



Is the charge for household waste management calculated by SIA "ZAAO" traceable?

Rīga 2017



Latvijas Republikas
Valsts kontrole

IMPLEMENTATION OF RECOMMENDATIONS FOR SIA "ZAAO"

Audit Report

Is the charge for household waste management calculated by SIA "ZAAO" traceable?

20.02.2017

The implementation of recommendations of the performance audit "Conformity of the organisation of household waste management with the planned goals and requirements set forth in laws and regulations" for the limited liability company "ZAAO".

The audit was carried out pursuant to Audit Task No. 2.4.1-17/16 of the Fourth Audit Department of the State Audit Office dated 16 May 2016.

Photos used in the audit report are from the auditors' personal archive.

Household waste management is an important issue for every member of the society because each and every one of us creates waste but at the same time we wish that the environment around us would be clean.

In 2014, the State Audit Office carried out the performance audit "Conformity of the organisation of household waste management with the planned goals and requirements set forth in laws and regulations".

Within the framework of this audit, SIA "ZAAO" were given two recommendations with the aim to recalculate the charge for the household waste management in order to ensure that the determined charge for the household waste management is economically justifiable.

In order to assess the actions carried out by SIA "ZAAO" for the implementation of the recommendations, we have carried out an audit on the implementation of the recommendations given to SIA "ZAAO" during the performance audit "Conformity of the organisation of household waste management with the planned goals and requirements set forth in laws and regulations".

Following the European Union's guidelines and objectives regarding waste management and the covering of its costs, the underlying principle for economically justifiable and correctly formed charge for waste management is the fact that the waste producer shall pay only for the actual volume of the waste produced.

Thus, it is important that the recommendations provided by the State Audit Office are implemented on the merits, and the residents would pay only for the volume of the waste that they have actually produced.

We wish to express our gratitude to SIA "ZAAO" for their cooperation during the audit!

Best regards,

Director of the Department

Ilonda Stepanova



Summary

Main conclusions and recommendations

Performance audit "Conformity of the organisation of household waste management with the planned goals and requirements set forth in laws and regulations"

In 2014, the State Audit Office carried out the performance audit "Conformity of the organisation of household waste management with the planned goals and requirements set forth in laws and regulations". One of the companies included in the audit was SIA "ZAAO" which provides household waste management in 28 local governments.

The charge for household waste management is made up of three components: (1) the charge set by the waste manager for the collection and transportation of the waste; (2) landfill tariff for waste disposal; and (3) the natural resources tax for waste disposal.

During the audit in 2014, two of the components for the waste management charge were checked — the landfill tariff and the natural resources tax for waste disposal. As the result of the audit, it was discovered that SIA "ZAAO" has calculated a higher charge for these components because:

- SIA "ZAAO" applied a conversion factor from the waste mass to volume units incompatible to the actual situation, as a result, people paid for non-existent waste disposal at a landfill;
- Even though the amount of waste disposed at the landfill considerably decreased after the sorting of the household waste, SIA "ZAAO" unjustifiably collected the natural resources tax for the sorted waste which were not disposed at the landfill, whereas to the state it paid the natural resources tax only for the waste disposed at the landfill.

Two recommendations were given to SIA "ZAAO" the implementation of which would ensure the collection of landfill tariff for the actual volume of the waste and the collection of the natural resources tax only for the disposed waste. In the opinion of the State Audit Office, through the implementation of these recommendations the total charges for the household waste management would be decreased.

Actions by SIA "ZAAO" for implementation of recommendations

During the follow-up, the aim of the State Audit Office was to make sure that after the initial audit of the State Audit Office, the landfill tariff is collected only for the actual volume of the waste and the natural resources tax is collected only for the disposed waste, thus decreasing the total charges for household waste management.

In the course of the follow-up, it was determined that as a result of the recommendations provided by the State Audit Office, for one cubic metre of household waste SIA "ZAAO" has decreased:

- the tariff level for household waste disposal at a landfill on average by EUR 1.85, going from EUR 5.52 to EUR 3.67, and
- the natural resources tax on average by EUR 0.62, going from EUR 1.40 to EUR 0.78.

Thus, as a result of the provided recommendations, the situation where the residents would have paid EUR 641,293ⁱ per year for non-existent waste disposal, including the tariff for household waste disposal at a landfill in the amount of EUR 480,321 and the natural resources tax in the amount of EUR 160,972, was prevented.

Although the charge for the two components of waste management significantly decreased (by 36 %), the total charge for the household waste management was not reduced because SIA "ZAAO" recalculated and correspondingly increased the charge for the first component, i.e., the charge for the collection and transportation of the waste on average by EUR 2.47 or 36 %.

Charge for the collection and transportation of the waste to the landfill by SIA "ZAAO"

During the follow-up, the State Audit Office assessed whether the increased charge for the waste management in relation to SIA "ZAAO's" expenses for the collection and transportation of the waste to the landfill is economically justifiable and traceable.

By assessing how justifiable is the current (after the initial audit of the State Audit Office) charge for the collection and transportation of the waste to the landfill, the State Audit Office concluded that SIA "ZAAO" has developed a procedure for the calculation of the charge for household waste management (hereinafter — the Procedure), however, this Procedure does not allow to trace how the calculations of the charge for waste management are made. Thus, to get the idea on the justifiability of the charges, the auditors requested and assessed SIA "ZAAO" to provide them with documents and calculations.

By going through the documents of SIA "ZAAO" and assessing the eligibility of costs included in the SIA "ZAAO's" calculations selected at random, the auditors did not discover unjustified costs included in the calculations of the charges which would affect the amount of charge.

At the same time, the State Audit Office points out the fact that the expenses for SIA "ZAAO" company's events and safe driving school should not be included in the costs for the collection and transportation of waste.

Taking into consideration that local governments have to approve the calculations of waste management charges submitted by SIA "ZAAO", but the Procedure developed by SIA "ZAAO" does not give insight and opportunity to trace the calculations of charges, in turn there should be no obligation imposed to local governments to go through the documents on the calculations of charges as such obligation is deemed unreasonable, SIA "ZAAO" has to improve the Procedure in order to ensure traceability, transparency and succession of the calculations of charges for waste management.

Even though after the implementation of recommendations provided by the State Audit Office, SIA "ZAAO" according to the actual situation has set an appropriate conversions factor for the landfill tariff and the natural resources tax, the follow-up assessment indicates that up until the implementation of the recommendations made by the State Audit Office, SIA "ZAAO" financed the collection and transportation costs from unjustifiably collected landfill tariff and natural resources tax, thus making the process for setting the charges for household waste management incomprehensible and non-transparent to the third parties.

With the audit, the State Audit Office has prevented risks for potential future actions with charge component amounts that might be economically unjustifiable.

ⁱ The calculations were made on the condition that no other changes would be made in the waste management charge and considering the findings of the audit regarding the average decrease in charge components, i.e., for the landfill tariff — EUR 1.85, and for the natural resources tax — EUR 0.62, and the volume of collected waste indicated in the invoices of waste producers of 2015 — 259,633 cubic metres.



Up to the implementation of the recommendations made by the State Audit Office, SIA "ZAAO" compensated the costs of the collection and transportation of household waste from the unjustifiably collected landfill tariff and natural resources tax.



In the audit of 2014, two recommendations were given to SIA "ZAAO" to ensure the collection of landfill tariff for the actual volume of the waste and the collection of the natural resources tax only for the disposed waste.
