



The use of the funding allocated to the Ministry of Welfare for payment of continued parent benefit, extraordinary bonus to national family benefit for disabled child, and increased childcare benefit

Interim report

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The use of the funding allocated to the Ministry of Welfare for payment of continued parent benefit, extraordinary bonus to national family benefit for disabled child, and increased childcare benefit.

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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 Welfare” (Audit schedule No 2.4.1-18/2020 of the Third 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 statements.

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 decision to declare the emergency on 12 March 2020, and the state of emergency continued until 9 June 2020². 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 conditions³.

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 euros 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 euros⁴. 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 Ministers⁵ has allocated additional financial resources of 56,472,783 euros to the Ministry of Welfare for overcoming, mitigating, and preventing the consequences of COVID-19 crisis to provide 11⁶ activities between 12 March 2020 and 30 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 Welfare”, 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 allocated to the Ministry of Welfare (State Social Insurance Agency) **for three of the nine activities - for payment of continued parent benefit, extraordinary bonus to national family benefit for disabled child, and increased childcare benefit for a child aged one and a half to two years, wherefore the Ministry of Welfare received additional funding of 10,670,861 euros in total from the state budget program 02.00.00 “Contingency funds”.**

Separate interim reports will be prepared on the funding allocated to the other activities.

Summary

From 12 March 2020 until the end of the emergency, the Ministry of Welfare had to ensure three new activities inter alia continued parent benefit, extraordinary bonus to national family benefit for disabled child, and increased childcare benefit for a child aged one and a half to two years of 42.69 euros to 171 euros per month related to the management, mitigation, and prevention of the COVID-19 crisis.

The Ministry of Welfare estimated that **a total of 11,866,661 euros** would be needed to provide those activities, where 1,195,800 euros would be provided from the funding already allocated to the Ministry of Welfare according to the Law on the State Budget for 2020 by redistributing for the implementation of new, introduced activity and requiring 10,670,861 euros in addition from the state budget program 02.00.00 “Contingency funds”.

Out of the planned state budget funds for the provision of the mentioned three types of support, including the payment of support and safeguarding the necessary improvements, the Social Insurance Information System (SIIS), which administers benefits granted by the State Social Insurance Agency and state pensions, actually required **5,339,557 euros⁷** or **only half of the planned funding**, where:

- ❖ Continued parent benefit constituted 714,099 euros (while one had planned 6,323,033 euros);
- ❖ Extraordinary bonus to national family benefit for disabled child constituted 1,239,795 euros while one had planned 1,219,395 euro;
- ❖ Increased childcare benefit for individuals caring for a child aged one and a half to two years required 3,385,663 euros while one had planned 4,324,233 euros.

The Cabinet Orders⁸ on the allocation of additional funds from the state budget program 02.00.00 “Contingency Funds” already provided that it was impossible to forecast actual expenditures precisely during the planning of financing.

That assumption turned to be true because although the non-execution of the planned funding was subject to the fact that the emergency declared in the country ended more than one month earlier than the disbursement of the continued parent benefit was planned, and it was impossible to predict to how many people one would actually need to pay childcare benefit for a child aged one and a half to two years or to continue disbursement of parent benefit because they would not be able to return to their work. However, the calculation used for continued parent benefit, which was

erroneous affected the total non-fulfilment most significantly, that is, the duration of the benefit was incorrect.

As additional funding from the state budget program 02.00.00 “Contingency Funds” was allocated to the Ministry of Welfare (State Social Insurance Agency) in instalments and the Ministry of Welfare did not request all the additional funding provided by the Cabinet Orders⁹, only 887,423 euros¹⁰ of the funds actually allocated have not been used until 31 August 2020.

According to the explanation provided by the State Social Insurance Agency, the granted but unused funding will be transferred to the state budget in accordance with the requirements specified in the law¹¹ if no decision is made on changing the purpose of the funding.

Although the audit identified deficiencies in the planning of funding for the payment of support, **the audit has verified that the allocated funding for the provision of all three activities, continued parent benefit, extraordinary bonus to national family benefit for disabled child, and increased childcare benefit for a child aged one and a half to two years, has been used in accordance with laws and regulations¹².**

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 141 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 1 April 2020, Cabinet Order No 175 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 9 April 2020, Cabinet Order No 178 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 16 April 2020, Cabinet Order No 236 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 30 April 2020, Cabinet Order No 238 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 5 May 2020, Cabinet Order No 276 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 20 May 2020, Cabinet Order No 277 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 20 May 2020, Cabinet Order No 368 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 30 June 2020, Cabinet Order No 399 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 30 July 2020, Cabinet Order No 472 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 26 August 2020, and Cabinet Order No 575 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 29 September 2020.

⁶ To cover the expenses of local and regional governments in the amount of 50% for the payment of crisis benefit, continued parent benefit, extraordinary payment of downtime benefit for each dependent child, downtime support benefit, and extra downtime benefit for each dependent child, payment of unemployment benefit, to provide the functionality of the Social Insurance Information System (SIIS), to pay the extraordinary bonus to national family benefit for a disabled child, to increase the amount of the childcare benefit for a child aged one and a half to two years, to pay the young specialist benefit to prevent COVID-19 spread and mass infections, and reduction of morbidity risk in the state social care centres subordinated to the Ministry of Welfare, and to increase the number and amount of scholarships for first-level professional higher education (college) students at the State Agency for Social Integration and raise the minimum wage rate for teachers of the State Agency for Social Integration to 790 euros (as of 1 September 2020).

⁷ A total of 4,142,873 euros has been spent from the state budget program 02.00.00 “Contingency Funds” and 1,196,684 euros from the funding already allocated to the Ministry of Welfare according to the Law on the State Budget for 2020.

⁸ Sub-paragraph 6.2 of the initial impact assessment report (annotation) of Cabinet Order No 175 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 9 April 2020, sub-paragraph 6.2 of the initial impact assessment report (annotation) of Cabinet Order No 277 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 20 May 2020.

⁹ Cabinet Order No 175 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 9 April 2020 and Cabinet Order No 277 “On the Allocation of Funding from the State Budget Program “Contingency Funds”” of 20 May 2020.

¹⁰ 866,659 euros for continued parent benefit and 20,764 euros to improve the functionality of the SIIS to ensure an increase of childcare benefit have not been used out of the funds actually allocated.

¹¹ Section 50 of Cabinet Regulation No 1220 “Procedures for Assigning and Executing Allocations” of 28 December 2020.

¹² Law “Amendment to the Law on Maternity and Sickness Insurance” (effective from 5 April 2020), Cabinet Regulation No 294 “Amendment to Cabinet Regulation No 1517 “Regulations on National Family Benefit and Supplements to National Family Benefit” of 22 December 2009” of 14 May 2020, Cabinet Regulation No 298 “Amendment to Cabinet Regulation No 1609 “Regulations on the Amount of Childcare Benefit and Supplement to Childcare Benefit, and Parent Benefit for Twins or More Children Born in the Same Labour, the Procedure for Review thereof and the Amount of Benefit and Supplement award and disbursement procedures” of 22 December 2009” of 14 May 2020 (valid from 21 May 2020).