



SUMMARY

on spending and support to curb the COVID-19 crisis

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Why did we audit spending and support to curb the COVID-19 crisis?

The COVID-19 pandemic has affected the daily lives of the country, public, and every individual. The circumstances created by the pandemic have required the institutions to be able to react quickly, to coordinate their actions more closely, and to work together to limit the further spread of COVID-19 infection, and to meet the challenges it poses. To curb the COVID-19 pandemics and overcome the crisis, a significant amount of state budget funds has been mobilized, which has been spent in a short period of time and under the conditions of great uncertainty.

At the same time, the critical situations highlight the weaknesses of public administration. In situations of crisis and rapid change, we can assess the operation of the established systems and processes, their efficiency, and flexibility.

Our objective in verifying the spending and supporting the curb of the COVID-19 crisis was to reassure the public that the authorities had requested and used the additional funds reasonably in accordance with the purpose of the allocation and to make recommendations to the government and responsible authorities in areas for improvement.

What approach did we choose to audit?

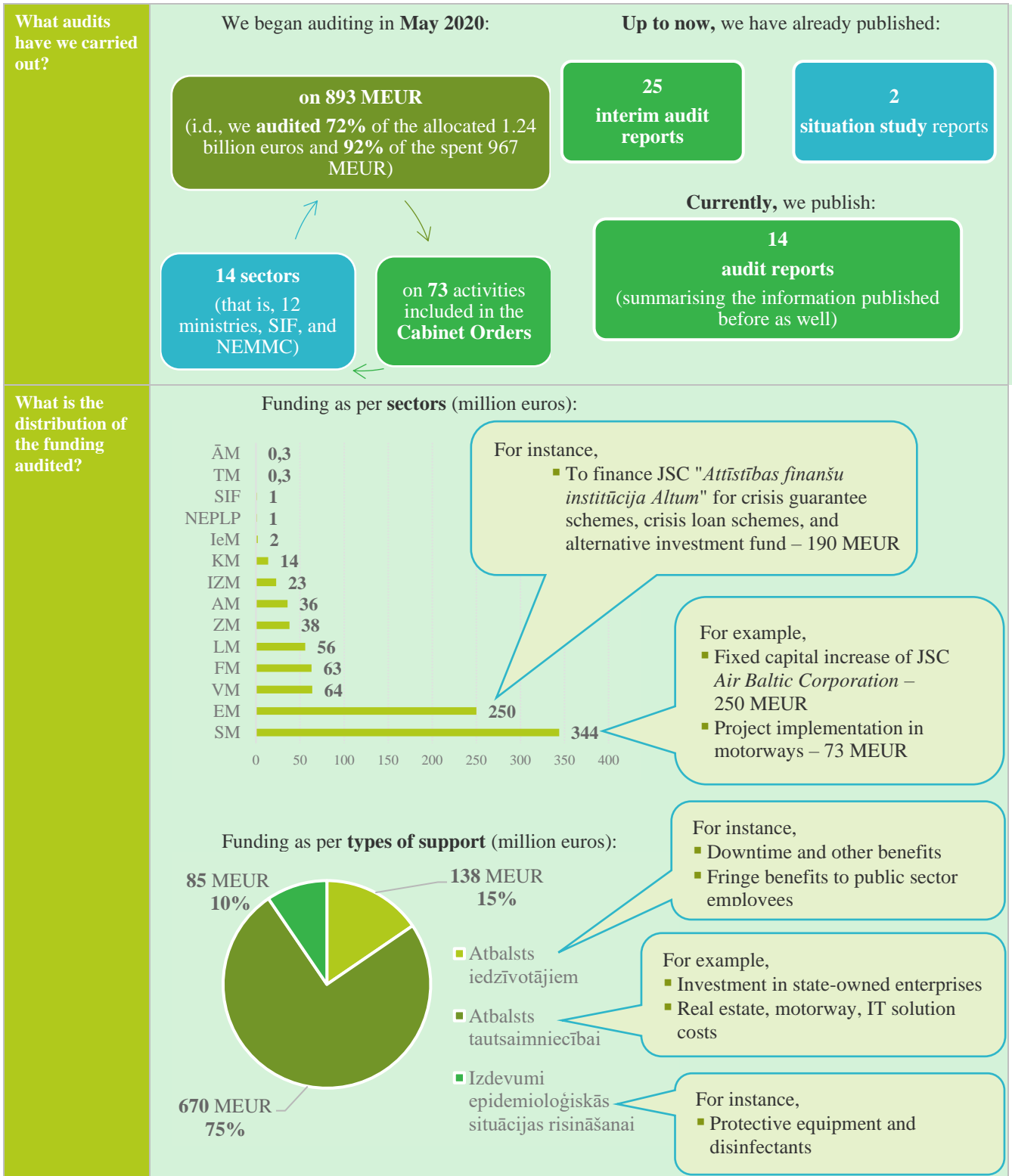
Already in the spring of 2020, when the government first declared a state of emergency, the State Audit Office called on officials of public sector institutions and state-owned enterprises to be responsible and decent, to make responsible decisions on the use of public resources, and to act in the public interest without making unreasonable or exaggerated requests for funding or compensation.

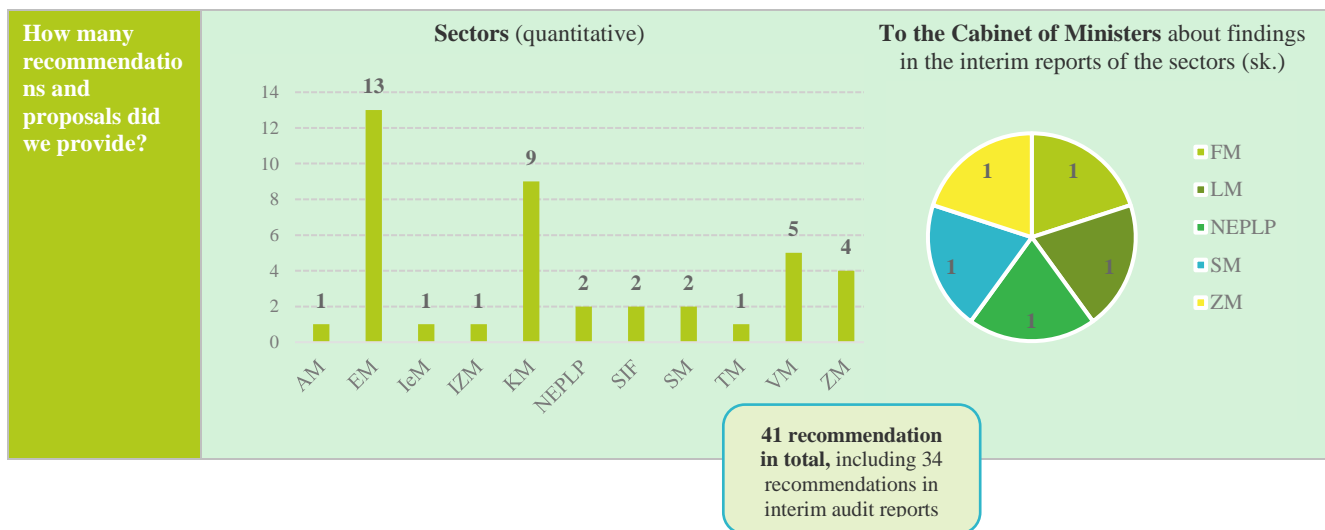
During the COVID-19 pandemic, the State Audit Office reoriented its work by devoting a large part of the institution's resources to audits of the spending related to the management of the COVID-19 pandemic to provide the public with assurance on the solidity and regularity of public spending. This is the first time in the history of the State Audit Office that we published a significant part of the results of financial audits - a total of 25 interim reports - immediately after finishing the audits of the spending to curb the COVID-19 crisis.

By completing the audits and publishing the results, we can state that the ministries and state institutions have used the additional allocated funds in accordance with the purpose of the allocation in general. However, some measures had no direct link with the crisis management caused by the COVID-19 pandemic and the criteria defined for support were not economically justified sufficiently. In some cases, the criteria for providing support have not been set in external laws and regulations, the criteria for providing support developed by sectors have been unclear, interpreted differently, and difficult to administer, thus creating unequal conditions for receiving support and creating unnecessary administrative burdens and support administration costs.

In this summary, we brief on the progress in eliminating deficiencies and the major conclusions that can be used to improve crisis management, plan crisis management support measures, and improve the work of state institutions in general.

Audit results in figures





What improvements have we already achieved during the audit?

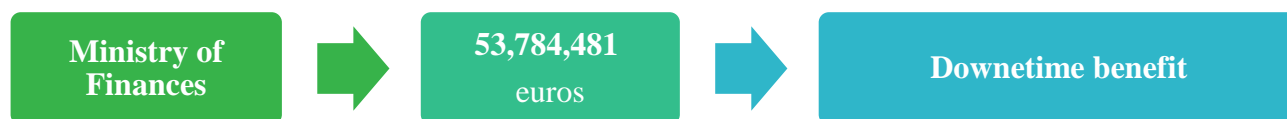
For ensuring a more efficient use of the funding allocated to curb the COVID-19 crisis, addressing the shortcomings as soon as possible, and achieving immediate improvements, we made 34 recommendations and 5 proposals already through the publication of the interim audit reports. We formulated recommendations and proposals by including both the goal to be achieved and indicating the practical actions to be taken to address the identified shortcomings.

When summarising the progress so far in the implementation of the recommendations and proposals provided by the State Audit Office, we conclude that the most significant improvements have already been achieved: 1) by eliminating unequal conditions for the beneficiaries; 2) reducing administrative burden and simplifying state aid administration mechanisms; and 3) improving the transparency of processes.

1 Equal treatment for beneficiaries



One has reduced unequal conditions for potential downtime support beneficiaries, expanded the range of beneficiaries, and provided an opportunity to receive support when working for several employers affected by the crisis.



When assessing the payment of downtime benefit during the first emergency, we have established that the amendments to laws and regulations made to expand the range of downtime benefit beneficiaries also had unfavourable consequences. For example,

- ❖ Expanding the range of beneficiaries and excluding some employees simultaneously who qualified for this benefit before the amendment was made;
- ❖ Conditions were more favourable for micro-enterprise taxpayers among the self-employed;
- ❖ Employees working for one employer affected by the crisis were treated more favourably than employees working part-time for several employers affected by the crisis by paying equivalent taxes.

Therefore, we provided the Cabinet of Ministers with a proposal, which should be taken into account when introducing new types of support and expanding the range of beneficiaries, i.e. to ensure that:

- ❖ *Any groups of individuals who qualified to receive support until the changes were made are not excluded simultaneously;*
- ❖ *The target group of a particular type of support has equal opportunities to apply for support.*

The proposal has been taken into account in the development of a new legal framework and the replacement of the current downtime benefit with downtime support and salary subsidy support. In this way, the inequality in receiving support depending on the tax payment regime has been eliminated, the range of beneficiaries for downtime support has been reviewed, the possibility to receive support by working for several employers affected by the crisis has been provided, as well as other improvements have been made.

However, the application of certain provisions of the new legal framework creates unequal conditions for the beneficiaries, that is, if a potential downtime support beneficiary meets the criterion of a decrease in turnover, but there has been no salary or income during this period:

- ❖ Micro-enterprise taxpayers and employees in the beauty care sector receive support for downtime;
- ❖ Other self-employed individuals and employees working for employers do not receive downtime support.

We have called on the Prime Minister, the Minister of Finance, and the Minister of Economics to continue working on the elimination of unequal terms and conditions.



Residents with an equal social situation are provided with opportunities to receive equal support from their local or regional government.

Ministry of
Welfare



342,957
euros



State co-financing for crisis
benefits paid by local and
regional governments

During the audits on the granting of the benefit paid by local and regional governments in a critical situation, we concluded that the local and regional governments had been set the amount of benefit in the range from 30 euros to 150 euros per month. Moreover, the approach of social services in providing support differed. Therefore, people with an equal social situation did not have the

opportunity to receive equal support. In addition, 35 local and regional governments¹ had not provided this type of support to their population at all. The legal framework allowed the different approaches of local and regional governments in providing support.

Therefore, we informed the Ministry of Welfare about the findings and provided our contribution to the development of guidelines for local and regional governments already during the audit.

As a result, the local and regional governments grant crisis benefit in accordance with the purpose of its implementation and uniform criteria already from 9 November 2020, when the state of emergency was declared repeatedly.



Unequal conditions for receiving support for creative people have been eliminated.



When evaluating the employment scheme for creative people, we concluded that its implementation created unequal conditions for creative people with similar incomes but different sources of income. To qualify for the support, the income of creative personality from economic activity could not exceed 538 euros per month and salary income - 430 euros per month. If the creative personality had both income from economic activity and salary, they were each assessed separately. Thus, for example, an individual with a total monthly income of 950 euros consisting of income from economic activity of 530 euros and salary of 420 euros qualified for support, but an individual with a monthly income of only 450 euros did not qualify for support.

Therefore, we provided a recommendation to the State Cultural Capital Fund:

- ❖ *To improve the process of organising the competition of target schemes by envisaging the assessment of the income of people;*
- ❖ *To provide that this income is properly assessed.*

The implementation of the recommendation has eliminated unequal conditions for receiving support for creative people and the regulations of the employment scheme for creative people does not set the income limit as a criterion anymore in 2021.



There are fair remuneration conditions achieved for employees in the healthcare and home affairs sectors under the conditions of increased workload and risk posed by COVID-19.



When assessing the bonuses paid during the first emergency for working under the conditions of increased risk and workload for employees in the healthcare and home affairs sectors, we concluded that employees had been granted different bonuses for equivalent invested work.

The requirements imposed on hospitals and healthcare institutions, including the Emergency Medical Service, in assessing the involvement of employees were subject to differing interpretations and caused excessive administrative burden due to the lack of clear criteria for the distribution of bonuses and the lack of uniform, unambiguous guidelines for granting them.

The services of the Ministry of the Interior used an algorithm for the calculation, which did not ensure the quantification of bonuses in proportion to the time actually worked under special conditions, although the procedure for determining the amount of bonuses used by the State Police and the State Border Guard provided for detailed recording of the time when an official had been in direct contact with COVID-19 infected, suspected of being infected or people at risk while on duty.

Therefore, we informed the Ministry of Health and the Ministry of the Interior about the findings and called for them to be taken into account when deciding on the conditions for determining the bonuses for the next period already during the audit.

The Ministry of the Interior has introduced the recommendations by:

- ❖ Recalculating bonuses for 449 officials of the State Police and 576 officials of the State Border Guard;
- ❖ Changing the algorithm for calculating the bonus, that is, envisaging that the bonus is calculated in proportion to the time worked. The granting of those bonuses in the home affairs sector will continue in 2021 as well.

In its turn, the Ministry of Health undertook to specify the procedure for granting bonuses by deciding on the conditions for determining bonuses for the next period.

2 Less administrative burden



The minimum amount of downtime support has been increased for the currently disbursed support, so a separate downtime benefit will no longer be required.

Ministry of
Welfare



3,277,882
euros



Bonus to downtime benefit for each
dependent child and downtime support
assistance and bonus thereto

In the audit, we have concluded that the choice of the Cabinet of Ministers to establish four separate but similar services content wise - downtime benefit, bonus to downtime benefit of 50 euros for each dependent child, downtime assistance benefit if an individual is not entitled to downtime benefit or if

granted downtime benefit is less than 180 euros, as well as bonus to downtime assistance benefit for each dependent child by entrusting their administration to two institutions, the State Revenue Service (hereinafter - SRS) and the State Social Insurance Agency (hereinafter - SSIA) was not realizable.

As the SSIA uses the SRS data on granted and/or refused downtime benefits and on the dependent children of those individuals to grant bonuses to downtime benefit and downtime assistance benefit and bonus thereto, the State Audit Office considers that it was more productive to entrust the SRS to administer that support, including them in the content of the downtime benefit. Thus, it was also possible to save the state budget funds of at least 30,649 euros, which were necessary for the establishment of certain services in the Social Insurance Information System.

Therefore, we submitted a proposal to the Cabinet of Ministers, which should be taken into account when introducing new types of support and determining the responsible authority, that is, assessing

- ❖ *What data will be needed to grant the support;*
- ❖ *Which institution will be able to provide support most productively, while not allowing the administration of one type of support to be divided among several institutions.*

The proposal has been implemented partially, as the minimum amount of downtime assistance currently disbursed has been increased, so a separate downtime assistance benefit is no longer required. However, the SSIA still grants and administers the bonus to downtime benefit for each dependent child as a separate benefit.

3 Transparent processes



Centralised procurement of personal protective equipment and disinfectants is now more transparent and in the national and public interest.

Ministry of
Defence



35,740,115
euros



Centralised procurement of
personal protective equipment
and disinfectant stocks

When assessing the centralised procurement of the stocks of personal protective equipment and disinfectants in the Ministry of Defence, we have found that the procurement procedure in the period of emergency complied with the legal framework of the time. However, the audit did not provide sufficient assurance that, in the cases examined, the contract was concluded with a tenderer who could offer the best price for the same quantity and quality of goods and equivalent delivery conditions at that time.

Thus, we recommended the Ministry of Defence to:

- ❖ *Improve the procedure for the centralised procurement by envisaging the use of the criterion of the most economically advantageous tender as a criterion for the selection of tenders;*
- ❖ *Review the procedure for cooperation and exchange of information with tenderers.*

The Ministry of Defence has implemented the recommendation, as the procurement procedure has been improved without dividing procurement into two-stage evaluation, the Electronic Procurement System e-tender platform has been used as far as possible in announcing procurements and receiving tenders, as well as cooperation and information exchange procedures, publicity when starting new procurements have been improved.

Also in 2021, the Ministry of Defence will continue centralised procurement of goods necessary for epidemiological security by spending 14.7 million euros allocated for this purpose. Therefore, the commitment of the Ministry of Defence to further use the criteria of the most economically advantageous tender (*taking into account the price, delivery time, principles of security of supply (stability)*) and the criteria certifying the quality of the procurement subject is appreciated.



Monitoring of the distribution of state aid to economic operators has been improved.



When assessing the use of the funds allocated for investing in the reserve capital of joint stock company “Development Financial Institution Altum” (hereinafter referred to as Altum), we have detected that Altum has expanded the criteria justifying the impact of COVID-19 specified in the Cabinet Regulations². In addition, Altum has applied derogations from the statutory requirements and Altum’s internal regulations when assessing the submitted applications for support. In five cases, Altum granted loans totalling to 370,260 euros, even though the beneficiaries did not meet the Altum’s conditions for the absence of tax debts³.

Therefore, we recommended the Ministry of Economics to:

- ❖ *Assess the need to amend the Cabinet Regulation ⁴ to supplement the criteria substantiating the influence of COVID-19 on economic operators.*

Thus, we made recommendations to Altum to:

- ❖ *Improve the internal control environment to comply with the requirements specified in the internal regulations⁵ regarding the need for a guarantee in case of insufficient loan collateral and to attract guarantees from the owners in accordance with the requirements of the internal regulations^{6,7},*

- ❖ *Improve the internal control environment to comply with the provisions of the internal regulations⁸ regarding the absence of tax debts on the specified dates above the specified threshold.*

The Ministry of Economics has amended the Cabinet Regulation⁹ and supplemented it with criteria substantiating the impact of COVID-19 on economic operators. Altum has approved changes to the requirements of the internal regulations¹⁰ that apply when requiring the guarantee to be obtained from the owner (one or more) of the borrower¹¹ who has significant influence over the company. Altum has approved changes in the internal regulations¹² regarding the absence of tax debts to the beneficiaries by stipulating that, according to the information published in the SRS database, a borrower may not have current tax debts over 1,000 euros or the borrower must agree with the SRS on the tax debt repayment procedure, as well as supplementing those requirements with a clarification - if the borrower has a current tax debt and its amount is proportional to the borrower's economic activities, then the loan may be granted on condition that the borrower submits a current SRS statement on tax debt payment or SRS decision or an agreement on voluntary payment of taxes has been concluded to the lender before issuing the loan.



A single approach has been ensured in the assessment of project applications of state budget programs and observance of the conditions of the concluded agreements, as well as the use of financial resources in accordance with the granted support and its amounts has been ensured.



The audit revealed that the external law did not specify the criteria for the use of the allocated funding and that the Society Integration Fund (hereinafter referred to as the SIF) included quality assessment criteria not directly related to the COVID-19 crisis in the tender regulations, as well as the assessment commission had carried out formal evaluation of the applications submitted by applicants in some cases. In addition, discrepancies were identified which led the SIF to cover costs not provided for in the tender regulations or incurred during the period for which the financial support was not planned. As a result, the state budget funds of 2,599 euros were spent unduly.

Therefore, we recommended the SIF to:

- ❖ *Review and improve the documentation of the project assessment and monitoring process, including setting minimum requirements for the substantiation of the assigned evaluation;*
- ❖ *Consider the possibility of recovering the costs from the beneficiaries that do not comply with the tender regulations and the provisions of the contracts.*

The SIF has implemented the recommendations and included a condition that the evaluators substantiate their evaluation in the regulations of the Media Support Fund program assessment commission. In agreements with the members of the assessment commission, the SIF has included a

condition that the fee for the low-quality assessment of the project application may be reduced by 50%. The SIF has also approved project tender and monitoring procedures for single assessment of project applications.

With regard to the recovery of costs that do not comply with the tender regulations and the provisions of the contracts, the SIF has recovered the ineligible utility, communication, and broadcasting costs from the project implementers in full, a total of 151.89 euros. In the opinion of the State Audit Office, the SIF decided not to recover the unreasonably spent costs for market research of 2,447 euros on the basis of the opinion provided by the Latvian Advertising Association that the expenses incurred by media outlets for market research were considered to be related and referred to media core business. At the same time, when recognising the recommendation as implemented, the State Audit Office has called on the SIF to pay more attention to the correct inclusion of the requirements and rules set for applicants in the tender regulations and application forms when drafting the project tender documentation.

Which deficiencies are still being addressed

Although a part of deficiencies have been eliminated, much remains to be done. Work is ongoing in several ministries to address the weaknesses identified in audits in spending the support granted to curb the COVID-19 crisis. When the work is completed, we can expect that:

- Crisis management and the planning and supply of personal protective equipment will be improved;
- The planning of the financing necessary for the support of economic operators in the state budget and the financial management of the state budget in general will be improved;
- Potential risks for the provision of unjustified state aid will be eliminated, equal treatment of potential beneficiaries will be provided, the allocation of state budget funds will be more transparent and better monitored;
- The effective and economic use of state budget funds in accordance with the intended objectives will be promoted, as well as the negative effects of rescue and restructuring aid on competition will be eliminated;
- The efficient management of capital shares and state-owned enterprises will be promoted, as well as clear principles and criteria will be developed for the determination and distribution of the necessary financing in case there is a repeated need to provide financial support to state-owned enterprises;
- Fair and investment-friendly bonuses will be provided to the employees of the institutions responsible for working under the conditions of increased risk and workload;
- The public will have access to information on the support provided by the state and its amount on specific economic operators, as well as on the supported cultural areas and the progress and achievements of creative people within the framework of this scheme;

- Timely and priority-sequential resolution of infrastructure and logistical problems will be facilitated.



Crisis management and the planning and provision of personal protective equipment will be improved.

When auditing the purchase of personal protective equipment and disinfectants needed to curb the COVID-19 crisis for the healthcare, defence, and home affairs sectors, and conducting a situation study on the provision of resources to control the spread of COVID-19 in state and municipal institutions, we drew attention to the weaknesses of the civil protection system and made proposals to improve crisis management.

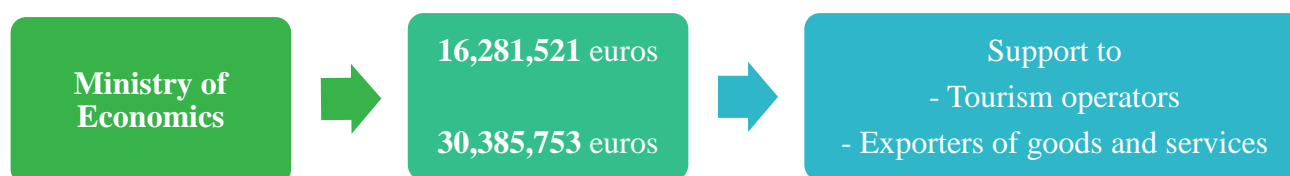
The COVID-19 crisis highlighted the weaknesses of the Latvian civil defence system:

- There is no national civil defence plan in force since 2017, which would set out the disaster management measures and their implementers in detail, although a clear division of responsibilities and the readiness of the responsible institutions to act quickly affects the state's ability to cope with the crisis;
- The national civil defence system is decentralized whereas decentralised crisis solutions can be ineffective, leading to uncoordinated action and differing understandings of the actions to be taken, thus jeopardising a successful crisis response;
- Since 1 April 2020, there is no valid classification of state material reserves in the country. Funding for the replenishment of the state material reserves of the healthcare sector was last granted in 2018, thus the healthcare sector did not have a "safety net" for a crisis situation when all countries faced an acute shortage of personal protective equipment;
- Institutions have an insufficient understanding of the planning of material reserves and the amount of protective equipment required generally, for example, bottom-up planning of necessary resources without clear guidelines on the resources needed to ensure epidemiological safety and their planning algorithms can pose significant risks to public safety and health in the event of a recurrent COVID-19 outbreak.

We drew attention to the findings that should be taken into account in the implementation of COVID-19 curbing measures or similar events in the future when coordinating the provision of the necessary resources:

- ❖ *Unified, centralised solutions are more effective in curbing the COVID-19 pandemic, as well as the role of the central institution (government) is important. Purposeful action of government institutions is required both in setting requirements and in organising and coordinating the implementation of the adopted decisions in practice;*
- ❖ *In the early stages of a crisis and epidemiological situation deteriorating, centralised crisis management, practical support provided commonly, detailed guidance on expected actions and coordination of actions by central authorities are crucial. At the other time, local and regional governments have more opportunities to implement specific and locally adapted policies;*

- ❖ *Managing the prevalence of COVID-19 infection requires coordinated action and cooperation among state and municipal institutions. Cooperation between different levels of institutions and local and regional governments is crucial in curbing the COVID-19 pandemic. A clear division of responsibilities is a precondition for swift and targeted action;*
- ❖ *Take the necessary measures to assess the readiness of state and municipal institutions and the adequacy of material resources to ensure the needs necessary for the prevention of public threats in the event of a recurrent COVID-19 outbreak at least to a minimum extent;*
- ❖ *Establish a functioning system of state material reserves, which is an essential resource for overcoming the crisis by providing the availability of resources and forecasting needs.*



The risks of inappropriate support will be reduced.

When auditing the support provided to exporters of goods and services and economic operators in the tourism sector to overcome the consequences of the COVID-19 crisis, we found shortcomings in the application of the support criteria and the established support procedure. We also discovered that the criterion of a reduction in operating income defined for the state aid was not economically justified sufficiently to provide assurance on the objective impact of the crisis on the economic activity of the exporting enterprises. Thus, it is possible that support has also been provided to export industries and the companies that have not been affected by the COVID-19 crisis significantly. In addition, aid totalling to 93,596 euros for two exporters and 546,946 euros for one tourism operator may have been granted and paid unduly.

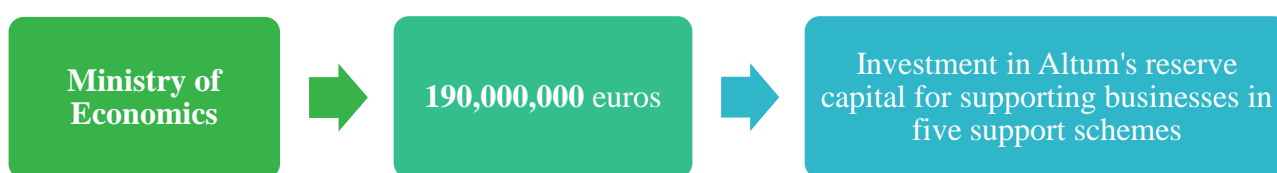
Therefore, we recommended the Ministry of Economics to:

- ❖ *Assess the economic justification of the support criteria and determine such eligibility criteria for the support that would facilitate the use of funding in accordance with the purpose;*
- ❖ *Quantify the amount of information to be submitted to receive support in order to ensure the collection of information that allows the supervisory authorities to verify compliance with the conditions of support without additional administrative burden.*

In its turn, we recommended the Latvian Investment and Development Agency to:

- ❖ *Carry out inspections regarding the aid granted, whose potential non-compliance with the conditions of support has been indicated in the audit report by deciding on the recovery of the aid unduly paid if necessary;*
- ❖ *Pay special attention to the inspections of the status of a company in financial difficulty for those large and medium-sized beneficiaries whose related companies are registered abroad when drafting the scope of inspections.*

The Ministry of Economics and the Latvian Investment and Development Agency have committed to implement the recommendations by 3 January 2022.



The planning of the funding required for supporting economic operators in the state budget will be improved.

When auditing the use of the funds allocated for investing in Altum's reserve capital, we have found that the total investment in Altum's reserve capital exceeds the expected losses calculated in the prospected indicators under Altum support scheme to mitigate the effects of the COVID-19 crisis, which one intends to cover from the reserve capital. In addition, the Ministry of Economics has not provided conditions for the management of funding that will not be used after the end of the schemes for the invested state budget funding of 100 million euros for the three support schemes¹³.

Thus, we recommended the Ministry of Economics to:

- ❖ *Perform a detailed calculation of the necessary financing in accordance with the Development Finance Institution Law¹⁴ when calculating the necessary financing for the increase of the Altum's reserve capital and forwarding draft decisions of the Cabinet of Ministers regarding the increase of the Altum's reserve capital for approval;*
- ❖ *Assess the need to amend the agreement with Altum on the increase of the reserve capital by stipulating the conditions for further action with financing that will not be used after the end of the schemes.*

The Ministry of Economics is committed to implementing the recommendations by 1 October 2021.



The financial management of the state budget will be improved, and the public will have access to the information on the expenditure and revenues of the state support schemes to curb the COVID-19 crisis and on the support provided and its amount to specific economic operators.

The audit has discovered that Altum had raised 80 million euros from the European Investment Bank to secure funding, with 150 million euros already planned in the state budget which are not used, and Altum had signed loan agreements with the State Treasury for the implementation of three other support schemes totalling to 68.6 million euros, for which the established loan amounts have not been

used for a long time. We have established that the public does not receive transparent, up-to-date, and complete information on the expenditure and revenues of the state support schemes to curb the COVID-19 crisis and on the provided support and its amount to specific economic operators.

Therefore, we recommended the Ministry of Economics in cooperation with Altum to:

- ❖ *Review the loan agreements concluded so far with the State Treasury, where the provided funds are not used to finance the specified support schemes, and the necessity of the planned state budget loan by proposing amendments to the agreements and orders if necessary¹⁵;*
- ❖ *Provide timely and publicly available information on the use and actual balance of funds of support schemes regularly and find an opportunity to publish information on the support provided by the state and its amount to economic operators, regardless of the amount of support.*

The Ministry of Economics, in cooperation with Altum, is committed to implementing the recommendations by 1 July 2021.



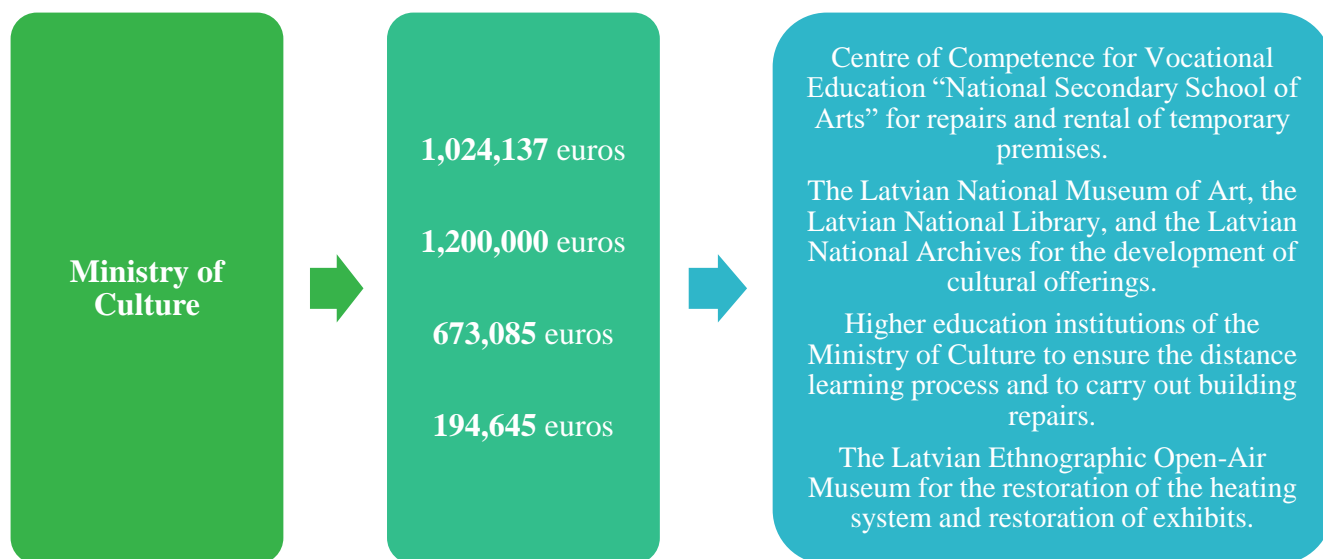
Potential risks for the provision of unjustified state aid will be eliminated and equality among all applicants will be respected.

The audit has revealed that a borrower is required to provide up-to-date information on the absence of a tax debt before granting a loan in the case of current tax debts, although Altum's internal regulations do not provide for such an opportunity. Moreover, there are two cases identified where loan applications have been rejected due to tax arrears. There were also eight cases¹⁶ when a loan of 604,060 euros was granted to economic operators based on operational financial data on the situation as of 31 December 2019, which did not show the features of a company in financial difficulty, but after the granting of the loan, final financial data as of 31 December 2019 indicates that the company had experienced that symptom.

Thus, we recommended Altum to:

- ❖ *Assess the possibility of setting criteria¹⁷ for the absence of tax debts above a certain threshold for the granting of guarantees;*
- ❖ *Streamline laws and regulations¹⁸ by stipulating that in the case of current tax debts, before granting the loan funds, a borrower must submit up-to-date information regarding the absence of the tax debt;*
- ❖ *Within the framework of the supervision of the issuance of loan funds, perform an assessment of the cases established in the audit when, after the granting of the loan, the final financial data regarding the situation as of 31 December 2019 points out that the company had the features of a company in financial difficulty¹⁹.*

Altum is committed to implementing the recommendations by 1 July and 1 October 2021.



Timely and priority-sequential solution of the infrastructure and material challenges and technical provision of the institutions subordinated to the Ministry of Culture will be facilitated.

Auditing the resources allocated to support the cultural sector revealed that some of the measures funded did not link to overcoming, mitigating, and preventing the COVID-19 crisis. The Ministry of Culture was aware of the problems with the technical condition of the buildings and the material and technical base of CCVE “National Secondary School of Arts”, the Latvian Academy of Arts, the Latvian Ethnographic Open-Air Museum, and the Latvian National Archives before the emergency, and it channelled the funds of 1,527,126 euros envisaged to mitigate and prevent the effects of the COVID-19 crisis during the pandemics to tackling long-delayed problems.

Thus, we recommended the Ministry of Culture to:

- ❖ *Identify the major infrastructure and material and technical problems of its subordinate institutions and gather information on the total necessary financial resources for their elimination.*

The Ministry of Culture is committed to implementing the recommendation by 15 February 2022.



Clear principles and criteria will be developed for determining and allocating the additional funding required in the event of a recurrence of the need to provide financial support to state-owned enterprises.

During the audit, we have detected that the calculations of the Ministry of Culture when determining the additional funding required for the support of state-owned enterprises included certain untraceable components, the principles of whose formation are not clear. The justification for the distribution of the additional allocation among the state-owned enterprises managed by the Ministry of Culture is

also not always clear and traceable. We found that under the conditions of limited activity, some of the state-owned enterprises managed by the Ministry of Culture have not stopped issuing invitations for representation purposes, thus not gaining revenue from ticket sales. The audit found that providing additional funding of 962,344 euros to three state-owned enterprises managed by the Ministry of Culture for urgent repairs and improvements to the building, and renting and maintaining temporary premises solves long-lasting and unresolved issues.

Thus, we recommended the Ministry of Culture to:

- ❖ *Elaborate clear principles and criteria that all stakeholders can understand to determine the necessary additional funding in case the Ministry of Culture needs to provide financial support to the state-owned enterprises established by it in the conditions of crisis in 2021;*
- ❖ *When drafting an informative report for consideration by the Cabinet of Ministers on the use of additional allocated funding for COVID-19 crisis management and economic recovery in accordance with the planned target in 2020 and implementation progress in 2021, provide information on the principles of state aid distribution to the state-owned enterprises managed by the Ministry of Culture and their performance indicators by spending additional funding;*
- ❖ *Act so that its state-owned enterprises revise the issuance of invitations for representation purposes in the context of limited operations;*
- ❖ *Identify the major infrastructure problems of state-owned enterprises where it is a 100% shareholder and gather information on the total necessary financial resources for their elimination.*

The Ministry of Culture undertook to include information on the principles of state aid distribution in the informative report by 3 October 2021 and to implement the other recommendations by 15 February 2022.



The public will have access to information on the supported cultural areas and the progress and achievements of creative people within the framework of this scheme.

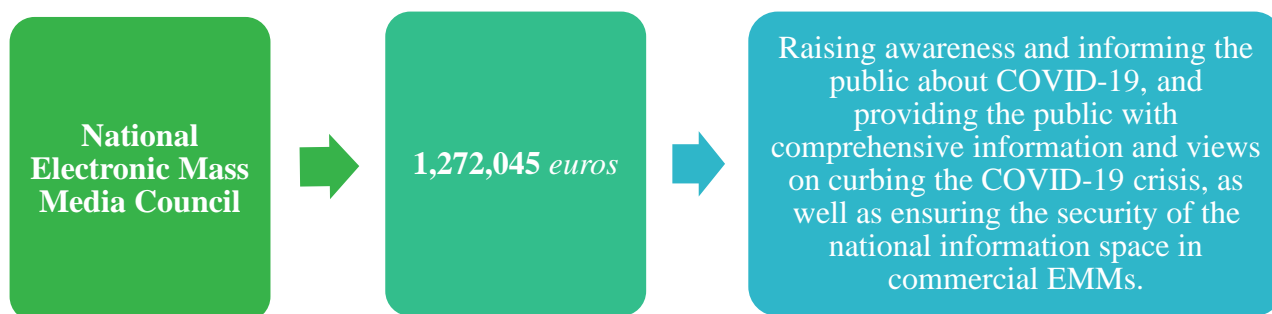
During the audit, we have detected that the State Cultural Capital Fund has not provided the public with a summary of the supported cultural areas and the progress and achievements of creative people within the framework of this scheme so far.

Thus, we recommended the Ministry of Culture to:

- ❖ *When drafting an informative report for consideration by the Cabinet of Ministers on the use of additional allocated funding and public annual report for 2020, provide information on the on the cultural areas supported within the target program*

“Employment Scheme for Creative People” and the progress and achievements of creative people within the framework of this scheme so far.

The Ministry of Culture is committed to implementing the recommendation by 3 October 2021.



Transparency in the allocation of state budget funds for public awareness and media support will be promoted.

The audit discovered certain deficiencies in the tender process, for example, the commission members of the National Electronic Mass Media Council (hereinafter referred to as NEMMC) provided an assessment of the quality of tenders under the criteria points, but did not provide a justification for this assessment. The NEMMC has not verified whether the statements of tenderers contained true information about the reduction of the applicants’ advertising revenues. During the audit, we have found that when allocating funds for raising public awareness and informing and allocating the funds to the SIF for the support of mass media, the Cabinet of Ministers has not set any criteria for allocating funding to the mass media in either internal or external laws and regulations.

Therefore, we submitted a proposal to the Cabinet of Ministers to do the following taking into account also the audits of the funding allocated to the SIF for mass media support:

- ❖ *Define the purpose of granting funding (general support for the mass media, compensation for loss of income, or something else) clearly and basic criteria for receiving and using it in external laws and regulations if the Cabinet of Ministers will have to decide on additional support to commercial press and digital mass media due to unfavourable development of COVID-19 crisis.*

In its turn, the NEMMC was provided the following recommendation:

- ❖ *Improve the tender procedure by eliminating deadlock solutions and set requirements for tenderers that are appropriate and verifiable for the purpose of the tender.*

The NEMMC is committed to implementing the recommendations by 30 June 2021.



Efficient management of the state-owned enterprises managed by the Ministry of Transport, rational and economically justified use of resources will be facilitated, and compliance with the conditions for shareholding of a public entity will be ensured.

The audit has discovered that the internal control system environment established by the Ministry of Transport for the public participation governance at JSC Air Baltic Corporation (hereinafter referred to as airBaltic) must be improved, as there are insufficient preconditions for monitoring the compliance of airBaltic with the terms and conditions of state aid granted currently. Moreover, the Ministry of Transport does not participate in the process of determining the deliverables fully, but only in their factual evaluation by relying on the information provided by airBaltic's management. Thus, the ability of the state as a shareholder to implement its strategic goals, for whose achievement investments in the state-owned enterprise have been made, has been reduced.

Thus, we recommended the Ministry of Transport to:

- ❖ *Establish a governance system of state-owned enterprises where the state has a decisive influence that enables the state to implement the strategic goals of the sector and participate in the process of setting goals and deliverables fully under the statutory provisions;*
- ❖ *When investing in the fixed capital of state-owned enterprises, define the investment objectives of the state budget clearly and determine the measurable results to be achieved, and draft a specific action plan for monitoring the achievement of the adopted decisions, objectives, and deliverables.*

The Ministry of Transport is committed to implementing the recommendations by 1 October 2021.



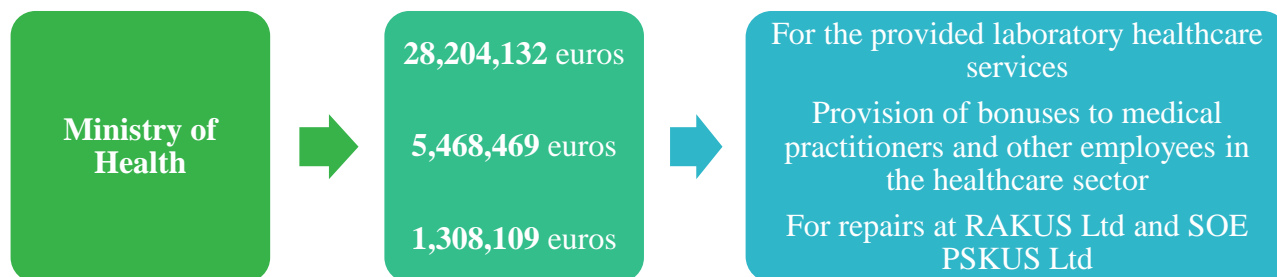
The continuity of the operation of state information systems and the protection of information crucial to the state will be ensured.

In the audit, we have detected that the Latvian Council of Sworn Notaries, as the manager of the state information systems such as the Inheritance Register and the Register of Public Wills, performs an uncharacteristic function, that is, ensures the maintenance of state information systems at its own expense, although the Law on State Information Systems²⁰ stipulates the obligation of the state to maintain the national information systems from the state budget. During the emergency, a situation occurred that the Latvian Council of Sworn Notaries was unable to find financing for the purchase of a server due to a significant decrease in the number of notarial activities and revenues.

Therefore, we recommended the Ministry of Justice to:

- ❖ Assess the possibility of designating a state institution as the manager and holder of the Inheritance Register and the Register of Public Wills in co-operation with the Latvian Council of Sworn Notaries.

The Ministry of Justice is committed to implementing the recommendation by 1 November 2021.



Economic use of state budget funds in the provision of healthcare services will be ensured.

In the coming periods, fair and investment-appropriate bonuses will be provided to medical practitioners of the responsible institutions and other employees for working under the conditions of increased risk and workload.

The efficient and economic use of state budget funds in accordance with the intended objectives will be facilitated.

When auditing the payment for the provided laboratory healthcare services, we have discovered that there were individual tariffs set for laboratory service providers until the establishment of a single tariff (15 August 2020). For example, one provider was paid up to 20% more for one laboratory test for COVID-19 than another provider.

When assessing the granting of bonuses to healthcare workers, we have established that the requirements for hospitals and health institutions, including the Emergency Medical Service, to interpret employee involvement were interpreted differently and created an excessive administrative burden, as the sector did not have clear criteria for the distribution of bonuses and uniform, unambiguous guidelines for granting bonuses.

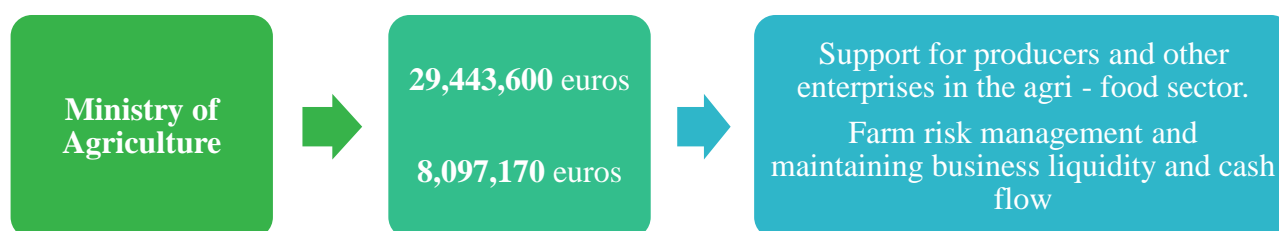
On the other hand, when assessing the funds allocated for the repair works at the Latvian Oncology Centre of Riga Eastern Clinical University Hospital (RAKUS) and Ward 15 of Pauls Stradiņš Clinical University Hospital (PSKUS), we have discovered that there is no reason to question the need for repairs in hospitals, but both hospitals had to plan the necessary funding to prevent risks to the safety of the operation of buildings and not to cause harm to building users and passers-by in due time.

Thus, we recommended the Ministry of Health to:

- ❖ Assess the impact of the volume of services on the state budget and achieve the most economically advantageous solution in setting the tariffs for healthcare services when planning the payment for individual services in the future;

- ❖ *Avoid creating an excessive administrative burden for the institutions of the medical and healthcare sectors when stipulating the criteria for determining the bonuses and ensuring control over the observance of the criteria specified in the order at the same time;*
- ❖ *Before forwarding requests for funding from the state budget program “Contingency Funds” to the Cabinet of Ministers, evaluate the solidity of requests for funding a specific measure and identify information on the total necessary financial resources and their source for full completion of this measure comprehensively.*

The Ministry of Health is committed to implementing the recommendations on bonuses and repairs in hospitals by 1 November 2021. However, it undertook to implement the recommendation on setting tariffs by 31 December 2021.



The adverse effects of rescue and restructuring aid on competition will be eliminated and the efficiency of the use of public funds will be promoted. Compliance with the requirements of the Rural Support Service Law will be ensured and the internal control environment of the Rural Support Service will be improved.

The audit has found that the Ministry of Agriculture did not propose to change the support rates and the amount of funding required for the scheme in line with the actual level of revenue reduction in the sector, which was lower than initially forecasted in most cases. The Ministry of Agriculture calculated the potential reduction in revenue for each industry, but it did not intend to assess changes in the income of individual beneficiaries or tax arrears. State aid payments both offset the reduction in the sectoral revenue as estimated by the Ministry of Agriculture and even increased the revenue of some beneficiaries compared to the corresponding periods of previous years. According to the auditors' estimates, state support in the dairy farming sector exceeded the decrease in revenue by at least 7.3 million euros. In contrast, in the support measures, where one assessed the impact of COVID-19 on individual beneficiaries and their economic performance was so good that they did not qualify for state aid, the 'savings' were channelled to another support scheme for agricultural industry, where additional support rounds were set up.

State aid for farm risk management and maintaining business liquidity and cash flow was based on the general assumption that the COVID-19 had a negative impact on agriculture as a whole. As a result, holdings in such an agricultural industry as cultivation of grain growing, also received significant state support which had a record total yield in Latvia in 2020.

The audit revealed that the Rural Support Service disbursed support without following the procedure prescribed by law²¹, that is, without drawing up and sending a positive decision on the amount of

support in cases where no reduction was applied, but disbursing the payment based on support calculation in 35 cases out of 104 transactions included in the audit sample. It indicates weaknesses in the internal control system of the Rural Support Service.

As rescue and restructuring aid is one of the most economy and competition-distorting forms of state aid, we called on the Cabinet of Ministers to:

- ❖ *Assess the eligibility criteria set by the line ministries more thoroughly to prevent potential negative effects and promote the effectiveness of public spending and solidarity among industries.*

We recommended the Ministry of Agriculture to:

- ❖ *Provide full information on the eligibility criteria and ensure that the amount of state aid during the supported period is linked to the amount of revenue foregone, rather than the allocation of additional income when granting the state aid to the agricultural industries henceforth.*

We recommended the Rural Support Service to:

- ❖ *Draw up and send decisions regarding the payment of state aid to beneficiaries also in cases when a reduction of the state aid amount has not been applied;*
- ❖ *Ensure the disbursement of support funds after the relevant decision has been made and formalized, even in the case of a positive decision.*

The Ministry of Agriculture and the Rural Support Service are committed to implementing the recommendations by 14 January 2022.

Looking to the future

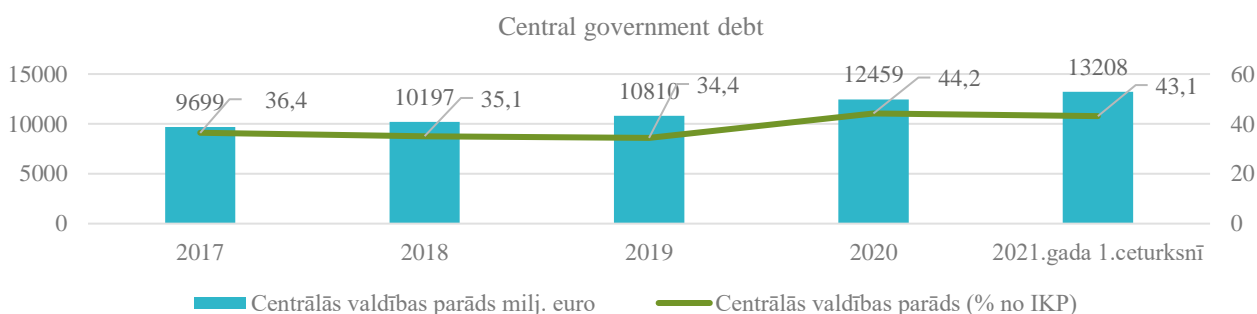
Taking into account the audit findings in 2020 on public spending and support to curb the COVID-19 crisis, we recommend the following when deciding on and implementing crisis management support measures in the future:

- The Cabinet of Ministers shall agree on common principles for the provision of support by envisaging for which industries and groups of society, in which cases, and to what extent support shall be provided by defining the criteria for providing support for one type of support as centrally as possible;
- The Cabinet of Ministers or one of the central government institutions should assess the solidity of requests for support from sectors carefully and whether and to what extent the COVID-19 pandemic and related restrictions have affected a potentially supported sector or group and whether the support is solid and fair to the support available or planned in other industries for crisis management and curbing the COVID-19 crisis;

- Set at least a minimum set of criteria that beneficiaries must meet in order to qualify for support and provide for a reservation that in case of surplus allocated funding is repayable to the state budget when allocating funding;
- Determine the type and form of support compatible with the indemnifiable measures (for example, not organising project tenders to cover current expenses);
- Include such requirements that are possible and intended to be verified in the tender assessment regulations;
- Not to require tenderers to submit supporting documents on information already in the possession of state institutions and request the submission of information on compliance with criteria that cannot be obtained otherwise;
- Also ensure, in situations of extreme urgency, at least minimum documentation requirements and a “four-eyes principle” so that decisions taken are traceable and risks of corruption avoided;
- Provide the public with transparent information on the state aid granted.

Measures to curb the COVID-19 pandemic continue, and the Cabinet of Ministers has supported allocation and/or redistribution of additional funding of 1.342 billion euros to the sectors for crisis management, mitigation, and prevention of the COVID-19 pandemic in the first four months of 2021, which is already around 100 million euros more than in 2020 as a whole.

Without questioning the need for support measures, it is important to remember that we are using borrowed funds to curb the COVID-19 pandemic. To provide financing for the mitigation of the COVID-19 outbreak and to support the economy in an emergency, public borrowing has taken place both by issuing bonds on the financial markets and by concluding loan agreements with international financial institutions, thus there is a faster increase in central government debt than in previous years before the pandemic.

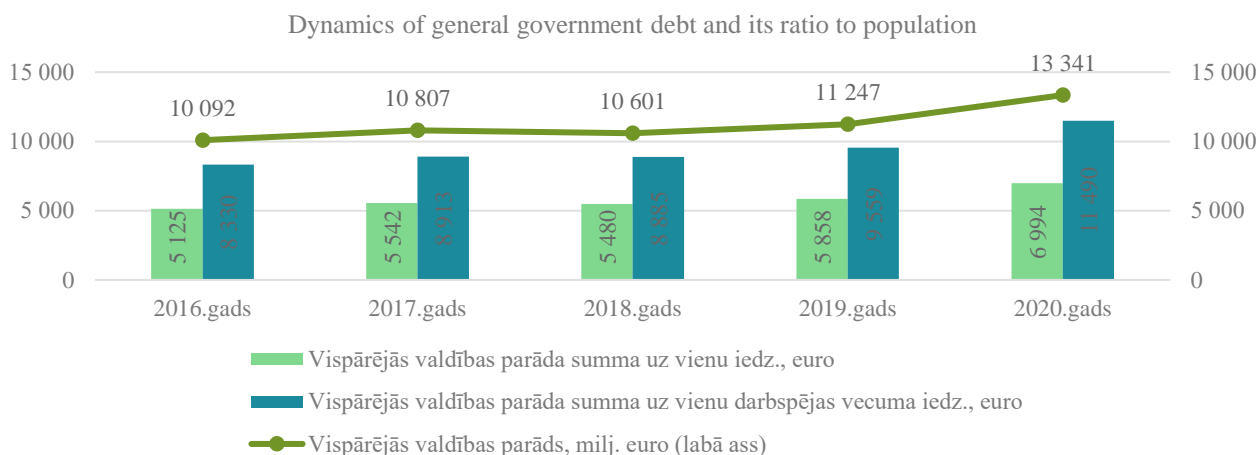


The Fiscal Discipline Council²² has also expressed concerns and pointed to the risks regarding the impact of the support measures that the government has approved conceptually on the state budget, the level of public debt, and the economy as a whole:

The impact of the planned and conceptually approved support measures by the Cabinet of Ministers on the state budget for 2021 is rapidly increasing, which already exceeds the impact of the support measures on the 2020 budget (1.4 and 1.1 billion euros, respectively). According to the assessment of the Ministry of Finance, the impact of support measures on the current

year's budget could reach from 1.7 to 2 billion euros that might increase the level of public debt to 50.8% of GDP by the end of 2021 and the budget deficit to 9.4% of GDP. The Council believes that the government is moving from too little support to the other extreme, too much spending.

In previous audits, we have expressed the view that assessing the sustainability of public debt should take into account factors such as the trends of societal development, i.e., whether the public will be able to ensure stable GDP growth in the future. Unfortunately, the population of Latvia is constantly decreasing, but the trend of the general government debt balance is the opposite as it increases. Consequently, a shrinking population must maintain a higher general government debt burden.



We have estimated that the general government debt (national methodology) per economically active capita is 11,490 euros in 2020, and this trend is increasing over the years. We provided a recommendation to the Ministry of Finance already in 2018 to assess a specific level of government debt that is optimally maintained for Latvia, taking into account the demographic trends of the society, but unfortunately, the implementation of the recommendation has not progressed yet.

References

- ¹ Although 39 local and regional governments did not request a targeted grant from the Ministry of Welfare to compensate for the expenses of the benefit, four local and regional governments had granted the benefit by financing it only from the municipal budget.
- ² Paragraph 8 of Cabinet Regulation No 149 “Regulations regarding working capital loans to economic operators, whose activities have been affected by the spread of COVID-19” of 19 March 2020; Section 9 of Cabinet Regulation No 150 “Regulations regarding guarantees to economic operators, whose activities have been affected by the spread of COVID-19” of 19 March 2020; Sub-paragraph 10.15 of Cabinet Regulation No 537 “Regulations on portfolio guarantees for the promotion of lending to small (micro), small, and medium-sized enterprises” of 5 September 2017 (in the wording valid as of 26 March 2020).
- ³ Sub-paragraph 7.4 of Altum Internal Regulations “Working capital loan scheme regulations to curb the COVID-19 crisis” (Version 1 of 25 March 2020; Version 2 of 3 April 2020; Version 3 of 30 April 2020, and Version 4 of 1 June 2020).
- ⁴ Cabinet Regulation No 149 “Regulations regarding working capital loans to economic operators, whose activities have been affected by the spread of COVID-19” of 19 March 2020; Cabinet Regulation No 150 “Regulations regarding guarantees to economic operators, whose activities have been affected by the spread of COVID-19” of 19 March 2020; Cabinet Regulation No 537 “Regulations on portfolio guarantees for the promotion of lending to small (micro), small, and medium-sized enterprises” of 5 September 2017.
- ⁵ Altum Internal Regulations “Working capital loan scheme regulations to curb the COVID-19 crisis”.
- ⁶ *Ib id.*
- ⁷ The interim audit report prepared within the framework of Financial audit No 2.4.1-16/2020 “Funds allocated to the Ministry of Economics for transfer to the reserve capital of Joint Stock Company “Development Financial Institution Altum” to support economic operators to mitigate the consequences of the COVID-19 crisis”
- ⁸ Sub-paragraph 7.4 of Altum Internal Regulations “Working capital loan scheme regulations to curb the COVID-19 crisis” (Version 4 of 1 June 2020).
- ⁹ Amendment to Cabinet Regulation No 149 “Regulations regarding working capital loans to economic operators, whose activities have been affected by the spread of COVID-19” of 19 March 2020 (VSS-1049), Amendment to Cabinet Regulation No 150 “Regulations regarding guarantees to economic operators, whose activities have been affected by the spread of COVID-19” of 19 March 2020 (VSS-925), and amendment to Cabinet Regulation No 537 “Regulations on portfolio guarantees for the promotion of lending to small (micro), small, and medium-sized enterprises” of 5 September 2017 (VSS-1012).
- ¹⁰ Sub-paragraph 6.1, 6.2, and 6.3 of Altum Internal Regulations “Working capital loan scheme regulations to curb the COVID-19 crisis” (Version 5 of 7 January 2021, valid since 14 January 2021).
- ¹¹ Guarantee (s) of owner (s), including sole proprietor and owner (s) of farm/fish farm, and guarantee of other individual(s) (e.g., Board Member) may be attached for associations, foundations, and cooperatives.
- ¹² Sub-paragraph 7.4 of Altum Internal Regulations “Working capital loan scheme regulations to curb the COVID-19 crisis” (Version 5 of 7 January 2021, valid since 14 January 2021).
- ¹³ Agreement between the Ministry of Economics and Altum of 30 March 2020 on the increase of the reserve capital (for working capital loans, loans, guarantees, and portfolio guarantees to curb the COVID-19 crisis).
- ¹⁴ Section 15.2 of the Development Financial Institution Law.
- ¹⁵ Cabinet Order No 158 “On the total increase of state budget loans specified in the Law on the state budget for 2020 of 7 April 2020; Order by the Ministry of Finance No 119 “On the total increase of state budget loans and the list of state budget loans and loan repayments for 2020” specified in the Law on the state budget for 2020 of 14 April 2020.
- ¹⁶ According to the annual reports submitted by the economic operators in the Register of Enterprises by 15 November 2020 excluding small and medium-sized enterprises which have existed for less than 3 years, as the feature in accordance with Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the single internal market in application of Articles 107 and 108, Article 2.18.a of the Treaty does not apply to them.
- ¹⁷ Altum internal document “Financial ratio requirements for the COVID-19 crisis curbing guarantee”; Cooperation agreement on the portfolio guarantees for the promotion of lending to small (micro), small, and medium-sized enterprises caused by the COVID-19 crisis” between Altum and credit institution.
- ¹⁸ Cabinet Regulation No 149 “Regulations regarding working capital loans to economic operators, whose activities have been affected by the spread of COVID-19” of 19 March 2020; Sub-paragraph 7.4. of Altum Internal Regulations “Working capital loan scheme regulations to curb the COVID-19 crisis” (Version 4 of 1 June 2020).

¹⁹ Section 25 (h) and 27 (g) of the Communication from the European Commission “Temporary framework for state aid measures to support the economy in the current COVID-19 outbreak” 2020/C 91 I/01 (19 March 2020, C (2020) 1863); Consideration 32 of the European Commission’s letter C(2020) 1908 final “State Aid SA.56722 - Latvia - COVID-19: Loan guarantee scheme and subsidized loan scheme” of 23 March 2020.

²⁰ Section 7 of the State Information Systems Law.

²¹ Chapter IV of the Rural Support Service Law.

²² Monitoring Report No 12 of the Fiscal Discipline Council 21 Jan to 28 Feb 2021, https://fdp.gov.lv/files/uploaded/MZ12_Web.pdf.