

AUDIT REPORT

Riga

7 January 2010

No.5.1-2-25/2009

Cost Effectiveness and Compliance with Legal Enactments of the European Union Structural Funds Administration System

Legal Justification of the Audit

1. Legality audit "Cost Effectiveness and Compliance with Legal Enactments of the European Union Structural Funds Administration System" was conducted according to Section 2 of the Law on the State Audit Office and the audit assignment of the First Audit Department No.5.1-2-25/2009 of 25 May 2009.
2. The audit was conducted by Head of the Audit Group Senior State Auditor Iveta Astiča and Senior State Auditors Īva Šaicāne, Zanda Rulle, State Auditors Ilze Ozola, Vineta Daugule, Staņislavs Jakušonoks. State Auditors Inga Žarikova and Kristaps Piekuss conducted the audit until 31 July 2009.

Audit Objective

3. The objective of the audit is to examine effectiveness and lawfulness of EU Structural Funds and the Cohesion Fund (hereinafter – EU Funds) management and control system and costs thereof at the Ministry of Finance, as well as to gather information on administration costs at Certifying, Paying, Co-operation and Managing Authorities.

Accountability of the State Audit Office Auditors

4. Auditors of the State Audit Office are responsible for the audit report, which is based on the audit evidence obtained during the audit.

Accountability of the Audited Entity

5. The Ministry of Finance is responsible for observance of the regulatory enactments and truthfulness of the information provided to the auditors.

Scope of the Audit

6. The audit is conducted in accordance with international auditing standards recognised in the Republic of Latvia. The audit was planned and performed to obtain reasonable assurance that at the Ministry of Finance EU Funds management and control system has been developed effective and complies with the requirements of regulatory enactments.
7. The audit was conducted within the framework of coordinated parallel audit of the Working Group on Structural Funds IV established by Contact Committee¹ on costs of controls of EU Structural Funds (hereinafter – the parallel audit). The scope of the audit and audited issues are adapted to the objectives and audited issues of the parallel audit

¹ Contact Committee is an assembly of 25 leaders of the supreme audit institutions of the European Union Member States and Head of the European Court of Auditors. The Auditor General of the Republic of Latvia is the member of the Committee. Working Group on Structural Funds was established for performance of coordinated parallel audit "On Costs of Controls".

8. The audit was conducted at the Ministry of Finance on the time period from 1 January 2007 to 30 July 2009.
9. The audit included inspections on:
 - 9.1. Effectiveness and lawfulness of EU Funds management and control system, including:
 - 9.1.1. Establishment of EU Funds management and control system and cost effectiveness thereof;
 - 9.1.2. Monitoring of introduction of EU Funds;
 - 9.1.3. Recovery of non-conforming expenditure within the framework of projects financed from EU Funds;
 - 9.1.4. Effectiveness of operation of the information system for management of EU Funds (hereinafter – MIS), ensuring management and monitoring of EU Funds.
 - 9.2. Effectiveness and efficiency of utilisation of financial resources intended for the establishment and maintenance of EU Funds management and control system at the Ministry of Finance, including:
 - 9.2.1. Effectiveness of the established structure for administration of EU Funds;
 - 9.2.2. Planning of financing of the technical assistance;
 - 9.2.3. Efficiency, effectiveness and lawfulness of utilisation of the technical assistance resources.
10. In addition information was acquired from the Treasury as from the Certifying and Paying Authority, and survey of the Co-operation and Responsible Authorities was performed to obtain complete and comprehensive information on effectiveness and compliance with requirements of regulatory enactments of EU Funds management and control system.
11. Questionnaires were sent to 18 institutions, which with reference to reorganisation² of the State administration institutions provided answers regarding 19 institutions, specifying information on EU Funds project contracts assessed and entered into in 2007, 2008 and first half of 2009, and on expenditure related to project evaluation, entering into contracts, project examination both from the State basic budget and from financing of the technical assistance, as well as information on systems audits performed by institutions and costs of such audits.
12. Questionnaires were sent to the following institutions:
 - 12.1. The Management and Audit Authority – the Ministry of Finance and the Certifying and Paying Authority – the Treasury;
 - 12.2. The Responsible Authorities – the Ministry of Economics, the Ministry of Education and Science, the Ministry of Culture, the Ministry of Welfare, the Ministry of Transport, the Ministry of Health, the Ministry of the Environment, the State Chancellery, the Ministry of Regional Development and Local Government (also regarding the Secretariat of the Special Assignments Minister for Electronic Government Affairs);
 - 12.3. The Co-operation Authorities – the Central Finance and Contracting Agency, the Investment and Development Agency of Latvia, the Construction, Energy and Housing State Agency, the Employment State Agency, the State Education Development Agency, the State Regional Development Agency, the Centre of Health Economics

² Cabinet order No.220 of 1 April 2009 “On Reorganisation of the Secretariat of the Special Assignments Minister for Electronic Government Affairs”.

(regarding the Health Statistics and Medical Technologies State Agency), the Society Integration Foundation.

13. To obtain information from the Responsible Authorities and the Co-operation Authorities regarding administration costs of EU Funds planning period 2007-2013 and errors disclosed during inspections in 2007, 2008 and the first half of 2009, the institutions were asked to indicate the following in the questionnaires:
 - 13.1. Costs of EU Funds administration system (evaluation of EU Funds projects, entering into contracts, project inspections, time and costs of monitoring activities, specifying information by operational programmes under administration of an institution and by sources of financing (State budget or financing of the technical assistance));
 - 13.2. Number of EU Funds project implementation inspections carried out and the results thereof, number of performed systems audits and the results thereof;
 - 13.3. Number of employees involved with administration of EU Funds planning period 2007-2013 and their work remuneration.
14. As the Responsible Authorities and the Co-operation Authorities are responsible for introduction of different volume and number of EU Funds projects, the amount of administrated financing cannot be mutually compared.

Summary

15. Although the Ministry of Finance has, in accordance with the regulatory enactment³, ensured establishment of EU Funds administration system, yet implementation of EU Funds administration is not ensured in the most effective way, as the audit has disclosed deficiencies in the following areas:
 - 15.1. EU Funds administration system;
 - 15.2. Planning and implementation of EU Funds technical assistance, including utilisation of financial resources of EU Funds technical assistance project at the Ministry of Finance;
 - 15.3. Deficiencies in regulatory enactments.

Deficiencies within EU Funds administration system

16. Although the Ministry of Finance has, in accordance with the regulatory enactment⁴, ensured establishment of EU Funds administration system, yet implementation of EU Funds administration is not ensured in the most effective way, because:
 - 16.1. As the regulatory enactments do not provide for performing separate accounting of EU Funds administration costs, which are not covered from the planning period 2007-2013 technical assistance resources, the Ministry of Finance as the Managing Authority did not develop an instrument for assessment of cost effectiveness and efficiency of the management and control system. Consequently the Ministry of Finance does not have sufficient information to assess total expenditure of established EU Funds management and control system, which, in accordance with data indicated in the questionnaires by the Managing, the Audit, the Certifying, the Responsible and the Co-operation Authorities, until 30 June 2009 is at least in the amount of LVL 7 059 536;
 - 16.2. Although institutions involved with administration of EU Funds shall perform equal functions, expenditure for ensuring these functions differs. Through questionnaires it

³ Section 8 and Section 9, Paragraph three of the Law "On Management of European Union Structural Funds and the Cohesion Fund".

⁴ Section 8 and Section 9, Paragraph three of the Law "On Management of European Union Structural Funds and the Cohesion Fund".

was established that approximate administration costs per 1 lat recovered by the European Commission, according to estimations of the State Audit Office, are at least in the amount of LVL 0.068. In the report “On Proposals for Simplifying Utilisation of EU Funds”⁵ the Ministry of Finance indicates that EU Funds administration system costs for recovery of 1 lat are LVL 0.025. In turn, to achieve the objective specified by EU Funds optimisation model, according to estimations of the Ministry of Finance, the administration costs shall be decreased at least down to LVL 0.022⁶. Besides, comparing working hours utilised in 2008 and the first half of 2009 with total remuneration costs, increase of working hours by 32% can be observed, in turn increase of remuneration costs is more rapid – 57%;

- 16.3. Established EU Funds project inspections system is not developed in the most effective way, as, performing inspections of payment requests, source documents are fully, not randomly examined. In 2008 and the first half of 2009 11 Responsible Authorities and Co-operation Authorities have conducted 361 administrative inspections and 325 inspections at the project implementation locations. As a result of inspections financial resources in the total amount of LVL 250 892 were recovered, withholding the amounts from regular payments to project implementers. Total costs of project inspections carried out by 11 Responsible Authorities and Co-operation Authorities from 1 January 2008 to 1 July 2009 are LVL 1 404 084.
17. Although it was possible to commence utilisation of resources allocated for EU Funds planning period 2007–2013 already since 24 October 2006⁷, yet timely commencement of project implementation was not ensured, except for large infrastructure projects, thus hindering inflow of resources allocated by EU Funds into the economy, as:
 - 17.1. Although the Ministry of Finance had prepared planning documents⁸ for utilisation of EU Funds, operational programmes, description of management and control system on time, yet the Cabinet and the European Commission had approved them with delay and the necessary regulatory enactments were developed and passed also with delay, consequently the Responsible or Co-operation Authorities did not timely prepare project selection criteria, thereby it was not possible to announce project selection tenders;
 - 17.2. Actual project implementation, except for large infrastructure projects, was commenced only in 2008, that is with delay of 18 months;
 - 17.3. The objective of 2009 for implementation of financial resources is LVL 351 700 000 disbursed to final beneficiaries, and until 30 September 2009 only 55.3% were achieved. Also the implementation of the objective of the European Social Fund can be assessed as rather low, as until 30 September 2009 only 24.9% of the specified financing implementation objective for 2009 of LVL 42 200 000 were achieved.

⁵ Report of the Ministry of Finance of 7 July “On Proposals for Simplifying Utilisation of EU Funds and Review of Activity of Institutions Involved with Ensuring Management of EU Funds”.

⁶ In accordance with calculations submitted by the Ministry of Finance at harmonisation meeting on 11 December 2009, the Ministry of Finance has calculated administration costs of 1 lat by attributing average monthly remuneration of employees of institutions involved with administration of EU Funds to all planning period 2007-2013 and dividing by financing allocated by the European Commission to all operational programmes.

⁷ Letter of the Ministry of Finance No.15-4-02/1005 of 10 December 2007 “Regarding Draft Audit Report on the Audit File No.5.1-2-11/2007”.

⁸ National Strategic Reference Framework for the period 2007-2013 was approved by the Cabinet order No.669 of 29 October 2007 “On National Strategic Reference Framework”.

18. The Ministry of Finance does not ensure quality management of EU Funds, as specified by the regulatory enactment⁹, thus creating a risk that stabilisation of economic situation and development of the economy will not be ensured, as:
- 18.1. From the available financing of EU Funds technical assistance in the period from 2008 to 2010 in the amount of LVL 42 000 000 only 14% were utilised until 30 September 2009. At the same time with the amendments¹⁰ to the regulatory enactment¹¹ since 6 June 2009, types of eligible costs of technical assistance activities were considerably narrowed or restrictions of amount were introduced. The Ministry of Finance has made amendments to technical assistance activities within all three operational programmes, providing that they would be financed only from resources of EU Funds, respectively not providing for activities part of the national co-financing in the amount of LVL 15 887 727, which is 16.9% from initially established amount of EU Funds technical assistance financing. Yet the Ministry of Finance has not performed sufficient activities to justify to the European Commission the need of redistributing financing of technical assistance to other priorities, except for operational programme “Entrepreneurship and Innovations”, where the financing for technical assistance priority was decreased by 10%, being channelled to priority of supporting entrepreneurship;
- 18.2. Within the decision making process on redistribution of resources allocated for EU Funds activities of the working group¹², established by the Ministry of Finance, which assessed possibility of commencing EU Funds activities in 2009, it is not possible to trace what were the problem issues of implementing the activities, how priority activities were assessed and determined, how the reasons were assessed for diverging from initially set objectives on utilisation of EU Funds and how the impact of redistribution on implementation of operation programmes in the future was assessed;
- 18.3. In the quarterly reports prepared by the Ministry of Finance on utilisation of EU Funds financial resources¹³, which were submitted to the Cabinet, for example, informative report of the Ministry of Finance of 11 August 2009 “On Utilisation of Financial Resources of EU Structural Funds and Cohesion Fund until 30 June 2009”, quantitative assessment of implementation is provided – utilised resources, approved projects, entered into contracts, resources redistributed to activities of operational programme complements and so forth, in turn quality indicators – how monitoring and performance indicators are achieved, how horizontal priorities are ensured, what kind of improvements are ensured to facilitate utilisation – are assessed only once a year, preparing yearly

⁹ Section 8 and Section 9, Paragraph one of the Law “On Management of European Union Structural Funds and the Cohesion Fund”.

¹⁰ Cabinet Regulation No.455 “Amendments to the Cabinet Regulation No.918 of 18 December 2007 “Regulations on Operational Programme Complement “Human Resources and Employment” Activity 1.6.1.1 “Ensuring Programme Management and Support”, Operational Programme Complement “Entrepreneurship and Innovations” Activity 2.4.1.1 “Ensuring Programme Management and Support”, Operational Programme Complement “Infrastructure and Service” Activity 3.7.1.1 “Ensuring Programme Management and Support” and Activity 3.8.1.1 “Ensuring Programme Management and Support””.

¹¹ Paragraphs 5 and 7, Sub-paragraphs 6.1 and 8.1 of the Cabinet Regulation No.918 of 18 December 2007 “Regulations on Operational Programme Complement “Human Resources and Employment” Activity 1.6.1.1 “Ensuring Programme Management and Support”, Operational Programme Complement “Entrepreneurship and Innovations” Activity 2.4.1.1 “Ensuring Programme Management and Support”, Operational Programme Complement “Infrastructure and Service” Activity 3.7.1.1 “Ensuring Programme Management and Support” and Activity 3.8.1.1 “Ensuring Programme Management and Support”” (hereinafter - the Cabinet Regulation No.918 of 18 December 2007).

¹² Order of the Ministry of Finance No.33 of 16 January 2009 “On Establishment of the Working Group”.

¹³ Paragraph 434 of the National Strategic Reference Framework for the period 2007-2013, approved by the Cabinet order No.669 of 29 October 2007 “On National Strategic Reference Framework”.

report to the European Commission on implementation of EU Funds operational programmes;

- 18.4. Monitoring system of the Ministry of Finance on utilisation of EU Funds is not transparent and does not create assurance on systemic approach towards control and analysis of utilisation of financial resources. The Ministry of Finance does not document assessment of reports on utilisation of EU Funds of responsible institutions regarding impact of problems disclosed during implementation of measures and activities and incompliance with planned indicators on strategic objectives and overall system, further taken decisions on redistribution of financing between activities, as well as review of performance indicators;
- 18.5. Monitoring system established by the Ministry of Finance for achievement of EU Funds horizontal priority “Macroeconomic Stability” is incomplete and does not ensure measurement of achieved results, as:
 - 18.5.1. The Ministry of Finance does not have a procedure by which and how often analysis of macroeconomic indicators shall be performed, in order to determine whether the channelled investment amount into EU Funds projects for achievement of horizontal priority macroeconomic stability indicator complies with the planned, whether the financing is directed to sufficient number of projects and whether and to what extent these projects have impact on achievement of “Macroeconomic Stability”;
 - 18.5.2. For monitoring of priority only one indicator is specified, which is currently outdated – increase of gross domestic product by 3% a year, although in accordance with economic theory also other indicators characterise macroeconomic stability;
 - 18.5.3. Performance criteria with achievable quantitative indicators are not specified for measurement of the only monitoring indicator of the priority;
 - 18.5.4. The Ministry of Finance has not analysed risks subject to which this priority may not be ensured, and has not developed action plan for decreasing possible risks.
- 18.6. The Ministry of Finance as the Managing Authority has not developed such system for management of EU Funds technical assistance, which ensures effective utilisation of available technical financing for strengthening of administrative capacity of the State administration institutions, as:
 - 18.6.1. EU Funds planning documents define that strengthening of administrative capacity – for ensuring more effective utilisation of EU Funds technical assistance – is only ensuring of competitive work remuneration, training of human resources, but not the achieved work result;
 - 18.6.2. Indicators included into operational programmes for measurement of achievement of the objective of the priority “Technical Assistance” do not reflect effectiveness and productivity of the institution’s activity, which does not indicate establishment of results that are targeted at achievement of objective. Thus it is not possible to assess effectiveness of utilised technical assistance financing, ensuring management of EU Funds.

Deficiencies with regard to planning and implementation of technical assistance at the Ministry of Finance

19. Although the Ministry of Finance as the Managing Authority shall ensure management and implementation effectiveness of EU Funds technical assistance, the audit did not obtain reasonable assurance that the Ministry of Finance, implementing EU Funds technical assistance project “Technical Assistance for EU Funds Managing, Responsible, Certifying,

Audit and Paying Authorities in Latvia” for the planning period 2007-2013 in the total amount of LVL 4 055 495, will achieve the set objective and benefits foreseen by the project, and that financial resources of the project will be utilised effectively and efficiently, as, even though the project has been developed in accordance with requirements of regulatory enactments:

- 19.1. Evidence has not been obtained, which would verify determining of the necessary resources, supported activities, costs of measures specified therein and achievable results of the technical assistance project developed by the Ministry of Finance;
 - 19.2. Achievable results specified in the project are determined in accordance with basic principles, stipulated in the regulatory enactment on budget development¹⁴, and within the framework of activities numerically characterise measures, which will be performed within supported activities, however, they do not indicate setting a result that is goal oriented and thus it is not possible to conclude, whether invested resources will really facilitate achievement of the project objective, the project does not specify how it will be determined and measured and whether the project objective is being/is achieved.
20. The Ministry of Finance has not ensured quality planning of resources, implementation of the function of administering EU Funds and assessment of performed functions, as:
- 20.1. In the time period from 2008 to 1 October 2009 number of employees at the Management and the Audit Authorities was intensively increased, including managers, as a result of which there was 1 manager per 1.8 employees as at 1 October 2009. The highest increase of staff was in the middle of 2008, when compared to the beginning of 2007 number of divisions had increased by 7, number of staff positions by 38, including number of managers by 20;
 - 20.2. At the end of 2008 and the first half of 2009, on the basis of results of annual assessment or with reference to performance of additional duties, the Ministry of Finance has increased monthly salary to 47 employees out of 133 randomly inspected by 9% to 22%. It was disclosed in the audit that additional responsibilities included into substantiation of monthly salary raise match direct work responsibilities, also that the same substantiation was used for increasing the salary and paying supplements for overtime work. On 15 August 2009 the Ministry of Finance decreased monthly salary of all employees by 20%¹⁵. Taking into account that monthly salary of 6 randomly inspected employees was previously increased by 22%, by decreasing the salary by 20% in reality it was increased compared to the situation at the beginning of the year;
 - 20.3. As the Ministry of Finance did not submit to the State Audit Office the efficiency assessment¹⁶, which shall be performed before taking a decision on establishment new EU Funds Audit Division at the Financial Control Department in Q2 2008, instead of broadening the existing tasks of divisions of the Financial Control Department, the State Audit Office did not obtain assurance that work remuneration of five employees in the amount of LVL 45 231 was utilised in the most effective way.
21. Although requirements of the regulatory enactments were observed, yet the Ministry of Finance, utilising resources of the technical assistance project in the amount of LVL 64 500 without specific achievable quality indicators for achievement of project objectives, has not ensured sufficiently effective and economical utilisation of resources, as:

¹⁴ Cabinet Regulation No.359 of 26 May 2009 “Regulations on Basic Principles by which Budget Requests shall be Developed and Submitted” (in force until 9 October 2009).

¹⁵ Order of the Ministry of Finance No.145-p of 13 July 2009 “Regarding Modifications in the Amount of Monthly Salary”.

¹⁶ Section 63 of the State Administration Structure Law.

- 21.1. In the time period from 29 December 2007 to 5 June 2009 the Ministry of Finance for performance of direct task thereof¹⁷ – to develop draft sector legal enactments and policy planning documents – has disbursed LVL 34 230 from the project resources for services on development of guidelines and methodologies;
 - 21.2. On specific occasions within the framework of the measures the resources were planned and utilised for satisfying such needs as catering and accommodation of the employees/officials of the Ministry of Finance, which are not targeted at achievement of the project objective;
 - 21.3. On specific occasions the necessity of organising activities beyond Riga were not sufficiently assessed, consequently the Ministry of Finance incurred additional transportation and accommodation costs;
 - 21.4. Business trip costs were paid to employees in relation to training regarding simplifying EU Funds management system, although the Ministry of Finance had already entered into service contract on performance of assessment regarding possibilities of simplifying EU Funds management system;
 - 21.5. Seminar services were paid on the topics related to systems and areas, for establishment and provision of which, in accordance with the regulatory enactment¹⁸, the Ministry of Finance shall be responsible;
 - 21.6. Costs of such seminars were covered, which do not have direct impact on effectiveness of utilisation of financing of EU Funds.
22. The Ministry of Finance, utilising LVL 1.2 million from technical assistance project resources, developed the information system for management of EU Funds, and wholesome use of the system is not possible, as:
- 22.1. It is not possible to open 27% of all standard reports in MIS or the information is overlapping, as these reports are not used and utilisation thereof is not reviewed;
 - 22.2. Progress monitoring indicators and information on technical assistance projects is not wholesomely entered into MIS, therefore respective sections of the system cannot be used as a tool for monitoring of EU Funds;
 - 22.3. Results of inspections carried out by institutions involved with administration of EU Funds cannot be entered into MIS in full amount, therefore it is necessary to develop alternative version for aggregation of inspection results;
 - 22.4. Actual number of MIS users twice exceeds the number indicated in the technical specification, creating additional costs in the amount of LVL 40 417 to ensure the possibility for comprehensive use of MIS to all users.
23. The Ministry of Finance, developing EU Funds management and control system, has not assessed efficiency of the system structural units established for administration of EU Funds and cost effectiveness thereof, consequently resources of technical assistance in the amount of LVL 1 255 957 (LVL 331 973 are actually utilised until 30 June 2009) allocated for establishment of EU Funds Information Centres in the Planning Regions have not been utilised in the most effective way, as:
- 23.1. The need to optimise structural units administering EU Funds, which inform the public about EU Funds activities, and resources of technical assistance utilised for this purpose

¹⁷ Sub-paragraph 6.1 of the Cabinet Regulation No.239 of 29 April 2003 “By-law of the Ministry of Finance”.

¹⁸Section 9, Paragraph three and Paragraph one, Clause 1 of the Law “On Management of European Union Structural Funds and the Cohesion Fund”; Sub-paragraph 5.1 of the Cabinet Regulation No.239 of 29 April 2003 “By-law of the Ministry of Finance”.

were not assessed, even though the Ministry of Finance gathered information that there already are several information providers on EU Funds;

- 23.2. Expenditure plan for informing and publishing activities has not been developed, in order to eliminate uneconomical utilisation of financial resources within institutions, which carry out similar EU Funds informative measures.

Deficiencies in regulatory enactments

24. None of the regulatory enactments specify term, during which decision making procedures shall be commenced regarding recovery of non-conforming expenditure within the framework of a project from the point, when an institution receives information about non-conformity and it is not possible to withhold such amount from the next or current payment to beneficiary of Structural Funds financing. Regulatory enactments also do not specify terms, during which specific debt collection activities shall be performed, if the beneficiary of grant financing or beneficiary of Structural Funds financing, which is not a State budget institution, does not repay non-conforming expenditure within a month's time after the term and in the amount specified by the decision of the Managing Authority or second level intermediate body or grant scheme manager, in order to ensure observance of limitation period for proceedings specified in EU legal enactment¹⁹. In turn regulatory enactment²⁰ specifies that the State administration in its activities shall observe the principles of good administration, which includes also the fair implementation of procedures within a reasonable time period.
25. As the regulatory enactments do not specify terms, during which decision making procedures shall be commenced regarding recovery of non-conforming expenditure within the framework of a project from the point, when an institution receives information about non-conformity and it is not possible to withhold such amount from the next or current payment to beneficiary of Structural Funds financing, and as the regulatory enactments also do not specify terms, during which specific debt collection activities shall be performed, the system developed by the Ministry of Finance allows that activities on recovering such expenditure are continuously not performed. As at 20 September 2009 MIS accounts non-conforming expenditure that was not recovered within 47 projects in the total amount of LVL 5 161 930, moreover MIS indicates as part on not recovered amount of non-conforming expenditure within the framework of a project is private co-financing in the total amount of LVL 2 269 554, which is not subject to recovery procedure by the State.
26. The regulatory enactments do not provide for a procedure, which limits disbursement of non-conforming expenditure from the State budget, and do not specify disciplinary procedures for the budget institutions for decreasing of non-conforming expenditure, only decreasing the amount of eligible costs within the framework of a project, but not decreasing the State budget financing. Consequently the State budget incurs losses on every occasion of settlement of non-conforming expenditure. In the planning period 2004–2006 the State budget incurred losses in the total amount of LVL 7.9 million, in turn from 2007 to 23 September 2009 within the framework of two implemented projects – LVL 14 874.

¹⁹ Article 3 of the Council Regulation No.2988/95 on the protection of the European Communities financial interests.

²⁰ Section 10, Paragraph five of the State Administration Structure Law.