The *Saeima*1 has adopted and

the President has proclaimed the following law:

**Internal Audit Law**

**Chapter I**

**General Provisions**

**Section 1. Terms Used in the Law**

The following terms are used in the Law:

1) **cost efficiency of resources** – the level to which functions of a ministry or institution reach the preferable result in comparison to the costs of the resources invested;

2) **economic efficiency** – the ratio of the quality and quantity of anticipated or achieved results of activities in relation to the resources invested and activities;

3) **functional efficiency** – the conformity of the anticipated or achieved results of activities and of the selected alternatives with specific objectives;

4) **institution** – an authority directly subordinate to the Prime Minister, an authority subordinate to a minister, except for the ministry;

5) **internal control system** – an aggregate of risk management, control, and administrative measures the task of which is to ensure achieving of objectives, efficient operation, active protection, credibility of reports, conformity of operation of a ministry or an institution with legal acts and the establishment of which is the responsibility of the State secretary of the ministry or the head of the institution accordingly;

6) **internal audit** – independent and objective activity of an internal auditor which results in the provision of an assessment of the operation of the internal control system in order to improve the operation of the internal control system in the ministry and institution;

7) **consultation** – a service of providing advices the objective of which is to improve the internal control system and the essence and extent of which is determined by the State secretary of the ministry, the head (executive body) of the institution or a unit of the ministry or institution.

**Section 2. Purpose of the Law**

The purpose of the Law is to ensure an independent and objective assessment of the internal control system in order to improve the operation of such system in the State administration.

**Section 3. Application of the Law**

(1) The Law shall apply to ministries and institutions. The Law determines the legal framework for the establishment, operation, and co-ordination of the internal audit system in the ministry and institution, also the duties, rights of internal auditors, and conditions for the conformity with the principles of independence and objectivity.

(2) The internal audit system of a derived public entity, the work organisation of internal audit, and the procedures for performing an internal audit shall be determined by its decision-making body. In order to ensure more efficient performance of the internal audit function, the decision-making body of the derived public entity, if necessary, may enter into a co-operation contract with the ministry of the relevant sector regarding inclusion of such person in the internal audit system of the ministry.

(3) The provisions of Section 13 of this Law regarding the rights of an internal auditor shall also apply to such derived public entities and private individuals who have received resources from programmes and projects funded by the European Union or foreign financial assistance funding, or resources from the State budget accordingly.

(4) This Law shall apply to the control of use of resources (funds granted) of international organisations if it is provided for in the relevant international agreements.

(5) If one internal auditor implements the internal audit function in the ministry or institution, he or she shall be subject to the same provisions of this Law which are laid down for an internal audit unit.

**Section 4. Establishment of an Internal Control System**

The establishment of an internal control system, the supervision and improvement thereof shall be ensured by the State secretary of the ministry or the head of the institution in accordance with the State Administration Structure Law.

**Chapter II**

**Establishment, Operation of the Internal Audit System and Co-ordination of the Internal Audit**

**Section 5. Establishment of the Internal Audit System**

(1) The Prime Minister shall determine the internal audit system for the authorities directly subordinate thereto.

(2) A minister shall determine the internal audit system for the authorities subordinate thereto. The decision on the need for the establishment of the internal audit system for a State security institution shall be taken by the minister under whose supervision the respective State security institution is.

(3) The State secretary of the ministry or the head of the institution shall be responsible for the establishment of the internal audit unit.

(4) The internal audit unit shall be directly subordinate to the State secretary of the ministry or the head of the institution (decision-making body).

(5) The internal audit unit shall be established in the authorities and ministries directly subordinate to the Prime Minister.

(6) The need for the establishment of the internal audit unit in the authorities subordinate to a minister, except for a ministry, shall be co-ordinated by the minister of the relevant sector with the Minister for Finance, evaluating the following criteria:

1) the extent and social significance of the functions stipulated for the authority;

2) the participation of the authority in the implementation of the financial assistance of the European Union or international organisations or foreign financial assistance;

3) the amount of the funds from the State budget allocated to or transferred under management of the authority and the amount of material values;

4) the impact of the risks related to the operation of the authority on the State budget losses;

5) the structure of the authority.

**Section 6. Duties of the Official Responsible for the Establishment of the Internal Audit Unit**

(1) The State secretary of the ministry or the head of the institution (decision-making body) shall:

1) be responsible for the operation of the relevant internal audit system;

2) determine the procedures for work organisation of the internal audit and supervision of introduction of the internal audit recommendations in the relevant ministry or institution;

3) approve the strategic plan and annual plan of the internal audit unit;

4) take the decision to introduce the recommendations included in the internal audit report;

5) submit to the Ministry of Finance the information and documents necessary for the assessment of the operation of the internal audit unit;

6) inform the Ministry of Finance of the appointment to or release from the office of the head of the internal audit unit within two weeks;

7) send information to the law enforcement authorities on the facts established during the performance of the internal audit regarding which justified doubts have arisen that they are related to illegal activities;

8) send information to the State Chancellery for evaluation on the facts established during the performance of the internal audit which affect the operation of State administration in general.

(2) The State secretary of the ministry and the head of the institution directly subordinate to the Prime Minister shall:

1) ensure accordingly that the internal audit unit plans as well as annual activity reports of the ministry and authorities subordinate to the minister or of the authorities directly subordinate to the Prime Minister are submitted in a timely manner to the Ministry of Finance and the State Audit Office;

2) within two weeks after the establishment of the internal audit system and changes in the internal audit system, inform the Ministry of Finance thereof.

**Section 7. Tasks of the Internal Audit Unit**

(1) The internal audit unit shall:

1) draw up and submit an internal audit strategic plan and annual plan to the State secretary of the ministry or the head of the institution (decision-making body) for approval;

2) perform planned internal audits based on the risk assessment, providing an assessment of:

a) the conformity of the operation of the internal control to the objectives of the ministry or institution;

b) the reliability and adequacy of financial accounting and other information of the ministry or institution;

c) the conformity of the activities of the units of the ministry or institution with laws and regulations, stipulated functions, and approved action plans;

d) the cost efficiency of operational resources of the ministry or institution, economic efficiency, and functional efficiency, protection of resources against losses;

3) provide recommendations to the State secretary of the ministry or the head of the institution (decision-making body) regarding the necessary improvements to the internal control system;

4) supervise the implementation of the internal audit recommendations approved by the State secretary of the ministry or the head of the institution (decision-making body);

5) provide consultations in order to promote the achievement of the objectives of the ministry or institution;

6) submit an annual report on operation of the internal audit unit to the State secretary of the ministry or the head of the institution (decision-making body) which, according to the stipulated amount of work, includes an opinion on the internal control system of the ministry or institution;

7) co-ordinate the co-operation and exchange of information between internal and external auditors;

8) determine the training needs of internal auditors;

9) ensure the supervision of the implementation and quality of the work related to the internal audit in all stages of internal audit. If the tasks stipulated for the internal audit unit of the ministry or institution are performed by one internal auditor, a permanent supervision of the implementation and quality of the work related to the internal audit in all stages of internal audit may be ensured by an internal audit unit of another ministry or institution accordingly;

10) ensure the supervision of implementation of the recommendations of audits of the State Audit Office and external auditors in the ministry or institution.

(2) The head of the internal audit unit shall determine the methodology for the performance of the internal audit of such unit and drawing up of work documents.

**Section 8. Competence of the Cabinet in the Field of Internal Audit**

The Cabinet shall:

1) determine the procedures for work organisation of internal audit and performance of internal audit as well as the cases when the authority determined by the Cabinet has the right to perform the internal audit in the ministry or institution in relation to the management of the European Union Structural Funds and Cohesion Fund, the European Economic Area Financial Mechanism, the Norwegian Financial Mechanism, and the Latvian-Swiss Co-operation Programme;

2) upon proposal of the Minister for Finance, until 1 November of the current year determine joint priorities to be audited in the State administration until the next calendar year;

3) determine the procedures for certification of internal auditors, keeping in effect and cancellation of a certificate of an internal auditor. The decision to grant or to refuse to grant a certificate of an internal auditor of the State administration shall be taken within 12 months from the day when a submission was received;

4) determine the basic principles and content of the assessment of operation of internal audit units as well as the procedures for assessment of operation of internal audit units.

**Section 9. Independence of the Internal Audit Unit**

The internal audit unit shall be independent from other units of the ministry or institution in the performance of its tasks.

**Section 10. Co-ordination of the Internal Audit**

(1) The Ministry of Finance shall draw up an internal audit policy the objective of which is to provide assurance of the operation of the internal control system in ministries and institutions. The Ministry of Finance shall be responsible for the co-ordination of internal audit and the unified planning of long-term development of the internal audit.

(2) When performing the co-ordination of internal audits, the Ministry of Finance shall have the following tasks:

1) to prepare and submit to the Cabinet and the State Audit Office the compiled annual report on the activities of internal audit units in ministries and institutions. The report shall include the opinion of ministries and institutions on the internal control system in ministries and institutions;

2) to co-ordinate the training and improvement of professional qualification of internal auditors;

3) to provide ministries and institutions with consultations in the field of internal audit;

4) to assess the operation of internal audit units established in ministries and institutions at least once every five years. Employees of the Ministry of Finance have the right, in the relevant ministry or institution, to become acquainted with the information and documents necessary for the assessment of the operation of internal audit units;

5) to supervise the certification system of internal auditors;

6) to draw up the methodology guidelines of internal audit.

**Chapter III**

**Internal Auditor**

**Section 11. Appointing to Office (Hiring) and Dismissal from Office (Firing) of the Internal Auditor**

(1) The State secretary of the ministry or the head of the institution shall appoint to the office and dismiss from the office and hire and dismiss the internal auditor on the basis of the State Civil Service Law, this Law, and other laws and regulations.

(2) A person who conforms to the mandatory requirements set forward for the applicant for the office of a civil servant may enter into State civil service or employment relationship in order to fulfil the duties of the internal auditor.

(3) The duties of the head of the internal audit unit may be fulfilled only by such a person who has acquired the certificate of an internal auditor of State administration in accordance with the procedures laid down in the laws and regulations governing the field of certification of internal auditors or a certificate confirming the professionalism of the internal auditor which is recognised by the association Institute of Internal Auditors.

(4) State civil service or employment relationship with the internal auditor shall be terminated:

1) in the cases laid down in the State Civil Service Law or the Labour Law;

2) for negligent performance of official duties or for a violation of the principles of ethics which is inconsistent with the requirements of the office of the internal auditor.

**Section 12. Duties of the Internal Auditor**

(1) The internal auditor has a duty to perfect his or her knowledge and improve professional skills on a regular basis. The head of the internal audit unit and the State secretary of the ministry or the head of the institution shall promote the improvement of the qualification of the internal auditor.

(2) When fulfilling official duties, the internal auditor shall be liable for the lawfulness of his or her actions or failure to act. If the internal auditor has doubts regarding the lawfulness of tasks, he or she has the obligation to refuse the performance of such task, notifying in writing the official who has assigned the task as well as the next highest official respectively.

(3) The internal auditor shall comply with the following principles of ethics of the internal auditor in his or her activities:

1) fairness. The internal auditor shall perform his or her work fairly, with due care and responsibility, comply with the internal principles of ethics of the ministry or institution, shall not engage in the activities which discredit the profession of the internal auditor or the internal audit, respect the ethical objectives of the ministry or institution and promote the achievement thereof;

2) objectivity. During an audit, the internal auditor shall evaluate all circumstances and evidence, without being influenced by his or her own interests or interests of other persons, and disclose all the significant facts about the system inspected in the internal audit report;

3) confidentiality. The internal auditor shall not use the information acquired during the fulfilment of his or her duties in such manner that would harm the objectives of the ministry or institution. The internal auditor shall disclose the information acquired during an internal audit to the third person only with the permission of the State secretary of the ministry or the head of the institution (decision-making body);

4) competence. When fulfilling his or her duties, the internal auditor shall use the knowledge, skills, and experience.

**Section 13. Rights of the Internal Auditor**

The internal auditor has the right to become acquainted with the documents at the disposal of the relevant ministry or institution, financial resources, premises, and other material values as well as to receive copies of documents and explanations from employees in the issues related to the internal audit.

**Section 14. Restrictions in the Work of the Internal Auditor**

(1) The internal auditor shall not engage in the performance of the direct functions of the ministry or institution, the implementation of the programmes and projects completely or partly financed by the European Union or the foreign financial assistance, the drawing up of individual projects or programmes, as well as in the establishment of the internal control system. The internal auditor may participate in the performance of such functions in the capacity of an advisor.

(2) The internal auditor may not, for at least one year, audit such functions which he or she has previously performed in the ministry or institution.

(3) The internal auditor shall notify the head of the internal audit unit in writing, but the head of the internal audit unit shall notify the State secretary of the ministry or the head of the institution (decision-making body) of any situation where there is or may be a conflict of interest.

**Chapter IV**

**Internal Audit Council**

**Section 15. Establishment of the Internal Audit Council**

(1) The Internal Audit Council shall operate in accordance with the by-law approved by the Cabinet.

(2) The Minister for Finance shall approve the staff of the Internal Audit Council.

**Section 16. Objective of the Internal Audit Council**

The objective of the Internal Audit Council shall be to promote the improvement of the quality of internal audit as well as the introduction and development of the internal audit policy and methodology in ministries and institutions.

**Transitional Provisions**

1. With the coming into force of this Law, the Internal Audit Law (*Latvijas Vēstnesis*, 2010, No. 34) is repealed.

2. The Cabinet shall, by 1 June 2013, issue the legal acts laid down in this Law on the internal audit.

3. Until the coming into force of the relevant Cabinet regulations, but not later than until 1 June 2013, the following Cabinet regulations shall be in force, insofar as they are not in contradiction with this Law:

1) Cabinet Regulation No. 760 of 10 August 2010, Procedures for the Performance of Comparative Checks of the Work of Internal Audit Units;

2) Cabinet Regulation No. 918 of 28 September 2010, Procedures for the Performance of Internal Audit;

3) Cabinet Regulation No. 1128 of 14 December 2010, Procedures for the Certification of Internal Auditors.

4. Section 11, Paragraph three of this Law shall come into force on 30 January 2014.

This Law has been adopted by the *Saeima* on 13 December 2012.

President A. Bērziņš

Rīga, 28 December 2012