



On the Annual Consolidated Financial Statement of the Republic of Latvia for 2023 Regarding the Outturn of State Budget and Municipal Budgets

Rīga 2024



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Audit report

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“On the Annual Consolidated Financial Statement of the Republic of Latvia for 2023 regarding the Outturn of the State Budget and the Municipal Budgets”.

Financial audit “On the Annual Consolidated Financial Statement of the Republic of Latvia for 2023 regarding the Outturn of the State Budget and the Municipal Budgets”.

The audit was performed by Senior State Auditors Vineta Alksne, Ludmila Orlova, Sandra Alksne, Ineta Rancāne (from 25.03.2024), Senior State Auditor-Lawyer Iveta Laicāne (from 15.01.2024), State Auditors Ieva Putniņa, Darja Turigina, Natālija Doņeckā, Ingūna Vanaga (from 29.08.2023), Mārīte Pole (from 13.11.2023), Inese Anševica (from 25.03.2024), Ineta Zaharova (from 25.03.2024), Information System Auditors Jānis Silinieks, Mikus Jēkabsons, Gints Kairišs (from 15.01.2024), Expert in improving Public Sector Auditing Methods Diāna Kurpniece (from 15.01.2024), Policy and Process Analysis Expert Valērijs Stūris (from 15.01.2024), Heads of Sector Ingrīda Kalniņa-Junga, Dzintra Tripane (from 15.01.2024), Acting Head of Sector Irita Kornete-Līva, Department Director Ilze Bādere based on audit schedule No 2.4.1-34/2023 of the Audit and Methodology Department of the State Audit Office of Latvia of 3 August 2023.

The Audit Report shall take effect when the decision of the Audit and Methodology Department of the State Audit Office of Latvia on approval of the Audit Report is approved.

The cover design includes an image from the website www.canva.com, *Many euro bank notes and a compass*, author *Merznatalia / Getty Images*.

Summary

The Ministry of Finance drafts the Annual Consolidated Financial Statement of the Republic of Latvia for 2023 regarding the Outturn of the State Budget and the Municipal Budgets (hereinafter referred to as the ACFS 2023); it is available in the section “Reports and Estimates” of the website of the State Treasury www.kase.gov.lv.

The ACFS consolidates 73 reports¹ (See Figure 1):

- The ACFS includes annual reports of 14 ministries (annual consolidated financial statement includes annual report of an individual ministry institution and annual reports of the state budget institutions involved in the consolidation, public entities partially financed from the state budget and institutions not financed by the budget²), 12 central government institutions, the Saeima and the State Audit Office of Latvia;
- 43 annual reports of local and regional governments (36 regions and 7 cities³) (local and regional governments include an annual report of an individual institution, annual reports of budgetary institutions involved in the consolidation and joint institutions (in terms of [the Law on Local and Regional Governments](#)) in an annual consolidated financial statement. An annual report of joint institution shall be included in the consolidated statement of a local or regional government, for which such obligation is stipulated in the regulations of joint institution⁴);
- Overview of state budget financial accounting;
- A report of the State Revenue Service of Latvia (hereinafter - SRS) on taxes, fees and other payments attributable to the state budget administered by the institution.

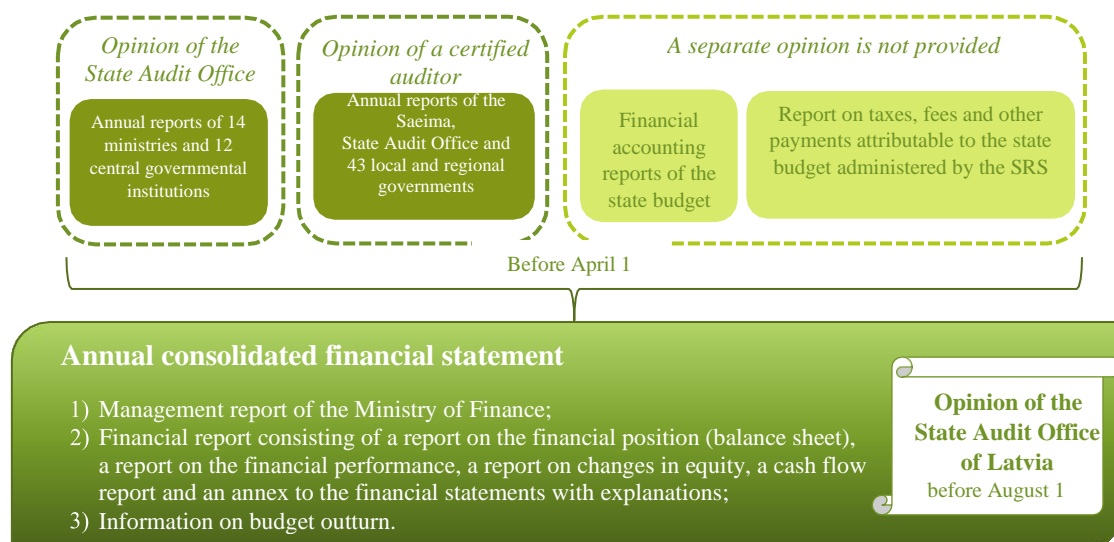


Figure 1. Scheme for drafting and verification of the annual consolidated financial statement (consolidated reports).

The ACFS 2023 shows in figures that the balance sheet total, revenues, expenditure and government debt are increasing (See Figure 2):



Figure 2. Balance sheet total, revenues, expenditure and consolidated government debt of the ACFS (thousands of euros) in 2021, 2022, and 2023 /balance sheet value, thsd euros, balance sheet, consolidated government debt; expenditure, revenues/.

The increase in national debt since 2020 was caused by the implementation of comprehensive support measures to mitigate the impact of the COVID-19 outbreak and state support measures to compensate for the rapid increase in energy resource prices from 2022, as well as the comprehensive political, military, financial and humanitarian support that Latvia provided to Ukraine since 2022. With the rapid deterioration of the geopolitical situation, the government provided financial support to compensate for the rapid increase in the prices of energy resources, which continued in 2023 as well. Although in general the impact of state support programs on the general government balance has decreased, it is still significant and 599.0 million euros in total was used for support measures in 2023 including 454.4 million euros for the support of energy resources.

The general government debt of Latvia, which is mainly influenced by the national debt, is still lower than the average in the European Union (hereinafter - EU) Member States. However, one should note that it has a tendency to increase rapidly in recent years. Given the state debt repayment schedule and development forecasts, it is expected that the general government debt level as a percentage of the gross domestic product (hereinafter referred to as GDP) will increase gradually, and therefore the planned expenses for debt servicing will also increase.

At the same time, the cost determination and financing planning of the largest infrastructure project in the Baltics, the Rail Baltica project, is currently causing uncertainty. It increases the risks for the state budget as a whole and will probably affect the increase of the national debt in the future.

If the total costs planned for the implementation of the Rail Baltica project in 2017 were estimated at 5.79 billion euros, of which 1.97 billion euros to Latvia, then the project has grown in size since its initial idea, as well as its cost estimates. In the review conducted in 2024 jointly with the Supreme Audit Institutions of Estonia and Lithuania, it was found that the total costs compared to the cost-benefit analysis estimates of 2017 had increased approximately four times by reaching 23.8 billion euros. Of these, 9.6 billion euros were the costs of the section in Latvia (See the [review](#) for more details).

The revenue of the consolidated general budget was 15,627,991,500 euros in 2023, which, compared to 2022, has increased by 1,333,590,400 euros or 9.3%. The increase in total budget revenues was caused by tax revenues mainly. In 2023, these were 12,600,411,900 euros. Significant increase of 218,550,500 euros, or 25.9% was also observed for non-tax revenues, which constituted 1,063,587,300 euros in 2023. The dividend payments of the country's largest state-owned enterprises

facilitated that in 2023.

The expenditure of the consolidated general budget reached 16,957,956,700 euros in 2023, which was by 1,239,679,600 euros, or 7.9% more than in 2022. Although some expenditure has decreased in 2023 if compared to 2022, for example, for the expenditure incurred in 2022 for the provision of strategic gas reserves, significantly lower government spending in 2023 for financing support measures to mitigate the COVID-19, the total amount of expenditure continued to increase in 2023.

Significantly more intense absorption of EU funding both for the implementation of EU fund projects, mostly in the traffic sector, and for the formation of gross fixed capital of basic functions, mostly for investment projects in defence and internal affairs can be observed in the increase of budget subsidies and grants, as well as capital expenditures in 2023. In the consolidated total budget, capital expenditure was 1,457,470,200 euros in 2023 by exceeding the level of 2022 by 177,197,700 euros, or 13.8%.

In 2023, the expenditure for remuneration also increased significantly, which was facilitated by both the increase of the minimum wage from 1 January 2023 and the increase in wages for those working in defence, internal affairs and justice. In the consolidated total budget, expenditure for remuneration amounted to 3,601,431,500 euros in 2023 by exceeding the level of 2022 by 481,306,800 euros, or 15.4%.

Summary of audit findings affecting the opinion on the annual accounts

When auditing the ACFS 2023, there were **significant limitations on scope** identified (neither after the inspections performed by certified auditors, nor after appropriate audit procedures performed by the State Audit Office of Latvia, it was possible to determine the exact amount of the necessary corrections), which are **attributable to the following parts of the ACFS, on which we are unable to provide an opinion**:

Table 1

– Items in the accounting **balance sheet assets**:

Balance item	Authority	Sum as of 31 Dec 2023, EUR
Long-term investment	Ministry of Finance (SRS)	33 407,400
	Local and regional governments ⁵	377 659,900
Current assets	Ministry of Finance (SRS)	32 102,300
Total limitation on scope		443 169,600
		1.1 % of total assets ⁶

– Items in the accounting **balance sheet liabilities**:

Balance item	Authority	Sum as of 31 Dec 2023, EUR
Result of budget outturn	Ministry of Finance (SRS)	1 216 643,300
Liabilities	Ministry of Finance (SRS)	347 675,100
Total limitation on scope		1 564 318,400
		3.9 % of total liabilities ⁷

– Sub-balance

Balance item	Authority	Sum as of 31 Dec 2023, EUR
Total limitation on scope		286 729,200
		31 % of total sub-balance ⁸

See detailed information on audit limitations of scope as of 31 December 2023 in a chapter of this audit report [“Limitations on scope”](#).

Since 2021, the ACFS includes an annual report on taxes by the SRS. When auditing both the ACFS for [2021](#) and [2022](#), the State Audit Office of Latvia issued a qualified opinion, the main reasons of which were significant limitations on scope regarding individual balance items included in the SRS annual tax report as of 31 December 2022 and 31 December 2022.

The SRS has improved the Tax Accounting functionality of the Payment Administration Information System (hereinafter referred to as PAIS) to ensure the accounting of state budget revenues in accordance with the accrual principle including provision of an important function for retrieving analytical accounting data of accounting accounts in the section “Accounting Controls”. However, based on the conducted audit, the State Audit Office of Latvia could not obtain sufficient and appropriate audit evidence on the truthfulness and completeness of the information provided in the SRS annual tax report on certain balance items of assets (long-term and short-term claims) and liabilities (Result of budget outturn and Liabilities), sub-balance assets as well as to determine the amount of necessary corrections in the SRS annual tax report.

See the section of the audit report “[SRS annual tax report – parts of report – Claims, Contingent Liabilities, Liabilities, Contingent Liabilities](#)” and section “[Limitation on Audit Scope](#)” for detailed information.

Summary of compliance issues assessed during the audit

Is information about the results achieved with the budget spent in the reporting year drafted, available and monitored in accordance with the laws and regulations and the best practice that apply to it?

Assessment of budget management practices has been in the attention of the State Audit Office of Latvia for several years. After the financial crisis in 2008, various issues affecting the budget outturn cycle, such as redistribution of appropriations, allocation of contingency funds, were assessed during the audits of the ACFS regularly. In 2018, the results of performance audit “Effectiveness of the budget management system: Part 1. Evaluation of the effectiveness of the budget planning cycle” were made public. Financial audits have assessed the use of funds allocated to priority measures in accordance with the purposes and the achievement of the planned results repeatedly.

This time, in the audit of the ACFS, the State Audit Office of Latvia assessed whether the information on the results achieved with the budget spent in the reporting year was drafted, available and monitored in accordance with the law and regulations and the best practice that applied to it.

Based on the performed auditing⁹, the confidence was obtained that the information on the results achieved with the budget spent in the reporting year had been drafted, available and monitored in all relevant respects in accordance with the applicable laws and regulations, but not in accordance with the best practice, as well as during the audit, when assessing the planning of the results to be achieved by the four budget departments included in the audit sample, the publication of information about the budget and the results achieved, and the results management and control system established by the Ministry of Finance and the State Chancellery, significant irregularities with laws and regulations were detected.

First of all, the procedure established in the laws and regulations and existing in practice for state institutions to report on the results achieved with the budget spent in the reporting year¹⁰, allows for different scenarios of action, both in terms of the deadline when such information is made public, and in terms of the content and level of detail of the information. So, for example, information on achieved results can be available either in the annual report in April or in the public report in August.

Such freedom of action does not ensure uniform, timely reporting of state institutions in accordance with the general principles of information presentation¹¹ and quality characteristics¹² on the progress in achieving their goals by spending the allocated budget according to the achievable policy and operational results planned in the budget explanations.

None of the four ministries included in the audit sample and the other central government institutions (hereinafter - the ministry) discloses information in their reports on how budget investments affect the achievement of the goals of the quality of services provided to the public, as envisaged by the conceptual guidelines¹³.

Therefore, for the purposes of making budget allocation decisions and promoting the accountability of state institutions, the public and the parliament cannot assess whether state institutions have provided their services to the public effectively, economically and efficiently and whether the ability of state institutions to provide services has improved or deteriorated compared to the previous year, as envisaged by the conceptual guidelines¹⁴.

Secondly, there is no clear connection between the priority development directions defined in the law and expenditures according to the policy and resource maps of the budget departments. Also, there is no established mechanism for how medium-term budget goals and priority development directions cascade up to the level of budget departments. Consequently, the achievable results defined by the institutions often have quality flaws because they are not meaningful and their internal and external inconsistency can be observed. While assessing the policy and resource management maps of four ministries for the Law on the State Budget for 2023 and the Budget Framework for 2023, 2024 and 2025 (hereinafter referred to as the Budget Law for 2023-2025) during the audit, the following was discovered:

- 56% of the so-called “most characteristic performance indicators” examined in the audit sample do not provide a comprehensive and descriptive picture of sectoral work or do not indicate summary performance indicators, as stipulated in the legal framework¹⁵ but there is a summary of individual activities recorded instead of them most often;
- 71% of the analysed state budget program results are not related to the operational results planned for the relevant programs in the institution’s strategy, although the legal framework¹⁶ provides that the results of the state budget programs are formed by the operational results planned for the relevant programs in the institution’s strategy;
- 87% of the assessed policy and resource maps do not include analytical indicators, as required by the legal framework¹⁷ which would allow determining the effectiveness of the use of funds and costs;
- 37% of the assessed policy and resource maps do not indicate the quality indicators provided for in the legal framework¹⁸. Moreover, only about half of the indicated quality indicators are those that measure the service delivery objectives of a ministry during the reporting period.

Reporting on such indicators both does not provide quality information to the public and decision makers and does not motivate state institutions to report on such indicators.

Does the budget and financial management of Rēzekne City comply with the laws and regulations?

On 7 August 2023, the Ministry of Finance addressed the State Audit Office of Latvia and the Ministry of Environmental Protection and Regional Development¹⁹ (hereinafter referred to as the MEPRD) with the information that it had identified significant risks to the financial stability of the Rēzekne City Municipality²⁰ (hereinafter referred to as Rēzekne City) in the process of monitoring the financial activities of regional government. Already on 14 August 2023, a tripartite meeting of the State Audit Office of Latvia, the Ministry of Finance and the MEPRD took place to discuss the future planned actions of the involved parties and to agree on cooperation mechanisms for the most effective way of obtaining assurance about the financial condition of Rēzekne City²¹.

Taking into account the identified risks in the ability of Rēzekne City to fulfill its obligations and solve the financial problems arisen, the State Audit Office of Latvia included Rēzekne City in the scope of the audit of the ACFS 2023. Rēzekne City was audited with the aim of assessing whether the budget and financial management of the municipality complied with the laws and regulations (compliance matter), and an interim audit report²² was elaborated on 6 December 2023 where the audit findings were presented in four chapters:

- Budget planning and management;
- Thermal energy supply tariffs;
- Liabilities; and
- Investment projects.

The interim audit report was drafted on the compliance of the budget development and management of Rēzekne City with laws and regulations and the completeness of the undertaken obligations. As a result, the opinion of the State Audit Office of Latvia was issued with limited confidence. The limited assurance with which the State Audit Office of Latvia issued its opinion means that, taking into account the change in accounting data and budget outturn indicators for 2023 during the audit, the audit activities are more limited compared to the activities that would be necessary to ensure sufficient confidence.

An adverse opinion was issued on the compliance matter, as the audit detected significant and comprehensive irregularities (detailed information is available: [in the interim audit report](#) of the State Audit Office of Latvia “Do Rēzekne City’s budget and financial management comply with the laws and regulations?”):

- Underestimating the commitments already undertaken and the funding necessary to complete the started projects and relying on the availability of financial resources, the 2023 budget of Rēzekne City was approved, according to the estimates of the State Audit Office of Latvia, without including expenditure and the necessary resources to cover these expenditure for at least three months of 2023, including expenditure and resources to cover these expenditure from the targeted grant received from the Ministry of Education and Science in the amount of at least 3,217,100 euros;
- The 2023 budget spending of Rēzekne City for heating were calculated based on an unapproved heat supply tariff, thus reducing the calculated expenditure of municipal institutions by at least 618,600 euros; during an additional assessment, it was established that, when the thermal energy supply tariff was revised and approved only after the end of the state support measures, according to the State Audit Office’s estimates, the government paid out at least 4,550,700 euros more to “Rēzeknes siltumtīkli” Ltd than it would had been after a timely review of the thermal energy supply tariff;

- Although the Ministry of Finance has repeatedly stated that it is impossible to receive new loans, and the Central Finance and Contracting Agency has suspended the disbursement of at least 3,003,300 euros for several projects financed by EU Structural Funds, the 2023 budget of Rēzekne City was not adjusted as per previously planned but not received loans accordingly and the actual situation of the lacking financial resources was not indicated;
- The sub-balance sheet does not show contingent liabilities for the concluded contracts for future long-term investments which was 13,792,800 euros according to the information provided by Rēzekne City, as well as pledges;
- The 2022 inventory has not been carried out upon its merits and following the statutory requirements because an inventory has not been carried out for all balance and sub-balance sheet assets and liabilities, as well as the results of the inventory have not been collected and approved.

To eliminate the detected irregularities, Rēzekne City was given three recommendations for improving the budget planning process by ensuring compliance with laws and regulations in accounting, as well as evaluating the possibility of introducing centralized accounting in the municipality.

- A recommendation for the improvement of the budget planning process was introduced during the audit of the financial year. While implementing the recommendation, Rēzekne City improved the flow of budget planning documents, as well as amended the internal regulations of the municipality "Rules on development, approval, outturn and control of the budget of Rēzekne City Municipality".
- The deadline for implementation of the recommendation for ensuring compliance with laws and regulations in accounting records was extended until 1 October 2024 and the deadline for the implementation of the recommendation for the introduction of centralized accounting in the municipality was extended until 2 January 2026 with interim reporting on 1 October 2024, which is coordinated with the timeframe for the introduction of centralized accounting of the Rēzekne City Municipality²³.

Summary of recommendations made after the audit of ACFS 2023 and the assessment of progress in implementing the recommendations made in the previous audit of ACFS and still to be implemented

During the audit of the ACFS 2023, there were three recommendations issued to Rēzekne City Municipality (one recommendation has been implemented and the initially determined implementation period of two recommendations was extended until 1 October 2024 and 2 January 2026, respectively), four recommendations were issued to the SRS, one recommendation was issued to the Ministry of Finance, one - to the State Chancellery (See Table 2), as well as when evaluating the implementation of the five recommendations given after the audits of the ACFS of previous years:

- The recommendation to the SRS, for whose implementation the SRS undertook to improve the analysis of financial transactions contained in the ledger items in the MAIS functionality "Tax accounting" and to introduce checks to ensure the completeness and correctness of the accounting data, the implementation deadline was extended until 1 August 2025 because the auditors of the

State Audit Office of Latvia still indicated to inconsistencies in the information presented in the analytical accounting of these accounting records to the SRS;

- Although the implementation deadline for the SRS recommendation on the arrangement and improvement of accounting records, which would ensure the completeness, correctness, comparability and reliability of the information presented in the SRS annual tax report, has been set until 2 January 2025, the audit assessed the progress of the implementation of the recommendation but the monitoring of the implementation of the recommendation would continue during the audit of the ACFS 2024 taking into account the irregularities indicated in section [“SRS annual tax report 2023”](#);
- The recommendation to the SRS for the elimination of deficiencies found in the audit of the ACFS 2016 in SRS ICT security management (the SRS did not provide a regular analysis of the security risks of the state information systems under its supervision) was recognized as implemented by stating at the same time that the State Audit Office of Latvia would continue to monitor the compliance of the SRS ICT security management with the statutory requirements;
- No further monitoring was carried out as regards the recommendation whose implementation would reveal complete and true information about contingent liabilities of the Republic of Latvia in the ACFS resulting from the membership of the Republic of Latvia in international organizations, and the indication of limitations on scope in the statement did not continue because the State Treasury included information in the ACFS 2023 on the key contingent liabilities of the Republic of Latvia regarding the post-employment benefits of their employees due to its membership there by stating that it was possible to make a reliable estimate for four organizations out of 207 organizations, and the potential future liabilities attributable to the Republic of Latvia were 4,067,300 euros including the unfunded liabilities of the Organisation for Economic Co-operation and Development of 3,900,000 euros²⁴;
- Considering that the work on the implementation of the recommendation given to the Ministry of Finance during the audit of the ACFS 2018 that would ensure the impartiality and independence of certified auditors, is still ongoing to review the provisions included in the Audit Services Quality Control Regulation, including to determine measures/criteria to identify aggravating circumstances to the risks of independence, the State Audit Office of Latvia does not recognize the recommendation as implemented and will continue its monitoring in accordance with the current timeframe for reporting on the implementation of recommendations (See section [“Independence and impartiality of the auditor in the provision of audit services”](#)).

Table 2

Recommendations provided in the audit of the Annual Consolidated Financial Statement for 2023

Recommendation	The deadline for the audited entity to report in writing on the implementation of the recommendations	Actions
Annual Consolidated Financial Statement		
1. For the amounts of the claims included in the SRS Annual Tax Report to be assessed correctly by ensuring that the calculated depreciation of the claims in the amount of doubtful amounts is reliable, accurate and corresponds to the amount of the claims stated in the accounting records of the SRS, the SRS should develop control procedures that would safeguard the completeness and existence of the claims indicated in the accounting records (MAIS).	01.08.2025	A report of the Data Warehouse System on the distribution of taxes, state duties and other payment debts administered by the SRS will be developed so that the amounts of claims included in the SRS Annual Tax Report are assessed correctly that will ensure the completeness and existence of the calculated reduction in the value of claims and compliance with the amount of the claims stated in the accounting records of the SRS.
2. In order for the balance item "Claims" and the sub-balance sheet to present complete, true and traceable information about the process of contesting SRS decisions on taxes, state duties and other payments, the SRS shall ensure that complete information about them is summarised.	01.08.2025	A report of the Data Warehouse System will be developed, where it will be possible to obtain data from all the processes entered in the Control Payment Cases together and also separately in relation to the administrative acts that have entered into force in a given period and in relation to those acts where the appeal/ litigation process continues.
3. In order to comply with the principle of prudence, that is, so that the amount of reduced revenues or liabilities are not underestimated, and to comply with the principle of consistency in accounting for short-term accrued liabilities, the SRS should find an opportunity to record all the taxes refundable from the state budget and calculated in the first or clarified justification document for the taxation period, which has not reached the deadline for submission, until the closing date of the previous reporting period.	02.01.2026	For the posting of accrued liabilities and accrued claims in the accounts algorithm, problem message MAIS-RZ-13539 "Accrued revenue transaction date and posting type" has been reported regarding changes to the first and clarified justification documents, which meet the conditions for accrued income and accrued liabilities and which have been submitted by the closing date of the tax period.
4. To improve the accounting process and improve the reliability of ledger information, the SRS should improve EDS by introducing data entry control over withheld taxes against reported income.	02.01.2025	A limit on the number of characters to be entered will be introduced for column 8 of an employer's report.
Compliance matter assessed in the audit of the Annual Consolidated Financial Statement		
Recommendation	The deadline for the audited entity to report in writing on the implementation of the recommendations	Actions
5. In order to ensure useful, uniform and timely information for making budget allocation decisions, the Ministry of Finance should improve the process of managing the goals and results of budget institutions' funding in cooperation with the State Chancellery in cooperation with the State Chancellery.	02.01.2027	The Ministry of Finance and the State Chancellery should continue the development of result-oriented budgeting in accordance with the government's decisions and the Government Action Plan.

02.01.2027	The State Chancellery should elaborate the best practice recommendation for the members of the unified website platform for the uniform presentation of budget information on the platform's websites in cooperation with the Ministry of Finance.
02.01.2028	The Ministry of Finance should develop amendments to the Law on the Budget and Financial Management regarding the improvement of the budget structure and the linking of the allocated funding with the goals of the sectoral policies and the actually achievable performance indicators, as well as the improvement of the process of informing about the benefits provided to the public as a result of the funding spent by establishing a transition period for a gradual introduction of result-oriented budget planning processes.
02.01.2030	In accordance with the State Administration Modernization Plan 2023-2027, the State Chancellery should create a monitoring system for the performance of the state administration and a unified informational portal for the results of the state administration's activities and policies, so that the public has access to information about the state administration and the performance of work in the state administration.

In addition to that, 14 recommendations have still not been implemented since the audit of the ACFS 2015²⁵. The SRS has not implemented six recommendations, the Ministry of Finance – five recommendations, the Ministry of Climate and Energy²⁶ – one recommendation, the State Treasury and the Lotteries and Gambling Supervision Inspectorate – one recommendation each. By implementing the recommendations of the State Audit Office of Latvia, for example:

- The SRS shall eliminate irregularities and errors in the accounting data of taxes, state duties and other payments administered by the SRS that are attributable to the state budget;
- The Ministry of Finance shall improve the legal framework for the supervision of the organization of interactive gambling and lotteries by establishing uniform principles for the accounting of revenues and expenses of interactive gambling and evaluating the possibility of reducing the administrative burden on taxpayers, including not requesting information from economic operators that is not used for control purposes;
- The Ministry of Finance shall evaluate the reasonableness of the depreciation provisions of civil engineering structures established in the law in cooperation with the Ministry of Economics and draft an explanation about the depreciation provisions of civil engineering structures built in EU-funded projects and their application in accounting in cooperation with the MEPRD and the Central Finance and Contracting Agency;
- The Ministry of Finance shall continue to monitor the extension of payment terms up to three years periodically to identify the fiscal impact on state budget revenues when planning the state budget.

Detailed information on the recommendations to be implemented can be found on the website section [Recommendations Platform](#) of the State Audit Office of Latvia.

Summary of irregularities and errors corrected during the audit

During the audit, the State Audit Office of Latvia detected errors in the accounting of taxes, state duties and other payments attributable to the state budget administered by the SRS, as well as the SRS Annual Tax Report for 2023 was submitted with significant errors on 29 March 2024. According to the instructions of the State Audit Office of Latvia regarding the errors found in the accounting records, the SRS has conducted research and submitted problem reports to the MAIS developer. The SRS carried out the necessary correction found during the audit, including the elimination of algorithm errors identified by the State Audit Office of Latvia, as well as the elimination of deficiencies identified in the closing inventory of the accounting year, data clarification and correction based on the provisions of the Cabinet Regulation²⁷ even until 10 July 2024. As a result, the total balance was reduced by **132,034,500 euros**.

In the financial audits of the ministries and central government institutions, discovered errors for the total value of **1,417,264,000 euros** or 99% of the detected errors have been corrected.

References

- ¹ Article 27 of Cabinet Regulation No 652 “Procedure for drafting an annual report” of 28 September 2021.
- ² Article 14 of Cabinet Regulation No 652 “Procedure for drafting an annual report” of 28 September 2021.
- ³ Annex to the Law on Administrative Territories and Settlements.
- ⁴ Article 15 of Cabinet Regulation No 652 “Procedure for drafting an annual report” of 28 September 2021.
- ⁵ Jelgava City Municipality, Ogre and Preiļi Regional Governments.
- ⁶ State Consolidated Accounting Balance Sheet, balance sheet value 40,471,638,600 euros.
- ⁷ State Consolidated Accounting Balance Sheet, balance sheet value 40,471,638,600 euros.
- ⁸ State Consolidated Accounting Balance Sheet, sub-balance asset value 924,992,400 euros.
- ⁹ While assessing the compliance matter according to the audit criteria applied (See Annex 2).
- ¹⁰ See the chapter of report “System for reporting results”.
- ¹¹ Part One, Section 14 of the Law on Budget and Financial Management; Conceptual Guidelines for Public Sector General Purpose Financial Statements issued by the International Public Sector Accounting Standards Board IPSASB, p. 23-37, 31 October 2014. (updated in 2023), Handbooks, Standards, and Pronunciations, available at https://ifacweb.blob.core.windows.net/publicfiles/2023-12/IPSASB-Public-Sector-Conceptual-Framework_2023%20-%20Updated%2012-19-23_Secure.pdf (viewed on 15 April 2024).
- ¹² Article 43 of Cabinet Regulation No 652 “Procedure for drafting an annual report” of 28 September 2021.
- ¹³ Conceptual Guidelines for Public Sector General Purpose Financial Statements issued by the International Public Sector Accounting Standards Board IPSASB, p. 23-37, 31 October 2014. (updated in 2023), Handbooks, Standards, and Pronunciations, available at https://ifacweb.blob.core.windows.net/publicfiles/2023-12/IPSASB-Public-Sector-Conceptual-Framework_2023%20-%20Updated%2012-19-23_Secure.pdf (viewed on 15 April 2024).
- ¹⁴ Conceptual Guidelines for Public Sector General Purpose Financial Statements issued by the International Public Sector Accounting Standards Board IPSASB, p. 23-37, 31 October 2014. (updated in 2023), Handbooks, Standards, and Pronunciations, available at https://ifacweb.blob.core.windows.net/publicfiles/2023-12/IPSASB-Public-Sector-Conceptual-Framework_2023%20-%20Updated%2012-19-23_Secure.pdf (viewed on 15 April 2024).
- ¹⁵ Subsection of Cabinet Regulation No 523 “Rules on the basic principles of developing and submitting budget requests” of 31 July 2012.
- ¹⁶ Article 13 of Cabinet Regulation No 979 “Operation procedure of the system of results and performance indicators” of 1 September 2009.
- ¹⁷ Article 13 of Cabinet Regulation No 979 “Operation procedure of the system of results and performance indicators” of 1 September 2009; Articles 42 and 45 of Cabinet Instructions No 16 “Methodology for developing and evaluating the results of ministries and other central government institutions and their performance indicators”.
- ¹⁸ Subsection of Cabinet Regulation No 523 “Rules on the basic principles of developing and submitting budget requests” of 31 July 2012.
- ¹⁹ The Ministry of Smart Administration and Regional Development since 1 July 2024.
- ²⁰ Letter No 3.2-19/13-1/2397 of the Ministry of Finance “On an extraordinary audit in Rēzekne City Municipality” of 7 August 2023.
- ²¹ Letter No 6-3.5.4.1e/104 of the State Audit Office of Latvia “On the invitation to a joint meeting” of 9 August 2023.
- ²² Interim report of the State Audit Office of Latvia “Do Rēzekne City’s budget and fiscal management comply with the laws and regulations?”, available at <https://lrk.gov.lv/lv/revizijas/revizijas/noslegtas-revizijas/vai-rezeknes-budzeta-un-finansu-vadiba-ir-atbilstosa-normativajos-aktos-noteiktajam> (viewed on 15 April 2024).
- ²³ Decision No 1157 of the Council of Rēzekne City Municipality “On the establishment of unified centralized accounting of the municipal institutions of Rēzekne City Municipality” of 22 March 2024.
- ²⁴ Letter No 8-5.6.12/610 of the State Treasury “On the Annual Consolidated Financial Statement” of 15 July 2024.
- ²⁵ Number of recommendations to be implemented as of 1 July 2024.
- ²⁶ The recommendation was issued to the Ministry of Economics in cooperation with the Ministry of Environmental Protection and Regional Development (until 31 December 2022) and the Ministry of Climate and Energy (from 1 January 2023) in the financial audit “The Annual Consolidated Financial Statement for 2016 of the Republic of Latvia on the outturn of the state budget and municipal budgets”.
- ²⁷ Article 39.2.2 of Cabinet Regulation No 652 “Procedure for drafting an annual report” of 28 September 2021.