



Use of the funding allocated to the Ministry of Finance for payment of downtime benefit

Interim report

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Inspections carried out and an interim report drafted within the framework of the financial audit “On the accuracy of the 2020 annual report of the Ministry of Finance” (Audit schedule No 2.4.1-20/2020 of the Fourth Audit Department of the State Audit Office of 18 May 2020) and following Sub-paragraph c), Paragraph 3, Section 3 of the State Audit Office Law.

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Why have we drafted this interim report?

Since International Standard on Auditing (ISA) 701, Communicating key audit matters in the independent auditor's report¹ has taken effect, the State Audit Office is required to assess the need to include key audit matters in the audit opinion on the financial statements².

For the purposes of those standards, key audit matters are matters that, in the auditor's professional judgment, are significant in the context of the audit of the financial statements of the reported period that one reports to the management of an audited entity and that have been the focus of the auditor's attention. There is no separate opinion on the key audit matters issued.

The information provided on key audit matters serves as additional information for potential users of the financial statements. It helps apprehend both matters that the auditor has identified as significant in the professional judgment and the audited entity and the areas where the management of the audited entity has made significant judgments while drafting the audited financial statements. This information may also serve as a basis for potential users to communicate further with the management of the audited entity about specific aspects of governance, audited financial statements, or audits performed.

The solidity and actual spending of the requests for additional funds allocated to address the consequences of COVID-19 are the key audit matter, which is crucial in all financial audits on the accuracy of the drafting of the annual consolidated financial statements for 2020 of the ministries and central governmental agencies.

In 2020, COVID-19 pandemic affected Latvia like the rest of the world. The Cabinet of Ministers adopted a decision³ to declare the emergency on 12 March 2020, and the state of emergency continued until 9 June 2020⁴. The extraordinary circumstances caused by COVID-19 affected the daily lives of the government, the public, and everyone both during and after the emergency. The new conditions required the ability to react and adapt quickly, as well as caused deviating from the usual order. Under the new conditions, the institutions should have been able to coordinate their activities more intensely and to co-operate with each other by avoiding legal formalism and the departmentalism to ensure the functioning of the state and the protection of each individual in emergency conditions⁵.

Overcoming the COVID-19 pandemic and dealing with its consequences have required significant funds from the state budget. Since the declaration of the state of emergency, the Cabinet of Ministers has made decisions in connection with overcoming the crisis caused by COVID-19 and eliminating its consequences on the allocation and reallocation of state budget funds for the implementation of basic functions for 1,021,912,416 EUR in total by 30 September 2020 and has examined proposals for reallocation of funds for the implementation of projects and measures co-financed by European Union policy instruments and other foreign financial assistance for 496,000,000 euros⁶. The State Audit Office pays special attention to assessing the spending of state budget funds allocated for overcoming the COVID-19 pandemic, preventing, and mitigating its consequences.

The Cabinet of Ministers⁷ has allocated additional financial resources of 101,789,800 euros to the Ministry of Finance for overcoming, mitigating, and preventing the consequences of COVID-19 crisis including the allocation not exceeding 101,789,800 euros for the State Revenue Service to provide disbursement of downtime benefit to employees of a sector where financial standing worsened due to the spread of COVID-19 significantly. According to the orders issued by the Ministry of Finance⁸, the SRS was allocated funding of 54,076,431 EUR for the payment of the downtime benefit between 12 March 2020 and 1 September 2020.

To provide information on the key audit matter raised in the financial audit “On the accuracy of the 2020 annual report of the Ministry of Finance”, that is, the solidity and actual spending of the requests for additional funds allocated to address the consequences of COVID-19, the State Audit Office performed an audit and drafted this interim report on the actual spending of the funding of 54,076,431 euros allocated to the Ministry of Finance (State Revenue Service) for the payment of the downtime benefit from the state budget program 02.00.00 “Contingency funds”.

Simultaneously with this interim report, the State Audit Office has prepared an interim report on the additional funding to disburse extra payment to the downtime benefit for each dependent child, the downtime support benefit, and the extra payment thereto in the financial audit “On the accuracy of the 2020 annual report of the Ministry of Welfare”.

Summary

The granting and payment of the downtime benefit related to the management, mitigation, and prevention of the COVID-19 crisis was entrusted to the State Revenue Service, an institution subordinate to the Ministry of Finance, whose main function was collecting state taxes, fees and other mandatory state taxes and which possessed vast information on taxpayers.

Following the funding calculations made by the Ministry of Economics for the payment of downtime benefit, the Cabinet of Ministers⁹ allocated state budget funds from the state budget program 02.00.00 “Contingency Funds” to the Ministry of Finance (State Revenue Service) not exceeding 101,789,800 euros to overcome, mitigate, and curb the COVID-19 crisis. In accordance with the orders¹⁰ of the Ministry of Finance, the State Revenue Service was allocated 54,076,431 euros.

One has used 53,784,481 euros¹¹ or 53% of the initially planned funding to pay the downtime benefit. One disbursed the downtime benefit to 52,867 employees of 51,446,671 euros and to 2,381 self-employed individuals of 2,337,810. The actual use was significantly lower than the amount of financial resources allocated or reserved by the Cabinet of Ministers, although the initial calculations relied on a narrower coverage of sectors and beneficiaries and a shorter downtime. The calculations provided for the payment of the downtime benefit for two months, but in fact it was paid for almost four months.

When inspecting whether the State Revenue Service has granted and paid the downtime benefit in accordance with the purpose of granting the downtime benefit and the requirements specified in laws and regulations¹², the State Audit Office has not established any significant discrepancies. At the same time, we draw attention to the deficiencies identified during the audit.

Weaknesses of legal framework

The State Audit Office understands that the laws and regulations were drafted and adopted as a matter of urgency during the emergency, which could affect the quality of those laws and regulations accordingly under the conditions of a large amount of work and unprecedented work organisation. The Ministry of Economics and the Ministry of Culture drafted Cabinet Regulation stipulating downtime benefits.

Amendments to the Cabinet Regulation stipulating the downtime benefit aimed at expanding the range of downtime benefit recipients basically. However, when amending the Cabinet Regulation¹³ on the criteria for granting downtime benefit¹⁴, according to which the employer is entitled to apply for downtime benefit, id est, prospecting that the reduced income from economic activity would be assessed in comparison with the average monthly income in 2019 rather than the income in corresponding month of the previous year in the future, some employers who met the criteria for granting the downtime benefit before the adoption of those amendments were no longer eligible for the downtime benefit and their employees of those employers could not receive the downtime benefit anymore. Thus, the amendments resulted in a new range of recipients of downtime benefits being included while some others were excluded from the range of potential recipients of downtime benefit.

In several cases, there were unequal conditions for receiving downtime benefit created for some groups of individuals:

- ❖ Among the self-employed, the situation was more favourable for payers of micro-enterprise tax, as no criterion was set for assessing the amount of micro-enterprise tax declared given that the payers of micro-enterprise tax do not pay any other taxes. In their turn, one set a minimum amount of mandatory state social insurance contributions for the last two quarters of 2019 of 20 euros for other self-employed individuals to receive qualify for the benefit. According to the information provided by the SRS, non-fulfilment of this criterion was the reason for refusal to grant downtime benefit in 62% of the applications submitted by self-employed individuals;
- ❖ While paying the same taxes, employees who worked for one employer affected by the crisis were in a more favourable situation than employees who worked part-time for several employers affected by the crisis and who were able to receive downtime benefit from the average gross pay only at one employer.

Granting, disbursement, and refund of downtime benefit

The State Revenue Service has generally ensured the payment of the downtime benefit in accordance with the purpose of granting the downtime benefit and observing the conditions included in the Cabinet Regulation¹⁵. However, there were also cases of mistakes in disbursement of the benefit initially due to insufficient internal control when a larger amount of the downtime benefit was paid than anticipated, 1) by paying a downtime benefit to an individual in the amount above 700 euros for a calendar month; 2) by paying a downtime benefit to the same individual for the same period of downtime twice. The State Revenue Service had also established the above-mentioned mistakes, thus part of the erroneously paid downtime benefit until 1 October 2020 has already been repaid to the State Revenue Service account.

The laws and regulations¹⁶ set forth that if the downtime benefit has been requested or received unreasonably, including due to the actions of an employer or a self-employed individual, the employer or self-employed individual affected by the crisis must refund the downtime benefit voluntarily in the period after receiving the downtime benefit or the State Revenue Service will levy it by applying the provisions of the Law on Taxes and State Duties.

According to the information provided by the State Revenue Service, there is the unreasonably granted downtime benefit of 170,444 euros refunded for 536 individuals that constitutes 0.31% of the amount of the paid downtime benefit until 16 September 2020, including:

- ❖ Taxpayers have paid refunds for 312 individuals of 104,638 euros voluntarily;
- ❖ There are refunds paid for 224 individuals of 65,806 euros at the request of the SRS.

Proposal to the Cabinet of Ministers

To create an equal playing field for potential beneficiaries affected by the crisis, one must ensure that certain groups of individuals who qualified for the support until the amendments made are not excluded at the same time and provide equal chances to qualify for the support in a target group of specific support when introducing new types of support and expanding the range of beneficiaries in the future.

References

- ¹ The International Organisation of Supreme Audit Institutions (INTOSAI) also uses International Standards on Auditing for the financial audits; hence, the latter are binding on the State Audit Office, which conducts audits in accordance with international standards on public sector auditing.
- ² Cabinet Order No 103 “On Declaring a State of Emergency” of 12 March 2020.
- ³ Communication of the President of Latvia No 8 “Basic Principles of Activities of State Constitutional Bodies in an Emergency Situation” of 23 March 2020.
- ⁴ Informative report of the Ministry of Finance on reallocation of the financing from the EU Structural Funds and the Cohesion Fund and solutions for mitigating the consequences of COVID-19, reviewed by the Cabinet Meeting on 19 May 2020.
- ⁵ Cabinet Order No 137 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 27 March 2020.
- ⁶ Order No 97 of the Ministry of Finance of 27 March 2020 “On the Allocation of Funds”, Order No 221 “On the Allocation of Funds” of 25 June 2020, and Order No 327 “On the Allocation of Funds” of 1 September 2020.
- ⁷ Cabinet Order No 137 “On the Allocation of Financial Resources from the State Budget Program “Contingency Funds”” of 27 March 2020.
- ⁸ Order No 97 of the Ministry of Finance of 27 March 2020 “On the Allocation of Funds”, Order No 221 “On the Allocation of Funds” of 25 June 2020, and Order No 327 “On the Allocation of Funds” of 1 September 2020.
- ⁹ As of 14 August 2020.
- ¹⁰ Cabinet Regulation No 152 “Regulations on downtime benefit for employees affected by the spread of COVID-19” of 24 March 2020 (valid until 9 April 2020), Cabinet Regulation No 165 “Regulations on employers affected by the COVID-19 crisis who qualify for downtime benefit and allocation of payment of overdue tax payments in terms or deferral for a period of up to 3 years” of 26 March 2020, Cabinet Regulation No 179 “On downtime benefit for self-employed individuals affected by the spread of COVID-19” of 31 March 2020.
- ¹¹ Cabinet Regulation No 235 “Amendments to Cabinet Regulation No. 165 “Regulations on employers affected by the COVID-19 crisis who qualify for downtime benefit and allocation of payment of overdue tax payments in terms or deferral for a period of up to 3 years” of 26 March 2020” of 23 April 2020.
- ¹² Section 3 of Cabinet Regulation No 165 “Regulations on employers affected by the COVID-19 crisis who qualify for downtime benefit and allocation of payment of overdue tax payments in terms or deferral for a period of up to 3 years” of 26 March 2020.
- ¹³ Cabinet Regulation No 152 “Regulations on downtime benefit for employees affected by the spread of COVID-19” of 24 March 2020 (valid until 9 April 2020), Cabinet Regulation No 165 “Regulations on employers affected by the COVID-19 crisis who qualify for downtime benefit and allocation of payment of overdue tax payments in terms or deferral for a period of up to 3 years” of 26 March 2020, Cabinet Regulation No 179 “On downtime benefit for self-employed individuals affected by the spread of COVID-19” of 31 March 2020.
- ¹⁴ Section 15.4 of the Law on the Management of COVID-19 Infection Spread, Section 13 of Cabinet Regulation No 152 “Regulations on downtime benefit for employees affected by the spread of COVID-19” of 24 March 2020 (valid until 9 April 2020), Section 15 of Cabinet Regulation No 165 “Regulations on employers affected by the COVID-19 crisis who qualify for downtime benefit and allocation of payment of overdue tax payments in terms or deferral for a period of up to 3 years” of 26 March 2020, and Section 12 of Cabinet Regulation No 179 “On downtime benefit for self-employed individuals affected by the spread of COVID-19” of 31 March 2020.
- ¹⁵ Section 14.1 and 14.2 of the Law “On Measures for Prevention and Management of National Threats and Their Consequences Due to the Spread of COVID-19”.
- ¹⁶ Section 3 of Cabinet Regulation No 179 “On downtime benefit for self-employed individuals affected by the spread of COVID-19” of 31 March 2020.