



# Annual Report of the State Audit Office of the Republic of Latvia 2017

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Rīga, 2018

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Latvijas Republikas  
Valsts kontrole

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## DEAR READER!

We present the Annual Report of the State Audit Office of Latvia 2017 for your evaluation.

In this Annual Report, which we are constantly trying to make more reader-friendly and comprehensible, you will find the most important results of our work in figures and in shorter or longer texts. However, I would like to highlight that our work has always been and will be focused on a person, and I invite every public administration institution and organisation subject to audits by the State Audit Office to remember that.

Last year, we continued our work, increasing the emphasis on extensive systemic audits, which provide opinions on the capability of the State administration to work for ensuring the results and the final product understandable to the public, rather than “the use of funds” or the provision of processes. We are learning to calculate the financial effects of audits, which is currently ensured by a few supreme audit institutions in the world only. We are strengthening supervision over the implementation of recommendations provided by auditors, as recommendations are one thing, while the actions and cooperation of institutions for improving the work is another thing. We sharply treat those who do not dispose of the State — public! — funds in accordance with law and demand that guilty persons are held liable.

From those being taught, we have grown

was elected to the Governing Board of the European Organisation of Supreme Audit Institutions (EUROSAI). We were elected from among 15 countries, which are working on the improvement of international auditing standards in the world’s most influential organisation of supreme audit institutions — INTOSAI. I consider this to be an especially high evaluation of our work, of which Latvia can be proud.

We have set a goal to be an example of good public administration. I am convinced and remind all our 180 employees that we have the right to reproach others only if we ourselves persistently aspire for the best practice, the best quality and higher ideals.

Many thanks to the managements and employees of audited institutions for cooperation! Thanks to the partners of the non-public and private sectors, media and inhabitants who support our work!

We do not criticise just for the sake of criticism. We want our country to become better. More responsible. More open. Development-oriented. We strongly believe in these values. We believe and know that they can be implemented in State administration to benefit all the inhabitants of Latvia. We will continue to do our work responsibly as required by the Constitution of the Republic of Latvia.

Auditor General  
Elita Krūmiņa



Photo: LETA

*Elita Krūmiņa*

*Auditor General,  
Chairperson of the  
Council of the State  
Audit Office since  
24 January 2013*

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# **1.** STATE AUDIT OFFICE PERFORMANCE

**1.1.** SCOPE OF OPERATION OF THE STATE AUDIT OFFICE

**1.2.** WHICH CRUCIAL GOALS DID WE SET AND WHICH OF THEM WERE ACHIEVED?

**1.3.** STRUCTURE

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**1.7.** RESULTS OF REGULATORY, PERFORMANCE AND REGULATORY/ PERFORMANCE AUDITS

**1.8.** EXAMINING THE VIOLATIONS OF LEGAL NORMS ESTABLISHED DURING AUDITS AND IMPLEMENTING PROVIDED RECOMMENDATIONS

**1.9.** ORGANISATION OF AUDIT WORK AND SUPPORT PROCESSES

**1.10.** QUALITY MANAGEMENT AND INTERNAL CONTROL SYSTEM

# 1.1. SCOPE OF OPERATION OF THE STATE AUDIT OFFICE



The State Audit Office is an independent, collegial, supreme audit institution in the Republic of Latvia

## Values

Responsibility  
Openness  
Development

## Vision

We have promoted public trust to the State administration by our work.

## Mission

We exist to promote the responsible use of taxpayers' funds, the adoption of open decisions and the high quality of State administration.



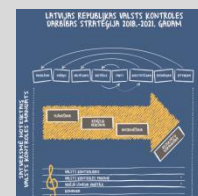
The task of the State Audit Office is the following<sup>1</sup>:

*“[...] to monitor that actions with the State property are lawful, expedient and correctly organised, preventing inaccuracies and negligence to the extent possible before they translate into action, or pursuing the already committed ones [...]”*

*Priorities for 2018–2021*

## State Audit Office Action Strategy for 2014–2017

[Read more ...](#)



[Read more ...](#)



- Member of the organisation since 1994.
- Unites 194 supreme audit institutions (SAI) and includes 8 regional organisations.
- Since January 2017, member of the Forum for INTOSAI Professional Pronouncements (FIPP) (15 of 194 SAI's represented).
- Full-fledged cooperation in the adoption of decisions crucial for the profession of public sector auditors on the improvement of applicable international auditing standards and the development of new standards.

[Read more ...](#)

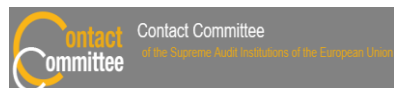


- Member of the organisation since 1995.
- Unites 49 SAI's of European countries and the European Court of Auditors (ECA).
- Since May 2017, member of EUROSAI Governing Board (8 SAI's represented).
- An opportunity to address the matters crucial for Latvia on the age

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- Member of the Committee since 2004.
- An autonomous and independent association of SAI's of EU Member States and the Head of ECA.
- The goal is to strengthen the financial management and good governance of the EU, the trust of the public to State administration institutions and the role of SAI's in promoting it.

[Read more ...](#)



<sup>1</sup> Motives and explanations on the submitted draft law on the State Audit Office of Latvia. 1923.

<sup>2</sup> ISSAI Standards.

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

<sup>4</sup> Mexico Declaration on SAI independence.

<sup>5</sup> UN General Assembly Resolution A/66/209 “Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions”. UN General Assembly Resolution A/69/228 “Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions”. UN General Assembly Resolution A/C.2/66/L.16/REV.1 “Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions”.



## 1.2. WHICH CRUCIAL GOALS DID WE SET AND WHICH OF THEM WERE ACHIEVED? (1)

The year 2017 closes the stage of the State Audit Office Strategy from 2014 to 2017.

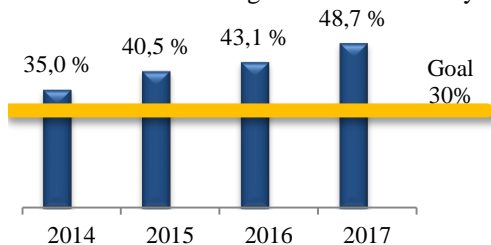
*The State Audit Office conducts independent audits on State finances and their purposeful and far-reaching use. As a result of our operation, the public can find out whether State funds, i.e., taxes paid by the public, are used in the public interests, and how effectively the State*

The role of the State Audit Office is to promote the responsible use of taxpayers' funds, the adoption of open decisions and the high quality of State administration.

**Goal:** greater resources for systemic reviews — at least 30% of audit resources for performance audits.

**Performance audits:** systemic reviews in the fields important for the public, assessing whether the work in a particular area of State administration in general is organised in a cost-efficient and effective manner and ensures the results necessary for the welfare of the public and the development of the State. They motivate institutions to review and improve stagnating systems. Are the goals clear? Does the funding attain the set goals? Is it possible to achieve more by available resources? Can the same result be achieved at a lower cost?

Based on the analysis of risks and the experience and information of previous audits, **the State Audit Office sets the topics important for the public** for conducting **performance and regulatory/performance audits**. The Annual Report 2017 includes information regarding the **13 such audits**, including on the effectiveness of higher education, the reform of the judicial system, the progress of the de-institutionalisation project, the State budget development system, the actions of local governments with the property and funds, as well as the effectiveness of EU funding in the milk industry.



**Achieved results:** for the purposes of conducting performance audits, the State Audit Office **allocated a significantly greater amount of resources** in 2017 than it was previously planned, i.e., almost 49%.

The audit does not end with the introduction of recommendations, but rather with the changes taking place in the country.

**Goal:** the audited units introduce 85% of the provided recommendations. Supervision over the introduction of recommendations and the understanding thereof by the audited units.

**Recommendations provided in audits:** the main product of the work carried out by the supreme audit institution. State auditors, based on findings, conclusions, regulatory framework and good practice, provide recommendations on the elimination of shortcomings and the improvement of work, i.e., more effective State administration. During the audit, recommendations are agreed with the audited units which undertake to introduce them within a particular period and to notify the State Audit Office of the progress.

#PēcRevīzijas

Joma: **labklājība**

*Pēc Valsts kontroles ieteikuma ierobežota 2. pensiju līmeņa pārvaldītāju peļņa, tāpēc pensiju krājēji šogad varēs ietaupīt 26 miljonus eiro jeb katrs vidēji ap 20 eiro\*.*

*Labklājības ministrijai jāturpina darbs pie pārvaldītāju atbildības pārskatīšanas.*

\*Pensiju pārvaldītāju apļeses 2018. gada martā

LRVK.GO

**Achieved results:** during the year, the audited units have implemented 85.2% of the provided recommendations; they are introduced on the merits, rather than formally.

### Examples:

- The State Audit Office currently automatically calculates **pension allowances to non-employed pensioners with disability**.
- Local governments **plan target subsidies for the salaries of teachers in a more effective manner**: the amount of funds remaining at the end of 2017 was by **3 million euro** less than a year before.
- Gulbene local government, assessing administrative processes **and eliminating the excess spending of funds, saves up to 130 thousand euro** every year, which will be used for social and other needs.

### Examples of anticipated impact:

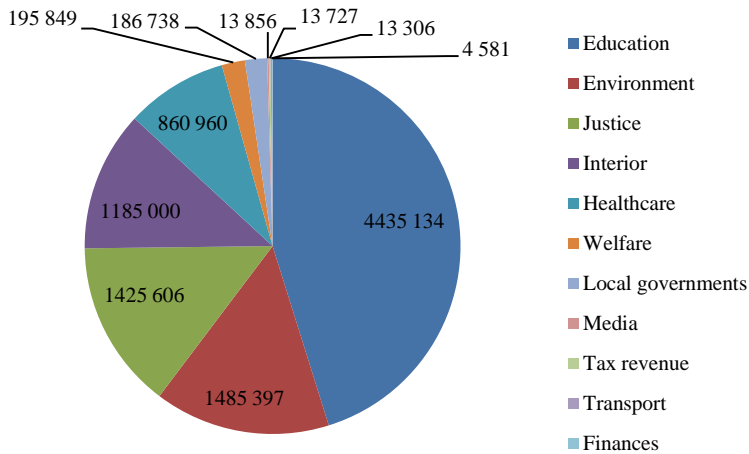
- By fully analysing the statistics of road traffic accidents and purposefully improving road traffic safety, **the number of persons seriously injured and killed on roads will be reduced**.
- The revision of the sector policy, determining more ambitious goals and results to be achieved, **will resolve the long-existing problems** in governing the field of higher education, which currently causes concerns regarding the quality of studies.

## 1.2. WHICH CRUCIAL GOALS DID WE SET AND WHICH OF THEM WERE ACHIEVED? (2)

When converted into Euro, the audit report is translated into a language comprehensive for the public. It is important to ensure that the public sector understands better its responsibility for the governance of the benefit entrusted thereto by the public.

**Goal:** where possible, **we always provide recommendations with financial effects.**

**Financial effects:** financial effects are savings calculated in monetary terms, additional earnings and savings for the public, which the units audited by the State Audit Office can achieve by introducing recommendations provided by auditors.



**Savings,** for example:

- the repayment of funds used contrary to the goal of allocation or of illegally used funds into the State budget;
- the elimination of unjustified expenses;
- reduced procurement costs.

**Additional earnings,** for example:

- the application of appropriate tax rates;
- the determination of appropriate mark-ups for chargeable services;
- the assessment of the market situation.

**Savings for the public,** for example:

- the elimination of collection of unjustified charges;
- the observance of the principle of commensurability in determining charges.

**Achieved results:** only within the framework of the pilot project for the determination of financial effects, we have calculated the overall **financial effect** of recommendations provided by the State Audit Office in the amount of **9.82 million euro**, inter alia, 3.80 million euro was saved in public administration; earnings were increased by 1.54 million euro; savings for the public amounted to 4.48 million euro by eliminating unjustified charges and observing the principle of commensurability.

We will help those willing to be honest and we carefully observe those who act in bad faith with public assets.

**Goal:** to observe the requirement after the assessment of liability and to strengthen cooperation with law enforcement authorities.

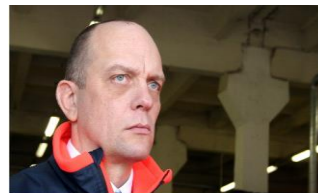
**Achieved results:** both dishonest officials and irresponsible employees of institutions are held liable.

From 2006 to 2013:

4 criminal cases against 4 persons were transferred to the court;  
4 criminal prosecutions were initiated against 4 persons;  
in 2 criminal cases, 2 persons were convicted and criminal penalty was applied thereto.

**Since 2014:**

16 criminal cases against 18 persons were transferred to the court;  
in 17 criminal cases, prosecution was initiated against 33 persons;  
in 9 criminal cases, 10 persons were convicted and criminal penalty was applied thereto.



Bijušo NMPD šefu Ploriņu apsūdz par 1,2 miljonu eiro zaudējumu nodarīšanu

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Loginovs un Pečaks pārsūdzējusi apgabaltiesas spriedumu, ar kuru viņiem jāatmaksā vairāk nekā 800 000 eiro

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Local governments are the part of the State administration closest to inhabitants.

**Goal:** audit once in three years — in each of 119 local governments of Latvia.

2017	53 local governments
2016	62 local governments
2015	56 local governments
2014	51 local governments

**Achieved results:** local governments are interested in improving their operation and tend to understand better the positive effects of recommendations by the State Audit Office on the welfare of inhabitants of municipalities. We provide support both within the framework of audits and by organising training courses, participating in seminars and experience exchange activities.

From those being taught, we have grown to be those who teach. At an international level.

**Goal:** to retain its position among international supreme audit institutions. The State Audit Office is represented at the following:

- the world's most influential International Organisation of Supreme Audit Institutions (INTOSAI) Forum for INTOSAI Professional Pronouncements (FIPP);
- The Governing Board of the European Organisation of Supreme Audit Institutions (EUROSAI).

Within the framework of international cooperation projects, the State Audit Office implements the training of employees of supreme audit institutions and the development of audit support standards for the supreme audit institutions of Ukraine, Moldova, Georgia and Serbia.

**Achieved results:** we are an internationally recognised supreme audit institution able to provide professional contribution also at an international level. Audit institutions of other countries learn from the State Audit Office of the Republic of Latvia.

## 1.3. STRUCTURE (1)

### Auditor General<sup>1</sup>, Chairperson of the Council of the State Audit Office

**Elita KRŪMIŅA**

Council of the State Audit Office: six Members of the Council — directors of audit departments

First Audit Department  
**Director Inese KALVĀNE**  
Two sectors, 22 employees

Second Audit Department  
**Director Ilze GRĪNHOFĀ**  
Three sectors, 20 employees

Third Audit Department  
**Director Inga VĀRAVA**  
Three sectors, 19 employees

Fourth Audit Department  
**Director Ilonda STEPANOVA**  
Three sectors, 28 employees

Fifth Audit Department  
**Director Edgars KORČAGINS**  
Three sectors, 22 employees

Audit and Methodology Department  
**Director Zita ZARIŅA**  
Three sectors, 21 employees

#### Support structural units:

strategic planning and analysis; project, process and quality management; personnel management; legal security; communication; international cooperation; financial management; information technologies; economic facilities; record-keeping and secretariat.

43 employees

The number of employees at the State Audit Office as at 29 December 2017.



Figure 1. Staff of the State Audit Office, November 2017.

<sup>1</sup> [The Saeima appoints Elita Krūmiņa as the Director General.](#)



## 1.3. STRUCTURE (2)

### FIRST AUDIT DEPARTMENT

First Sector Head of the Sector Sandra Zunde	Second Sector (until 11.08.2017) (from 14.08.2017) Head of the Sector Acting Head of the Sector Agnis Jakovļevs Sandra Zunde
<p><b>Ministry of Foreign Affairs</b> budget — 61.04 million euro; entities under subordination — 1 institution</p> <p><b>Ministry of Education and Science</b> budget — 710.7 million euro; entities under subordination — 56 institutions; entities under supervision — 6 capital companies</p> <p><b>National Electronic Mass Media Council</b> budget — 26.26 million euro; entities under supervision — 2 capital companies</p>	<p><b>Ministry of Economics</b> budget — 141 million euro; entities under subordination — 5 institutions; entities under supervision — 8 capital companies</p> <p><b>Ministry of Transport</b> budget — 456 million euro; entities under subordination — 4 institutions; entities under supervision — 13 capital companies</p> <p><b>Public Utilities Commission</b> budget — 4.95 million euro</p>



**Inese Kalvāne**  
Member of the Council of the State Audit Office,  
Director of the First Audit Department since 8 September 2016

### SECOND AUDIT DEPARTMENT

First Sector Head of the Sector Iveta Ozoliņa	Second Sector Head of the Sector Kaiva Skalbina	Third Sector Head of the Sector Aelita Jaunroze
<p><b>Ministry of Defence</b> budget — 361.2 million euro; entities under subordination — 5 institutions and National Armed Forces</p> <p><b>Corruption Prevention and Combating Bureau</b> budget — 4.9 million euro</p>	<p><b>Ministry of the Interior</b> budget — 350.3 million euro; entities under subordination — 9 institutions; entities under supervision — 1 capital company</p> <p><b>Prosecution Office of the Republic of Latvia</b> budget — 23.9 million euro</p>	<p><b>Ministry of Justice</b> budget — 197.87 million euro; entities under subordination — 12 institutions; entities under supervision — 2 capital companies</p> <p><b>Republic of Latvia Supreme Court</b> budget — 4.78 million euro</p> <p><b>Republic of Latvia Constitutional Court</b> budget — 1.48 million euro</p>



**Ilze Grīnhofa**  
Member of the Council of the State Audit Office,  
Director of the Second Audit Department since 16 May 2013

### THIRD AUDIT DEPARTMENT

First Sector Head of the Sector Ieva Pīpiķe	Second Sector Head of the Sector Agnese Jaunzeme	Third Sector Head of the Sector Linda Freidenfelde-Purgaile
<p><b>Ministry of Welfare</b> basic budget — 593.9 million euro; special budget — 2.5 billion euro; entities under subordination — 11 institutions; entities under supervision — 1 capital company</p>	<p><b>Ministry of Health</b> budget — 895 million euro; entities under subordination — 10 institutions; entities under supervision — 13 capital companies</p>	<p><b>Audits on the compliance of certain transactions with requirements set forth in laws and regulations</b> (audits for ensuring prompt response to current events in the country<sup>1</sup>)</p>



**Inga Vārava**  
Member of the Council of the State Audit Office,  
Director of the Third Audit Department since 21 February 2013

<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 1, Achievable Result 3.

## 1.3. STRUCTURE (3)

### FOURTH AUDIT DEPARTMENT

#### First Sector

Head of the Sector  
Uldis Kalniņš

**Ministry of Agriculture**  
budget — 627.2 million euro;  
entities under subordination —  
9 institutions;  
entities under supervision — 5 capital  
companies

**Ombudsman's Office**  
budget — 1.4 million euro

**Central Land Commission**  
budget — 105 thousand euro

#### Second Sector

Head of the Sector  
Aija Feldmane

**Ministry of Environmental  
Protection and Regional  
Development**  
budget — 102.07 million euro;  
as of 31.12.2017: entities under  
subordination — 7 institutions (until  
01.11.2017: 8 institutions);  
entities under supervision — 3 capital  
companies and 5 planning regions

**Cabinet of Ministers**  
budget — 6.88 million euro;  
State Chancellery and the State  
Administration School supervised  
thereby

**Cross-Sectoral Coordination Centre**  
budget — 781 thousand euro

#### Third Sector

Head of the Sector  
Natalja Mihailova

**Ministry of Culture**  
budget — 140.7 million euro;  
entities under subordination —  
28 institutions  
State Culture Capital Foundation (under  
the supervision of CM; supervision  
implemented through the mediation of  
the minister for culture);  
entities under supervision — 16 capital  
companies

**Ministry of Finance**  
budget — 845.8 million euro;  
entities under subordination —  
5 institutions  
Fiscal Discipline Council (independent  
collegial institution);  
entities under supervision — 5 capital  
companies  
**Chancery of the President of Latvia**  
budget — 5.4 million euro



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

### FIFTH AUDIT DEPARTMENT

#### First Sector

Head of the Sector  
Inga Vilka

**Annual Report of the Republic of  
Latvia on State Budget Execution  
and on Local Government Budgets  
(part of the annual reports of local  
governments)**  
local government budget expenses —  
2.1 billion euro;  
assets of local governments —  
8.5 billion euro

#### Second Sector

Head of the Sector  
Elita Andruce

**Local governments, institutions and  
agencies of local governments,  
capital companies established by  
local governments, derived legal  
persons of public law**  
**Society Integration Foundation**  
budget — 8.2 million euro

#### Third Sector

Head of the Sector  
Oskars Erdmanis

**Local governments,  
institutions and agencies of local  
governments, capital companies  
established by local governments**



**Edgars  
Korčagins**  
Member of the  
Council of the  
State Audit Office,  
Director of the  
Fifth Audit  
Department  
since  
21 December 2015

### AUDIT AND METHODOLOGY DEPARTMENT

#### First Sector

Head of the Sector  
Iveta Burkāne

**Annual Report of the Republic of  
Latvia on State Budget Execution  
and on Local Government Budgets  
(the revenue part of the State  
budget)**  
audited revenue —  
7.3 billion euro  
**Central Election Commission**  
budget — 0.72 million euro  
**Quality control of closed audits**

#### Second Sector

Head of the Sector  
Inerīda Kalnina-Junga

**Performance audits in the field of  
ICT — effective ICT and security  
management, re-use and opening of  
data, optimisation of ICT  
management, attainment of ICT  
project goals**  
audited revenue — on average  
69 million euro a year from the State  
budget and ERDF investments  
**IS audit in financial audits,  
IS audit methodology, training of  
employees, including audits in the  
use of support risks,  
analysis of big data**

#### Third Sector

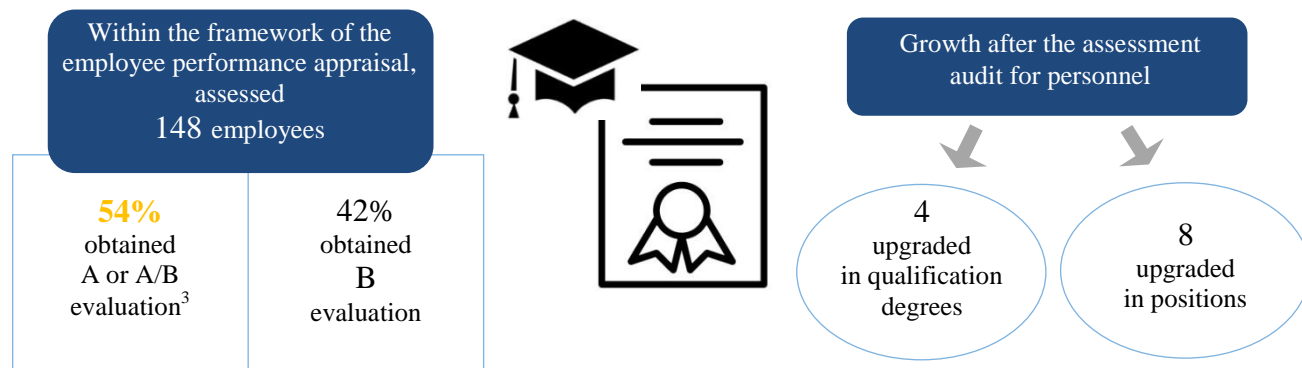
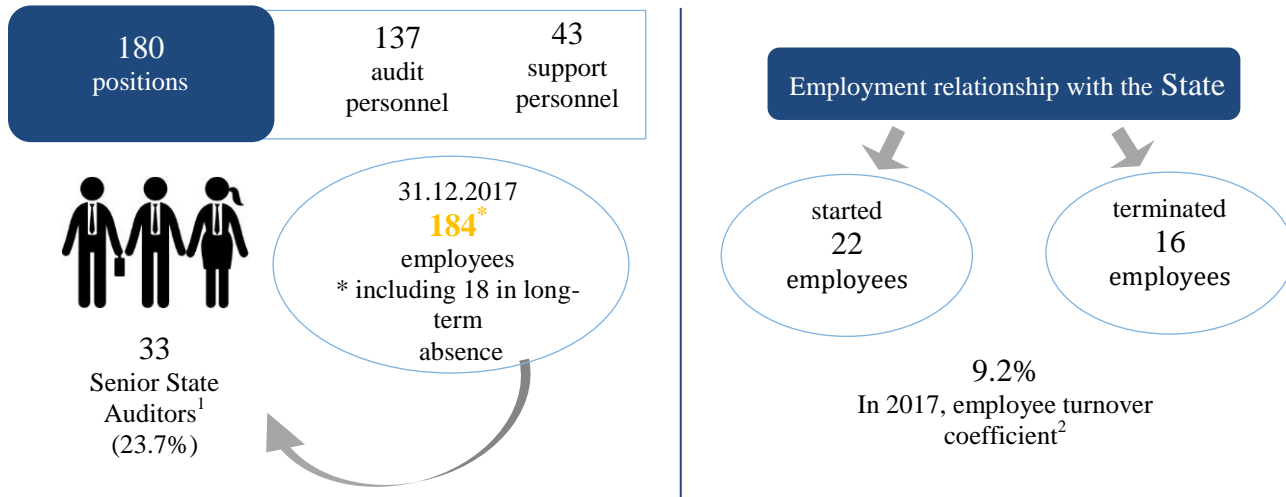
Head of the Sector  
Ilze Bādere

**Annual Report of the Republic of  
Latvia on State Budget Execution  
and on Local Government Budgets,  
and the effectiveness assessment of  
the budget management system**  
consolidated budget expenditure  
(actual execution) — 7.6 billion euro  
**Audit methodology, training of  
employees, training of certified  
auditors on ISSAI standards**

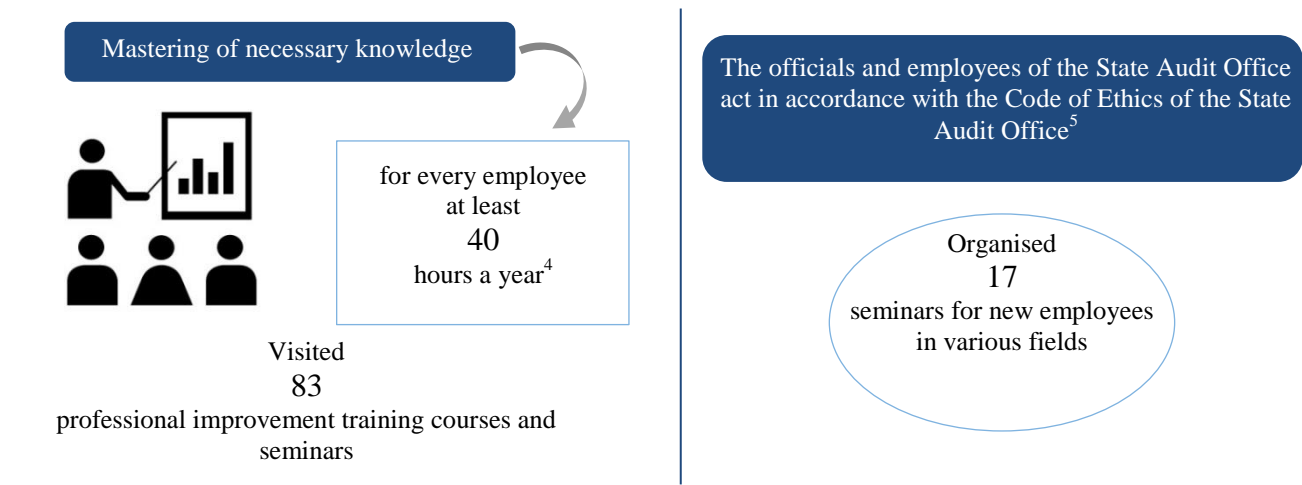


**Zita Zariņa**  
Member of the  
Council of the  
State Audit Office,  
Director of the  
Audit and  
Methodology  
Department  
since  
21 December 2015

## 1.4. RESOURCES



*The employees of the State Audit Office is a joint team with a common goal and common activities in attaining this goal.*



### Revenue and expenditure of the State Revenue Service

Type of revenue and expenditure	2017 plan, EUR	2017 implementation, EUR	2018 plan, EUR
<b>Resources for covering expenditure</b>	<b>6,213,307</b>	<b>6,138,498</b>	<b>6,470,731</b>
Grants from general revenue	5,997,307	5,908,716	6,403,021
State budget transfers	34,000	31,990	0
Revenue from chargeable services and other own revenue	182,000	197,791	67,710
<b>Total expenditure</b>	<b>6,213,307</b>	<b>6,022,802</b>	<b>6,470,731</b>
Remuneration	4,803,374	4,666,822	5,032,431
Goods and services	1,211,273	1,157,679	1,277,140
Capital expenditure	196,918	196,841	159,418

<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 1, Achievable Result 2.

<sup>2</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 1, Achievable Result 1.

<sup>3</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 1, Achievable Result 3.

<sup>4</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 1, Achievable Result 4.

<sup>5</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 1, Achievable Result 5.

# 1.5. AUDITS



## Financial audits

- Are financial statements prepared in accordance with laws and regulations and do they provide clear information regarding the financial situation and performance of institutions?
- Do the identified crucial transactions subject to financial statements comply with the requirements set forth in laws and regulations, planning documents and nationally (or internationally) recognised practice which applies thereto?



## Regulatory, performance audits

- Do transactions and activities comply with the requirements set forth in laws and regulations and does the audited unit carry out its activities in an effective, productive and cost-efficient manner?



### Audits

46



### Reports

68



### Financial audits

27 financial audits

28 reports

27 opinions

22 unqualified opinions

5 qualified opinions

32 compliance matters in 18 departments.  
One horizontal compliance matter Fulfilment of the action plan for the transportation and acceptance of persons requiring international protection in Latvia in 2016

### Opinions on compliance matters<sup>1</sup>

23 unqualified

5 qualified opinions

2 adverse opinions

1 disclaimer of opinion

1 opinion of limited accessibility

### Regulatory, performance audits

19 audits

40 reports

- Audit in every local government at least once in three years<sup>2</sup>

Goal  
40 local governments a year

29

- Local governments covered by financial audits

- Local governments covered by regulatory, performance

34

89.6%

consumption of auditors' working time for audits<sup>4</sup>

Goal  
80%

67.2%

direct audit expenses from the overall State Audit Office expenditure<sup>5</sup>

Goal  
65%

91.0%

audits completed within the planned time<sup>6</sup>

Goal  
90%

Summary on the results of financial audits for 2016



[Read more ...](#)

48.7% of resources were used to conduct performance audits and regulatory audits with performance aspects<sup>3</sup>

Target 30%

<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 1, Achievable Result 2.  
<sup>2</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 1, Achievable Result 4.  
<sup>3</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 1, Achievable Result 1.  
<sup>4</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course III, Goal 1, Achievable Result 1.  
<sup>5</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course III, Goal 1, Achievable Result 3.  
<sup>6</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course III, Goal 1, Achievable Result 2.



## 1.6. RESULTS OF FINANCIAL AUDITS (1) ON ANNUAL REPORTS

### The goal of the financial audits is:

(1) to gain assurance regarding the correctness of preparation of annual reports;



#### Opinions in which shortcomings in annual reports are indicated

Shortcoming	Department	Explanation
For the inspection of revenue and expenditure and balance-sheet value	Ministry of Defence (Latvian Geospatial Information Agency)	<b>6.06 million euro</b> (balance-sheet value) <b>6.18 million euro</b> (balance-sheet value) <b>6.22 million euro</b> (balance-sheet value) Auditors have not gained assurance regarding the balance-sheet value and the value of revenue and expenditure.
For the verification of existence of non-current assets	Corruption Prevention and Combating Bureau	<b>401.04 thousand euro</b> (balance-sheet value of non-current assets) Auditors have not gained assurance regarding the total value of non-current assets.
In control over the use of target subsidies	Ministry of Education and Science	<b>6.40 million euro</b> The target subsidy allocated for the work remuneration of teachers, but not used remained at the disposal of local governments.
In the accounting of long-term investments	Ministry of Environmental Protection and Regional Development	<b>41.83 million euro</b> The Labour Protection Board has not assessed and examined the State stocks of mineral deposits administered thereby.

Limitation of audit scope  
**18.86 million euro**

(2) to check whether the identified crucial transactions subject to financial statements comply with the requirements set forth in laws and regulations, planning documents and nationally (or internationally) recognised practice which applies thereto.



#### Opinions in which shortcomings are indicated, assessing compliance matters

Compliance matter	Department
<b>QUALIFIED OPINION (the amount of the verified funding is 16.19 million euro)</b>	
200.61 thousand euro of the funding allocated for the implementation of the Action Plan for the transportation and acceptance of persons requiring international protection in Latvia were used contrary to the goal of allocation.	Ministry of the Interior
The single portal for the development and harmonisation of draft legal acts has not been created within the planned term; the preparatory works have been performed in part only, for which 171.97 thousand euro was used.	Cabinet of Ministers
Works ordered for the improvement of the IT infrastructure security of the Prosecution Office for 16.05 thousand euro have not been used according to the goal of the budgetary request.	Prosecution Office
It was impossible to gain sufficient evidence for the recovery of expenses in the amount of 52.91 million euro for the emergency medical aid services provided in Latvia to persons insured in the EU, EEA Member States and Switzerland.	Ministry of Health
For attaining the goals of new policy initiatives (for combating informal economy in the healthcare sector and the the procedures of examination of applications submitted by prisoners due to the serious and acute illness of prisoners), 257 thousand euro of the allocated funding was used for increasing the overall level of work remuneration at the institution.	Ministry of Health
<b>ADVERSE OPINION (the amount of the verified funding is 466.19 thousand euro)</b>	
The State budget funds of 246.48 thousand euro were not used for the goal specified in the request of budget funds, i.e., to introduce an opportunity to vote at elections by participating with an eID-card and to prepare the Register of Voters for the municipal election of 2017.	Ministry of the Interior
8.13 thousand euro of the funding allocated to the agency of the Riga Stradiņš University "Occupational Safety and Environmental Health Institute" for the implementation of preventive labour protection measures was used in an appropriate manner.	Ministry of Welfare
<b>DISCLAIMER OF OPINION (the amount of the verified funding is 175.41 thousand euro)</b>	
No control system has been introduced to gain assurance regarding the use of the funding allocated for the introduction of a mechanism of extrajudicial examination of consumer disputes in the amount of 175.41 thousand euro according to the planned purpose.	Ministry of Economics

Shortcomings and discrepancies for  
**17.48 million euro**

In total, **110 recommendations** have been provided, of which **65 recommendations** apply to the part of the annual report and **45 recommendations** — to compliance matters. [Read more ...](#)



<sup>1</sup> Contains limited accessibility information.

## 1.6. RESULTS OF FINANCIAL AUDITS (2) ON THE ANNUAL REPORT

### The goal of the Annual Report is:

to provide a clear and true picture of the results of the state activities and the financial position as of 31 December of the financial year.

It combines the annual reports of ministries and central state institutions and the annual reports of the local governments. [Read more ...](#)

Qualified  
opinion<sup>1</sup>

### Key shortcomings established (discrepancies and limitations of scope)

Shortcoming	Explanation
Incorrectly applied classification of obligations	The Riga City local government has specified the liabilities of <b>296.8 million euro</b> contrary to the economic essence of the transaction as a long-term receivable and has not specified the loan of <b>517.6 million euro</b> .
Stocks of mineral deposits not specified	The Nature Conservation Agency has not assessed or examined the State stocks of mineral deposits administered thereby in the amount of at least <b>41.8 million euro</b> .
No information about taxes is specified in the composition of receivables or payables.	The State Audit Office can not express an opinion on the completeness of the revenue from taxes and duties, as they are still not reported according to the accrual principle.
Amount of adjustments to the volume of assets	It is impossible to determine the necessary amount of adjustments in the part of annual reports of local governments for assets in the amount of <b>418.3 million euro</b> and in the reports of ministries and central State institutions — in the amount of <b>6.5 million euro</b> .
Document signed on behalf of the Lielvārde Municipality Council (promissory note/bill of exchange)	The State Audit Office cannot express an opinion on the possible effects of the transaction, i.e., the promissory note/bill of exchange signed by the former Chairperson of the Lielvārde Council in the amount of <b>200 million euro</b> , on the Annual Report or their absence.

*The State Audit Office: it is too early for inhabitants and entrepreneurs to count on stability and predictability in the field of taxes.*

During the audit of the Annual Report (in the part of the State budget), particular attention is paid to the item of State budget expenditure **“Work remuneration”**. [Read more ...](#)

### Key shortcomings established during the assessment of the item “Work remuneration”

Audit findings	Explanation
Different financial possibilities of ministries	The expenses of the central staff of ministries in 2016 varied from 19.31 thousand euro to 29.97 thousand euro per employee.
Determining monthly salaries close to the maximum limit	For 73% of selected employees, monthly salary is determined at 90% to 100% of the maximum allowed limit.
Share of the variable part of remuneration	For the majority of selected employees of the central staff of ministries, the variable part of remuneration varies within the range from 31% to 50%.
Maximum use of supplements	Up to 11 kinds of supplements. Supplements are paid to 84% of employees.
Amount of the variable part of remuneration	In the central staff of ministries — from 2.36 thousand euro to 5.61 thousand euro per employee a year.
Shortcomings in the classification of positions	Equivalent positions of managers fulfilling support functions, who have similar work tasks, are classified differently.

*Goal<sup>2</sup> — to ensure that equal conditions are observed in the determination of work remuneration for the officials and employees of the State and local governments — has not been yet attained.*

In total, **44 recommendations** have been provided, of which **35 recommendations** have been provided to the Ministry of Finance (including the State Revenue Service and the State Treasury, including the Ministry of Finance in cooperation with other institutions) and **9 recommendations** — to the Rēzekne Municipality local government. **8 proposals** have been provided to the Cabinet of Ministers. [Read more ...](#)



Improvement of effectiveness within the State administration is a priority of the State Audit Office, therefore **the governance assessment of 17 very small and small institutions** was carried out during financial audits.

*There are no legal impediments for the restructuring of any of the institutions.*

#### Main conclusions:

- the Cabinet of Ministers has the possibility of carrying out the assessment of the necessity of functions fulfilled by all 17 institutions;
- the assessment reveals a lack of good governance principles;
- the shortcomings are furthered by non-compliance with the State Administration Structure Law;
- the by-laws of institutions cannot be compared and the “overlapping” of their operations is difficult to identify. [Read more](#)

<sup>1</sup> Opinion on the correctness of preparation of the 2016 Annual Report of the Republic of Latvia on State budget execution and local government budgets.

<sup>2</sup> Goal of the Law On Remuneration of Officials and Employees of State and Local Government Authorities.

## 1.7. RESULTS OF REGULATORY, PERFORMANCE AND REGULATORY/PERFORMANCE AUDITS (1)

The State Audit Office determines topics according to the strategic assessment and risk assessment of audited fields, as well as by assessing public interests and current events in the operation of the public sector.<sup>1</sup>

### ➔ Regulatory/Performance Audit “Is the System of Higher Education Effective?”:

**The State Audit Office concludes the following:** the higher education financing system is ineffective and raises doubt regarding its sustainability. It is focused on the provision of funding to the higher educational institutions, rather than studies and does not provide experts demanded by the labour market. Some of higher educational institutions are unaware, how much the preparation of one expert costs. The ministries and the universities have not ensured control over the funds allocated for the State-funded study places.

**The State Audit Office recommends the following:** The system of higher education of Latvia must aspire for excellence, determining ambitious goals to ensure that everyone can be confident about its quality. The distribution of funds for the State-funded study places must be dictated by the State, rather than by higher educational institutions, taking into consideration State development priorities. [Read more ...](#)

### ➔ Performance Audit “Are Activities of Responsible Institutions in the Field of Road Traffic Safety Sufficient and Effective?”

**The State Audit Office concludes the following:** Latvia has the third highest number of persons killed in road traffic accidents per million of inhabitants in the EU, while the number of seriously injured persons increases. The audit also indicated that the number of seriously injured persons increases. In order to prevent road traffic accidents, the causes thereof must be identified. This cannot be done as long as data included in the Road Police Register regarding road traffic accidents are incomplete and information regarding violations established during raids is not analysed sufficiently.

**The State Audit Office recommends the following:** institutions must summarise accurate information regarding accidents; the improvement of road traffic accidents must be supported in the analysis of this information; the process of liquidation of dangerous road sections (“black spots”) must be put in order; sufficient control over traffic employees must be ensured, and the effects of informative campaigns must be assessed. [Read more ...](#)

### ➔ Performance Audit “Effectiveness of Measures Taken within the Framework of Judicial System Development from 2009 to 2015”

**The State Audit Office concludes the following:** funding allocated for ensuring the operation of courts from 2009 to 2016 has increased by more than 50% up to 51 million euro. However, despite the measures taken, the decrease in the number of submitted cases and the increase in the number of judges, the duration of legal proceedings in Latvia is much longer than that in neighbouring countries.

**The State Audit Office recommends the following:** work must be continued on increasing the effectiveness of operation of courts. The Ministry of Justice must assess the effectiveness of the implemented measures and define the measures to be taken for the next development stage to further improve the effectiveness of the court system.

[Read more ...](#)

### ➔ Performance Audit “Is the Provision of Land Cadastral Survey Services Effectively Monitored in the State?”

**The State Audit Office concludes the following:** formal monitoring for the professional activity of land surveyors, the lack of one main responsible authority, an unclear system for the prevention of infringements and errors are among the main drawbacks that must be eliminated in order to ensure high-quality information at the disposal of the state and to ensure the rights of land owners.

**The State Audit Office recommends the following:** the State must designate one institution responsible for the sector. Auditors note that the aforementioned specification requirements, more frequent inspections, including inspections at the areas concerned, will improve the quality of land survey services and cadastral data. It is necessary to strengthen the monitoring of the professional activity of land surveyors, introduce stricter control mechanisms primarily with regard to those land surveyors that have made errors already in the past or complaints have been received about their work. [Read more ...](#)

*Latvia University of Agriculture has determined an annual fee for a study place in “Veterinary Medicine” at 3.20 thousand euro, while the State grants 15.46 thousand euro per study place.*



*In Latvia, 700 persons per million of inhabitants incur serious injuries or die in road traffic accidents over a year. The third worst indicator in the EU in terms of persons killed in road traffic accidents*



*Public trust to courts is low; duration indicators of legal proceedings and the quality of judgements must be improved*



*From 2013 to 2016, the number of border discrepancies established in the Cadastre Information System increased from 1,349 to 2,966 cases.*



<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 1, Achievable Result 5.

## 1.7. RESULTS OF REGULATORY, PERFORMANCE AND REGULATORY/PERFORMANCE AUDITS (2)

### ► Performance Audit “Deinstitutionalisation — a Bridge of Opportunities for Social Inclusion of People with Disabilities”

**The State Audit Office concludes the following:** The Ministry of Welfare has taken first steps to implement the deinstitutionalisation process policy to ensure that people with mental and functional disorders can start living outside institutions; however, the attainment of project goals can be affected by shortcomings in the planning and performance of activities.

**The State Audit Office recommends the following:** in order to achieve the goal: the Ministry of Welfare must observe the project implementation regulations, including observing project terms and supervision indicators, i.e., outcome, effective and financial indicators. [Read more ...](#)

*By the end of 2023, following the termination of the project and the spending of 98 million euro, persons with mental disorders and children with functional disorders receiving necessary support services, must live in society, rather than in closed institutions.*



### ► Performance Audit “Does the Support Financing of the European Union Funds and State Budget for the Dairy Sector Promote Development Thereof?”

**The State Audit Office concludes the following:** the progression of the dairy sector towards the goal of becoming more competitive is hindered by its explicit sensitivity towards market fluctuations and by fragmented milk production and processing areas. In the use of financing in the sector, several ineffective or untraceable decisions and actions have been found with regard to the production of organic milk, support to breeding and reduction of market disturbances in periods of crisis, as well as milk processing.

**The State Audit Office recommends the following:** The Ministry of Agriculture must improve the planning and implementation of support to the dairy sector in order to ensure that the available funding is used according to set goals, as well as to promote orientation to products with higher added value. [Read more ...](#)

*The dairy sector accounts for one tenth of exported Latvian agricultural goods. 900 million euro has been used for its support from 2008 to 2015*



### ► Regulatory Audit “Is the System for Applying Tax Penalties Effective?”

**The State Audit Office concludes the following:** The State Revenue Service (hereinafter — “SRS”) fails to apply penalties in a consequent manner: procedural terms are delayed; it is often impossible to trace how the amount of a penalty is determined; the SRS acts differently in similar cases. In general, the SRS can apply fines for 105 types of violations, yet 80% of them are applied for non-cooperation with the tax administration or for accounting and reporting violations.

**The State Audit Office recommends the following:** The SRS and the Ministry of Finance must assess the causes for violations in order to take preventive measures and observe the principle “Consult First”. Institutions must analyse whether the application of penalties enables to reduce the number of violations. The SRS must ensure an equivalent approach to the application of penalties. [Read more ...](#)

*The number of violations registered by the SRS continues to grow; however, it was possible to collect only 53% of imposed fines.*



### ► Performance Audit “Does the State Administration Handle Accumulated Information in an Effective Manner?”

**The State Audit Office concludes the following:** 75 institutions maintain 178 State information systems; however, data are not always integrated therein. Information exchange between the State institutions and their information systems is hindered, as it is not coordinated.

**The State Audit Office recommends the following:** by cooperating primarily in electronic form, institutions themselves must obtain information available to the State administration, rather than repeatedly request this information from inhabitants. The Ministry of Environmental Protection and Regional Development must work on the overall improvement of planning and administration of data exchange.

[Read more ...](#)

*In certain cases, inhabitants are forced to fulfil the function of a courier by delivering information from one institution to another, which already knows this information*





## 1.7. RESULTS OF REGULATORY, PERFORMANCE AND REGULATORY/PERFORMANCE AUDITS (3)

### ► Performance Audit “Effectiveness of the Budget Management System: Part 1 — Effectiveness Assessment of the Budget Planning Cycle”<sup>1</sup>

**The State Audit Office concludes the following:** the State budget planning process lacks effective team work and long-term thinking. The national debt is growing; no “safety air bag” is planned in the budget; the amount of the national debt, which the State is capable of undertaking, is not assessed; policy planning takes place without thinking about funding.

**The State Audit Office recommends the following:** The Ministry of Finance must eliminate crucial shortcomings in the Law On Budget and Financial Management, provide clear information regarding the amount of State investment expenses, ensure a clear and equivalent approach to the determination of base expenses of ministries. The Cabinet of Ministers must create a public investment management system; the government action plan must be developed according to the national development goals approved by the Saeima. [Read more ...](#)

### ► Regulatory Audit “Compliance of Activities of SIA Rīgas meži in Administrating Forest Areas Owned by the Local Government with the Requirements of Laws and Regulations”

**The State Audit Office concludes the following:** by engaging in the production of sawn timber, Riga local government company “Rīgas meži” carries out unjustified business activities, which distort competition and reduce the funding available for direct expenses. Compared to the majority of private entrepreneurs, “Rīgas meži” has access to three times cheaper raw materials which ensure significant advantages to the company.

**The State Audit Office recommends the following:** “Rīgas meži” must ensure the timely development of forest management plans and control over their fulfilment, must eliminate business activities non-compliant with the requirements of the State Administration Structure Law, as well as ensure control over the financing of administration of local government gardens and parks, clearly indicating the use of subsidies received by the Riga City Council. [Read more ...](#)

### ► Regulatory/Performance Audit “Are the Actions of Local Governments in Ensuring Cemetery Administration and Services Relating to the Use of Cemeteries Lawful and Expedient?”

**The State Audit Office concludes the following:** the creation and maintenance of cemeteries in municipalities is delegated to local governments. Each local government has a different approach to services and charges, while inhabitants experience a lack of information. Unclear information and different approach to services and charges.

**The State Audit Office recommends the following:** the State must create a single regulatory framework for the administration of cemeteries across Latvia. Available information, clear procedures for obtaining a grave, arranged registers and maps of graves, as well as convenient cemetery infrastructure will ensure relatives the possibility of decently burving the deceased. [Read more ...](#)

### ► Regulatory/Performance Audit “Is the Use of Property and Financial Means by Local Governments in Ensuring Public Order and Security Effective, Economic and Compliant with the Requirements of Laws and Regulations?”

**The State Audit Office concludes the following:** the circle of issues to be resolved in ensuring public order is similar in many places across Latvia; however, the vision of the public and the local government with regard to priorities often is different. Approaches to ensuring public order tend to differ as well. In turn, the area of provision of sobering-up services has been waiting for getting put in order and developing a clear, calculation-based funding model for 26 years.

**The State Audit Office recommends the following:** local governments must assign specific tasks to institutions established thereby; the fulfilment of these tasks must be assessed in the context of resolving current problems. Certain local governments must improve accounting and mutual settlement of accounts. For the purposes of putting sobering-up services in order, the Ministry of Environmental Protection and Regional Development jointly with other ministries and the Latvian Association of Local and Regional Governments must develop a uniform regulatory framework for the provision of sobering-up services in the country. [Read more ...](#)

*At the end of 2016, the national debt reached ~ 11 thousand euro per employed inhabitant of Latvia*



*If “Rīgas meži” had not engaged in wood processing industry, 3 million euro more could have been used for the needs of Riga inhabitants during two years.*



*By using a self-assessment questionnaire developed by the State Audit Office, local governments can conveniently assess their operations and introduce necessary improvements*



*Within the period from 2014 to 2016, sobering-up services were partially covered from the State budget funds for unforeseen cases, using more than 500 thousand euro.*



<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 5, Achievable Result 3.

## 1.7. RESULTS OF REGULATORY, PERFORMANCE AND REGULATORY/PERFORMANCE AUDITS (4)

### ➔ Performance Audit “Effectiveness of Operation of the Provision Planning and Supply System of the National Armed Forces”

**The State Audit Office concludes the following:** the industry lacks an understanding of the importance of sustainable planning of needs, focusing more on the current year’s procurements and funding acquisition. The organisation of procurements is not based on the understanding of the strategic level. In such a system, it is difficult to predict common needs and to manage the available financial resources wisely.

**The State Audit Office recommends the following:** The Ministry of Defence must improve the long-term planning of provision of the National Armed Forces, simplify the organisation of procurements and use the special procurement procedure of the industry more often. [Read more ...](#)

### ➔ Performance Audit “Effectiveness of a Pre-trial Investigation at the State Police”

**The State Audit Office concludes the following:** long non-resolved shortcomings in the professional qualification of investigators, discrepancies in the organisation of work of the State Police and shortcomings in the supervision of pre-trial investigation conducted by public prosecutors prevent from making pre-trial investigation processes faster, more effective and cost-efficient.

**The State Audit Office recommends the following:** The Ministry of the Interior must determine particular tasks and particular indicators for performance assessment. The State Police must improve work organisation of the institution and take care of qualification advancement of investigators. It is necessary to improve the cooperation of investigators and public prosecutors, as well as to increase the involvement of the supervising public prosecutor during the entire period of investigation of criminal proceedings. [Read more ...](#)

### ➔ Regulatory/Performance Audit “Does the Ministry of Culture Ensure Effective Administration of Capital Companies?”

**The State Audit Office concludes the following:** The Ministry of Culture has yet a lot of work to do to ensure that the administration of capital companies, i.e., seven theatres, five concert organisations, Riga Circus and LNOB, could be described as effective and as that ensuring the targeted implementation of the culture policy in the field of theatrical and musical art. The goals of the culture policy are not included in the action strategy of every capital company and the tasks to be fulfilled. The use of the allocated funding cannot be traced and it is impossible to assess whether we have attained the initial goals by means of invested funds.

**The State Audit Office recommends the following:** The Ministry of Culture must comprehensively assess the market in the field of professional theatrical and musical art and its participants, revise the strategic goals of capital companies, as well as assess the tasks entrusted by the State and their fulfilment. The Ministry of Culture must also improve the procedures for calculating the State subsidy, making them clear, transparent and equivalent.

[Read more ...](#)

### ➔ Regulatory Audit “Legality of Use of State Budget Funds at the Investigation Support Department of the Main Criminal Police Department of the State Police” (CLASSIFIED)

### ➔ Regulatory Audit “Legality of Use of State Budget Funds at the Military Intelligence and Security Service” (CLASSIFIED)

### ➔ Regulatory Audit “Was the Decision of the Local Government of Ozolnieki Municipality on Acquisition of Building “Ezerkrasti” in Ownership of the Local Government Taken within the Interests of the Local Government?”

**The State Audit Office concludes the following:** The Local Government of Ozolnieki Municipality, as the owner of land, by concluding contracts on leasing out the land and issuing of a loan and taking decisions on contract provisions, has not acted within the interests of the local government.

**The State Audit Office recommends the following:** the local government must protect its interests by applying to the Insolvency Administration to receive its evaluation. If the local government decides to enter into an agreement on the acquisition of the building into the ownership of the local government and on the payment of indemnity, it is necessary to verify the good faith of the merchant and the concluded transaction. [Read more ...](#)

*Special military areas currently use the procurement regulatory framework in less than 5% of procurements. The Ministry of Defence lacks knowledge and experience for the application of this regulatory framework.*



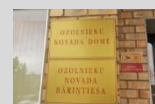
*At the end of 2016, almost half of ~200 thousand of criminal proceedings being investigated by the State Police were older than 5 years.*



*92.4 million euro was granted from the State budget to the capital companies of the Ministry of Culture, i.e., theatres, concert organisations, Riga Circus and LNOB, within the period from 2014 to 2016.*



*Following the audit of the State Audit Office, the Ozolnieki Municipality Council cancelled the adopted decision, saving almost 72 thousand euro of the funds of municipality inhabitants.*



# 1.8. EXAMINING THE VIOLATIONS OF LEGAL NORMS ESTABLISHED DURING AUDITS AND IMPLEMENTING PROVIDED RECOMMENDATIONS

In 2017 (as of 29.12.2017)<sup>1</sup>:

<b>1</b> criminal case adjudged	<b>7</b> cases being examined at the court of first instance	<b>4</b> cases being examined at the court of appeals	<b>1</b> case being examined at the court of cassation	<b>13</b> persons subjected to criminal prosecution within the framework of 2 criminal proceedings
Misuse of official position; misappropriation on a large scale; omission by an official or non-fulfilment of duties causing serious consequences.				

<b>12</b> pre-trial criminal proceedings on violations established during audits	<b>9</b> at the State Police	<b>1</b> at the Corruption Prevention and Combating Bureau	<b>2</b> at the Prosecution Office
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Refusal of the State Police to initiate criminal proceedings	9 complaints of the State Audit	2 initiated criminal proceedings	complaints rejected in other cases law enforcement institutions did not find the constituent
Decisions of the State Police on the termination of criminal proceedings, including on termination in part (11 decisions)		12 complaints of the State Audit	
		1 decision on termination is kept in force, but the prosecution office submitted a statement of claim on the reimbursement of incurred losses	

## Examination of Violations at Other Institutions

<b>Procurement Supervision Bureau</b> on findings of 6 audits 11 inspections were initiated 3 rejections to initiate record-keeping proceedings 8 initiated record-keeping proceedings 1 person held administratively liable; 6 record-keeping proceedings terminated (due to the entry into force of a more favourable regulatory framework, the expiry of period of limitation or the absence of constituent elements of a violation)	<b>State Revenue Service</b> in 9 local governments with regard to providing catering to the employees of educational in 23 local governments with regard to the violation of accounting regulations local governments are informed about the need to submit DDZ adjustments SRS requested information from local governments	<b>State Labour Inspectorate</b> regarding the possible violation of legal norms in the field of employment relationship (the application is being examined)	<b>Corruption Prevention and Combating Bureau</b> on findings of 4 audits record-keeping proceedings were initiated 2 record-keeping proceedings terminated 3 record-keeping proceedings in progress 3 persons held administratively liable; 1 person was expressed a verbal reprimand
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<b>Examination of Violations at Audited Entities and Their Higher Institutions</b>	2 compensations of losses	36 persons held disciplinary liable and other enforcement measures	remuneration decreased for a year; a reproach, reprimand or warning
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## Status of the State Audit Office recommendations which had to be implemented in 2017 (by 29.12.2017)<sup>2</sup>

Sector/area	Recommendations to be implemented in 2017	Completely implemented		Commenced implementation		No implementation commenced	Closed — Not implemented	Lost topicality
	(number)	(number)	(%)	(number)	(%)	(number)	(number)	(number)
Defence	13	11	84.6	1	7.7	1		
Foreign Affairs	1	1	100					
Economics	7	6	85.7	1	14.3			
Interior	20	17	85				3	
Education, Science, and Sports	16	10	62.5	2	12.5		1	3
Culture	18	17	94.4	1	5.6			
Welfare	19	19	100					
Agriculture, Fishery, and Forestry	5	5	100					
Independent and Other Institutions	23	23	100					
Public Sector Funding	89	74	83.1	9	10.1	2	3	1
Regional Development and Local Governments	149	123	82.6	13	8.7	10		3
Justice	21	21	100					
Transport and Communications	13	10	76.9	1	7.7		1	1
Healthcare	35	30	85.7	2	5.7		3	
Environmental Protection	22	17	77.3	4	18.2			1
<b>TOTAL</b>	<b>451</b>	<b>384</b>	<b>85.2</b>	<b>34</b>	<b>7.5</b>	<b>13</b>	<b>11</b>	<b>9</b>

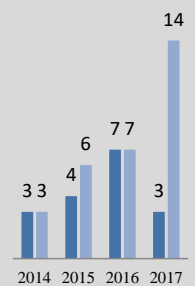
*Reported on shortcomings established*

*in 9 audits (1 regulatory/performance audit and 8 financial audits)*

*Read more ...*

Prosecution started (Prosecutor's Office)

■ Criminal cases ■ People



*Audited units have implemented 85.2% of provided recommendations*

*Financial effects in total of 9.82 million euro,*

*including saved funds of 3.80 million euro*

*increase of 1.54 million euro in revenue*

*savings of 4.48 million euro for the public*

<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 2, Achievable Result 4.

<sup>2</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 3, Achievable Result 2.

## 1.9. ORGANISATION OF AUDIT WORK AND SUPPORT PROCESSES

The State Audit Office carries out audits according to international auditing standards and international documents of supreme audit institutions



IFAC (International Federation of Accountants)



INTOSAI

INTOSAI (International Organisation of Supreme Audit Institutions) standards



ISSAI public sector auditing standards in Latvian<sup>1</sup>

[Read more ...](#)

The State Audit Office methodology complies with ISSAI and is being updated after reviewing changes to the international standards.

“Financial Audit Handbook” updated

work continued on the updating of the “Regulatory and Performance Audit Handbook”

### Discussion on auditing standards<sup>3</sup>

On 27.11.2017,  
a round-table discussion with the representatives of the Latvian Association of Certified

on the audit of annual reports of local governments for 2017

Results of the audit of previous annual reports and main conclusions

Novelties in the audit of the annual report

### Audit support tools



**IDEA**  
Data Analysis Software

Creating a selection of transactions

Identifying the non-typical values of data

Verifying calculations

Comparing data in two systems

Analysing data and creating analytical reports

CCH TeamMate<sup>®</sup>  
Audit Management System



Planning the time of employees

Documenting the progress of an audit

Registering the actual working time of employees

Supervising the monitoring of audit

**98.9%**

availability of information systems during the working time<sup>4</sup>

**84.0%**

compliance with information security best practice standards<sup>5</sup>

**from 01.01.2018, audit cases are created and archived electronically.**

Preparatory works ensured in 2017<sup>6</sup>

<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 3, Achievable Result 2.

<sup>2</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 3, Achievable Result 1.

<sup>3</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 3, Achievable Result 3.

<sup>4</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course III, Goal 2, Achievable Result 2.

<sup>5</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course III, Goal 2, Achievable Result 3.

<sup>6</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course III, Goal 2, Achievable Result 1.



# 1.10. QUALITY MANAGEMENT AND INTERNAL CONTROL SYSTEM

The quality management system of the State Audit Office has been developed on the basis of the requirements of the international standard LVS EN ISO 9001:2015 “Quality Management Systems. Requirements (ISO 9001:2015)”

22

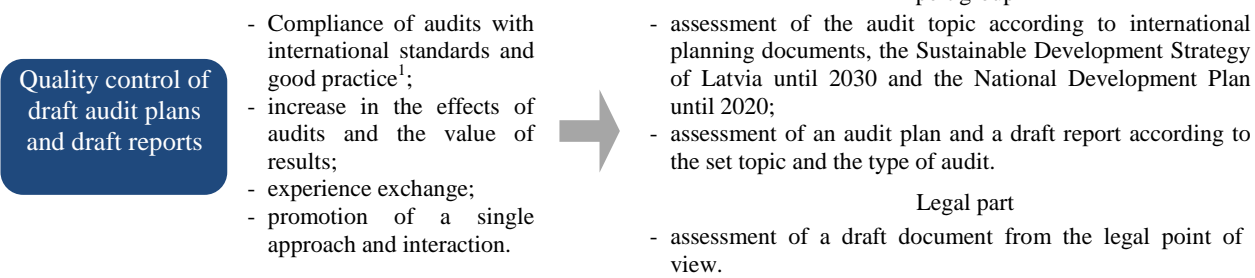
## descriptions of work processes

7 processes of principal activity	3 management processes	12 support processes
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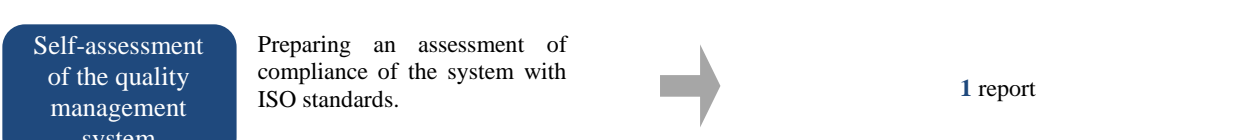
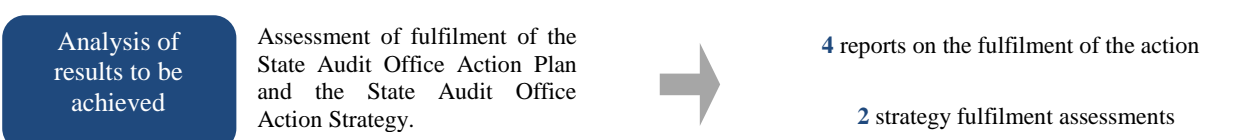
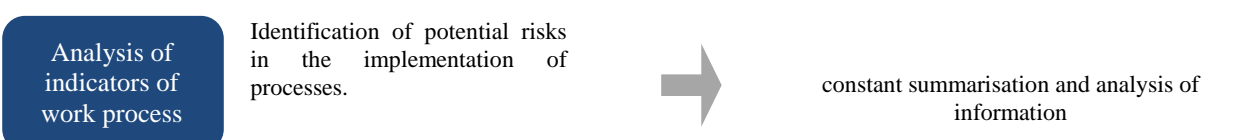
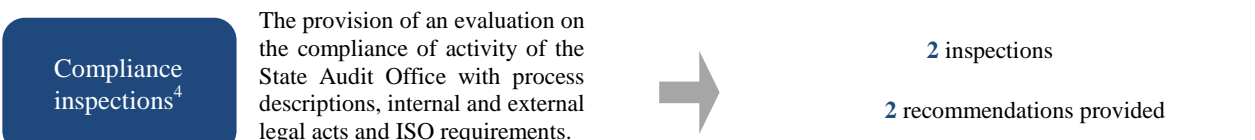
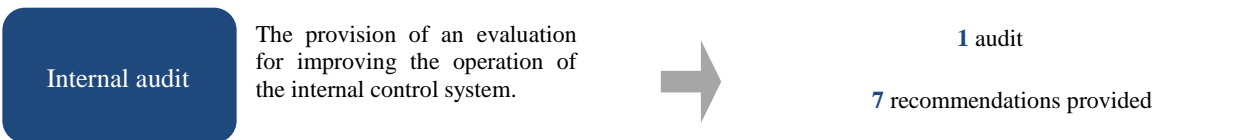
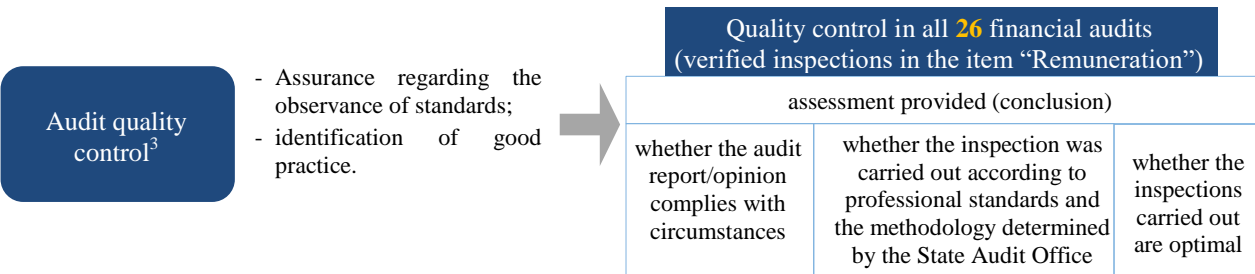
### Integrated activities



### Control measures



*Pursuant to the State Audit Office Law, the State Audit Office performs audits in conformity with International Standards on Auditing recognised in the Republic of Latvia.*



<sup>1</sup> ISSAI 300, 3000, 3100, 3200 and 4000.

<sup>2</sup> The expert group consists of professionals with many years of experience in managing audits of the public sector, developing the methodology and analysing the national policy, as well as in the field of investigation and legal proceedings.

<sup>3</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 2, Achievable Result 2.

<sup>4</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 2, Achievable Result 1.

# 2. INTERNATIONAL COOPERATION

**2.1.** MEMBERSHIP IN INTERNATIONAL ORGANISATIONS AND WORKING GROUPS

**2.2.** INTERNATIONAL ACTIVITIES

**2.3.** INTERNATIONAL PROJECTS



## 2.1. MEMBERSHIP IN INTERNATIONAL ORGANISATIONS AND WORKING GROUPS

The State Audit Office promotes the recognisability of Latvia at an international level, representing Latvia in the management structures of international organisations of supreme audit institutions and in various working groups.<sup>1</sup>



### INTOSAI [Forum for INTOSAI Professional](#)

- Working Group on Public
- Working Group on

*Likewise, the State Audit Office undertakes liability for the development of international public sector auditing standards*  
[Read more ...](#)

*5th FIPP meeting*  
[Read more ...](#)

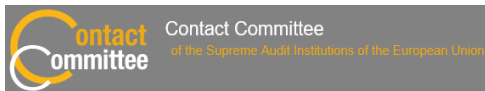
*6th FIPP meeting*  
[Read more ...](#)



### [EUROSAI GOVERNING BOARD](#)

- Target Working Group on the introduction of the strategic plan No. 1 “Strengthening
- Target Working Group on the introduction of the strategic plan No. 2 “Professional Standards”<sup>3</sup>
- Working Group on Environmental Audit
- Working Group on Information Technologies
- Working Group on Municipality Audit
- Working Group on the Audit of Funds Allocated to

*State Audit Office Elected to the EUROSAI Governing Board*  
[Read more ...](#)



- Working Group on Value Added Tax (VAT)
- Working Group on Structural Funds<sup>4</sup>
- Working Group on European Public Sector Accounting Standards (EPSAS)
- Working Group on Strengthening Cooperation
- Working Group on Combating Fraud
- Network of information exchange on fiscal policy audits
- Network of information exchange on Lisbon strategy/Europa 2020 audit



- Working Group of supreme audit institutions of the Baltic States on *Rail*



EUROCONTROL

- Audit Council of the European Organisation for the Safety of Air Navigation

<sup>1</sup> [Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 5, Achievable Result 1.](#)

<sup>2</sup> Discontinued operation in May 2017.

<sup>3</sup> Discontinued operation in May 2017.

<sup>4</sup> Discontinued operation at the end of 2017.

## 2.2. INTERNATIONAL ACTIVITIES

The State Audit Office has contributed to the achievement of the goals set forth by international organisations and has used the opportunity to raise its capacity by engaging in the activities of international organisations.<sup>1</sup>

October  
2017

- **Meeting of the Contact Committee** of supreme audit institutions (SAI) of EU Member States and the management of the European Court of Audit  
Central topic — public trust to State administration institutions and the role of SAI's in its promotion. [Read more ...](#)
- **Visit by the officials of state administration institutions of Bosnia and Herzegovina**  
Adopting experience of the State Audit Office: how strategic planning and strategy implementation enables to determine the priority areas of activity better and to plan resources in a targeted manner. [Read more ...](#)
- **EUROSAI seminar on municipality audits**  
Experience exchange: how audit results can be used to the extent possible, not just for the elimination of shortcomings discovered in a particular municipality. [Read more ...](#)
- **Meeting of representatives of SAI's Latvia, Lithuania, Estonia, Poland and Finland**  
Information exchange on the work performed within the framework of the *Rail Baltica* project in each country, further plans and risks. [Read more ...](#)  
Representatives of the Baltic SAI's also met in January 2017 in relation to the *Rail Baltic* project. [Read more ...](#)



September  
2017

- **Visit by the representatives of the Congress of Local and Regional Self-governments of the Council of Europe**  
The goal was to assess the introduction of the European Charter of Local Self-Government in Latvia and to discuss topical events with regard to the funding, activity supervision and liability of self-governments. [Read more ...](#)
- **Visit by the representatives of the Ministry of Development, Investment and International Cooperation of Tunisia**  
Insight into the role of the State Audit Office in the public financial management system and the good practice of the State Audit Office to gain assurance regarding the compliance and effectiveness of management of public funds. [Read more ...](#)



July  
2017

- **Visit by the representatives of the SAI of Lithuania**  
Experience exchange regarding the performance of certain types of audits, the organisation and results of work expected from the SAI by the legislator, executive power and the public. [Read more ...](#)



June  
2017

- **Signing of a bipartite cooperation memorandum with the SAI of Croatia**  
The possible future cooperation has been outlined by sharing experience gained in performing financial, regulatory and performance audits, preparing reports and organising the informing of the public. [Read more ...](#)



May  
2017

- **Meeting of the NATO International Council of Auditors and national SAI's**  
The meeting was managed by the State Audit Office of the Republic of Latvia. The Annual Report 2016 was presented at the meeting. [Read more ...](#)



April  
2017

- **Meeting of the EUROSAI Working Group on Municipality Audits**  
The action programme of the working group has been approved; Latvia together with the representatives of Croatia and Romania will be responsible for the identification and improvement of the municipality audit methodology. [Read more ...](#)
- **Winning the international competition organised for strengthening the capacity of the SAI of Georgia**  
In the project "Strengthening the Institutional Capacity of the Supreme Audit Institution (SAI) of Georgia", experts of the Sai of Latvia will give support to Georgian SAI, strengthening the independence of the institution, promoting performance of audits compliant with international standards. [Read more ...](#)



February  
2017

- **EUROSAI video competition "Ethics Matters"**  
The goal was to update the general principles of ethics according to the international code of ethics of SAI's. The animated video prepared by the State Audit Office took the second place in the competition. [Read more ...](#)



January  
2017

- **Training on the role of SAI's in the assessment of e-governance processes**  
Experience exchange regarding the life-cycle of e-governance projects, cloud technologies, open data in public administration, etc. [Read more ...](#)



<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 5, Achievable Result 2.



## 2.3. INTERNATIONAL PROJECTS

### European Social Fund Project

#### “Professional Improvement of Public Sector Auditors in the Field of Arranging the Business Environment, Preventing Corruption and Eliminating Informal Economy”<sup>1</sup>

NACIONĀLAIS  
ATTĪSTĪBAS  
PLĀNS 2020



EIROPAS SAVIENĪBA

Eiropas Sociālais  
fonds

I E G U L D Ī J U M S T A V Ā N Ā K O T N Ē

**Goal** — professional improvement of the personnel involved in public sector audits, taking into account the preventive role of audits in the identification and elimination of corruption risks and other risks affecting the development of national economy.

#### Implemented training:

- **EU fund management system** (practical principles of the EU structural fund management system, liability and competence of institutions, regulatory framework);
- **Project management** (practical aspects of project management and elements at all stage of its life-cycle).

**Involvement of experts** in the examination of specific matters in pilot audits (the area of defence policy in other countries; studying the public opinion regarding public safety in local governments; assessment of immovable properties). [Read more ...](#)



**Project budget:**  
300 thousand euro  
per study place.  
(including ESF —  
255 thousand euro, and the  
State budget —  
45 thousand euro)

**Period:**  
January 2017 –  
December 2019

21 employees  
trained  
(as of 27.11.2017)

### Twinning Light project

#### “Audit Quality Control at a Supreme Audit Institution”



The first *Twinning Light* project offer independently developed by the State Audit Office.

The State Audit Office is the leading expert and the supreme audit institution of Sweden is the partner. [Read more ...](#)

**Goal** — to support the Supreme Audit Institution (SAI) of Serbia to strengthen its capacity, ensuring the fulfilment of EU pre-joining criteria in the field of external audit. [Read more ...](#)

#### Implemented activities:

- the **assessment of the quality control system** of the SAI of Serbian according to international audit quality standards;
- the **development of an action plan** for improving the quality assurance and control system;
- a **training visit** by Serbian colleagues to the State Audit Office regarding the experience of the State Audit Office in promoting the quality of audits (including strategic planning, personnel management, communication, quality management and audit IT support tools). [Read more ...](#)

**Project budget:**  
250 thousand euro  
per study place.  
(EU and Serbia's budget  
without the financial  
participation of Latvia)

**Period:**  
September 2017 –  
May 2018

#### The project financially supported by the Ministry of Foreign Affairs “Strengthening the Capacity of Supreme Audit Institutions of Ukraine, Moldova and Georgia in the Process of Integration of International Standards of Supreme Audit Institution (ISSAI)” [Read more ...](#)

**Goal** — to support the SAI's of the said countries in the process of transition to carrying out audits in line with international auditing standards.

#### Implemented activities:

- **working groups** on the improvement of performance and financial audits — in partnership with the SAI of Sweden;
- **training** on matters concerning financial, regulatory and performance audits, information system audits and development of audit institutions;
- **SAI forum of EU East Partnership countries and EU Candidate Countries in Riga** on matters concerning the strategic development of SAI's. [Read more ...](#)



**Project budget:**  
34 thousand euro  
per study place.

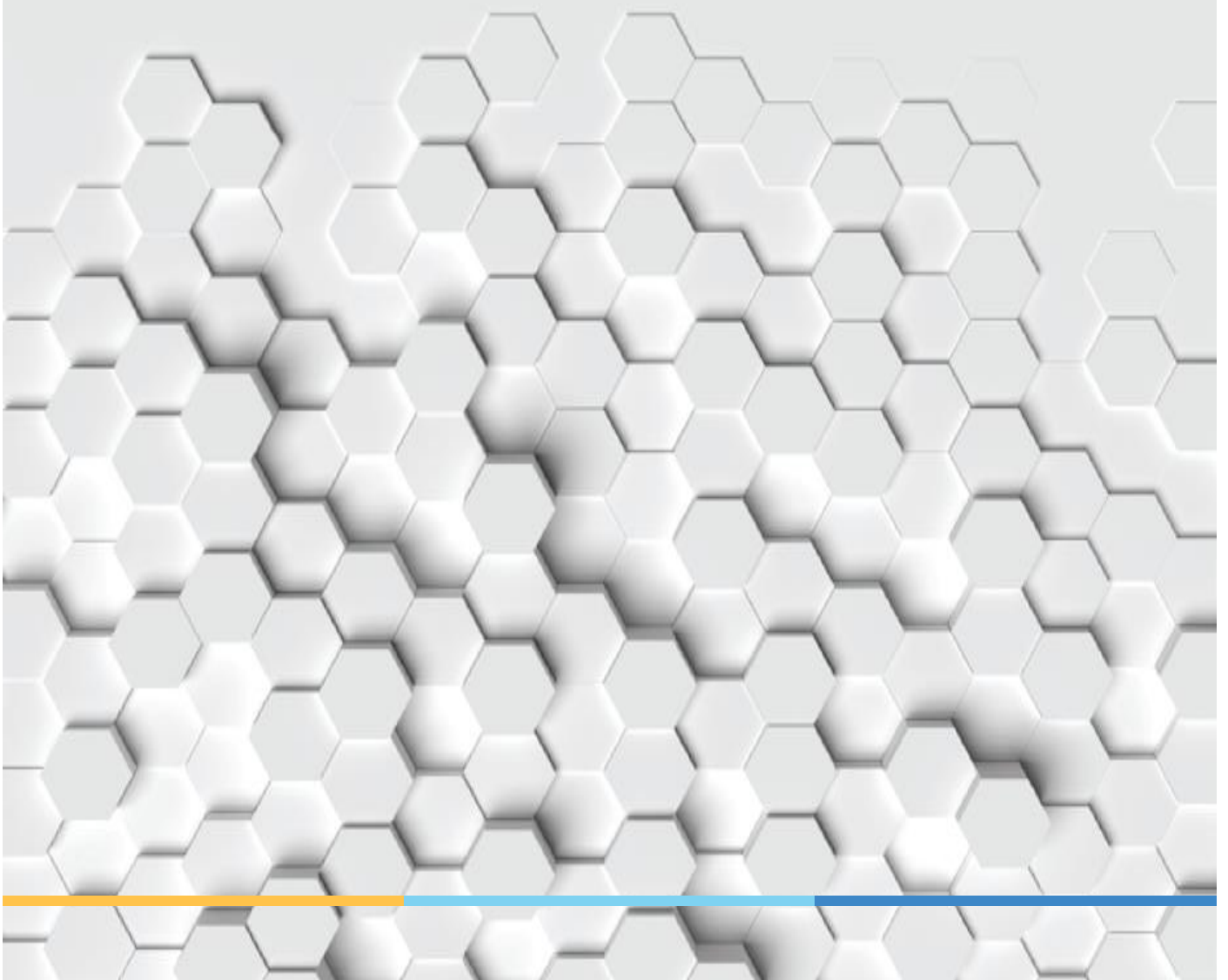
**Period:**  
May 2016  
–  
December 2017

<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 5, Achievable Result 6.

# 3. STATE AUDIT OFFICE COMMUNICATION

**3.1.** INFORMING THE PUBLIC AND COOPERATION WITH  
THE SAEIMA AND THE CABINET OF MINISTERS

**3.2.** COOPERATION WITH AUDITED UNITS AND OTHER  
ORGANISATIONS



## 3.1. INFORMING THE PUBLIC AND COOPERATION WITH THE SAEIMA AND THE CABINET OF MINISTERS



  
[Read more ...](#)

  
[Read more ...](#)

  
[Read more ...](#)

### Involvement of the public<sup>2</sup>

Survey of inhabitants  
in cooperation with SIA Latvijas  
fakti, a survey of inhabitants on the  
provision of public order was  
carried out in 7 local governments.

Cooperation with the Latvian  
Volunteer Fire-fighters  
Association  
with regard to the draft action policy  
developed by the Ministry of the Interior  
in the field of supervision of the fire  
safety situation in the country.

Letters from inhabitants  
one of the criteria in planning  
audits for quick respond.

### Participation of the State Audit Office in the committees of the Saeima<sup>3</sup>

#### National Security Committee

on the plan of the State  
Audit Office to carry  
out an audit in the area  
of cybersecurity

#### State Administration and Self-Government

on the draft law  
“Amendments to the Law  
On Prevention of  
Squandering of the  
Financial Resources and  
Property of a Public  
Person”

#### Sustainable Development Committee

on the social  
responsibility of  
State-owned capital  
companies and non-  
financial goals

#### Legal Committee

on the draft decision of  
the Saeima on the re-  
approval of two  
members of the Council  
of the State Audit Office  
in their positions

### Participation of the State Audit Office in 42 SPEAC<sup>4</sup> meetings<sup>5</sup>

on audit results and  
the implementation of  
provided  
recommendations

on other crucial  
matters by both  
providing  
information and  
participating in  
discussions  
[Read more ...](#)



### Participation of the State Audit Office in Saeima discussions

on the possible expansion  
of authority of the  
President of Latvia  
[Read more ...](#)

“Constitution —  
Reflection of the  
Constitutional Identity of  
Latvia”  
[Read more ...](#)

*Implementation of  
the State Audit  
Office  
recommendations<sup>6</sup>*



[Read more ...](#)

### Cooperation of the State Audit Office with the Cabinet of Ministers

Meetings of the management of the State Audit Office with the  
ministers of sectors  
(at least once in a reporting period)  
on the most crucial problems detected, the progress of implementation  
of audit recommendations, positive examples of implementation of  
recommendations, strengths and weaknesses in the sector and other  
matters related to the governance of the sector<sup>7</sup>

Participation of Auditor General Elita  
Krūmiņa in the extraordinary meeting  
of the Cabinet of Ministers

on matters relating to draft State budget laws

<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course II, Goal 4, Achievable Result 2.

<sup>2</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 2, Achievable Result 6.

<sup>3</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 2, Achievable Result 1.

<sup>4</sup> Saeima Public Expenditure and Audit Committee.

<sup>5</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 3, Achievable Result 3.

<sup>6</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 3, Achievable Result 1.

<sup>7</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 2, Achievable Result 5.

### 3.2. COOPERATION WITH AUDITED ENTITIES AND OTHER ORGANISATIONS



[Read more ...](#)

In developing co-operation 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 the schedules for the implementation of recommendations<sup>1</sup>.

4 partners were awarded a Certificate of Appreciation on 13 June 2017<sup>2</sup>

 Liepāja City Local Government	 Konkurences padome Competition Council	 skurstenslaukiem.lv Association "Latvian Brotherhood of Chimney Sweeps"	 SUSTENTO Latvian Umbrella Body For Disability Organisations SUSTENTO
for targeted, responsible and professional cooperation, as well as for the provision of important, justified and full information			

#### Cooperation with internal audits<sup>3</sup>

- |            |  |   |  |
|------------|--|---|--|
| 14.06.2017 | Forum of Internal Audits                               | } | Topic: the report of internal audit units on the work done in 2016 and plans for 2017; results of financial audits of 2016 and current audits      |
| 27.09.2017 | Meeting with the Institute of Internal Auditors        |   | Topic: development of cooperation opportunities  |
| 08.11.2017 | Meeting with the Global Institute of Internal Auditors | } | Topic: development of cooperation opportunities  |
| 12.12.2017 | Discussion at the Institute of Internal Auditors       |   | Topic: cooperation of internal audit with the State Audit Office and assessment of expediency matters and 3Es (economy, efficiency, effectiveness) |

#### Training and experience exchange

- |                      |   |
|----------------------|---|
| 28.03.2017           | Presentation at the Local Governments Training Centre of Latvia on issues established during audits and their solutions   |
| 28.03.2017           | Presentation at the Finance and Economy Committee of the Latvian Association of Local and Regional Governments on audit findings  |
| 19.04.2017           | Seminars for Vidzeme local governments at the Cēsis Centre for Adult Education  |
| 21.04.2017           | Training at the meeting of the Development Council of the Latgale Planning Region in Rēzekne on the findings of regulatory/performance audits conducted by the State Audit Office |
| 25.04.2017           | Seminar at the Local Governments Training Centre of Latvia on the expediency of use of administrative resources in local governments  |
| 3 times <sup>4</sup> | Training of certified auditors on INTOSAI standards within the framework of financial audits  |
| 22.08.2017           | Presentation in the Krāslava Municipality: "Linking Development Planning and Budget Planning in Local Governments. Problems and Recommendations."                                 |
| 04.12.2017           | Seminar at the Local Governments Training Centre of Latvia on conclusions after the financial audit of the annual report in local governments                                     |

#### Participation in various activities

- |            |  |
|------------|--|
| 27.01.2017 | Participation in the annual event of Kurzeme entrepreneurs "Kurzeme Entrepreneurs Forum 2017" organised by the Latvian Chamber of Commerce and Industry in Liepāja <a href="#">Read more ...</a>           |
| 22.02.2017 | Participation in the meeting organised by the Prosecutor General's Office on the performance of the prosecution office in 2016 and planned priorities in 2017 <a href="#">Read more ...</a>                |
| 19.06.2017 | Participation in the hosting of the NATO battle group in Ādaži Training Area <a href="#">Read more ...</a>   |
| 20.10.2017 | Participation in the conference "Celtspēja" in Liepāja <a href="#">Read more ...</a>   |
| 10.11.2017 | Participation in the forum of readers and authors "Challenges of the Latvian Judicial System in the Second Centenary of the State" organised by the magazine "Jurista Vārds" <a href="#">Read more ...</a> |
| 16.11.2017 | Participation in the anniversary conference "Honest Competition Path: Yesterday, Today, Tomorrow" organised by the Competition Council <a href="#">Read more ...</a>                                       |

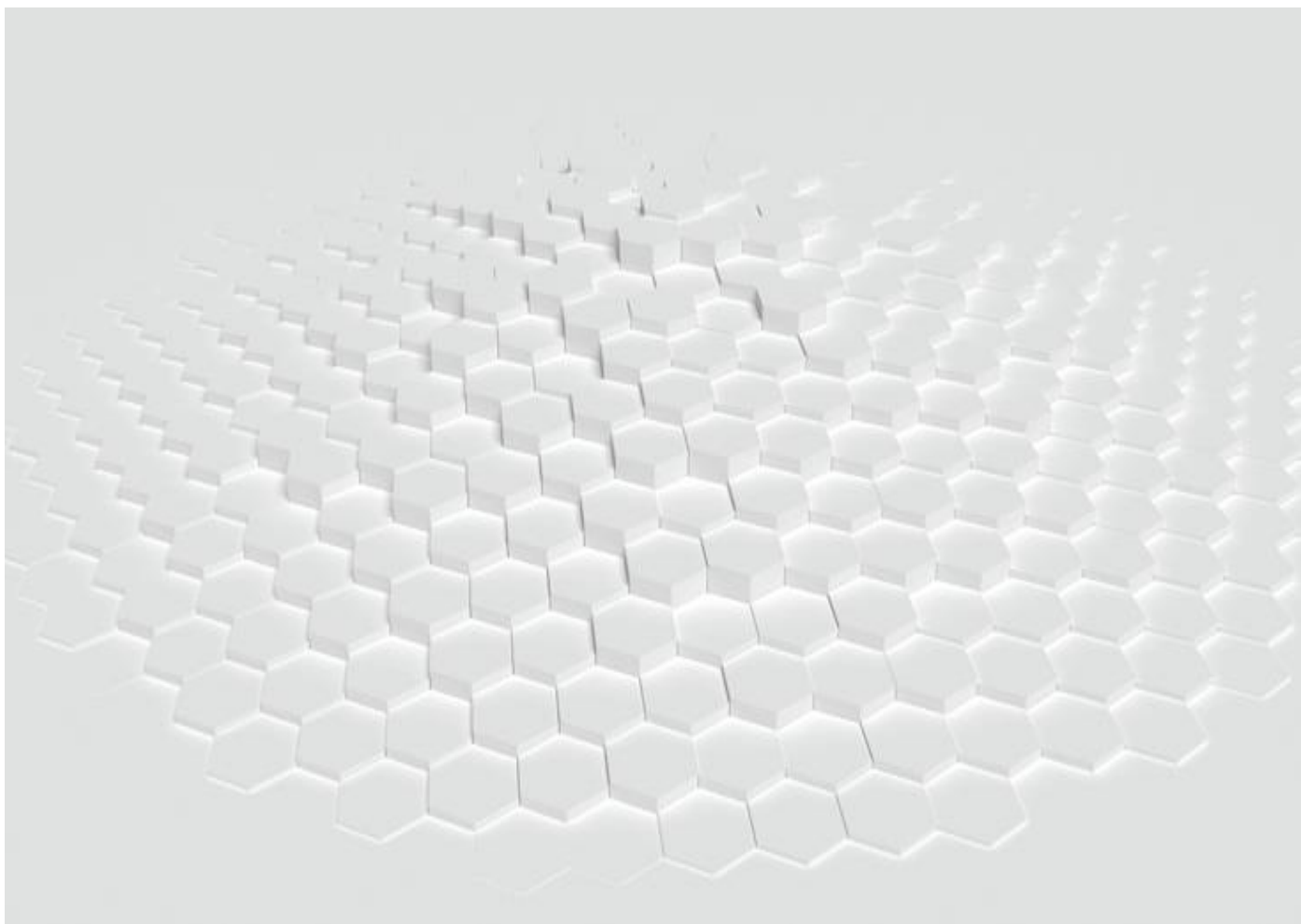
<sup>1</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 2, Achievable Result 2.

<sup>2</sup> Procedures for Awarding the Certificate of Appreciation of the State Audit Office.

<sup>3</sup> Action Strategy 2014-2017 of the State Audit Office of the Republic of Latvia, Action Course I, Goal 2, Achievable Result 3.

<sup>4</sup> 28 - 29.06.2017, 04 - 05.07.2017 and 08 - 09.08.2017





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**Youtube: LRVK**



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