not a priority even for State and local government institutions: in 70.1% of objects owned by the State, no discovered violations have been eliminated by the next SFRS inspection, while in almost a half (46%) of objects, violations are not eliminated for years. In the majority of educational, culture and other institutions, it is not primarily necessary: 31.0% of educational institutions, 28.6% of culture and sports centres and 26.0% medical treatment and social care institutions are not provided with fire extinguishers, fire-extinguishing water supply or fire protection and fire-extinguishing systems.

Neither the Ministry of the Interior nor SFRS has proposed the elaboration of the development planning policy (action policy) in the field of fire safety to determine clear goals and results to be achieved for improving the situation. Simultaneously, amendments to regulatory enactments are proposed, increasing the liability of inhabitants and observance of fire safety requirements are increasingly more often left within the competence of inhabitants themselves.

The involvement of fire safety, fire extinguishing and rescue services established by fire-fighters, local governments and institutions in the performance of preventive activities is assessed insufficiently.

Currently, the involvement of other institutions established in the country, i.e. fire safety, fire extinguishing and rescue services established by voluntary fire-fighters, local governments and institutions, in the extinguishing of fires and performance of preventive activities is minimal, although scientists have substantiated that, for instance, the maintenance of units of voluntary fire-fighters is 2 to 4 times cheaper than the maintenance of professional units and investments therein have high efficiency.

By involving other resources, it might be more cost-efficient to spend resources intended for fire extinguishing and find additional funds for prevention and control of fire safety requirements.

Since there are no defined policy goals and results to be achieved in the field of fire safety in the country, there is no set of measures to be taken for increasing the level of inhabitants' understanding. The activities of SFRS in informing inhabitants cannot be assessed as purposeful and aimed at explaining issues, the knowledge and observance of which is important for particular groups of the public.

Fire safety inspections carried out by SFRS fail to eliminate violations even in significant public objects, including violations that would hinder the evacuation of persons and extinguishing works, cause tragic consequences and significant financial losses in case of a fire. SFRS plans and carries out fire safety inspections principally for the same range of objects, rather than based on the analysis of fire safety situation and risks in a relevant region and in the country in general. Violations are also regularly discovered in objects where inspections are carried out annually.

Simultaneously, SFRS rarely applies administrative fines for failure to observe fire safety requirements and no administrative liability is imposed on violators, including those who systematically fail to observe fire safety requirements.

Violations are revealed in 96.0% of inspected objects and in the majority of objects (58.4%), revealed violations are not eliminated by the next inspection, while the owners of almost one third of objects (31.3%) fail to eliminate violations for years.

During the audit, it was established that similarly to the control of the construction process, the control of fire safety requirements in construction during the economic crisis has been weakened. SFRS participation and competence to carry out fire safety supervision in the country during the construction process is reduced and it is currently planned only in case of buildings of public significance. However, even in a small number of objects subordinate to SFRS control, in 16% of cases, violations are discovered during the commissioning of a structure for use and the object cannot be commissioned for use, and in over a half of cases, violations refer to errors at the stage of construction design. The State Audit Office considers that it is to be carefully assessed whether the currently applied approach to reducing fire safety supervision implemented by the State in the field of construction poses no threat to the safety of inhabitants and should not be assessed.

The State Audit Office provided seven recommendations to the Ministry of the Interior, inviting the Ministry of the Interior to develop a target-oriented action policy in the field of fire safety to set particular goals to be attained and measures for improving the fire safety situation in the country, involving all available resources to the extent possible.

2.3.2.4. Independent and Other Institutions

In carrying out **the audit of 2014 Annual Report for the Supreme Court of the Republic of Latvia, the Constitutional Court of the Republic of Latvia, Office of the Public Prosecutor of the Republic of Latvia and Ombudsman's Office**, assurance was gained regarding the correctness of accounting and preparation of an annual report, and an unqualified opinion was provided.

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

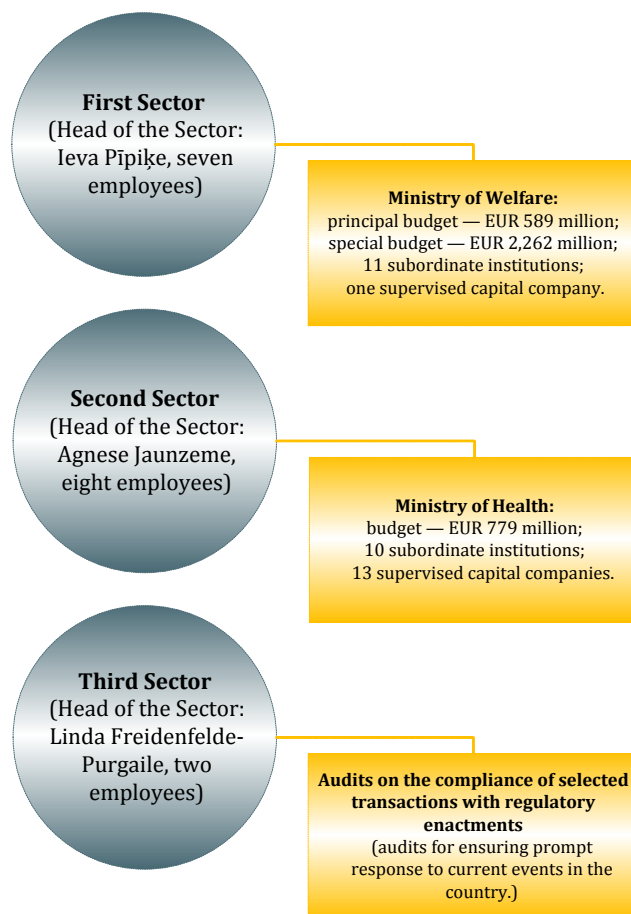


Figure 20. Entities audited by the Third Audit Department.³⁰

2.3.3.1. Welfare

Within the framework of the financial audit on the proper preparation of 2014 Annual Report of the Ministry of Welfare, the State Audit Office provided an unqualified opinion, yet emphasising the fact that the actions of the Social Integration State Agency subordinate to the ministry, in making a previously non-scheduled payment of EUR 28.2 thousand at the end of the reporting year, suggest the deliberate maximum use of budget funds of the reporting year.

In relation to the proper preparation of the annual report, the State Audit Office discovered deficiencies only in the Ministry of Welfare, considering long-term investments and quickly wearable inventory

³⁰ The number of employees on 31 December 2015 in accordance with the list of staff positions of the State Audit Office.

purchased in a centralised manner for the needs of subordinate institutions. During the audit, errors of at least EUR 12.3 thousand were corrected after remarks from auditors, thus improving the quality of the ministry's annual report.

Within the framework of the audit, the State Audit Office also verified whether State budget funds of EUR 1.2 million allocated to the Ministry of Welfare and institutions subordinate thereto for liquidating the consequences of the tragedy on 21.11.2013, when the roof of the shopping centre "Maxima" in Riga, at Priedaines iela 20, collapsed, were used in compliance with regulatory enactments and whether no expenses non-related to the tragedy were covered from these funds.

As the result of the audit, the Ministry of Welfare and institutions subordinate thereto were provided with three recommendations, by implementing which the internal control environment of the ministry and institutions subordinate thereto will be ensured, ensuring the legal use of State budget funds.



Figure 21.³¹

The activities of the Ministry of Welfare in developing the policy of equal possibilities of persons with disabilities have been insufficient to substantiate the assistant's service as a tool for achieving policy goals.

In 2015, the voluminous performance audit "Effectiveness of Provision of Assistant's Services Necessary to Persons with Disabilities" was carried out in the field of welfare, aimed at gaining assurance whether the assistant's service had been introduced so as to achieve the purpose of its creation, i.e. ensuring the integration of persons with disabilities in the society, simultaneously unloading family members.

The audit was carried out at the Ministry of Welfare and institutions subordinate thereto, local governments, as well as at the Ministry of Education and Science and

educational institutions, involving an expert — the Latvian Umbrella Body for Disability organisations SUSTENTO.

As the result of the audit, it was concluded that the service had been created without serious assessment of the actual needs of the disabled and already available services, without identifying the circle of persons, whom services would be provided, defining goals "to reduce the exclusion risk of the disabled" and "to facilitate the integration of persons in the society" in a highly general and declarative manner, while other indicators, pursuant to which it would be possible to assess the effectiveness of activities implemented by the Ministry of Welfare, could not be found. In turn, the set goal "to unload the family members of persons with disabilities" is not achieved, since 76% of service providers are actually family members.

The selected method of providing the service, by dividing it into three services, is not substantiated with appropriate assessment, as suggested by the following:

- The intended solution stipulating that persons with Group I sight disability are provided with the assistant's service within the framework of two services — as an allowance for the use of an assistant for 10 hours a week and as an assistant's service at local government for up to 30 hours a week — has not proved itself, since the provision of the same need requires a person to apply to two different institutions, spending resources for the administration of essentially identical services; moreover, the provision of the service in the form of an allowance does not promote the use of the allowance for hiring an assistant.
- In turn, the assistant's service at an educational institution is merely a tool for receiving the State budget co-funding for hiring supporting personnel in schools, since the duties determined for the assistant are identical to tasks that should be fulfilled by the supporting personnel for a student with disability to be able to obtain education. Moreover, the Ministry of Education and Science has used the limited State funding, which has been requested for the assistant's service, in the amount of at least EUR 1.4 million over three years for other needs, including covering household expenses of capital companies of the ministry.

The third and most popular type of the assistant's service — assistant's service at a local government — is a step in the right direction; however, the Ministry of Welfare has failed to create an affective service administration system to ensure the attainment of goals set for the service and their conformity to the

³¹ System of assistant's services for the disabled has been created declaratively only, as admitted by the State Audit Office. Portal www.delfi.lv. Photo: PantherMedia/Scanpix. Online: <http://www.delfi.lv/news/national/politics/asistentu-pakalpojumu-sistema-invalidiem-veidota-tikai-deklarativi-atzist-valsts-kontrole.d?id=47201983>.

needs of persons with disabilities. The State Audit Office has indicated these deficiencies.

The ability of the State Medical Commission for the Assessment of Health Condition and Working Ability to tell only on the basis of documents, whether persons require the assistant's service, is doubtful, while social services,

At the moment, none of involved institutions carries out target activities to assess whether a person requires exactly the assistant's service rather than some other type of assistance.

in granting the service, mostly rely only on this assessment.

No equal possibilities are ensured to persons to use the assistant's service in an equal amount, since they depend on the range of activities available with the local government, as well as on the readiness of the local government to compensate for transport expenses. At the moment, the compensation of transport expenses is at the discretion of every local government, since the Ministry of Welfare has failed to promote the understanding of local governments that transport services are one of tools to ensure the availability of activities.

The State Audit Office concludes that the best way is to provide the assistant's service within the framework of one service, i.e. assistant's service at a local government, to improve the determination of the need therefor, as well as to provide the service with the intermediary of professional services, allowing for the involvement of family members in the provision of the assistant's service only in special cases.

In total, the service administration process is resource- and time-consuming — although assistants and service recipients collect evidence and complete forms for entire month, while the social service examines, verifies and stores submitted documents, the accumulated set of documents mostly suggest only activities performed by the person rather than the fact whether the assistant's support is used.

Pursuant to the conclusions of the performance audit, 13 recommendations were provided in total; seven of them — to the Ministry of Welfare and six — to the Ministry of Education and Science; as the result of implementation of these recommendations, the goals set for the assistant's service, simultaneously simplifying the administration of the service. Recommendations concern the determination of the need for the service, its availability, and administration, as well as the qualification of service providers.

During the reporting period, it was continued to supervise the implementation of recommendations provided as the result of financial and regulatory audits carried out in previous years in the field of welfare. The main attention was paid to the **implementation of recommendations provided as the result of the regulatory audit "Effectiveness and Legality of State Immovable Properties Transferred into the Ownership of the Ministry of Justice and Institutions Subordinate Thereto"** carried out in 2013, repeatedly explaining activities to be carried out to the Ministry of Welfare and its capital company VSIA "Šampētera nams" for recommendations to be implemented on the merits.

2.3.3.2. Healthcare

As the result of the financial audit on the proper preparation of 2014 Annual Report of the Ministry of Health, the State Audit Office provided an unqualified opinion without emphasising any circumstances.

As the result of the audit, the State Audit Office concluded that the National Health Service subordinate to the ministry, in introducing amendments to agreements with healthcare service providers in 2014 and, thus, increasing

In requesting the funding of EUR 269.4 thousand for liquidating the consequences of Zolitūde tragedy, the ministry failed to gain assurance whether the personnel specified for being awarded a bonus had been involved in the care and treatment of victims.

the possibilities of paying advances, made an advance payment of at least EUR 228.8 thousand in December 2014, partially paying for services rendered and medicinal products supplied in 2015.

The State Audit Office indicated deficiencies in the internal control system to the Ministry of Health.

During the audits, errors of at least EUR 1.1 million were corrected after remarks from auditors, thus improving the quality of the ministry's annual report.

As the result of the audit, the Ministry of Health and institutions subordinate thereto were provided with four recommendations, by implementing which the legal, effective and economic use of budget funds will be ensured, paying dismissal benefits and additional payments for additional work, making advance payments for services and goods, as well as requesting funds for unforeseen expenses.

In 2015, the **performance audit “Information Systems in Healthcare”** was carried out and an audit report **“Is the “E-Health in Latvia” Project a Step in the Right Direction?”** was prepared. The performance audit was carried out within the framework of the European Social Fund project “Strengthening the Capacity of the State Audit Office” in cooperation with the experts of the Swedish National Audit Office.

Over nine years, EUR 14.5 million were invested in the project, yet none of E-Health services was available at the end of 2015.

In analysing the situation, the State Audit Office indicated that the main reason for failure was unskilled project planning and management, as well as the lack of control and interest of responsible officials.

The project was commenced, without studying the overall situation in the field of healthcare. This plan was developed without involving professionals of the sector — physicians, pharmacists and information technology specialists. As the result, neither the project supervisor, i.e. Ministry of Health, nor the project implementer, i.e. National Health Service, had any understanding of what the E-Health system in Latvia would be and what would have to be done to introduce it.

As the result of the audit, it was concluded that the previous introduction of the E-Health system was not oriented towards the attainment of common goals, but rather to the use of resources granted by structural funds. Although good practice examples in other countries speak in favour of the gradual introduction of the E-Health system, four voluminous autonomous projects were commenced concurrently in Latvia. It caused a situation where there were problems with the compatibility and successful operation of systems within the framework of the joint project.

If the E-Health system is not introduced within the set period and scope, there is a high risk that the funds of the European Regional Development Fund invested in the project in the amount of EUR 11.3 million will have to be paid from the money of Latvian taxpayers.

To successfully commence the operation of the E-Health information system and its regular use by users in everyday work, 17 recommendations were provided as the result of the audit; by implementing these recommendations, preconditions will be created for the E-Health system to be available and used by the greatest number of physicians, pharmacists and inhabitants possible.



Figure 22.32

³²The State might need to pay for the unsuccessful e-health system project. Portal www.delfi.lv. Photo: Shutterstock. Online: <http://www.delfi.lv/news/national/politics/valstij-var-nakties-apmaksat-neizdevusos-e-veselibas-projektu.d?id=46433551>.

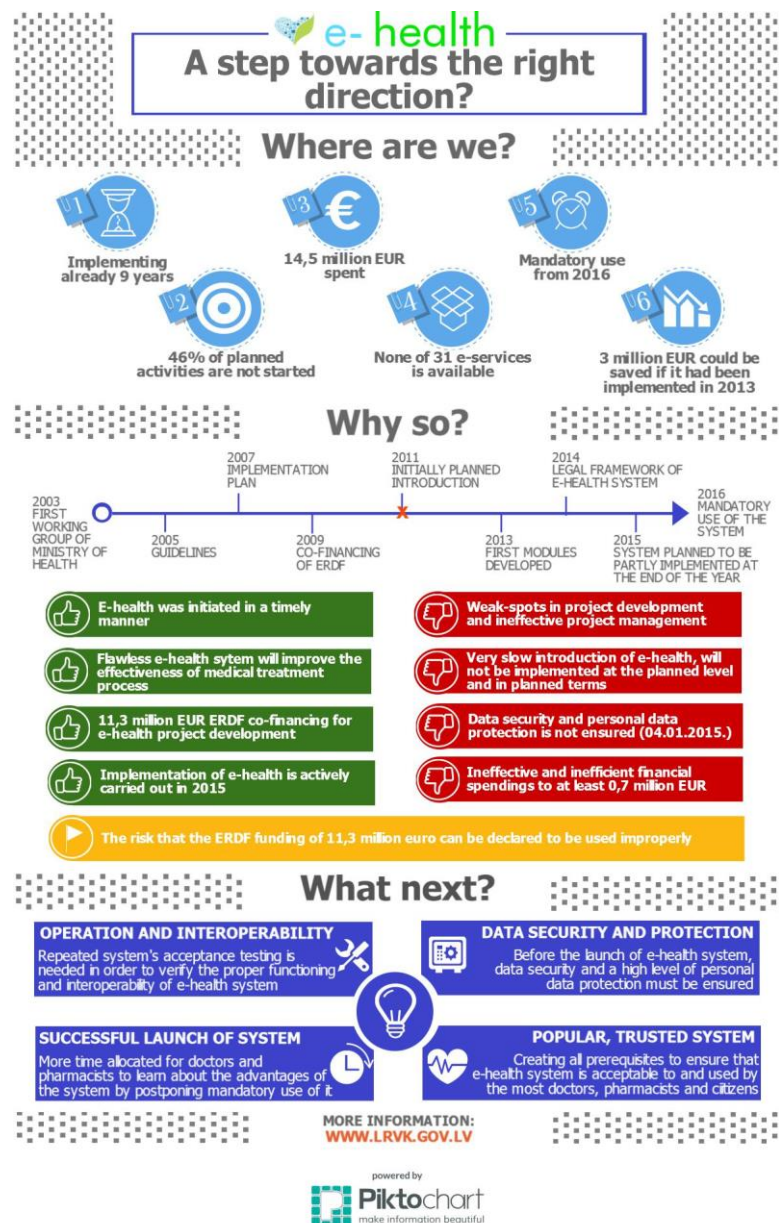


Figure 23. Performance audit “Information Systems in Healthcare”.

During the reporting period, it was continued to supervise the implementation of recommendations provided as the result of financial and regulatory audits carried out in previous years in the field of healthcare.

In spring 2015, auditors carried out voluminous work to gain assurance regarding **the introduction of recommendations provided as the result of the regulatory audit “Cost-Effectiveness and Legality of Activities of the Blood Service and Circulation of Plasma Products”**. As the result of the inspection, it was established that only 10 out of 30 recommendations provided as the result of the audit had been implemented, while three recommendations had lost their topicality. The Ministry of Health was indicated that it was necessary to actively continue the work to ensure traceable coverage of expenses related to the preparation of blood, justified and up-to-date calculation of accounting prices of blood and blood components, full registration of stocks of blood and blood components and their circulation supervision; moreover, it must ensure the sufficiency of blood and blood components and collection of plasma for the needs of production of plasma products.

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.³³

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 already in the progress in a timely manner.

Fulfilled.

In 2015, two operational regulatory audits were completed and three more audits were commenced, as well as the assessment of recommendations provided as the result of audits carried out in 2014 was ensured.

VK vērsusies prokuratūrā saistībā ar atklātajiem pārkāpumiem "Rīgas namu pārvaldniekā" (9)



Valsts kontrole (VK) vērsusies prokuratūrā par atklātajiem pārkāpumiem SIA "Rīgas namu pārvaldnieks", trešdien telekanālā

Figure 24.³⁴

The regulatory audit "Determination of the Fee for the Administration and Management of Residential Buildings, Conformity of Activities of SIA "Rīgas namu pārvaldnieks"" was aimed at verifying the legality, justification and traceability of calculation of the fee for the administration of residential buildings for 2014, as well as expediency of expenses included in calculations.

The administration fee includes also expenses for 13 fictitious employees who were paid remuneration exceeding EUR 190 thousand in 2014 and 2015.

As the result of the audit, it was concluded that SIA "Rīgas namu pārvaldnieks" (RNP), in determining the fee for the administration of residential buildings, failed to ensure the creation of optimal expenses related to the administration of residential buildings, since:

- RNP internal regulatory enactments are general and allow for broadly interpreting by used data sources as well as periods and forecast assumptions, therefore the calculation of the administration fee carried out by RNP for 2014 is untraceable and cannot be compared to actual expenses;
- the administration fee is also increased unjustifiably; it includes expenses related to other economic activities of RNP, i.e. provision of intermediary and chargeable services. Hence, the owners of apartments had covered almost all RNP expenses that had occurred in providing the referred to services;
- the owners of apartments must pay also for doubtful representation expenses, fuel expenses and expenses that are not related to administration, yet that have occurred as the result of RNP's non-economic or negligent actions, for example, contractual penalties for delayed payments;
- in 2013 and 2014, RNP, in ignoring the Public Procurement Law and without carrying out the procurement procedure, paid EUR 8.7 million to AS "Rīgas Siltums" for the heating system maintenance service, as well as for the purchase of parts for the repairs of individual heating units. Regulatory enactments are violated also in carrying out the procurements of legal services; therefore, there is no assurance that the most favourable offer has been selected for the owners of apartments.

In the report prepared for the owners of apartments in 2014, RNP indicated that all funds collected for containing and eliminating emergencies in the amount of EUR 1.5 million had been used; yet, in verifying accounting data, it was established that only EUR 583 thousand had been actually used, while the remaining funds had remained at the disposal of RNP. Within the framework of the audit, RNP provided an explanation that these funds were a fund of resources necessary for containing and eliminating emergencies. However, auditors believe that RNP, in deliberately specifying these funds in the report as used, deceits the owners of apartments, since it has failed to inform the owners of apartments about the establishment of this fund.

As the result of the audit, deficiencies were discovered in regulatory enactments, therefore the State Audit Office had applied to the Ministry of Economics with a request to introduce amendments to Cabinet Regulation No. 1014 of 09.12.2008 "Regulations Regarding the Calculation of Payment for the Administration and Management of the Residential House", determining the administrator's duty to

³³ The result must be achieved within each year of the Action Strategy.

³⁴ The SAO applied to the Prosecutor's Office in relation to violations discovered with "Rīgas namu pārvaldnieks". Portal www.delfi.lv. Photo: Delfi. Online: <http://www.delfi.lv/news/national/politics/vk-versusies-prokuratūra-saistiba-ar-atklatajiem-parkapumiem-rigas-namu-parvaldnieka.d?id=46242163>.

specify in the report information on the remaining administration fee funds and the amount of created reserve for repair works of upcoming periods, rather than the mathematical balance of funds.

As the result of the audit, SIA "Rīgas namu pārvaldnieks" was provided with 23 recommendations, by implementing which the administration fee would include justified, traceable and comparable data, preconditions would be created for expenses included in the administration fee would be expedient, efficient and justified and for the owners of apartments to be provided with up-to-date, unambiguous and full information on the amount of accumulated funds.

The regulatory audit "Conformity of Activities of the Limited Liability Company "Lielvārdes Remte" to Planned Goals and Requirements Set Forth in Regulatory Enactments" was aimed at assessing the conformity of activities of SIA "Lielvārdes Remte" to requirements set forth in regulatory enactments and planned goals. Although during the audit, it was planned to verify also the legality and justification of calculation of the fee for the administration of residential buildings in 2014 and 2015, these inspections could not be performed, since the company failed to provide auditors with documents on calculation work and explanation of data used for calculations. Nevertheless, as the result of the audit, evidence was obtained allowing for concluding that there are crucial discrepancies between information specified in the account of actual income and expenditure and the accounting data of SIA "Lielvārdes Remte".



Figure 25.³⁵

In carrying out insulation works without harmonisation with inhabitants, the Board of SIA "Lielvārdes Remte" had exceeded its authority significantly. Moreover, pursuant to the expert opinion, costs of insulation works were artificially increased by over EUR 18 thousand, which is almost a half more than the real price of these works. Within the framework of the audit, the State Audit Office indicated the risk that used funds of at least EUR 35 thousand would not be recovered.

SIA "Lielvārdes Remte" needs to improve control over the daily operation processes of the company, since as the result of the audit, crucial deficiencies and discrepancies were discovered — in planning and organising procurements, ensuring accounting, the risk that the company pays for the fuel used for private needs of employees has not been eliminated, it has not been determined for the performance of which duties employees are granted additional payments for additional work, payments are made in addition to the salary for the performance of works included in the principal duties of employees, and service unnecessary for the company are purchased.

Within the framework of the regulatory audit, SIA "Lielvārdes Remte" was provided with 13 recommendations, by implementing which preconditions would be created for the calculation of the administration fee to be justified, credible and traceable and for expenses specified in the report to comply with actual expenses, as well as the internal control over the internal processes of the company would be improved.

During the reporting period, supervision was carried out over the implementation of recommendations provided as the result of operating regulatory audits carried out during the previous year, paying particular attention to assessing **the introduction of recommendations provided as the result of the regulatory audit "Determination of Public Transport Service Tariffs in the Limited Liability Company "Rīgas satiksme" of Riga Local Government"**. In assessing information and documents submitted by RP SIA "Rīgas satiksme", the State Audit Office concluded that the company had carried out activities to promote the introduction of recommendations provided as the result of the audit, yet the recommendation with regard to the forecasting of the passenger number had not been introduced.

During the audit, the State Audit Office indicated that the anticipated calculation of the passenger number by RP SIA "Rīgas satiksme" for 2014 was not credible and was not based on justified and objectively assessed assumptions and provided the following recommendation: in calculating the tariff, to include in the number of passengers the categories of passengers that have not been accounted before; likewise, in forecasting the total number of passengers, to identify and carefully assess all factors that can affect changes to the number of passengers.

Although RP SIA "Rīgas satiksme" developed the methodology for forecasting the number of

The forecasting of the number of passengers will be still based on subjective assumptions, which can directly affect the size of tariff for the public transport service.

³⁵ The SAO discovers violations in the activities of the heating company "Lielvārdes Remte". Portal www.delfi.lv. Photo: Leta. Online: <http://www.delfi.lv/business/uznemumi/vk-konstate-parkapumus-siltumapgades-uznemuma-lielvardes-remte-darbiba.d?id=46729753>.

passengers, in the opinion of the State Audit Office, the methodology has been developed for a particular situation and it is not of a general nature. Assumptions included in the methodology, pursuant to which calculations will be carried out, will ensure no objective and credible results.

The State Audit Office has asked the Public Expenditure and Audit Committee of the Saeima to get involved and find a solution for improving the calculation of the tariff for public transport services. The State Audit Office asked for the Committee's aid also in relation to the availability of information on the use of funds allocated by the capital company to trade unions or any other associations. Within the framework of two audits, the State Audit Office established that RP SIA "Rīgas satiksme" and SIA "Rīgas namu pārvaldnieks" transferred funds to the association "Arodbiedrību koordinācijas centrs" (Coordination Centre of Trade Unions), while the company refused to submit source documents on used funds. In the opinion of the State Audit Office, the situation wherein neither the company nor the State Audit Office auditors have access to information on the actual use of funds of the local government municipal company allocated to a trade union or any other association is inadmissible.

In 2015, three new operational audits were commenced: **"Actions of the Freeport of Riga Authority in Eliminating Violations Discovered by the Competition Council"**, **"Conformity of Activities of the Local Government Joint Stock Company "Daugavpils siltumtīkli" to Planned Goals and Requirements Set Forth in Regulatory Enactments"** and **"Does the Social Integration Fund Ensure Control Over the Use of Funding Allocated to Associations and Foundations?"** These audits are planned to be completed in mid-2016.

2.3.4. Fourth Audit Department

Member of the Council of the State Audit Office since 26 March 2015,
Director of the Fourth Audit Department
Ilonda Stepanova

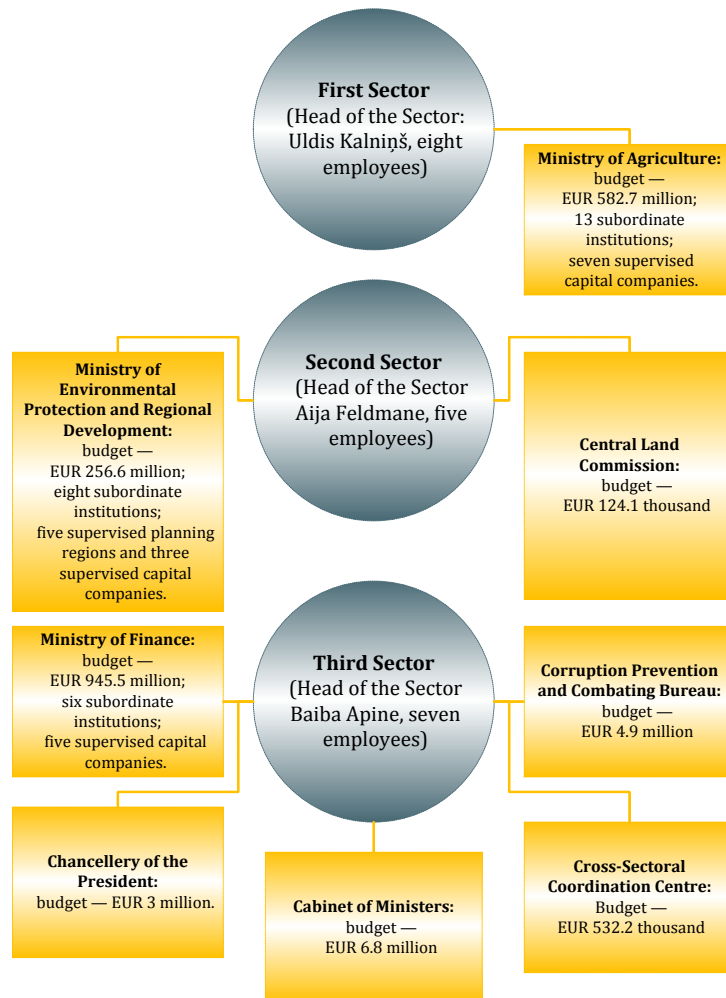


Figure 26. Entities audited by the Fourth Audit Department.³⁶

2.3.4.1. Agriculture, Fishery, and Forestry

As the result of the financial audit “On the Proper Preparation of 2014 Annual Report of the Ministry of Agriculture”, an unqualified opinion was provided. However, as the result of the audit,

³⁶ The number of employees on 31 December 2015 in accordance with the list of staff positions of the State Audit Office.

deficiencies were discovered in the internal control system of the Agricultural Data Centre, as well as deficiencies in relation to the timely payment of value added tax into the State value for services provided by the Agricultural Data Centre and deficiencies in the remuneration policy of the Ministry of Agriculture and Agricultural Data Centre. In turn, the Food and Veterinary Service failed to meet the set working time and resting requirements pursuant to requirements set forth in the regulatory enactment, as well as the application of cost classification contrary to requirements set forth in regulatory enactments was discovered.

During the audit, errors in the amount of EUR 574.9 thousand were corrected after remarks from auditors.

The performance audit **"Is the Money Allocated for the Fight Against African Swine Fever and Classical Swine Fever Used For the Intended Purpose?"** was commenced during the reporting period and completed in the beginning of 2016 in the field of agriculture.

Additional funding of EUR 13.9 million was allocated from the State budget for combating classical swine fever (CSF) and African swine fever (ASF).

Due to vaccination, it was possible to restrain CSF. In turn, due to the rapid spread of ASF in 2014, the state of emergency was declared in territories affected by the infection, several decisions were adopted to restrain the spread of the disease. In spite of measures taken and funds spent, the spread of ASF among domestic and wild pigs in Latvia continues, negatively affecting the cattle-breeding industry.

Since 2000 already, the UN Food and Agriculture Organisation invited the government of Latvia to train farmers for the recognition of the disease and to instruct them on necessary actions in case of disease spread. Since 2009, there were several invitations to develop the Action Plan on Fight Against ASF. However, only after the first case of ASF was discovered in Latvia, the Ministry of Agriculture took action, planning, for instance, measures for limiting the number of pigs, as well as enhancing biological safety requirements.

Although guidelines developed by the European Commission included also other methods of restraining the spread of the disease, for instance, strict biological safety requirements to pig breeders and respectively careful control in relation to the transportation and shipment of products of porcine origin, etc., the ministry chose the slaughter of non-infected, healthy pigs and the subsequent payment of compensations to animal owners.

Cabinet Regulations determined that compensation is to be paid to owners that were unable to take determined biological safety measures, due to which all pigs had to be slaughtered, as well as to animal owners that took biological safety measures, yet had trade disturbances due to ASF limitations.

EUR 22 million were compensated in total: EUR 0.7 million for failure to ensure biological safety measures and EUR 1.5 million for eliminating trade disturbances.

In assessing compensation payments for failure to ensure biological safety requirements, auditors concluded that none of State institutions supervised whether pig breeders that received this compensation observed this condition, i.e. not to breed animals of porcine species in a pigsty for at least one year. During the audit period, 17 cases, in which this condition was violated, were discovered.

In turn, in assessing compensation payments for trade disturbances, audit findings allow for concluding that no clear criteria were set for compensation payments only to pig breeders that had actually incurred losses. The circumstance that the farm was located in the most hazardous infection area was determined as sufficient grounds for allocating compensation. As the result, for instance, one company received almost EUR 1.5 million (99.7% of the total amount of paid compensations). Compensation was paid for both slaughtered animals that were destroyed and slaughtered animals, the meat of which was sold. Approximately a half of slaughtered animals was sold on the market; thus, the farm was ensured of double income — according to the calculations of auditors, at least EUR 792 thousand. The said circumstances allowed this farm to close the financial year of 2014 with a significant profit, i.e. over

Āfrikas cūku mēra apkarošana: viena saimniecība saņēmusi 99,7% kompensāciju, secina VK (71)

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Papildus piesūrtais finansējums nav apturējis Āfrikas cūku mēra (ĀCM) izplatību, revīzijā secinājusi Valsts kontrole (VK).

Figure 27.³⁷

³⁷ Combating African swine fever: one farm received 99.7% of compensations, as concluded by the SAO. Portal www.delfi.lv. Photo: Leta. Online: <http://www.delfi.lv/bizness/lauksaimnieciba/afrikas-cuku-mera-apkarosana-viena-saimnieciba-sanemusi-99-7-kompensaciju-secina-vk?id=47067249>.

EUR 850 thousand, exceeding the result of the previous financial year almost five times. In turn, neither the ministry nor the Food and Veterinary Service (FVS) was able to provide non-disputable documentary evidence on the properly performed destruction of animals for the remaining animals.

The inefficient use of funds allocated for fight against ASF was discovered in the activities of FVS. The largest recipient of funding, i.e. FVS, in requesting additional funds, purchased 22 vehicles (5 cars, 3 specialised cars with a freight compartment and 14 SUVs) for the needs of control points, as well as the transportation of wild pig bodies and inspection of farms. In reality, six of these cars ended up at the disposal of the central administration in Riga and were practically not used for intended purposes. The majority of routes of these cars was from home to work and back.

Contrary to the decisions of the Cabinet of Ministers, FVS paid a part of funds allocated for increasing the remuneration of employees by 22% with an aim to prevent rapid staff turnover for inappropriate purposes — additional payments of 30% were received by a large number of managing employees, rather than by lower-rank employees involved in fight against the infection.

As the result of the audit, nine recommendations were provided with an aim to improve supervision carried out by the Ministry of Agriculture over the process of planning the budget for non-scheduled and scheduled measures of subordinate institutions, as well as to improve the internal control process of institutions and to improve the effectiveness and expediency of use of funds allocated for restraining infectious diseases.

2.3.4.2. Environmental Protection and Regional Development

During the reporting year, **the financial audit “On the Proper Preparation of 2014 Annual Report of the Ministry of Environmental Protection and Regional Development”** was carried out and an unqualified opinion was provided, yet emphasising certain circumstances. The ministry failed to observe the Law On Budget and Financial Management and made an advance payment of EUR 90 thousand into 2015 budget of the European Organisation for the Exploitation of Meteorological Satellites in December 2014.

During the audit, the quality of the ministry’s annual report was improved, since errors in the amount of EUR 4.7 million were eliminated after remarks from auditors.

As the result of the financial audit, six recommendations were provided in total; the implementation of these recommendations will ensure that funds will be further used only for covering obligations planned in the annual budget law, no measures correspondent to the elements of collective measures will be funded from State budget funds, and the internal control system over the organisation of procurements will be improved.

The performance audit “Effectiveness of Administration of Multi-Apartment Residential Buildings and Its Conformity to Regulatory Enactments” was commenced in the reporting period and completed at the beginning of 2016.

As the result of the audit, nine audit reports were prepared: to the Ministry of Economics as the ministry responsible for the development and implementation of policies and regulatory enactments in the field of housing and to eight administrators of multi-apartment residential buildings of local governments, i.e. capital companies of local governments.

Due to the lack of a housing policy planning document, the policy on the administration of multi-apartment residential buildings cannot be purposefully implemented.

As the result of the audit, it was discovered that the targeted and sustainable administration of multi-apartment residential buildings is currently impossible even theoretically, since there is no developed housing administration policy document in the country. Despite that the legislator has set a termed duty for local governments, i.e. to administer residential buildings prior to the transfer of their administration rights to the owners of apartments, none of documents determines a particular calendar deadline for applying this norm.

In carrying out the verifications of activities of residential building administrators included in the selection, the need for improving the framework of regulatory enactments within the competence of the

Ministry of Economics was discovered and recommendations were provided to the ministry on introducing necessary amendments to the regulatory framework.

As the result of the audit, discrepancies typical of activities of several building administrators were discovered, for example, violations of regulatory enactments governing the administration of residential buildings and taxes, as well as disproportionately high charge for additional cleaning of the territory owned by the local government.

For example, as the result of the audit, it was concluded that within two and a half years, inhabitants of local governments had paid EUR 151.2 thousand and there were cases when these additional areas to be cleaned exceeded the territories owned or possessed by the inhabitants of buildings by up to 13 times. Likewise, problems were discovered in the calculation of value added tax and its application with regard to the supply of thermal energy to persons that receive thermal energy for the needs of economic activities. Two out of eight residential building administrators included in the audit selection failed to observe requirements set forth in the Value Added Tax Law and the Law On Taxes and Duties, as the result of which value added tax of EUR 19.4 thousand was not transferred into the State budget. In turn, a half of eight residential building administrators included in the audit selection, contrary to requirements set forth in the regulatory enactment, apply a charge for household waste management, also for apartments where there are no declared persons, thus unjustifiably collecting EUR 29.9 thousand from the owners of these apartments.

One of preconditions for the effective and high-quality administration and management of residential buildings is the active involvement of inhabitants themselves. Therefore, it is important for inhabitants themselves to be active to the extent possible and get involved in the management of their building. The administration of residential buildings is a long-term activity and decisions adopted today affect the situation in future.

2.3.4.3. Independent and Other Institutions

Within the framework of financial audits on the proper preparation of 2014 Annual Reports of the Chancery of the President, Interdepartmental Coordination Centre, Cabinet of Ministers and Central Land Committee, no significant deficiencies were discovered and no recommendations were provided.

As the result of the financial audit “On the Proper Preparation of 2014 Annual Report of the Corruption Prevention and Combating Bureau”, an unqualified opinion was provided. However, as the result of the audit, it was discovered that in carrying out the calculation of the dismissal benefit, no requirements set forth in the regulatory enactments were observed and the bureau had failed to implement recommendations provided within the framework of the financial audit for the previous reporting year, as the result of which intangible investments were specified in 2014 Annual Report with the value by EUR 4.2 thousand lower.

2.3.4.4. Financial Management of the Public Sector

As the result of the financial audit “On the Proper Preparation of 2014 Annual Report of the Ministry of Finance”, an unqualified opinion was provided. In addition, transactions subject to the financial statement were assessed within the framework of the financial audit, concluding the following:

- the decision of the Ministry of Finance to use outsourced services for the maintenance of vehicles was not economically substantiated and effective, as the result of which, according to the calculation of auditors, the expenses of the ministry related to the maintenance of vehicles in 2014 could have been by EUR 29.7 thousand less;
- there was a risk that the activities of the State Revenue Service (SRS) in 2015 would be insufficient for restraining the spread of African swine fever and funds allocated to the SRS over two years in the amount of EUR 911.8 thousand would be used in an ineffective manner;
- the decision-making process related to the placement of the Corruption Prevention and Combating Bureau (KNAB) in appropriate premises was ineffective.

Activities aimed at providing KNAB with appropriate premises have been carried out for 10 years now, spending almost EUR 0.5 million for this process, however no solution has not been found still.

As the result of the audit, the Ministry of Finance was provided with three recommendations, after the implementation of which State budget funds will be used in a more expedient manner: by reviewing the favourableness of purchasing the outsourced services for the maintenance of vehicles at the disposal of the Ministry of Finance, the maintenance expenses of the Ministry of Finance will decrease; by revising the cooperation agreement between the Ministry of Finance and the Fiscal Discipline Council, the scope of technical support of the Ministry of Finance will increase; by ensuring economically substantiated further decision-making process on the placement of KNAB in suitable premises, the goal will be achieved by means of a solution economically most favourable for the State.

The declaration system of public officials in general cannot be deemed as effective. Regulatory enactments fail to directly and unambiguously determine an institution, the duty of which would be to verify the truthfulness of information included in declarations.

In 2015, the regulatory/performance audit “Are the Declarations of Public Officials an Effective Tool in Ensuring the Legality and Openness of Activities of Public Officials?” was carried out as well.

The State policy stipulates that the completion, submission, publication and verification of declarations of officials is a crucial tool in limiting the conflicts of interest of public officials and the legalisation of the proceeds from crime.

Policy planning documents do not analyse the existing and preferable influence of the declaration system of public officials on the identification of a conflict of interest and the prevention of corruption and do not define effective indicators to be achieved, which would allow for assessing the significance and development of the system.

For a public official to be able to fulfil the declaration duty determined by the law, he/she must be included on the list of public officials and respectively submit the declaration of a public official. The responsibility for the preparation and submission of lists of public officials is determined for the head of a relevant institution and in compliance with the law — the status of an official is determined by the name of the position and job duties.

As the result of the audit, it was discovered that the SRS failed to take sufficient measures to ensure assurance that the declaration duty is fulfilled by all public officials, since not all public persons, which had to prepare and submit the lists of public officials, had been identified. Likewise, no sufficient reviews of the fullness of submitted lists of public officials are carried out: the SRS verifies only 0.006% of the total amount of lists (approximately 7.5 thousand lists of public officials).

The declaration system of public officials fails to provide assurance that information provided in declarations is true: an issue regarding the distribution of competence between institutions is being resolved since 2003. Taking into account that regulatory enactments directly and unambiguously impose no duty on any institution involved in the declaration system of public officials to verify the truthfulness of information specified in the declarations of public officials, information truthfulness checks are carried out within the framework of inspections of involved institutions:

- KNAB identifies the provision of possibly false information in the declaration of public officials, if a public official has come in sight of KNAB, without relying on the information specified in the declaration in such cases and repeatedly retrieving information on a particular public official;
- in turn, the SRS carries out information truthfulness checks only in cases when an application of other persons on possibly false information specified in the declaration of public officials. Regulatory enactments do not stipulate the duty of the SRS to carry out information truthfulness checks specified in the declaration of public officials.

The process of publication of declarations of public officials attains the goal of informing the public partially, since only the initially submitted declarations are published, while the declarations adjusted after the deadline determined in the law are not published.

Taking into account the results of the audit, recommendations provided by the State Audit Office stipulate the following:

- for KNAB in cooperation with the SRS, to develop effective indicators in policy planning documents in order to be able to assess the effectiveness of the system of public officials;

- for the SRS, to assess the introduction of amendments to regulatory enactments, imposing a duty to carry out the truthfulness checks of declarations and determining the particular scope of performance of checks;
- for KNAB, to assess the need for the introduction of amendments to the law, with an aim to ensure single understanding of the duty determined in the legal norm — for KNAB, to assess the declarations of all public officials.

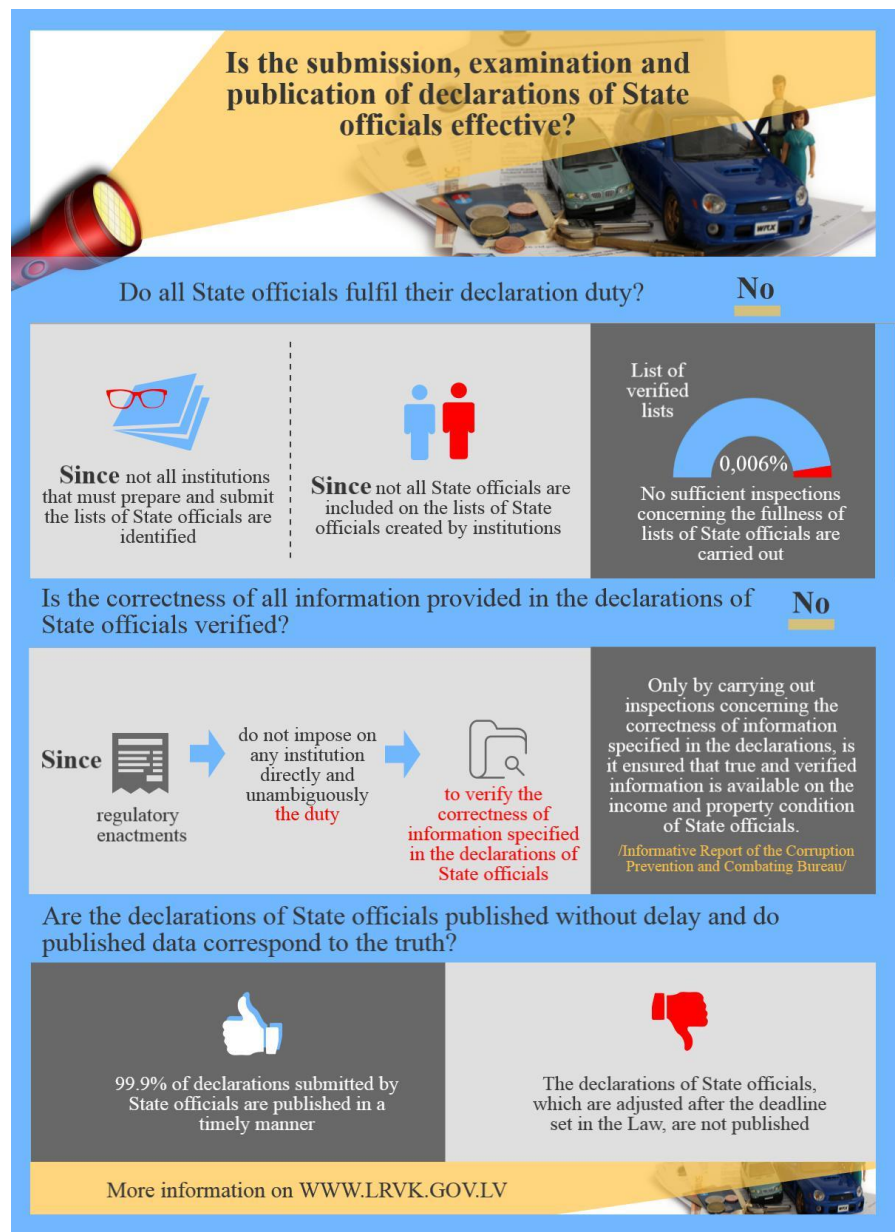


Figure 28. Regulatory/Performance Audit “Are the Declarations of Public Officials an Effective Tool in Ensuring the Legality and Openness of Activities of Public Officials?”

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

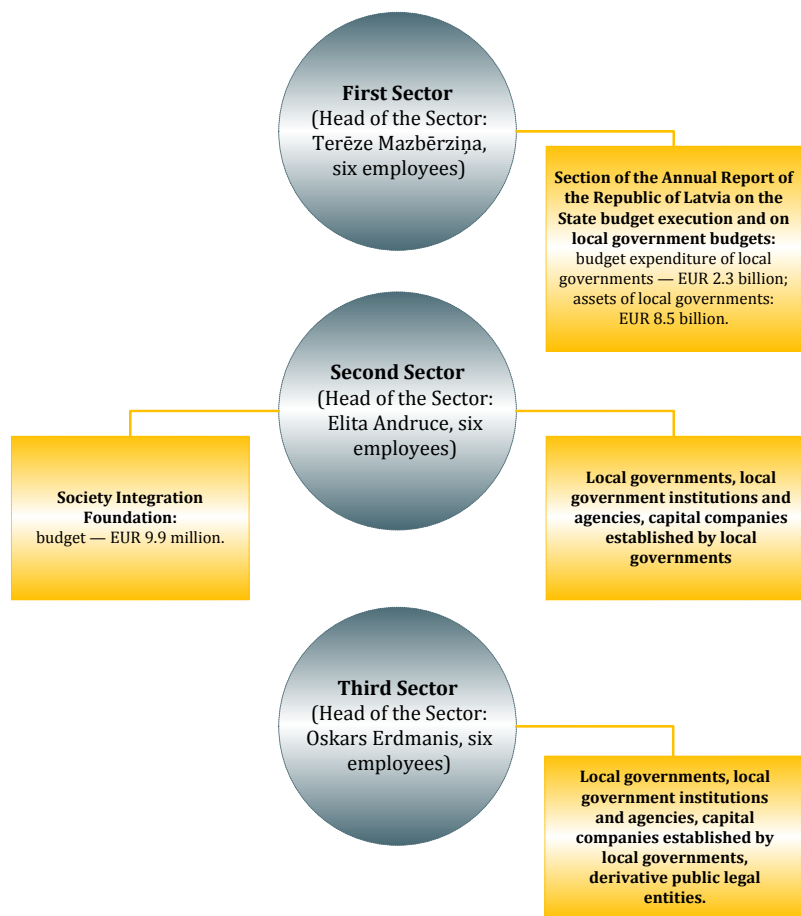


Figure 29. Entities audited by the Fifth Audit Department.³⁸

2.3.5.1. Local Governments

Within the framework of the financial audit “On 2014 Annual Report of the Republic of Latvia on State Budget Execution and Local Government Budgets”, in the part on local government annual reports, for gaining assurance regarding the conformity of preparation of the part on local government reports to requirements set forth in regulatory enactments, 29 out of 119 local governments were included in the audit selection, including the following:

³⁸ The number of employees on 31 December 2015 in accordance with the list of staff positions of the State Audit Office.

- six local governments of republican cities (Daugavpils, Jelgava, Jūrmala, Liepāja, Rīga and Ventspils City local governments);
- 23 county local governments (Amata, Ape, Auce, Brocēni, Burtņieki, Carnikava, Engure, Garkalne, Inčukalns, Jaunjelgava, Kārsava, Kocēni, Koknese, Krustpils, Ogre, Ozolnieki, Priekule, Roja, Rūjiena, Saulkrasti, Skrunda, Viļaka and Viļāni County local governments).

The total amount of balance assets of local governments included in the audit selection by 31 December 2014 was EUR 5.6 billion, i.e. 66% of total assets of all local governments, and the total amount of expenses of the cash flow statement was EUR 1.3 billion, i.e. 57% of total expenses of all local governments.

During the audit, the auditors of the State Audit Office cooperated with certified auditors and used their findings in audits of annual reports of local governments, as well as carried out audit procedures in several local governments on crucial issues in the audit of the Annual Report of the Republic of Latvia.

In local governments, just as in previous years, there are fundamental errors in the accounting of long-term investments and the risk of misappropriation of funds.

In the opinion of the State Audit Office, the said deficiencies are caused by the inability of heads of several local governments to ensure appropriate internal control environment, unwillingness to act pursuant to requirements set forth in regulatory enactments or deficiencies in regulatory

enactments; moreover, the work of certified auditors is insufficient in some cases.

In carrying out the audit, the State Audit Office faced significant restrictions of the scope for carrying out the conformity verification of assets:

- the accounting data of Brocēni County local government could not be fully used for carrying out analysis and it was impossible to determine the overall influence of necessary adjustments on the value of long-term investments, claims and liabilities, income and expenditure of the local government specified in the annual report;
- it was impossible to determine the overall influence of necessary adjustments on the value of long-term investments, since in five local governments expenses related to the maintenance and reconstruction of buildings and structures with the value of at least EUR 0.8 million were not accounted in compliance with the economic essence of these expenses and in 19 local governments, expenses related to the reconstruction of buildings and structures were included in the value of buildings and structures without assessing their useful service life and depreciation norm;
- it was impossible to determine the value of 252 transport structures, 1.2 million m³ of developed mineral deposits, forest stands with the total area of 889 ha, biological assets located in parks and squares with the total area of 132 ha that had not been specified in accounting records and the balance item "Land, buildings and structures" at the end of the reporting year;
- information on transport structures specified in the accounting records and annual report of Riga City local government in the amount of EUR 6 billion could not be compared to the Lists of Roads and other registers;
- in 12 local governments, i.e. 41% of local governments included in the selection, no final stock-taking for 2013 was carried out, while the final stock-taking for 2014 was not finished, was carried out only partially or was not carried out at all, as the result of which the value of long-term investments (land, buildings, structures or biological and underground assets) may be corrected;
- responsible employees of local governments were unable to show during the audit the documents attesting the accounting value of long-term investments, set depreciation norms and useful service life, which were necessary for the audit, and auditors had no access to these documents, which prohibited the possibility of carrying out the conformity verification of assets with the value of EUR 28.6 million and depreciation with the value of at least EUR 3.6 million as specified in the Annual Report for 2014.

Due to scope restrictions, the State Audit Office could not provide an opinion regarding the assets and liabilities of Brocēni County local government in the amount of EUR 10.7 million at the beginning of the reporting year and in the amount of EUR 11.6 million at the end of the reporting year, income in the amount of EUR 6.4 million and expenditure in the amount of EUR 6.3 million. Brocēni County local government:

- had illegally transferred local government funds of at least EUR 100.3 thousand to private individuals, did not ensure the storage of collected funds of at least EUR 90 and inexpediently used funds of at least EUR 6.4 thousand, as well as transferred funds to different private individuals for provided services in the amount of EUR 372.6 thousand without documents certifying payments;
- In 2014 Annual Report, the value of long-term investments at the beginning of the reporting year was unjustifiably increased by at least EUR 0.9 million, while at the end of the reporting year — it was unjustifiably increased by at least EUR 0.3 million.

Due to the restrictions of the scope, it was impossible to carry out the conformity verification of assets specified in the part on annual reports of local governments to long-term investments at the value of at least EUR 0.6 billion, as well as to determine the overall influence of necessary adjustments on the value of long-term investments specified in the part on annual reports of local governments in relation to inappropriately recognised reconstruction costs of buildings and structures and long-term investments non-specified in the annual report.

Long-term investments at the beginning of the reporting year was unjustifiably increased by at least EUR 186.2 million, while at the end of the reporting year — at least EUR 19.5 million. Likewise, information specified on liabilities was not true and comparable, since Riga City local government specified liabilities in the amount of EUR 0.3 billion contrary to the economic essence of the transaction as long-term debts to suppliers and contractors and failed to specify a loan of EUR 0.6 billion in the annex to the report.

The partial elimination of errors promoted by recommendations provided by the auditors of the State Audit Office during the audit is assessed positively — properties belonging to local governments with the value of EUR 0.37 million were registered in accounting records, immovable properties that did not belong to local governments were de-registered, reducing the unjustifiably increased value of properties by EUR 186.3 million, underground assets of 0.48 million m³, 177 buildings and 154 forest stands with an area of 295.59 ha were registered in accounting records with the value of EUR 0, and natural resources tax of EUR 7.5 thousand was paid into the State budget.

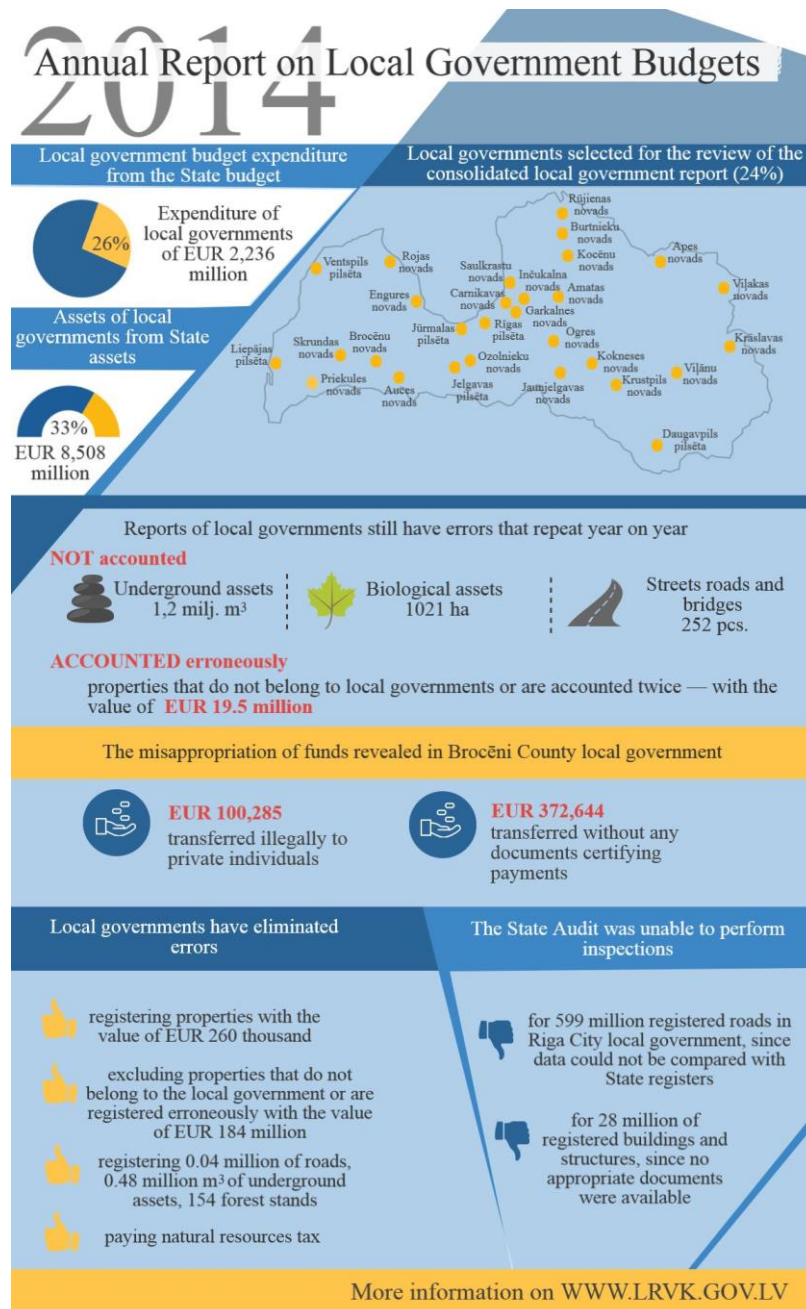


Figure 30. Financial audit “On 2014 Annual Report of the Republic of Latvia on State Budget Execution and Local Government Budgets” (part on annual reports of local governments).

In total, 22 recommendations have been provided as the result of the audit. By implementing these recommendations, the quality of the annual report will be improved, regulatory enactments governing procedures for preparing local government budgets will be improved, a control mechanism will be developed and introduced to ensure the preparation of budget regulations binding to local governments in compliance with requirements set forth in regulatory enactments, as well as accounting will be

As the result of the audit, 33 recommendations were provided in total; by implementing these recommendations, the planning and coordination of the sector policy will be improved, as well as inspections will be introduced, eliminating possibilities for inexpedient use of funds intended for maintaining roads and streets.

Within the framework of the regulatory audit “Legality, Effectiveness and Efficiency of Actions of the Freeport of Riga Authority in Managing and Implementing the Project “Infrastructure Development on Krievu Island for Transferring Port Activities from the City Centre””, the State Audit Office discovered that the Freeport of Riga Authority had failed to ensure the effective management of the project “Infrastructure Development on Krievu Island for Transferring Port Activities from the City Centre” compliant with regulatory enactments.

Administration activities carried out during the implementation of the project allow for doubting the attainment of the initially defined project goal, taking into account that the goal is defined differently in several documents, is general and has been modified during the implementation of the project, narrowing it to — contrary to the initially declared — the vacation of the right bank of the Daugava River, i.e. Andrejsala and Eksportosta, from port activities intended, planning to move only coal cargo transshipment operation to the newly-constructed infrastructure on Krievu Island, preserving port activities within 15% of territory to be vacated.

Due to the non-professional management of the project contrary to international project management standards and lack of sufficient control, the authority has incurred unjustified expenses of at least EUR 4 million and there is a risk of unjustified use of EUR 1.5 million:

- the project includes previously planned works that caused additional expenses of at least EUR 2.5 million to the authority;
- at least EUR 20.5 thousand were paid from reserve funds intended for construction works for errors made in the detail design and calculations attached thereto and EUR 65.9 thousand for the re-elaboration of the detail design in compliance with the requirements of the responsible institution discovered with delay;
- downtime and legal expenses of EUR 1.5 million were collected from the authority; moreover, the authority inexpediently used at least EUR 46.2 thousand paying for lawyer’s services;
- to resume the issue of the loan, which was suspended due to communication issues, the authority made a one-time payment of EUR 120.3 thousand to lenders;
- without carrying out timely control over the use of territories intended for the project, the authority has used funds of at least EUR 1.2 million, compensating for the demolition of open-type warehouse buildings of the merchant on a parcel of land, where construction works were planned.

Contrary to the provisions of the regulatory enactment, the authority has involved outsourced service providers for fulfilling tasks determined in job duties of employees of the authority.

As the result, the Freeport of Riga Authority illegally used funds of at least EUR 724.9 thousand.

As the result of the audit, the Freeport of Riga Authority was provided with five recommendations, by implementing which discrepancies related to project management will be eliminated to ensure the successful attainment of project goals, benefit and sustainability proof, as well as efficient use of funds in compliance with regulatory enactments.



Figure 32.40

Within the framework of the regulatory/performance audit “Effectiveness of Management of Capital Companies of Saldus County Local Government and Its

Unjustifiably and inefficiently used funds of capital companies of at least EUR 495.2 thousand and recipients of services of capital companies overpaid at least EUR 110 thousand.

Conformity to Requirements Set Forth in Regulatory Enactments”, the State Audit Office assessed the effectiveness of management of capital companies of Saldus County local government and its conformity to requirements set forth in regulatory enactments within the period from 1 January 2013 to 31 March 2015. Within the framework of the audit, activities of five capital companies of Saldus County with funds was assessed.

The management of capital companies implemented by Saldus County local government was ineffective and failed to ensure the efficient operation of capital companies in compliance with requirements set forth in regulatory enactments.

Saldus County local government failed to assess the conformity of activities of capital companies to the State Administration Structure Law and failed to determine what it was willing to achieve by means of participation in capital companies. Funds of over EUR 400 thousand were invested in the equity capital of capital companies, without determining the goals of increasing the equity capital.

In assessing indicators characterising the activities of capital companies and harmonised with the local government, in the opinion of the State Audit Office, the activities of capital companies are not aimed at the purposeful quality improvement of provided services.

SIA “Saldus namu pārvalde” does not ensure the transfer of right to administer residential buildings within a set period, fails to ensure appropriate accounting of actual expenses and accounting of reserves of residential buildings; as the result, the capital company incurred irrevocable debts of EUR 135.9 thousand.

In turn, thermal energy losses have long remained and keep growing at SIA “Saldus siltums” and the improvement of effectiveness of thermal energy supply is not planned, as indicated by the State Audit Office in 2009 audit.

Significant water losses have not been eliminated at SIA “Saldus Komunālserviss” for a long time, reaching up to 48% of the obtained water amount in 2014.

As the result of the audit, it was concluded that during the audited period, capital companies have unjustifiably used funds of EUR 68.2 million, paying bonuses and carrying out other type of financial stimulation, which contradicted the provisions of regulatory enactments, making unjustified additional payments for additional works or substitution, paying greater salaries than the maximum approved salary for a particular position, paying for business trips that are not related to the activities of capital companies or the professional improvement of employees, paying for the fuel used for trips made by board members and employees of capital companies during sick leaves and vacations.

Goods and services were purchased without observing requirements set forth in regulatory enactments governing the organisation of procurements; moreover, bonuses were paid without assessing the performance of contribution of employees in the development of the capital company or during the period when the capital company was operating with losses.

The actions of capital companies with funds of EUR 427 thousand were inefficient.

Capital companies failed to ensure the receipt of all revenues for rendered services in the amount of at least EUR 154.6 thousand. In applying a discount of EUR 12.9 thousand to the management fee for persons

authorised by the owners of apartments and without including these expenses in the calculation of management fee of the relevant residential building, as well as without stipulating the duty of apartment owners of this building to compensate for the amount of the granted discount, not all revenues were received.

⁴⁰ SAO: Capital companies of Saldus County local government inexpediently used half a million of euros. Portal www.financenet.tvnet.lv. Photo: REUTERS/Scanpix. Online: http://financenet.tvnet.lv/zinas/597282-vk_saldus_novada_pasvaldibas_kapitalsabiedribas_nepamatoti_izlietots_pusmiljons_eiro.

As the result of the audit, 22 recommendations were provided in the field of management of capital shares, administration of income and expenditure of capital companies. By implementing these recommendations, more effective management of capital companies and economically justified determination of prices of chargeable services rendered by capital companies will be ensured, unequal attitude towards the recipients of services will be eliminated and business and finance planning of capital companies will be improved, as well as the risk of inexpedient and unjustified use of funds will be eliminated.

2.3.5.2. Independent and Other Institutions

As the result of the financial audit “On the Proper Preparation of 2014 Annual Report of the Social Integration Fund”, the State Audit Office provided an unqualified opinion. As the result of the audit, no recommendations were provided to the Social Integration Fund.

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

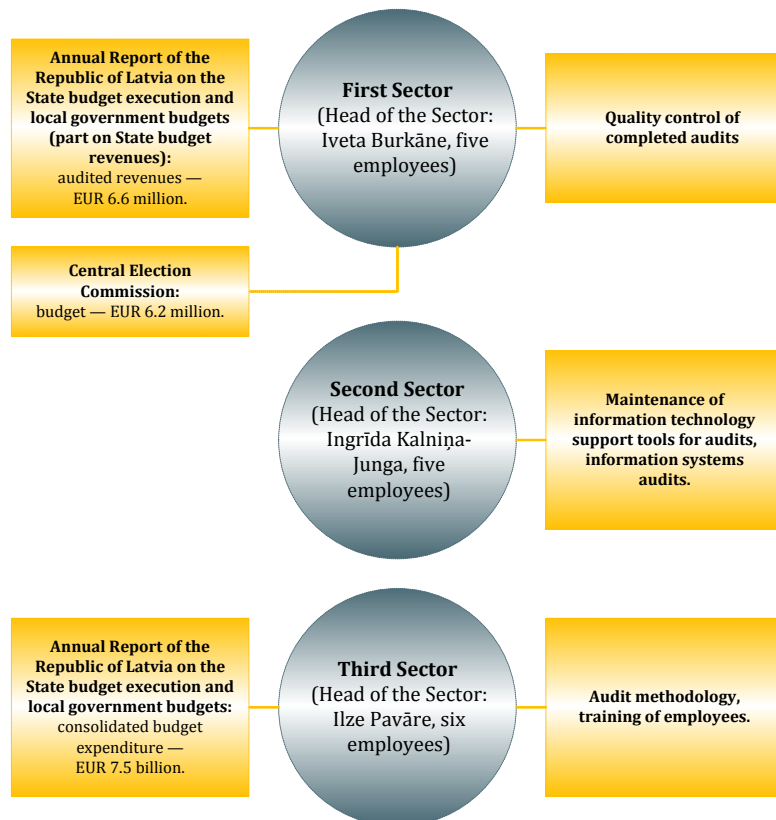


Figure 33. Audited entities and competence areas of the Audit and Methodology Department.⁴¹

2.3.6.1. Financial Management of the Public Sector

During the reporting year, the **financial audit “On 2014 Annual Report of the Republic of Latvia on State Budget Execution and Local Government Budgets”** (Annual Report) was carried out.

The primary task of the State Audit Office, in carrying the audit of the Annual Report, is to gain assurance regarding the correctness of preparation of the report.

Pursuant to audit findings, the State Audit Office provided a qualified opinion with the limitation of scope. The Annual Report provides a clear and true idea about the financial condition of the State, changes thereto and results in all crucial aspects, including the following circumstances: 1) inappropriate presentation of the transaction on the funding of the construction of Dienvidu Bridge in the Annual Report; 2) consequences of applying the minority principle stipulating, in excluding mutual transactions

⁴¹ The number of employees on 31 December 2015 in accordance with the list of staff positions of the State Audit Office.

or balances, to exclude the smallest value of mutually economically correspondent items; 3) failure to specify tax revenues according to the accrual principle, wherewith it is impossible to assess the fullness of tax revenues, and 4) deficiencies in specifying the value of long-term investments of local governments, due to which it is impossible to determine the necessary total amount of adjustments.

In fulfilling its primary task, the State Audit Office has assessed financial management issues for several years already and, although 2014 audit was no exception, it marked a certain "turning point".

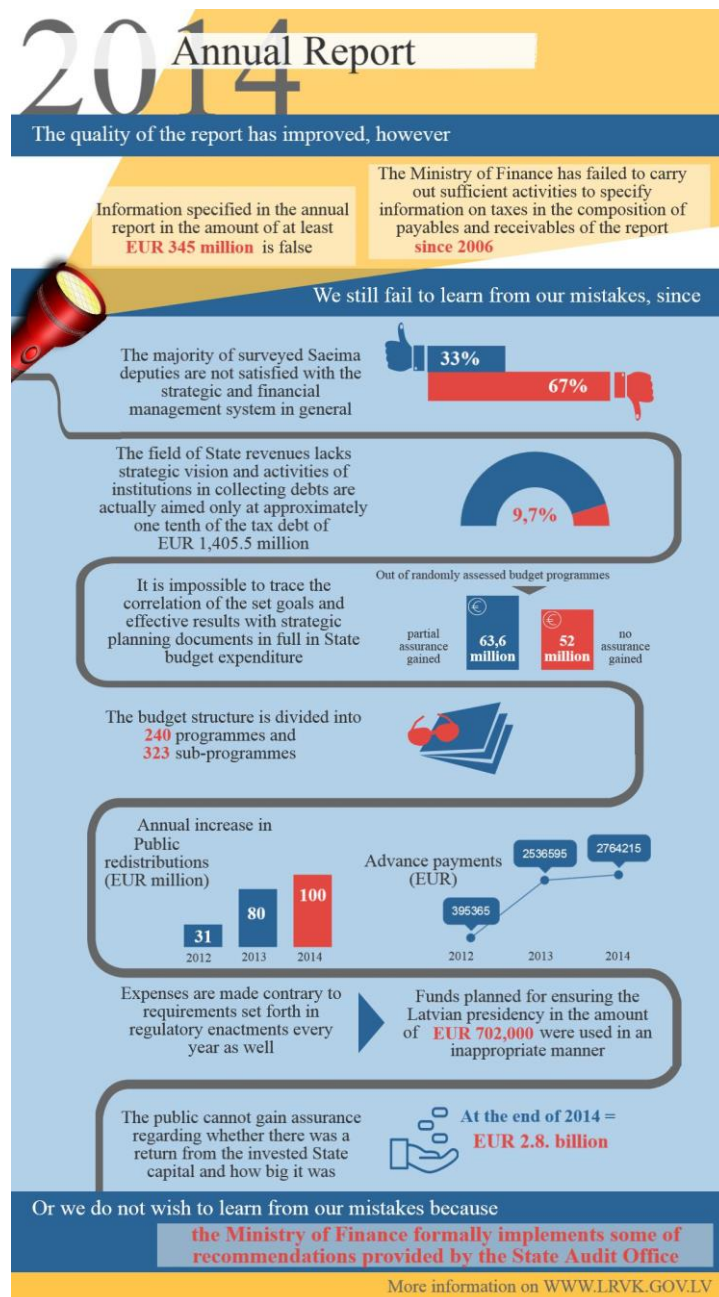


Figure 34. Financial audit "On 2015 Annual Report of the Republic of Latvia on State Budget Execution and on Local Government Budgets".

To determine the opinion of the persons involved in the financial management process and of the public about the current situation, the State Audit Office applied to the Saeima. The survey of Saeima deputies showed that 67% of surveyed Saeima deputies were dissatisfied with the budget structure and set goals, the planning process, allocated funds and information availability. It suggests that information on the budget has crucial quality and perceptibility deficiencies.

Despite that the Development Planning System Law and Law On Budget and Financial Management stipulate requirements for consecutive, successive and result-oriented strategic and financial management, the fulfilment of these requirements is not ensured.

The assessment of budgetary requests according to their conformity to planned goals, achievable results and priority development directions, as well as the principle of cost-efficiency and effectiveness is not ensured. Achievable goals and results in budgetary requests submitted by ministries differ from those determined in development planning documents, since during the budget planning process no assurance

Unlawful and economically unjustified advance payments of ministries and central State institutions tend to increase every year, reaching already EUR 2.8 million by 2014.

was gained as to whether achievable goals and results corresponded to the goals and results of policy of other sectors.

Likewise, in 2013 and 2014, State budgetary institutions used at least EUR 984.1 thousand of State budget funds intended for ensuring the Latvian Presidency of the Council of the EU contrary to legal acts.

The tendency of institutions to use budget funds granted during the reporting year to the extent possible is to be assessed as critical for ensuring the effective and efficient use of the State budget.

Within the framework of the audit of the Annual Report, State budget revenues were assessed as well.

Control deficiencies that had not been eliminated for a long time were discovered; as the result of these deficiencies, the State budget did not receive EUR 6.2 million in 2014. This deficit in the State budget was compensated from the funds that had been collected from taxpayers in the amount of EUR 5.8 million, since the State Revenue Service failed to act as a client-oriented institution.

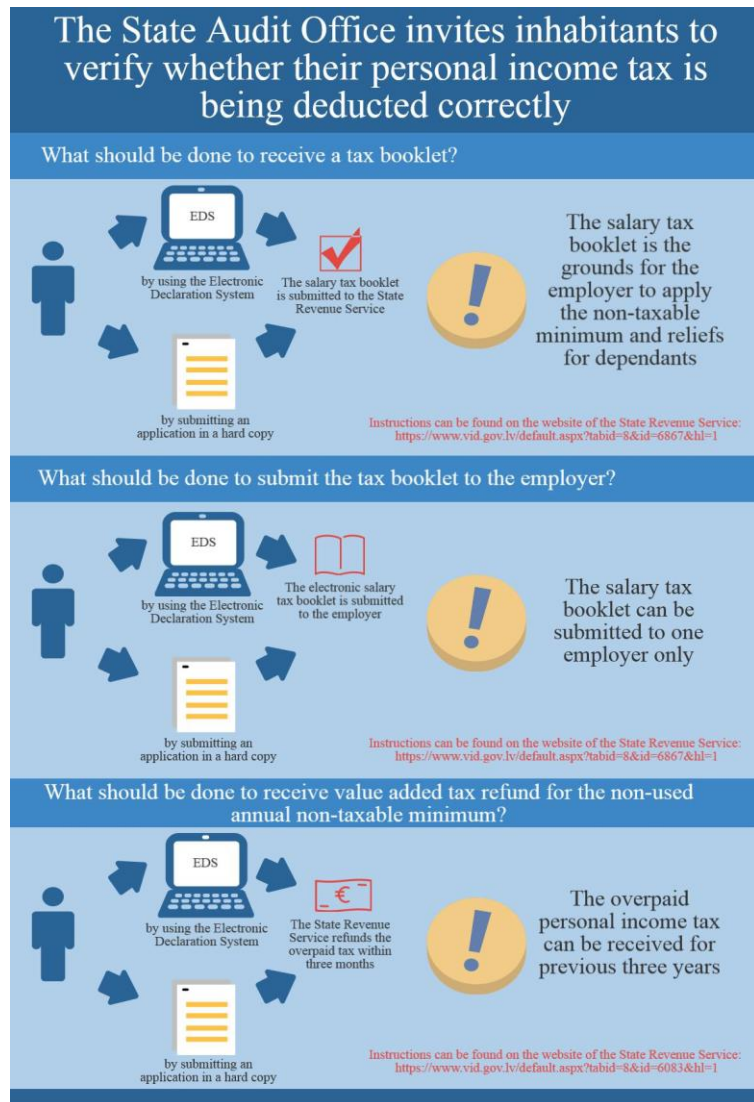


Figure 35. Process of collecting personal income tax.

It will be impossible to recover tax debts next year or the year after the next, since the State Revenue Service and the Ministry of Finance struggle with consequences in the field of tax debt recovery, without identifying the causes for the low level of collection of tax debts. All the activities carried out by the State Revenue Service for increasing the effectiveness of the debt collection process are aimed only at 9.7% of the tax debt of EUR 1,402.5 million.

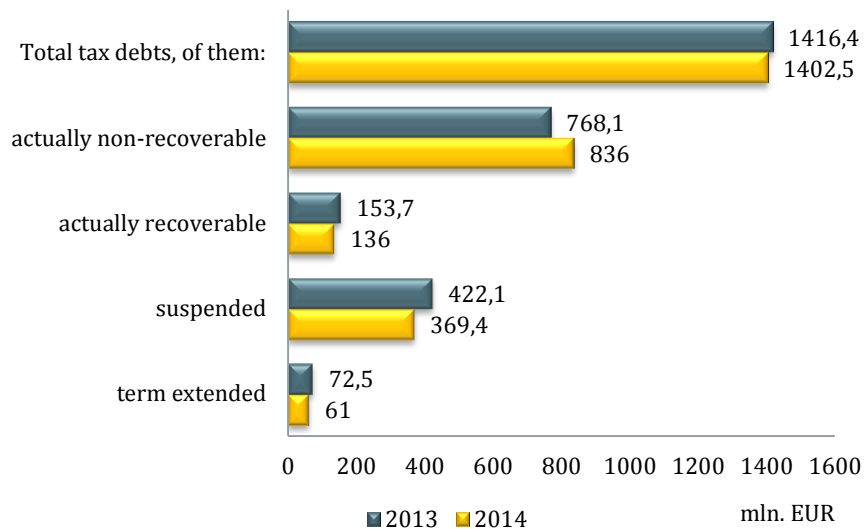


Figure 36. Dynamics of the tax debt structure in 2013 – 2014.

The administrative load annually created for taxpayers is not assessed either. For example, in 2014, the VAT security was introduced for merchants that carry out activities with oil products. However, the only effect that was achieved was the decrease in the number of merchants operating in the field and increase in tax debts for merchants of this field.

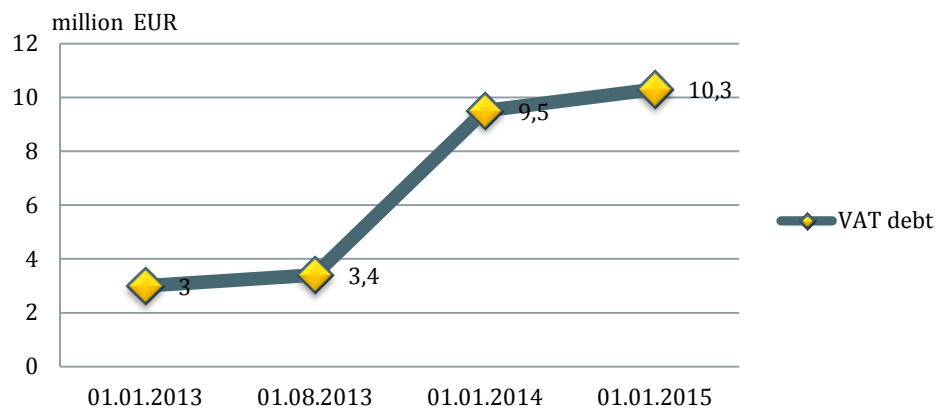


Figure 37. Dynamics of VAT debt for taxpayers that perform transactions with oil products.

After the audit, the State Audit Office provided 25 recommendations, the most significant part of which is recommendations on the elimination of deficiencies in the section on State budget revenues. Recommendations stipulate the following:

- in relation to the section on budget revenues in the Annual Report, to disclose full information on State budget revenues, to reduce the amount of tax debts, to put in order the administration of personal income tax, energy tax and subsidised energy tax, to reduce the administrative load, to ensure consequent activities in cooperation with taxpayers and to put in order the maintenance of information systems of the State Revenue Service;
- in relation to the quality improvement of the Annual Report, to ensure complete comparison of account balances and transactions, to refuse from the application of the minority principle and to disclose information in the report on the legal proceedings topical for the county;

- in relation to the strategic and financial management process, to ensure the linkage of the development planning system and the budget, to assess the elaboration degree of the budget and to revise applicable budget flexibility tools.



Figure 38.⁴²

During the reporting period, **the performance/regulatory audit on the effectiveness of restructuring carried out by the State Revenue Service was carried out.**

One of the reasons for carrying out restructuring is the wish to ensure better performance. However, it is possible only if the institution has a clear and consequent development strategy defining goals, results and time limits for their attainment. Within the framework of this audit, the State Audit Office assessed three aspects of work of the State Revenue Service (SRS): effectiveness of internal restructuring, strategic management and human resources management.

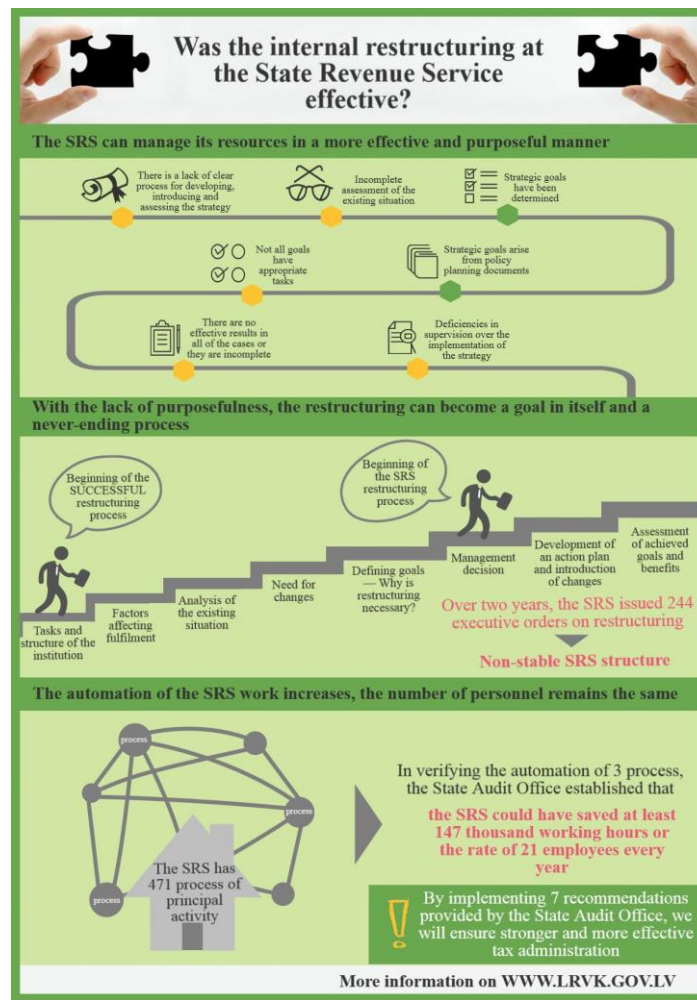


Figure 39. Performance/regulatory audit on the effectiveness of restructuring carried out by the State Revenue Service was carried out.

⁴² SAO: SRS activities do not suggest serious and consequent approach to work. Portal www.diena.lv. Photo: Leta. Online: <http://www.diena.lv/latvija/zinas/vk-vid-darbibas-neliecina-par-nopietnu-un-secigu-pieēju-darbam-14116302>.

Throughout its more than 20-year history, the SRS has experienced a lot of changes. The need for changes was dictated by both time, i.e. socially economic and political processes in the country and the fast introduction of new technologies in everyday life, and the internal processes of the institution itself.

The SRS Strategy for 2011 – 2013 has not been used as a tool for improving the activity of the institution and there is no substantiation for the SRS statement that the goals set for 2011 – 2013 have been attained. Within this period, neither the goals of the institution, nor achievable results were clear. Under these circumstances, the meaningful internal restructuring was practically impossible. Restructuring carried out within this period became a “vicious circle”, and restructuring results and changes to the indicators of the SRS activity did not suggest that their benefit would be greater than invested resources and the activity of the institution would have been improved.

Starting from approving the Strategy for 2014 – 2016, the strategic management of the SRS has been improved significantly. However, work still has to be carried out on the correlation of defined goals with planned activities and achievable results. The effectiveness of the SRS work should be assessed based on the results, the achievement of which has been ensured directly by the SRS activity, not just by overall economic processes in the country.

Inspections have revealed discrepancies in human resources management as well. As the role of information technologies increases and the manual work of persons respectively decreases, both economic benefits and savings on human resources would have to be ensured; however, no assurance has been gained regarding that during the audit. The influence of automation and electronisation only on three SRS processes (out of 471 processes in total) was randomly assessed.

Within the period from 2011, the SRS could have saved at least 147 thousand of working hours or delegated 21 employees for the performance of other tasks every year.

It is to be noted that changes to the staff of over 4,000 employees are always a challenge; therefore, the support ensured by the Ministry of Finance supervising the Service is particularly important. In the opinion of the State Audit Office, the situation in which the goals determined in the Strategy of the Ministry of Finance for 2012 – 2014 in the field of taxes could not be directly linked to the SRS activity is inadmissible. In turn, the indicators of the SRS activity unrelated to planned results have been determined for the majority of the areas of activity determined in the Strategy for 2014 – 2016, in the implementation of which the SRS is involved.

After the audit, the State Audit Office provided seven recommendations stipulating increasing the effectiveness of SRS activities, including use of resources.

2.3.6.2. Independent and Other Institutions

Within the framework of the financial audit on 2014 Annual Report of the Central Election Commission, the State Audit Office discovered no errors in accounting and no deficiencies in the internal control system, therefore a positive opinion was provided.

2.3.6.3. Audit of Information Systems



Figure 40.⁴³

In 2015, the performance audit **“Do the Archives Ensure the Storage of Electronic Documents?”** was completed to assess whether the National Archives of Latvia would be able to provide statements in the fields wherein everything is currently processed in electronic form, many years later.

The State Audit Office has established that there is a lack of one of the main preconditions in the field of circulation and storage of electronic documents — understanding of what makes the national documentary heritage of Latvia in order to use resources for selecting and storing the most important documents. As the result, data are received for storage at the National Archives only from two State information systems, i.e. from the Central Statistical Administration and from the Citizenship Acquisition and Loss Information System. All other electronic documents are stored at institutions, although another 106 State information systems contain data with archive value.

Within the framework of the audit, it has been established that the project for the creation of appropriate infrastructure has been implemented for ten years now; however, only some of planned e-services were available in August 2015. In general, the findings suggest that the priorities and tasks determined in national planning documents in relation to the area of archiving of electronic documents are not implemented and in future, the National Archives may lose its function of storage of electronic documents and data.

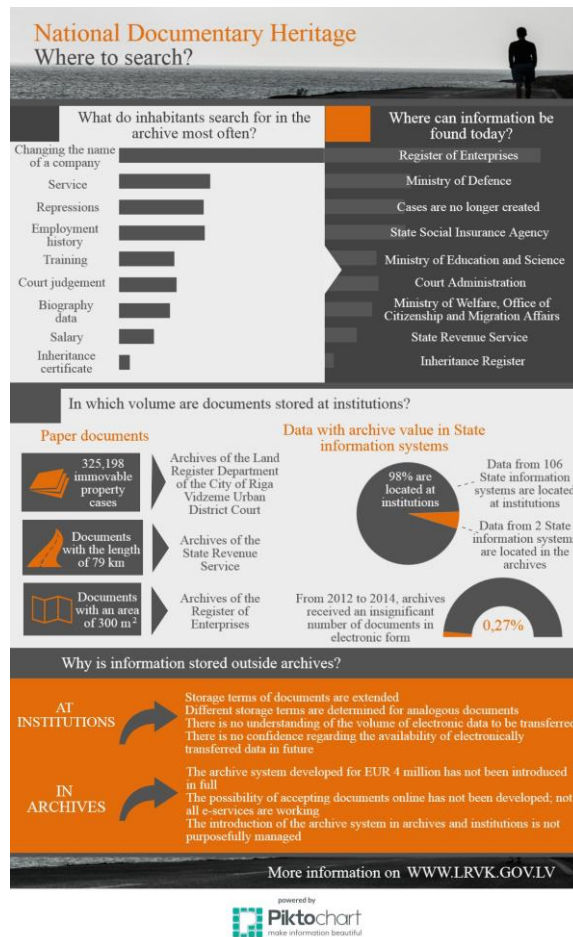


Figure 41. National documentary heritage.

⁴³ State Audit Office: Circulation of electronic documents made the role of the National Archives unclear. Portal www.lsm.lv. Photo: Sintija Ambote / Latvijas Radio. Online: <http://www.lsm.lv/lv/raksts/latvija/zinas/valsts-kontrol-elektronisko-dokumentu-aprite-neskaidru-padarijusi-nacionala-arhiva-lomu.a149019/>.

2.4. Implementation of Recommendations Provided as the Result of Audits



- the internal control system is improved for accounting;
- 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 and capital companies is improved;
- the economic and expedient use of material/technical resources managed by institutions is promoted;
- compliance with legal acts in public procurements is promoted.



- 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.

Figure 42. Impact of recommendations provided as the result of audits carried out by the State Audit Office.

Result to be achieved in accordance with the Action Strategy.⁴⁴

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

Fulfilled.

During the reporting period, the audited entities **had to implement 572 recommendations in total, 492 or 86% of which** were implemented, **51 recommendations** or **8.9%** were at the stage of implementation, no implementation was commenced for five recommendations or 0.9%, and 24 recommendations or 4.2% lost their topicality.

Table 2

Status of the State Audit Office recommendations to be implemented in 2015 (by 30.12.2015).

Sector/area	Recommendations to be implemented in 2015	Completely implemented		Initiated		No implementation commenced	Lost topicality
	(number)	(number)	(%)	(number)	(%)	(number)	(number)
Defence	5	5	100				
Foreign Affairs	3	2	66.7				1
Economics	23	23	100				
Interior	17	16	94.1				1
Education, Science, and Sports	23	20	87	1	4.3		2
Culture	15	13	86.7	2	13.3		
Agriculture, Fishery, and Forestry	26	26	100				
Independent and Other Institutions	76	72	94.7	4	5.3		
Public Sector Funding	105	78	74.3	17	16.2	1	9
Regional Development and Local Governments	107	92	86	11	10.3	4	

⁴⁴ The result must be achieved within each year of the Action Strategy.

AUDIT WORK

Welfare	19	19	100				
Justice	11	11	100				
Transport and Communications	66	60	87	3	4.3		3
Healthcare	50	34	72.3	10	21.3		6
Environmental Protection	26	21	80.8	3	11.5		2
TOTAL	572	492	86	51	8.9	5	24

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

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 expenses** (principle 1:5).

Measures are taken to attain the goal in 2017.

During the reporting period, the development of the methodology of financial impact assessment occurred, which will be completed in Q2 2016.

⁴⁵ Result to be achieved during the least year of the Action Strategy, i.e. in 2017.

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 2015, **law enforcement institutions were informed about violations discovered during six audits** (four regulatory/performance audits and two financial audits).

The Prosecutor's Office was informed about discovered violations of legal norms:

- in the field of waste management;
- in the field of issue of temporary residence permits to foreigners;
- in the field of insolvency;
- in the activities of SIA "Rīgas namu pārvaldnieks" in possibly fictitiously hiring employees and paying remuneration thereto;
- regarding the possible omission by the officials of the Ministry of Economics in relation to failure to ensure the participation of Latvia in the international exhibition "Expo Milano 2015";
- regarding unlawful activities with funds in Brocēni County local government.

According to the information sent by the State Audit Office in 2015 to the Prosecutor's Office, the State Police initiated three criminal proceedings and materials of one audit were attached to the already initiated criminal proceedings. Reviews are continued on materials sent within the framework of two audits.

In one case, the State Audit Office reported the possible non-observance of the Law On Prevention of Conflict of Interest in Activities of Public Officials **to the Corruption Prevention and Combating Bureau.**

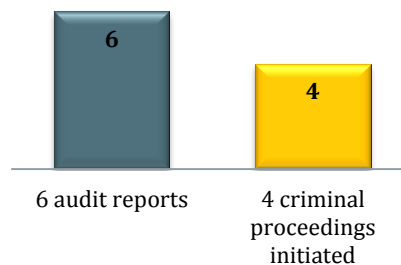


Figure 43. Examination of violations discovered by the State Audit Office in 2015 in law enforcement institutions.

During the reporting year⁴⁶:

- within the framework of the criminal case, a decision was adopted on the application of a criminal sanction (community work of up to 140 hours) to an official of a local government capital company for the abuse of authority, unjustifiably increasing service expenses in the amount of EUR 78.4 thousand. Initially, a decision was adopted on the refusal to initiate criminal proceedings; however, criminal proceedings were initiated after examining the complaint of the State Audit Office;
- the judgement of conviction came into force — a person was found guilty of the abuse of authority, illegally paying material benefits of at least EUR 37.2 thousand in the capital company, and

⁴⁶ Information as on 31 December 2015.

- punished with a fine in the amount of five minimum monthly wages. The case is being examined in the court of appeal;
- there are four cases being examined in the court of the first instance:
 - three cases on the abuse of authority (regarding bonuses illegally paid by SIA “Jelgavas pilsētas slimnīca”, regarding the use of funds of SIA “Jelgavas poliklīnika” capital company for private needs, regarding the funds of the capital company unjustifiably used at Jelgava City local government agency “Jelgavas pilsētsaimniecība”);
 - one case regarding the omission by a State official (regarding the non-fulfilment of duties by an official of the Social Integration State Agency in approving cash-register closure reports, without verifying whether all the amounts specified in documents certifying transactions correspond to amounts specified in cash register income orders and entered in the accounting system);
 - within the framework of criminal proceedings, five persons were transferred for criminal prosecution for the abuse of authority (two officials of SIA “Baložu komunālā saimniecība” for the unjustified payment of dismissal benefits to the Members of the Board, an official of the Social Integration State Agency for entering into agreements with travel agencies and determination of a lower service fee than determined in Cabinet Regulations, two officials of the Freeport of Riga Authority in relation to violations discovered as the result of the regulatory audit “Conformity of Activities of the Freeport of Riga Authority to Requirements Set Forth in Regulatory Enactments”).

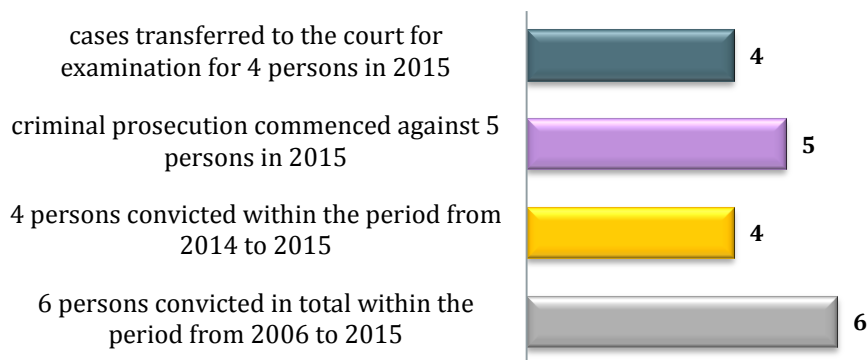


Figure 44. Court judgements of conviction, cases transferred for criminal prosecution, and cases in courts (2006 – 2015).⁴⁷

At the end of 2015, investigation regarding violations discovered as the result of audits carried out by the State Audit Office were carried out within the framework of 35 criminal proceedings (33 criminal proceedings in the State Police and two criminal proceedings in the Corruption Prevention and Combating Bureau).

⁴⁷ Information as on 31 December 2015.

2.5.2. Cooperation for the Exhaustive Examination of Violations

Result to be achieved in accordance with the Action Strategy.⁴⁸

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.

Fulfilled.

In 2015, the State Audit Office continued to monitor the progress of examination of discovered violations at law enforcement institutions:

- it sent information inquiries with a request to inform about the progress of examination of violations and adopted decisions (24 recommendations were sent in 2015);
- it assessed information received from law enforcement institutions;
- in the event, in the opinion of the State Audit Office, decisions adopted by law enforcement institutions contained no sufficient grounds or violations had not been verified sufficiently, the State Audit Office submitted complaints regarding adopted decisions to a higher official.

The State Audit Office submitted 13 complaints regarding 18 decisions adopted by law enforcement institutions on refusal to initiate criminal proceedings; as the result:

- in two cases, criminal proceedings were initiated: regarding violations in the administration of Liepāja Special Economic Area, at the State Treasury in relation to the granting of State guarantee to AS “Liepājas Metalurģis”;
- in two cases, the decision on refusal to initiate criminal proceedings was cancelled and the material was sent for additional verification: regarding violations in relation to waste management at SIA “Vidusdaugavas SPAAO” and SIA “Ventspils labiekārtošanas kombināts”;
- in three cases, the decision on refusal to initiate criminal proceedings was kept in force and the complaint was rejected, since:
 - in one case, there were no constituent elements of a criminal offence (no significant harm — five minimum monthly wages): at the Latvian Association of Waste Management Companies;
 - in two cases, no criminal offence was committed (no losses were established): at the Provision State Agency in relation to the property at Piestātnes iela 6/14, Jūrmala, at SIA “Ventspils labiekārtošanas kombināts” in relation to household waste management.

The State Audit Office submitted 25 complaints regarding 18 decisions adopted by law enforcement institutions on the termination of criminal proceedings; as the result:

- in eight cases, criminal proceedings were resumed;
- in one case, criminal proceedings were terminated twice and resumed twice after examining the complaints of the State Audit Office: regarding violations at Rugāji County local government in relation to the use of service vehicles;
- in seven cases, the complaint was rejected, since:
 - in two cases, law enforcement institutions failed to determine the constituent elements of a criminal offence (no significant harm was caused — no threat was posed to other interests and rights protected by law): regarding violations at Murjāni Sports Gymnasium in relation to the payment of dismissal benefits, at Skrīveri County local government in relation to the use of service vehicles;
 - in two cases, no criminal offence was committed: possible misappropriation of cash at Līgatne Tourism Information Centre in relation to the violations of legal norms discovered as the result of the audit “On the Proper Preparation of 2010 Financial Statement of the Ministry of Culture” at the State agency “Jaunie “Trīs brāļi””;
 - three complaints were examined as on 31.12.2015.

⁴⁸ The result must be achieved within each year of the Action Strategy.

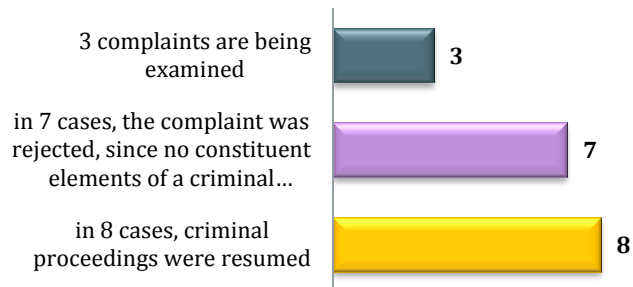


Figure 45. Result of examining complaints submitted by the State Audit Office in 2015 regarding 18 decisions on the termination of criminal proceedings.⁴⁹

During the reporting year, the representatives of the State Audit Office met with the representatives of the Prosecutor's Office, Daugavpils Prosecutor's Office, Prosecutor's Office on the Investigation of Financial and Economic Crimes, as well as the State Police to discuss the progress of investigation of particular violations discovered by the State Audit Office.

To facilitate the examination of violations at law enforcement institutions and promote the understanding of State Audit Office expenses, the representatives of the State Audit Office organised a seminar for the employees of the State Police of Riga Region regarding the methods of work of the State Audit Office, audit methodology, violations discovered as the result of audits, their possible qualification and examination issues.

2.5.3. Examination of Violations at Other Responsible Institutions

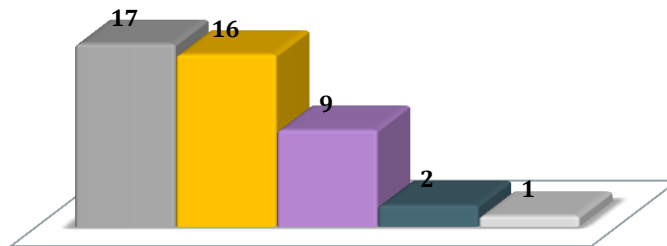
In 2015, the State Audit Office **informed the Procurement Monitoring Bureau about violations discovered within the framework of seven audits in the field of public procurements:**

- in one case, the signed contract did not comply with procurement regulations: conditions of the contract signed by the State Police for the purchase of cars differ from the provisions of the draft contract enclosed to the procurement procedure regulations;
- in five cases, no procurement was organised: at Riga Choreography School, Vocational Education Competence Centre "Riga Technical College", Murjāni Sports Gymnasium, Professional Education Competence Centre "Smiltene Technical School", and SIA "Rīgas namu pārvaldnieks";
- in one case, the procurement was divided into parts: for the performance of construction works in the buildings of the State Environmental Service.

In 2015, the Procurement Monitoring Bureau applied administrative penalties to three persons for violations discovered as the result of audits carried out by the State Audit Office; record-keeping of administrative violation continued in three cases, the initiation of record-keeping could not be initiated in one case due to that a limitation period had entered into effect⁵⁰.

⁴⁹ Information as on 31 December 2015.

⁵⁰ Information as on 31 December 2015.



- reported on audits
- initiated record-keeping on administrative violations
- administrative liability and a fine imposed on persons
- no record-keeping initiated due to the expiry of the limitation period
- person released from liability, since the offence is insignificant

Figure 46. Examination of violations discovered by the State Audit Office at the Procurement Monitoring Bureau (2014 - 2015).

2.5.4. Examination of Violations at Audited Entities and Their Higher Institutions

Upon the initiative of the State Audit Office, since 11 April 2014, the Law On Prevention of Squandering of the Financial Resources and Property of the State and Local Governments determines that if violations of this Law have been detected by the State Audit Office upon performing an audit, the unit audited or its higher institution or official shall inform the State Audit Office regarding the results of evaluating the liability of the persons referred to in Paragraph one of this Section within five months after the decision of the State Audit Office on approving the audit report has entered into effect.

In fulfilling the duty determined in the Law, the audited unit or its higher institution must determine persons guilty of violations discovered during the audit and assess whether there are grounds for imposing disciplinary and civil liability thereon. Results of assessing the liability of persons must be reported to the State Audit Office.

The State Audit Office monitored that information regarding the results of assessment of liability of persons would be provided within the period set in the Law and the liability of persons would be assessed:

- in sending the audit report, an invitation to inform the State Audit Office about the results of assessing the liability of persons was specified in the covering letter;
- if no information was received within the period set in the Law, the State Audit Office sent letters with a request to provide information;
- after receiving the information, the State Audit Office assessed it and, if necessary, repeatedly invited to carry out the assessment of liability of persons;
- on its website, the State Audit Office placed information on the results of assessing the liability of persons.

Audited entities and their higher institutions assessed the liability of persons for the following violations:

- activities with the funds and property of the institution contrary to external regulatory enactments;
- failure to ensure the internal control system of the institution;
- issue of administrative acts without complying with requirements set forth in external and internal regulatory enactments.

During the reporting year, **inspections on 18 audits carried out by the State Audit Office were performed in audited entities and their higher institutions.** As the result of performed inspections, six persons guilty of violations were expressed a reproof, one official was downgraded for one year, two

officials were dismissed terminating State civil service relationships, five persons were expressed a reprimand, and one person was suspended from duty.

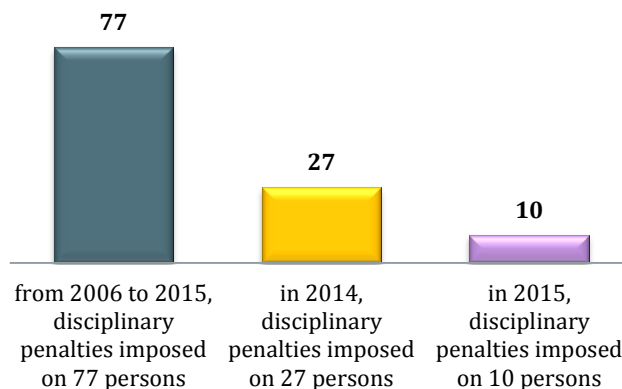


Figure 47. Persons to which disciplinary sanctions were applied for violations discovered by the State Audit Office in audited entities and their higher institutions (2006 – 2015).

In certain cases only, audited entities and their higher institutions proposed compensating losses caused as the result of illegal actions of persons. For example:

- Rundāle County Council entered into an agreement with the employees of its social service on the deduction of EUR 1.2 thousand from the remuneration for the compensation of losses caused as the result of making unjustified decisions;
- the former official of VAS “Latvijas Pasts” repaid to the capital company the unjustifiable paid compensation of EUR 655 for fuel;
- AS “Pasažieru vilciens” entered into an agreement with a person on the repayment of EUR 2.9 thousand due to the unjustified use of a service vehicle;
- four persons in Sigulda local government repaid a total of EUR 95.45 for the unjustified use of a service vehicle and unjustifiably compensating travel expenses;
- two officials of the Office of Citizenship and Migration Affairs compensated caused losses of EUR 35.57 in relation to the adoption of unjustified decisions.

The State Audit Office discovered these deficiencies in assessing the liability of persons for violations discovered in audits:

- responsible persons are not determined in all the cases and the liability of persons is not assessed;
- institutions lack a single approach to assessing the liability of persons;
- in many cases, a limitation period for imposing disciplinary liability on persons has entered into effect;
- in rare cases only, the issue concerning the compensation of losses caused as the result of illegal act or omission of persons is resolved;
- there is a high probability for the head of the ministry (State secretary), in ensuring the fulfilment of requirements set forth in the Law, and the performer of an official inspection, in carrying out the assessment of liability of officials, to end up in a situation of conflict of interests.

To eliminate said deficiencies, in the opinion of the State Audit Office:

- the higher institutions of audited entities should get involved in the assessment of liability of persons and, if necessary, ensure the assessment of liability of the head of the subordinate institution;
- training should be organised on the assessment of liability of persons for violations discovered as the result of audits;
- assessment of liability of persons should be carried out immediately after the entry into force of the audit report to prevent the entry into force of the limitation period;

- in order to prevent situations of possible conflict of interests in assessing the liability of State secretaries, it should be ensured that assessment is carried out by another institution independent of the audited entities.

The State Audit Office has developed a mechanism to be able to recover illegally used funds, unless a State or local government institution has done it itself.

It is done to prevent situation when audits, wherein illegal actions with the funds and property of a public person was discovered, are not often followed by appropriate actions, directly applying to guilty officials (employees).

Pursuant to the bill “Amendments to the Law On the State Audit Office”, after the entry into force of the decision of the audit department, by which the audit report is approved, if illegal actions with funds or property is discovered in the audit and the institution itself takes no measures to recover illegally used funds from the official (employee), the State Audit Office will be able to decide on the initiation of an administrative case to assess whether and against which official or employee the recovery of losses is to be carried out. The decision adopted by the Council of the State Audit Office on the recovery of losses can be contested in the administrative court. The examination of the issue and all other procedural and technical issues will be resolved pursuant to the general procedures as laid down by the Administrative Procedure Law.

In the development of the mechanism, the regulation and practice applied by Latvia during the interwar period and by other supreme audit institutions of the European Union was studied.

During the interwar period of Latvia, the State Audit Office determined extra charges for institutions, yet their heads were personally liable for the recovery of losses by way of subrogation. The fathers of the Constitution of the Republic of Latvia recognised this competence as admissible.

The European Union includes countries, wherein supreme audit institutions have the right to adopt decisions themselves on the application of sanctions to officials or recovery of losses therefrom (for example, Belgium, Portugal, Italy, France, Spain, Slovakia, Romania). In other countries, audit conclusions are only of a recommendation nature or there are other even less effective mechanisms of influence. In Lithuania, the National Audit Office tends to assign institutions to recover losses from responsible officials in certain cases.

Summarised information on the practice of ministries in recovering losses suggests that if the head of an institution is willing to recover funds squandered by an official (employee), it occurs and does so rather rapidly, since regulatory framework for the recovery of losses is already sufficient. The mechanism offered by the State Audit Office is a transition tool with a preventive effect to promote the understanding of the fact that responsible persons must be responsible for their actions in person, rather than accumulate liability for taxpayers. The goal of the offer is not to collect additional funds.

Amendments do not stipulate any new sanctions, do not affect the examination of the issue pursuant to criminal procedures, except for the case if the compensation of losses pursuant to criminal procedures is not carried out due to the omission of the affected institution. The State Audit Office itself will be able to initiate it after the termination of the process.

Along with the extension of competence of the State Audit Office in the event of squandering of funds and property, the limitation period for the recovery of losses must be prolonged from two to four years. Similarly to neighbouring countries, it is planned to determine the following: if violation has been committed due to gross negligence, the limit of liability shall be determined, for example, in the amount of one monthly wage, if the offence is committed intentionally — in full.

On 20 May 2015, the developed solution, i.e. suggestions on amendments to the Law On the State Audit Office and the Law On Prevention of Squandering of the Financial Resources and Property of the State and Local Governments, was presented to the Public Expenditure and Audit Committee of the Saeima.

The State Audit Office carried out the harmonisation of the bills with the Ministry of Justice, Ministry of Finance, State Chancellery, Corruption Prevention and Combating Bureau, Office of the Prosecutor General, Latvian Chamber of Commerce and Industry, Society for Openness “Delna” and Latvian Association of Administrative Judges, as well as Latvian Association of Local Governments. All

suggestions, except for some objections by the Latvian Association of Local Governments, were mostly taken into account.

On 1 October 2015, the Presidium of the Saeima transferred the bills to committees for consideration. On 28 October 2015, the Legal Committee of the Saeima supported the bills in the first reading. On 2 March 2016, the State Administration and Local Government Committee supported the bills in the first reading. On 10 March 2016, the Saeima supported the bills in the first reading, determining a two-month period for the submission of suggestions.

INTERNATIONAL COOPERATION

3. INTERNATIONAL COOPERATION

3.1. Membership in International Organisations and Working Groups

Result to be achieved in accordance with the Action Strategy.⁵¹

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.

Fulfilled.



INTOSAI is an independent international 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 best practices. The organisation has a special consultative role in the United Nations Economic and Social Council (ECOSOC). In order to ensure 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 every three years. INTOSAI 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 documents, 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.⁵²

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.

Fulfilled.

⁵¹ The result must be achieved within each year of the Action Strategy.

⁵² The result must be achieved within each year of the Action Strategy.

INTERNATIONAL COOPERATION



Figure 48. Participation of the State Audit Office in international working groups.

3.2. Cooperation with the Supreme Audit Institutions of Other Countries

Result to be achieved in accordance with the Action Strategy.⁵³

The State Audit Office **provides professional support to 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.

Fulfilled.



In order to carry out the audit “Legality and Expediency of Use of Funds Intended for the Maintenance and Reconstruction of Local Government Streets and Roads” in a more effective manner, O.Erdmanis, the Head of the Third Sector of the Fifth Audit Department of the State Audit Office, and Z.Riekstiņa, State Auditor/Lawyer, went on an experience exchange trip to Vilnius.



Figure 49. The employees of the State Audit Office with Lithuanian colleagues.

Lithuanian colleagues provided valuable information on the results of the audit carried out by **the National Audit Office of Lithuania** regarding the maintenance, reconstruction, construction and traffic

⁵³ The result must be achieved within each year of the Action Strategy.

INTERNATIONAL COOPERATION

safety of local government roads and streets, and on the applied methods of carrying out the audits, as well as on the management system and financing model of local government roads and streets of the Republic of Lithuania.

The auditors of the State Audit Office of Latvia, in turn, shared experience of how audit reports were prepared and executed in our country. Lithuanian representatives admitted that obtained information and a new approach to the execution of audit reports was a great step forward for reports to become easier to understand, which would promote better understanding of audit findings by the public. Information provided by our auditors on experience in cooperation with the public organisations of local governments, as well as on cooperation with law enforcement institutions was assessed approvingly.



Figure 50. E.Krūmiņa, Auditor General, at the international seminar organised by the supreme audit institution of Poland.

In replying to the invitation by **the supreme audit institution of Poland**, E.Krūmiņa, Auditor General, and L.Dimante, Member of the Council of the State Audit Office and Director of the Department, participated in the international seminar organised by the supreme audit institution of Poland for the supreme audit institutions of Georgia, Moldova and Ukraine. The seminar was aimed at supporting countries that had recently signed the European Union Association Agreement. Within the context of the current geopolitical situation, particular attention was paid to the support that would be necessary for the supreme audit institution of Ukraine. Representatives of supreme audit institutions of Lithuania and Estonia, as well as representatives of the European Court of Auditors and the Development Unit of the International Organisation of Supreme Audit Institutions INTOSAI also participated in the seminar.

During the meeting, an agreement was reached on that the State Audit Office might provide support to the supreme audit institution of Ukraine on its path to the creation of an audit institution compliant with international standards and practice. The State Audit Office also might participate as an observer in the EUROSAI working group "Audit on the Use of Funds Allocated for Eliminating the Consequences of Accidents and Catastrophes" headed by the supreme audit institution of Ukraine.



During the reporting period, the head of **the supreme audit institution of Lithuania** — *A.Dulkys* — visited the State Audit Office. During the visit, several topical issues important for the improvement of activities of supreme audit institutions and further cooperation were discussed: regarding the improvement of direct duties, institutional strategies and audit methods of audit institutions and regarding cooperation with the parliament and non-governmental organisations. A special topic during this meeting was the "Rail Baltica" project, involving Latvia, Lithuania and Estonia.

E.Krūmiņa, Auditor General, and M.Salgrāve, Advisor on Strategic Matters, participated in the **6th meeting of the Independent Commission Against Corruption (ICAC)**. The number of meeting participants exceeded 300 persons and included many world anti-corruption and law enforcement specialists, representatives of audit institutions, judges and public prosecutors, representatives from regional and international organisations, scientists and other interested persons. The motto and main topic of the meeting was "Future Without Corruption — One Goal, Many Strategies". Meeting participants were able to obtain information on the experience of other countries and their latest tactics and strategy in fight against corruption.



In 2015, the **23rd UNO/INTOSAI Symposium** was organised in the capital of Austria, Vienna, gathering over 160 representatives from the supreme audit institutions of Member States. Latvia was represented by Members of the Council of the State Audit Office: M.Salgrāve and L.Graudiņa. The main topic of the symposium was the following: goals of the UNO Development Policy Programme after 2015 and the role of supreme audit institutions and implementation of their activities for sustainable development. Participants were familiarised with the experience of national parliaments, governments, UNO and other cooperation organisations and their position on the role of supreme audit institutions for attaining development goals set by UNO. During the symposium, suggestions were provided on the way of promoting the independence of supreme audit institutions and strengthening it in correlation with the attainment of UNO programme goals.



During the reporting period, L.Graudiņa, Member of the Council of the State Audit Office, and I.Pavāre, Head of the Sector of the Audit and Methodology Department, met with the representatives of **the supreme audit institution of Austria** in Vienna. The meeting was aimed at becoming acquainted with the progress of budget reform of Austria, the work done so far and future plans for the full implementation of the reform at all administration levels. In understanding deficiencies in the budget management process, Austria managed to reform the budget from being cost-oriented to becoming result-oriented within a short period. It was achieved with the support from State executive authorities and the parliament.



Figure 51. Employees of the State Audit Office with the colleagues from the Audit Chamber of Moldova.

Within the framework of the project of the supreme audit institution of Sweden at the beginning of 2015, five colleagues from **the Audit Chamber of the Republic of Moldova**, as well as the manager of the project from Sweden visited the State Audit Office.

This visit was aimed at obtaining information regarding the work organisation and structure of the Audit and Methodology Department of the State Audit Office, as well as the personnel management strategy and work organisation of the State Audit Office. During the meeting, active discussion and experience exchange occurred, since Moldavian colleagues wished to reform the Audit Chamber of the Republic of Moldova based on the good practice of our State Audit Office. E.Krūmiņa, Auditor General, and all Members of the Council of the State Audit Office met with Moldavian colleagues as well. During two days, L.Dimante, Director of the Audit and Methodology Department, I.Zālīte, Head of the Human Resources Department, I.Freiberga, Head of the Chancellery, I.Grīnhofa, Head of the Second Audit Department, and I.Vārava, Head of the Third Audit Department, as well as I.Didkovskite, Lawyer of the Legal Department, actively worked with guests.

In Warsaw, Poland, **the meeting of representatives of European supreme audit institutions on information technologies (IT)** and their auditing was organised, wherein I.Kalniņa-Junga, Head of the Second Sector of the Audit and Methodology Department, and M.Vilmanis, Information Systems Auditor, participated. The working group was aimed at strengthening the capacity of audit institutions in the field of IT audits, as well as in using IT support tools in the work of auditors. During this tenth meeting of EUROSAT IT working group, 27 countries shared their experience.



Figure 52. Meeting of representatives of European supreme audit institutions on IT and auditing thereof.

The result of the parallel audit on biometric passports was in the focus. Supreme audit institutions of Norway, Portugal, Belgium, Lithuania and Latvia participated in the parallel audit in the supreme command of Switzerland.

Participation in the parallel audit was a valuable experience not only for the IS auditors of the State Audit Office, since this was the first parallel audit on IT audit matters in the entire EUROSAT IR working group. Six Member States carried out inspections at a national level according to a single methodology, principles and programmes developed pursuant to good practice guidelines in the field of IT. The overall results show that the process of issuing personal identification documents and the information supporting it in Latvia are operating in an effective manner. No high risks were discovered in the field. Within the framework of the audit, the State Audit Office saw several possibilities how to improve this process making it faster, cheaper and more

In participating in the parallel audit, significant resources were saved at the stage of planning the auditing work, since the basic approach was developed by the supreme audit institution of Switzerland. The information systems auditors of the State Audit Office adjusted it according to the obtained understanding of the issue of personal identification documents in Latvia. Participation in the parallel audit allowed for obtaining approval for the fact that good practice guidelines and high standards are adjusted and used in audits in the field of IT in Latvia.



convenient for inhabitants.

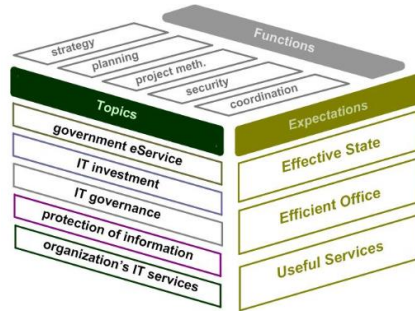


Figure 53. Database of reports on e-management audits carried out by audit institutions.⁵⁴



Figure 54. VI meeting of the Working Group on Structural Funds of the EU Contact Committee.



During the reporting period, a delegation from **the supreme audit institution of Georgia** visited the State Audit Office to get the idea of how the State Audit Office had changed and become a modern audit institution. The representatives of the State Audit Office told about the need to determine the goals of changes, to develop an action plan and to explain changes to both the employees of the institution and the public, as well as emphasised the work with personnel in training and motivating to work under new circumstances.

An integral part of changes is changes to audit methodology. The specialists of the State Audit Office shared experience on the way the work is organised in the improvement of the methodology and its implementation in practice. An important topic of discussion was the role of medium-level managers during introduction of changes to ensure the attainment of institution's goals, as well as cooperation with the Saeima and law enforcement institutions.



Figure 56. Experience exchange seminars of experts of EUROSAI Member States on audits in local governments.

The information systems auditors of the State Audit Office keep taking active part in the **“E-management” sub-group**, wherein audits performed in the field of ICT are examined and a database is developed for summarising information on audits performed by supreme audit institutions in the field of ICT, on risks found and conclusions made therein. The database services as grounds for a way how Member States share experience with performed IT audits.

In 2015, **the VI meeting of the EU Contact Committee Working Group on Structural Funds** took place in Potsdam, Germany. At this meeting, the State Audit Office was represented by B.Skara, State Auditor/Lawyer of the Third Audit Department. Participants discussed the final draft report on the parallel audit “Analysis of Deficiencies Discovered in Procurements Organised Within the Framework of Structural Fund Programmes”.

The State Audit Office is one of participants to the working group, which carried out the parallel audit in Latvia.



Figure 55. Employees of the State Audit Office with the delegation from the supreme audit institution of Georgia.

During the reporting period, the second **experience exchange seminar of EUROSAI Member State experts** on audits in local governments took place in Poland. The representatives of supreme audit institutions from 16 countries, including O.Erdmanis, Head of the Third Sector of the Fifth Audit Department of the State Audit Office, participated in this seminar.

The main topics of discussions were related to the significance of activities of supreme audit institutions as external auditors in ensuring the financial

⁵⁴ <http://eurosai-it.org/nowa/index.php/en/the-cube.html>.

INTERNATIONAL COOPERATION

The representatives of supreme audit institutions of 28 countries, including J.Salienieks, Senior State Auditor of the Fourth Audit Department of the State Audit Office, participated in **the annual meeting of EUROSAI Working Group on Environmental Auditing**.

The working group is a forum for international experience exchange on audits in the field of environment. During this meeting, discussions were carried out on the performance of audits in the field of industrial and chemical waste management and it was discussed how to promote the involvement of interested parties in audits. During the meeting, a representative from Latvia held a presentation on the experience of the State Audit Office in involving interested parties in the performed audit on household waste management.

The State Audit Office accepted the **YoHoCo delegation** that visits the presiding Member State of the European Union every year. Its goal was to provide a possibility to professionals to accumulate experience and good examples from similar State administration institutions in other Member States. The State higher institutions of the Netherlands, i.e. the Court of Audits, Ombudsman's Office, Parliament and State Chancellery, were represented in this delegation. 22 persons participated in the delegation.

Representatives were told about the functions and tasks of the State Audit Office, developed internal work planning and performance supervision processes, as well as introduced tools for supporting these processes. It was told about the types of audits, particularly paying attention to the role of the State Audit Office in supervising the effective use of budget funds.

sustainability of local governments. During the meeting, an agreement was reached on the further cooperation platform, goals and practical activities for establishing the Working Group on Local Government Audits within the framework of EUROSAI.



Figure 57. Annual meeting of the EUROSAI Working Group on Local Government Audits.



Figure 58. Representatives of the State Audit Office with the YoHoCo delegation.



Figure 59. Representatives of the State Audit Office and the Chamber of Auditors of Azerbaijan.

In autumn 2015, I.Žarikova, State Auditor of the First Sector of the Audit and Methodology Department of the State Audit Office, L.Nagle, Information Systems Auditor of the Second Sector of the Audit and Methodology Department, and G.Krūmiņa, Senior State Auditor of the First Sector of the Fifth Audit Department, visited the **Chamber of Auditors of Azerbaijan** and shared experience on methods of performing a financial audit. During the training, an insight was provided on the legal framework and competence of the State Audit Office, its structure, action strategy, performance results of 2014, organisation of auditing work and types of audits. In sharing experience on the process of performing financial audits, the stages of performing financial audits were described in detail (planning, obtaining evidence, and conclusion).



INTERNATIONAL COOPERATION

In October 2015, Riga Graduate School of Law in cooperation with the Ministry of Foreign Affairs of Latvia organised special training to support Ukraine. Latvia provided support to Ukrainian reforms, emphasising the cooperation of Ukraine with the European Union and the development and introduction of the anti-corruption policy as a priority. Within the framework of experience exchange, 12 representatives **from the non-governmental organisations and State institutions of Ukraine** visited the State Audit Office. The meeting was aimed at familiarising guests with the experience of Latvia in promoting openness and civic participation in policy and State administration, as well as mastering the basics of the anti-corruption policy.

To inform the representatives of Georgia, Moldova and Ukraine about the goals of activities of the Contact Committee of supreme audit institutions, the history of its creation and accumulated experience, as well as to discuss the use of European Union fund aid previously allocated to these countries, in November 2015, the consultative **meeting of Contact Committee participants** was organised under the management of K.Kwiatkowski, President of the Supreme Audit Office in Warsaw, Poland. V.Stūris, Manager of Policy Planning Projects and Analysis Processes, participated in the meeting representing the State Audit Office. Participants of the meeting heard out reports by the representatives of supreme audit institutions of Georgia, Moldova and Ukraine on previous cooperation with partner organisations. Participants of the meeting agreed on preparing exhaustive information on the use of aid received so far and attained goals to prevent the overlapping of different activities.

In autumn 2015, the State Audit Office was visited by the representatives of **supreme audit institutions of Moldova, Georgia and Sweden**. This meeting was aimed at promoting the further development of professional capacity in performing financial audits pursuant to the international auditing standards of the public sector.

The employees of the State Audit Office familiarised the employees of supreme audit institutions of Georgia and Moldova with their experience in the practical application of standards in examining different auditing issues.



Figure 60. Representatives of the State Audit Office and representatives of supreme audit institutions of Moldova, Georgia and Sweden.



Figure 61. Representatives of the State Audit Office and delegation of the Ukrainian government.

To become acquainted with the experience of Latvia in integrating in the European Union and other international organisations, the State Audit Office was visited by an extensive **delegation of the Ukrainian government**.

Ukrainian colleagues were particularly interested in the opinion of the State Audit Office regarding good management issues and suggestions provided as the result of audits performed by the State Audit Office on the improvement of good management.

The State Audit Office emphasised that participation in international organisations promoted the application of good management principles, yet it did not automatically mean that these principles were fully observed. The representatives of the State Audit Office M.Salgrāve, L.Dimante and V.Stūris informed about challenges in ensuring good management in Latvia, which is suggested by the results of audits carried out by the State Audit Office. Simultaneously, the State Audit Office express unambiguous support and readiness to assist the State institutions of Ukraine, particularly to the supreme audit institution of Ukraine, with which cooperation had already been started and possible support areas had been determined.

Pursuant to the Memorandum of Understanding signed on the performance of a peer review, in summer 2015, I.Pavāre, Head of the Third Sector of the Audit and Methodology Department, together with the

colleagues of the supreme audit institution of Lithuania carried out a peer review at **the supreme audit institution of Kyrgyzstan**, assessing the conformity of activities related to the preparation of audit reports and post-review activities to requirements set forth in standards and legal acts. Although as the result of assessment, it was concluded that there was still a lot of work for improving the processes of the supreme audit institution of Kyrgyzstan, the already performed and planned activities, i.e. development of the strategy, improvement of methodological materials, etc., suggested the undertaking to introduce significant improvements in the observable future.

In 2015, the **Second Young EUROSAI Conference** took place in Jerusalem, Israel, gathering 77 participants from 40 countries. Latvia was represented by L.Indrikova, State Auditor of the Second Audit Department of the State Audit Office. The main topic of the meeting was "Supreme Audit Institution and Individual". The conference was aimed at promoting discussions of new auditors and sharing experience on the role of supreme audit institutions in the society, particularly from the point of view of young people, on professional cooperation with audited entities, as well as on the influence of supreme audit institutions on their employees, assessing the need for new auditors and possibilities of implementing ideas.



Figure 62. Second Young EUROSAI Conference.

Result to be achieved in accordance with the Action Strategy.⁵⁵

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

Fulfilled.

During the reporting period:

- the parallel regulatory audit "**Effectiveness of the Process of Issuing Biometric Passports and Operation of Their Support Information Systems**" was completed. Information on the overall results of the parallel audit was sent to the Ministry of the Interior and the Public Expenditure and Audit Committee of the Saeima;
- participation in **parallel audit No. 6 of the Contact Committee Working Group on Structural Funds** and coordination of information in relation to the preparation of the overall report on the parallel audit was ensured. Conceptual support was expressed for the participation of the State Audit Office in the latest parallel audit of the fiscal policy information exchange network of the Contact Committee (*Underlying risks for sustainability of public finances*);
- participation was ensured in the planning meeting devoted to **new parallel audit No. 7 of the Contact Committee Working Group on Structural Funds** (*How do the Structural Funds contribute to the Europe 2020 strategy in the areas of education and/or employment*).

⁵⁵ 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.⁵⁶

The State Audit Office organises **the Contact Committee meeting of EU supreme audit institutions of 2015** and acts as a member of the Committee management group, thus contributing to the strengthening of financial management and secure administration of EU.

Fulfilled.

On June 18 and 19, the meeting of the cooperation platform of European Union supreme audit institutions and the European Court of Auditors — **Contact Committee — took place in Riga.**

The heads of supreme audit institutions of European Union Member States and five Candidate States, representatives from the European Commission, the European investment Bank, as well as V.Kaldeira, President of the European Court of Audits, participated in the meeting. The European Organisation of Supreme Audit Institutions EUROSAI was also represented as an observer. The meeting was organised by the State Audit Office of the Republic of Latvia with E.Krūmiņa, Auditor General, fulfilling the duties of the Chairperson of the Contact Committee.



Figure 63. E.Krūmiņa, Auditor General, fulfils the duties of the Chairperson of the Contact Committee.

During this meeting, one of the main discussion questions was the new European Strategic Investment Fund and preventive activities of supreme audit institutions related thereto in supervising the activities of the fund and eliminating possible discrepancies and inexpedient expenses.

During two parallel sessions, issues topical for each country in particular and the entire Europe in general were discussed: cooperation of supreme audit institutions with law enforcement institutions and strengthening the liability of officials, as well as further approach to performance audits on the use of European Union funds. The participants of the meeting were of the same opinion that the attainment of actual goals of allocating these funds should be promoted, i.e. investing in national economy and promoting the welfare of the population.

An important place at the meeting of the Contact Committee was attributed to the report of nine working groups on the work done during the previous period. Work analysis and experience of these groups will become the basis for further directions and emphases of platform operation. Two-day work of representatives of supreme audit institutions of the European Union was resumed in four resolutions.

The meeting organised by the State Audit Office of Latvia received the highest evaluation from the heads of other supreme audit institutions of the European Union, emphasising that the Riga meeting would further serve as the highest quality standard of Contact Committee meetings.

“Honourable Ms Krūmiņa!

On my behalf and on behalf of my colleagues, I would like to express my gratitude to the State Audit Office of the Republic of Latvia for the organisation of the Contact Committee meeting in Riga. During our visit, we truly appreciated the hospitality and general support provided by you and your employees.

Likewise, I would like to express my gratitude for the great and effective organisation and preparation of the meeting, as well as for your personal involvement in the management of important discussions. This meeting provided us with a useful opportunity to discuss the most important issues and agree on necessary activities for drawing the attention of stockholders thereto. In addition, the participants of the Contact Committee meeting agreed on carrying out four cooperation audits, which is a unique achievement.

Yours sincerely,

V.Kaldeira, President of the European Court of Audits”



⁵⁶ Result to be achieved during the second year of the Action Strategy, i.e. in 2015.

4. COMMUNICATION OF THE STATE AUDIT OFFICE

4.1. Public Availability of Information

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

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.**

Measures are taken to attain the goal.

The need for the involvement of the public in the work of the State Audit Office and for a constructive dialogue between auditors, audited entities and the public is more topical than ever before. An important precondition of the civic society development is the awareness of members of the society, their interest and active participation in State administration processes. In understanding its role in the public sector and special mission in the dialogue with the public, **the State Audit Office invited several experts known in the public and highly valued in their sector to get involved in the activities of the consultative body — Public Council of the State Audit Office.** The Public Council in cooperation with the Council of the State Audit Office will inform and educate the public about audit findings of the State Audit Office, inviting State and local government institutions to use the funds of the public sector in an economical, economic and expedient manner, setting the sustainable development of the State of Latvia as a joint goal.

The Council includes Jānis Endziņš, Chairperson of the Board of the Latvian Chamber of Commerce and Industry, Žaneta Ozoliņa, Professor with the Department of Political Science of the Faculty of Social Sciences of the University of Latvia, Mortens Hansens, Head of the Department of Economics of the Stockholm School of Economics in Riga, Sergejs Kruks, Professor with the Riga Stradiņš University, Egils Levits, honourable Doctor and Professor of Law, Ivars Kalviņš, Director of the Latvian Institute of Organic Synthesis, and Inese Voika, good practice and leadership expert. On June 9, the first sitting of the Public Council took place. Sitzings of the Public Council occur at least once in three months.

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

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

Fulfilled.

Pursuant to the State Audit Office Law, the State Audit Office shall publish an opinion of a completed audit and an audit report after it has 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, 19 press releases on audits results were prepared and five press conferences were organised.

The Auditor General and the Members of the Council of the State Audit Office, in replying to invitations of mass media, participated in interviews, television and radio programmes: radio programme “Latvijas Radio Ziņu dienests”, interviews and television broadcast “Rīta Panorāma”, “De facto”, “900 sekundes”, “Rīga TV24” and “LNT Ziņu TOP 10”.

The officials of the State Audit Office prepared articles for both electronic portals and printed editions: on the use of funds in local governments (E.Krūmiņa, Auditor General, and A.Ērglis, Member of the Board), on the topic whether the State Audit Office should be given an opportunity to recover losses caused to the State (E.Krūmiņa, Auditor General), on the opinion of the Auditor General on problems in the field of insolvency (E.Krūmiņa, Auditor General), on typical errors in the accounting of budgetary institutions (L.Dimante, Member of the Council), on the registration of software development (I.Kalniņa-Junga, Head of the Second Sector of the Audit and Methodology Department), on the

LNT

Latvijas Radio

Rīta panorāma

De facto
LTV ziņu dienests



⁵⁷ Result to be achieved during the least year of the Action Strategy, i.e. in 2017.

⁵⁸ The result must be achieved within each year of the Action Strategy.

expediency of institution's expenses (I.Pavāre, Head of the Third Sector of the Audit and Methodology Department), on errors in the accounting of reserves in State institutions and local governments (S.Zunde, Head of the First Sector of the First Audit Department), on errors of accounting of long-term investments in budgetary institutions (L.Kļava, Auditor of the Second Sector of the Second Audit Department), on project management and perspective of audits in the EU (report by E.Pūlmanis, Development Project Manager, in the international project management magazine *PM World Journal*).

Result to be achieved in accordance with the Action Strategy.⁵⁹

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.

Fulfilled.

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

Upon commencing the performance audit "**Information Systems in Healthcare**" on the introduction of the e-health system in Latvia, the State Audit Office invited healthcare professionals and pharmacists to participate in an anonymous survey and to provide an opinion on their awareness in the introduction of the e-health information system and readiness to use it in everyday work.

During the performance audit "**Effectiveness of Administration of Multi-Apartment Residential Buildings and Its Conformity to Regulatory Enactments**", the State Audit Office invited inhabitants to provide information on issues concerning the administration of residential buildings.

Is the assistant's service organised in a manner to ensure the integration of persons with disabilities in the society? To find an answer to this question, the State Audit Office carried out the performance audit "**Effectiveness of Provision of Assistant's Services Necessary to Persons with Disabilities**", within the framework of which a survey of persons with disabilities and their assistants was carried out on the conformity of the assistant's service to the needs of persons with disabilities. Over 1,600 respondents participated in the survey, thus suggesting that the selected subject is topical and important for improving the quality of life of persons with disabilities.

Within the framework of the regulatory audit "**Determination of the Fee for the Administration and Management of Residential Buildings at SIA "Rīgas namu pārvaldnieks"**", the State Audit Office surveyed inhabitants (authorised representatives of buildings) who entered into agreements on the receipt of loans from SIA "Rīgas namu pārvaldnieks" for performing the repair works of the joint property. During the audit, over 70 applications of inhabitants were received, as well as phone calls, during which deficiencies in the activities of SIA "Rīgas namu pārvaldnieks" were indicated. In assessing the content of applications and phone conversations, auditors also met with inhabitants to discuss provided information in more detail.

4.2. Cooperation with the Saeima and the Cabinet of Ministers

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

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**.

Fulfilled.

During the reporting period, the State Audit Office participated in **47 meetings of the Public Expenditure and Audit Committee of the Saeima**, informing about the audits of financial statements of

⁵⁹ The result must be achieved within each year of the Action Strategy.

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

COMMUNICATION OF THE STATE AUDIT OFFICE

ministries and central State institutions for 2014, about the results of regulatory, performance and regulatory/performance audits carried out in 2014 and 2015, about cooperation with certified auditors and about the peer review of the State Audit Office.

During the reporting period, the State Audit Office informed the Public Expenditure and Audit Committee of the Saeima about the examination of violations discovered during audits at audited entities and their higher institutions, as well as participated in four sittings of the Public Expenditure and Audit Committee of the Saeima:

- on the application of Section 15, Paragraph two of the Law On Prevention of Squandering of the Financial Resources and Property of the State and Local Governments in relation to the assessment of liability of officials for violations established during audits carried out by the State Audit Office;
- on the extension of competence of the State Audit Office, granting the right to carry out the recovery of losses and determine the prohibition of paying bonuses in relation to persons who illegally disposed of the funds or property of a public person.

Result to be achieved in accordance with the Action Strategy.⁶¹

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 the deadline defined by the decision of the Public Expenditure and Audit Committee of the Saeima.

Fulfilled.

During the reporting period, the State Audit Office informed about the following at the sittings of the Public Expenditure and Audit Committee of the Saeima:

- about the audits of the financial statements of ministries and State institutions for 2014;
- about the audit of 2014 Annual Report of the Republic of Latvia on State budget execution and local government budgets;
- about the results of 19 regulatory, performance and regulatory/performance audits carried out in 2014 and 2015;
- about the implementation of recommendations provided as the result of audits carried out during four previous years;
- about the assessment of introduction of recommendations provided as the result of audits carried out by the State Audit Office in the field of environment and finance, as well as about recommendations provided during audits carried out by the State Audit Office and their implementation (summarising analysis).

The State Audit Office sent **24 informative reports on the progress of implementation of recommendations provided during audits** to the Public Expenditure and Audit Committee of the Saeima during the reporting year.

Result to be achieved in accordance with the Action Strategy.⁶²

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.

Fulfilled.

During the reporting year, the State Audit Office informed the Public Expenditure and Audit Committee of the Saeima about the implementation of recommendations after audits carried out in the following fields:

- transport and communications;
- economics;

⁶¹ The result must be achieved within each year of the Action Strategy.

⁶² The result must be achieved within each year of the Action Strategy.

- environmental protection and regional development;
- finance, including in the audit of the Annual Report, in the audit on the revenue part of the Annual Report, as well as in other audits in relation to tax revenues.

At the sittings of the Public Expenditure and Audit Committee of the Saeima, the State Audit Office provided information on the progress of implementation of recommendations provided during audits carried out during previous periods, for example, regarding the assessment of performance of planning regions in the field of regional development and their conformity to regulatory enactments; regarding the legality and effectiveness of actions of the State Revenue Service with the property seized within the framework of administrative violations and criminal proceedings and the property due to the State; regarding activities carried out by the State Chancellery within the framework of the regulatory audit “Expediency of Use of Funds of the Ministry of Environment and Agriculture Financed from the State Budget and Allocation of State Credit Guarantees Issued for Entrepreneurial Activities and Their Conformity to Requirements Set Forth in Regulatory Enactments”; regarding the assessment of software administration in local governments and educational institutions of local governments.

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

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.

Fulfilled.

The management of the State Audit Office **met with each minister of the sector at least once during the reporting period**, informing the political management of the sector about the most significant discovered problems, progress of implementation of audit recommendations, positive examples of implementation of recommendations, strengths and weaknesses in the sector and other issues related to the administration of the sector.

On 27 March 2015, E.Krūmiņa, Auditor General, and I.Grīnhofa, Member of the Council of the State Audit Office, met with I.Straujuma, Prime Minister, to inform about significant deficiencies discovered as the result of the audit carried out by the State Audit Office on the effectiveness of the insolvency policy.



Figure 64. Auditor General E.Krūmiņa and the President of Latvia A.Bērziņš.

On 17 March 2015, E.Krūmiņa, Auditor General, met with A.Bērziņš, the President of Latvia. Higher officials discussed the work done by the State Audit Office during the previous year and priorities for the current year. Great attention was drawn to the progress of implementation of recommendations provided as the result of audits carried out by the State Audit Office and their impact on the more effective use of State funds. The Auditor General informed that after audits, approximately 80% of recommendations were being implemented, the remaining ones were either losing their topicality or had their implementation period extended.

The President of Latvia was familiarised also with the goal of the State Audit Office, i.e. to ensure that by 2017, every euro invested in the auditing process would return at least five euros in the form of additionally invested or saved funds, if the recommendation is implemented. The President approvingly assessed the fact that the number of persons punished for discovered violations had increased as the result of work performed by the State Audit Office. During the conversation, an issue on the possibility of increasing the authority of the State Audit Office was considered, which would be necessary to be able to punish guilty persons for discovered violations more quickly. E.Krūmiņa informed that necessary amendments to regulatory enactments were currently being elaborated to provide the State

⁶³ The result must be achieved within each year of the Action Strategy.

Audit Office with an opportunity to make extra charges of cash and collect them from responsible persons in cases of discovered violations.

On 3 November 2015, **E.Krūmiņa, Auditor General, met with R.Vējonis, President of Latvia.** During the meeting, officials discussed the current process of forming the State budget, indicating the lack of connection of the State budget to State policy planning documents and goals set therein. The Auditor General also indicated the need to carry out the careful assessment of budget base expenditure to ensure the effective use of taxpayers' money and to be able to finance justified new policy incentives. The Auditor General and the President were of the same opinion regarding the short-term vision of the government in tax policy. During the meeting, the Auditor General familiarised the President with the legislative incentive of the State Audit Office to strengthen the liability of State and local government officials for the legal and effective use of public resources.



Figure 65. Auditor General E.Krūmiņa and the President of Latvia R.Vējonis.

4.3. Cooperation with Audited Entities

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

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

Fulfilled.

In developing cooperation with audited entities, the representatives of departments, meeting with the leading officials of sectors, provided information and discussed the goals and progress of audits, problems identified during the audit and harmonised recommendation implementation schedules. At the end of 2014, a survey questionnaire was developed for the heads of audited entities in order to determine whether the goal and tasks of activities of the State Audit Office, as well as contribution to the improvement of the internal control system had been understood. During the reporting period, an analysis of survey results to prepare suggestions on measures that would promote the understanding of the heads of audited entities about the goals and tasks of the State Audit Office.

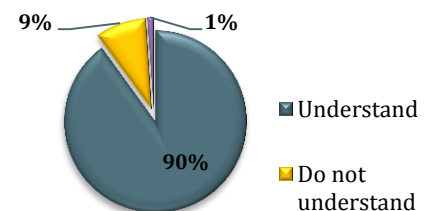


Figure 66. Results of the survey on the understanding of goals, tasks and contribution of the State Audit Office at audited entities.

Survey results suggest that the planned result was not only achieved, but even exceeded. **The goals, tasks and contribution of the State Audit Office are understood by 90% of heads of audited entities.** The Council of the State Audit Office made a decision on the need to establish a working group that would assess suggestions provided as the result of the survey and prepare an action plan. Positive evaluation was given also on the professionalism of auditors of the State Audit Office — 93% of respondents recognised it as appropriate. Communication implemented by the State Audit Office with audited entities was positively assessed by 91% of respondents. By the executive order of the Auditor General, a working group was established; it assessed the suggestions provided as the result of survey of

⁶⁴ Result to be achieved during the least year of the Action Strategy, i.e. in 2017.

respondents and prepared an action plan for the implementation of recommendations. Activities stipulated in the plan were included in the regular annual report of the State Audit Office.

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

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.

Fulfilled.

To strengthen cooperation, report on the work done, outline future plans and share experience, an annual meeting of representatives of the State Audit Office and internal auditors of State administration was organised at the State Audit Office.

The participants of the meeting were familiarised with the topical events in the work of the State Audit Office by E.Krūmiņa, Auditor General, while L.Dimante, Director of the Audit and Methodology Department, presented the performance results of the State Audit Office in 2014, as well as provided an insight into further action plans, particularly emphasising the work on the development of a new format of audit reports to make them “more reader-friendly” and ensure the inclusion of the opinion of audited entities in audit reports.

Taking into account the interest of internal auditors in the approach of the State Audit Office to carrying out performance audits, I.Pavāre, Head of the Sector of the Audit and Methodology Department, spoke about the crucial aspects of performance audits, providing also practical examples in developing the audit approach.

4.4. Cooperation with Other Organisations

Latvian Association
of Certified Auditors

L.Dimante, Member of the Council of the State Audit Office and Director of the Audit and Methodology Department, and O.Erdmanis, Head of the Sector of the Fifth Audit Department, **participated in the seminar organised by the Education Centre of the Latvian Association of Certified Auditors**. The topic of this training seminar was INTOSAI standards in relation to performance audits, paying particular attention to audits in local governments. To deepen the understanding of seminar visitors, the employees of the State Audit Office explained the concept “expediency” from the point of view of international standards and good management principle, as well as informed about how and which regulatory enactments stipulated the duty “to act in an expedient manner” and indicated regulatory enactments and processes that directly affect the expediency of actions (development and finance planning). Seminar visitors particularly valued practical examples from recent audits in local governments and the opportunity to resolve the task on the expediency of actions in a local government.

Latvian Association
of Local Government
Employees

I.Vārava, Member of the Council of the State Audit Office and Director of the Third Audit Department, and I.Pīpiķe, Head of the Sector, participated in the meeting of **the Latvian Trade Union of Local Government Employees** and provided information on the recently completed regulatory audit “Legality and Effectiveness of Social Assistance Provided by Local Governments”. The representatives of the State Audit Office informed the participants of the meeting about the most significant conclusions of the audit, as well as indicated main errors in the work of local governments with persons requesting for social assistance and explained reasons for the occurrence of these errors. The participants of the meeting were familiarised also with positive aspects in the work of social services of local governments, emphasising the good practice observed during the audit.

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

Latvian Umbrella
Body for Disability
organisations
SUSTENTO

E.Krūmiņa, Auditor General, signed an agreement with **the Latvian Umbrella Body for Disability organisations SUSTENTO on cooperation within the framework of the performance audit of the State Audit Office “Effectiveness of Provision of Assistant’s Services Necessary to Persons with Disabilities”**. SUSTENTO is the largest organisation representing persons with disabilities and uniting over 50 thousand members across Latvia. The experts of this organisation provided an opinion on the possibility of improving the assistant’s service for it to comply with the needs of persons with disabilities.



Figure 67. Auditor General E.Krūmiņa and representatives of the Latvian Umbrella Body for Disability organisations SUSTENTO.

Latvian Chamber
of Commerce and
Industry

During the joint meeting, **the Latvian Chamber of Commerce and Industry, the State Audit Office and the Competition Council** invited to preserve the current market competition, without introducing amendments to the Law stipulating wider possibilities for local governments to engage in business activities.



Figure 68. Meeting of the Latvian Chamber of Commerce and Industry, State Audit Office and Competition Council.

The participants of the meeting indicated that the efforts of local governments to fix the norm in the Law that would allow them to engage in business activities on a much wider scale contradicted the plans of national economy development stipulating export development and attraction of investments. E.Krūmiņa, Auditor General, indicated that local governments had to engage in business activities only in three cases: firstly, if it is necessary to achieve goals arising from autonomous functions; secondly, if it is more effective than achieving these goals, and thirdly, if it does not hinder developing the activity of the private capital.

During the reporting year, E.Krūmiņa, Auditor General, and M.Salgrāve, Advisor to the Auditor General for strategic matters, participated in the dinner organised by the **American Chamber of Commerce in Latvia**. The persons present discussed issues concerning the effectiveness of the public sector. Officials were of the same opinion that the improvement of effectiveness of the public sector was vitally important for promoting the financial possibilities, productivity and economic growth of the State. In her speech, E.Krūmiņa addressed the issue of managing State assets. The Auditor General familiarised the persons present with the priorities of the supreme audit institutions, in verifying the transparency and effectiveness of the public sector, particularly emphasising audits recently carried out in the field of insolvency and findings at capital companies supervised by the Ministry of Transport.

AmCham Latvia
Thought leadership hub

E.Krūmiņa, Auditor General, and M.Salgrāve, Advisor to the Auditor General for strategic matters, met with **J.N. de Almeida, Director of the Public Procurement Department of the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs of the European Commission**, to discuss the possibilities of improving public procurement systems in Member States, as well as the possible further role of the European Commission in improving the situation. The participants of the discussion agreed that supplementing the public procurement supervision system with additional control would not be expedient. Instead, it is necessary to think about strengthening the liability of officials making decisions and requests in cases when the principles of honest competition, process traceability and effectiveness are violated. The participants of the discussion agreed on further cooperation and particularly on the exchange of opinions in relation to the development of the Anti-corruption Report included on the agenda of the European Commission.

To improve the administration of capital companies founded by local governments and promote the introduction of good practice in the supervision of local government investments, **the Ministry of Finance** organised a seminar “Local Government Investments in Capital Companies and Their Administration”. In relation to the operation of capital companies of local governments, issues concerning the support of business activities, public procurements, annual reports of local governments and

State Police of Latvia

guarantees of local governments were discussed. The participants of the seminar were addressed by the representative of the State Audit Office — O.Erdmanis. He delivered the presentation “Problems in the Implementation of Administration tasks in the Form of Business Activities”. The representative of the State Audit Office provided an insight into the legal and practical aspects of conformity of business activities to requirements set forth in regulatory enactments. The need to assess the legality and expediency of local government decisions was particularly emphasised, taking into account the applicable duty to develop the medium-term action planning document of each capital company as stipulated in the Law On Governance of Capital Shares of a Public Person and Capital Companies, determining goals the public person wishes to achieve by means of participation in the capital company, effective indicators and procedures for assessing performance results. During the seminar organised by the Ministry of Finance, participants were able to find out about the experience of foreign countries in matters of local government capital companies to find out the good management practice. The seminar was visited by 100 employees from across Latvia.

In implementing the agreement achieved in spring last year between the supreme audit institution and the State Police, **the representatives of the State Audit Office carried out training for the employees of the State Police** in February 2015. Police officers visited several lectures on the planning and methodology of audits. The employees of the State Police were familiarised with issues concerning the Law On Remuneration of Officials and Employees of State and Local Government Authorities by E.Pastars, Advisor to the Auditor General for legal matters. L.Karlson, Head of the Legal Department of the State Audit Office, and A.Ērglis, Member of the Council of the State Audit Office, told about issues related to procurements, as well as about the examination of audit materials at law enforcement institutions, while L.Dimante, Member of the Council of the State Audit Office and Director of the Audit and Methodology Department, told about audit methodology and preparation and harmonisation of audit reports.

Bank of Latvia

In 2015, I.Grīnhofa, Member of the Council of the State Audit Office and Director of the Second Audit Department, and I.Ozoliņa, Head of the Sector, participated in the **Discussion Day of managing employees of the Bank of Latvia**. Participants discussed topical issues in the field of economics, society and policy.

Managing employees of the Bank of Latvia heard out the opinion of the State Audit Office on the insolvency policy in the country and its influence on national economy.

E.Krūmiņa, Auditor General met with **I.Rimšēvičs, President of the Bank of Latvia**. During the meeting, topical events in the activities of the supreme audit institutions and the central bank of Latvia were discussed. Officials agreed on cooperation and mutual support in improving the planning of the State budget.

In 2015, **a seminar/discussion with the representatives of local governments on good administration and performance audits** was organised at the State Audit Office. L.Dimante, Member of the Council of the State Audit Office, and I.Pavāre, Head of the Sector of the Audit and Methodology Department, provided an insight into good management and the role of the State Audit Office in its promotion, as well as into performance audits, explaining what the State Audit Office assesses and how and why it does so.

The representative of the State Audit Office Z.Riekstiņa participated in the **conference “Be Active!” organised within the framework of the European Sports Week**.

Taking into account the findings of performance audits carried out by the State Audit Office on the use of local government funds for culture, recreation and sports, O.Erdmanis told in his speech and presentation about preconditions for using funds in a legal and expedient manner.



Figure 69. Within the European Sports Week — Conference “Be Active!”.

The representative of the State Audit Office emphasised that it is highly important to have a good knowledge of regulatory enactments that refer to the expediency of actions and understand that funds must be handled in an economic and effective manner, attaining goals and reaching particular results.

What will the future of Bulduri Gardening College be? How to restore the prestige of the college and attract students? To discuss these issues, I.Vārava, Member of the Council of the State Audit Officer and

Bulduri
Gardening College

Director of the Third Audit Department, and S.Zunde, Head of the First Sector of the First Audit Department, met with **A.Birznieks, Chairperson of the Board of the Development Association of Bulduri Gardening College**. During the meeting, the involvement of the Development Association in the development of the college, as well as the development and improvement of gardening training base and popularisation of the college was discussed.

To promote fuller understanding and eliminate errors in the preparation of annual reports, **the State Audit Office annually organises an informative seminar**. The accounting employees of ministries and local governments participate in the seminar. At the seminar, the State Audit Office was represented by the Heads of Sectors I.Pavāre and T.Mazbērziņa, as well as the Senior State Auditor G.Krūmiņa. In their presentations, the representatives of the State Audit Office revealed the good practice identified in the audits of 2014 annual reports, as well as indicated the most crucial errors in the accounting and annual reports of ministries and local governments. Koknese, Kocēni and Saulkrasti County local governments were emphasised as good examples. The representatives of these local governments shared their experience on ensuring the stock-taking process, annual final control procedures, as well as on the traceability and validity of the representation expenditure process.

The heads of Riga local government institutions, structural units and capital companies, the members of the Latvian Association of Large Cities, as well as the representatives of responsible State institutions and representatives of the State Audit Office participated in the **scientific and practical conference “Open Local Government”**. A.Ērglis, Member of the Council of the State Audit Office, delivered a presentation at this conference. In his speech, A.Ērglis emphasised the need to ensure the transparency of activities of local governments, reminded of the good management and effectiveness principles and the liability of heads of local governments for the effective and efficient use of budget funds. The representative of the State Audit Office specifically emphasised the significance of the expediency aspect and budget use in the transactions of local governments, as well as the need to ensure the link between the planning of the budget and the planning of development. The participants present also heard out the reports of specialists on the development of an open local government in Latvia, on the legal aspect of communication with the public, as well as on the openness principle in public procurements and on personal data protection. At the conference, the heads of institutions of Riga City local government informed about the possibilities of receiving information and services in electronic form.



Figure 70. Representatives of the State Audit Office with at the meeting organised by the Jelgava Association of Pensioners with the most active pensioners of the county.

In replying to the invitation of the **Jelgava Association of Pensioners**, E.Krūmiņa, Auditor General, as well as I.Vārava and A.Ērglis, Members of the Council of the State Audit Office, met with the most active pensioners of the county. Approximately one hundred of members of the Jelgava Association of Pensioners and other interested persons had gathered at Zemgale Competence Development Centre. At the beginning of the meeting, E.Krūmiņa, Auditor General, familiarised those present with the topical events and future challenges of the supreme audit institution. The representatives of the State Audit Office spoke about State budget issues and the extension of authority of the supreme audit institution.



In 2015, **the State Audit Office received the Annual Award presented by the Computer Software Copyright Association (CSCA) of software copyright protection organisations and BSA The Software Alliance (BSA)**. CSCA and BSA Annual Award is a traditional award received by a person or institution that has ensured the most significant contribution to strengthening the protection of intellectual property right of software in Latvia over a year. The State Audit Office received the award for regulatory audits carried out in local governments, assessing software administration. Within the framework of the audit, the registration of software in accounting records was assessed, great attention was paid to IT security and software use pursuant to the conditions of the use licence.

Institute of
Internal Auditors

Within the framework of cooperation with the **Institute of Internal Auditors**, in December 2015, I.Pavāre, Head of the Third Sector of the Audit and Methodology Department of the State Audit Office, and I.Ozoliņa, Head of the First Sector of the Second Audit Department, participated in the discussion “Performance Audits” organised by the institute.

In March 2015, **in cooperation with the Ministry of Welfare and the State Revenue Service**, seminars were organised in all five regions upon the initiative of the State Audit Office; within the framework of these seminars, I.Vārava, Director of the Third Audit Department, and I.Pīpiķe, Head of the Sector, informed about the results of the regulatory audit “Legality and Effectiveness of Social Assistance Provided by Local Governments” carried out in 2014, explaining the most crucial errors in the provision of social assistance and their causes, simultaneously emphasising the good practice observed during the audit.

5. PRIORITIES FOR 2016

Granting the Right to the State Audit Office to Recover Losses

The previous practice suggests that in the majority of cases, officials are ready to implement recommendations provided by the State Audit Office, eliminate deficiencies and improve their work. However, they are not always ready to assess the responsibility of subordinate institutions and officials for unjustifiably adopted decisions that have led to losses for State or local government budgets.

Amendments to the Law On the State Audit Office and Law On Prevention of Squandering of the Financial Resources and Property of the State and Local Governments developed by the State Audit Office, by which it is planned to determine the right of the State Audit Office to commence the process of recovering losses against officials, if illegal actions of these officials are discovered during audits, were approved by the Saeima in the 1st reading on 10 March 2016. By adopting the said amendments in the 1st reading, the Saeima has determined that recommendations for the 2nd reading of bills are to be submitted by 2 May 2016. The State Audit Office will carefully assess all recommendations to ensure that amendments to laws are adopted pursuant to their goal — to strengthen the understanding of responsibility at the institutions of a public person.

The leading role of the State Audit Office in the adaptation of international auditing standards of the public sector and their application in Latvia

International practice and ISSAI (public sector) auditing standards emphasise increasingly greater differences between approaches to the audits of the public and private sector. In the private sector, the emphasis is put on the correct accounting of transactions, ensuring assurance to the user of the report on the financial position of the company, while in case of State and local government institutions, a much greater attention is paid to the legality and expediency of transactions.

The State Audit Office already carries out audits pursuant to ISSAI (public sector) auditing standards, while certified auditors, in carrying out audits at State and local government institutions, still do not apply them. Therefore, the arrangement of legal framework of auditing standards of the public sector is a crucial precondition for ensuring the appropriate financial accounting and secure financial management of State and local government budgets.

In replying to the INTOSAI invitation, the State Audit Office has undertaken the leading role in the adaptation of auditing standards of the public sector and their application in Latvia. In order to implement it, the State Audit Office will develop necessary changes to legal framework with an aim to achieve that the financial audits of public sector (State and local government) institutions will be carried out pursuant to single auditing standards. The State Audit Office has set the implementation of this priority as the result to be achieved in 2017.

Assessment of Financial Impact of Recommendations Provided by the State Audit Office

In order to assess the financial impact of recommendations provided as the result of audits independently and in all sectors, respectively, to gain assurance on the measurable savings of State budget funds, the State Audit Office will continue the work on the improvement of the methodology, which will allow for assessing and ensuring assurance to third parties that for each EUR 1 spent by the State Audit Office, at least five-fold return will be ensured in the form of saved State budget funds or eliminated inexpedient expenditure (principle 1:5).

The State Audit Office has already carried out calculations on the impact of implementation of recommendations in certain sectors. However, the State Audit Office failed to accumulate sufficient experience in assessing financial impact and carrying out calculations, assessing complicated transactions to carry out the assessment of financial impact of recommendations on all sectors.

The application of the principle 1:5 would provide the legislator with a possibility of using the State Audit Office as a public sector institution of pilot projects for the quantitative assessment of work and assessment of work using financial indicators. In turn, audited entities, i.e. State and local government institutions, will be motivated to implement recommendations provided by the State Audit Office, demonstrating savings ensured as the result of their activities for State and local government budgets.

Improving the Process of Planning of the State Budget

The State Audit Office, in assessing legality and expediency aspects during audits and commencing conformity checks within the framework of financial audits, analyses the process of planning and

PRIORITIES FOR 2016

executing the State budget in general. Until now, findings indicate deficiencies in the linking of State development and budget policies.

In further audits, the State Audit Office will keep assessing the use of public resources pursuant to goals and achievable results set in policy planning documents, thus providing contribution to the improvement of the budget planning process and promoting that budget funds are used only for the benefit of inhabitants for achieving appropriate goals determined in development planning documents.