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“Contingency Funds” for repairs in hospitals been
requested for unforeseen needs
unplanned in the annual budget?**

Interim report

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Has funding from the state budget program "Contingency Funds" for repairs in hospitals been requested for unforeseen needs unplanned in the annual budget?

Inspections carried out and an interim report drafted following Sub-paragraph c), Paragraph 3, Section 3 of the State Audit Office Law and within the framework of the financial audit "On the accuracy of the 2020 annual report of the Ministry of Health" (Audit schedule No 2.4.1-9/2020 of the Third Audit Department of the State Audit Office of 27 April 2020).

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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 drafting 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, whereas the emergency was declared again from 9 November 2020³. 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 and caused deviating from the usual order. Under the new conditions, the institutions should have been able to coordinate their activities more intensely and cooperate 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 conditions⁴.

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 1,096,294,453 EUR in total by 6 November 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 euros⁵. 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 Ministers has allocated additional funds of 87,194,539 euros to the Ministry of Health by 6 November 2020 to overcome, mitigate, and prevent the crisis caused by Covid-19.

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 Health", that is, the solidity 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 1,323,563 euros allocated to the Ministry of Health.

Summary

The Ministry of Health (National Health Service) was allocated 1,323,563 euros from the budget program "Contingency Funds" on 5 May 2020 to ensure the implementation of functions and the continuity of healthcare services by Limited Liability Company "Riga East Clinical University Hospital" (hereinafter - RAKUS) and State-owned Limited Liability Company "Pauls Stradiņš Clinical University Hospital" (hereinafter - PSKUS) by carrying out the repairs necessary to achieve this objective.

The medical institutions used the funds allocated for such repairs:

- ❖ Financing for the restoration of the water supply system in RAKUS inpatient clinic "Latvian Oncology Centre" (hereinafter - LOC) not exceeding 659,342 euros;
- ❖ Financing for the replacement of the roofing and balcony load-bearing structure of the PSKUS Block 15 not exceeding 664,221 euros.

As part of the audit, the State Audit Office assessed whether the request for funds from the state budget program 02.00.00 "Contingency Funds" was drafted for previously unpredictable needs not planned in the annual budget of the institution, which were directly related to the prevention of national threat jeopardised by COVID-19 incidence and mitigating and overcoming its consequences. The State Audit Office draws attention to the fact that as the repairs were not completed during the inspection and the inspection did not assess the use of the planned funding, what the National Health Service would do after completion of the repairs under the concluded contracts and documents on the purpose of the funding allocated.

Based on the audit findings, the State Audit Office is critical about the justification provided by the Ministry of Health for the urgency of allocating funding and linking it with limiting the spread of COVID-19.

Solving the problems identified in the operation of the water supply and sewerage systems of RAKUS inpatient clinic LOC has been on the hospital's agenda from 2011; there were construction, construction supervision, and author supervision agreements signed for the performance of those works in 2019. In addition, the hospital's annual report for 2019 indicates that one has planned to continue the renovation of the water supply system (the 2nd round) in 2020. In the auditors' opinion, the above shows that one planned the construction work purposefully as regular repair works with earmarked financing in the RAKUS budget or a known/ expected source for funding and a certain deadline for completion of the works.

Deviations of the roofing and balcony load-bearing structure of PSKUS Block 15 from the requirements affecting the building's safety were detected already in 2015 when the State Construction Control Bureau indicated on their existence. Hence, the hospital acted to implement necessary repairs (technical survey, elaboration of a technical project, certification of the project and the estimate prepared within it, and planning of procurement of construction works). However, repairs were postponed, and the deadlines thereof were extended to prevent further deterioration of the roofing and damage to the balconies and ensure the safe continued operation of the building. The hospital also indicated its plans to carry out those repairs within the current year's budget to the State Construction Control Bureau repeatedly. For example, according to the hospital's budget possibilities, they planned to renovate the balcony and cornice in 2020 and continue replacing the building's roofing in 2021.

According to the auditors, there is no reason to question the necessity of repair works for the renovation of the water supply system of RAKUS inpatient clinic LOC and the replacement of the roofing and balcony load-bearing structure of the PSKUS Block 15. Yet, the auditors deem that both hospitals had to plan the repairs and the necessary funding in good time to avoid risks to the safety of the buildings' operation and avoid harm to the users and passers-by of the building. Also, hospitals must guarantee the implementation of functions and the continuity of healthcare services provided at all times, not just during the COVID-19 outbreak.

Given the above, the auditors conclude that the problems with the technical condition of the buildings were known to RAKUS, PSKUS, and the Ministry of Health long before the emergency occurred, therefore funding from the budget program "Contingency Funds" was requested and used for the needs forecasted before for what the hospitals should have planned the funding for it in their annual budgets. The State Audit Office considers that such actions of the Ministry of Health are considered unethical because it allowed funds to be channelled into solving the long-existent problems or previously planned works in the hospitals by stating the need to prevent the risk of continuity of healthcare services during the COVID-19 pandemic.

The recommendation of the State Audit Office

The audit provides one recommendation, whose implementation will facilitate the efficient and economical use of state budget funds following the intended purposes. The State Audit Office invites the Ministry of Health to evaluate the solidity of the request for financing a specific measure and to identify information comprehensively on the total necessary financial resources and their source for the full completion of this measure before forwarding funding requests to the Cabinet for allocation of funds from the state budget program "Contingency Funds".

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 Cabinet Order No 655 "On declaration of the state of emergency" of 6 November 2020.
- ⁴ Communication of the President of Latvia No 8 "Basic Principles of Activities of State Constitutional Bodies in an Emergency Situation" of 23 March 2020.
- ⁵ 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.