

EFFECTIVENESS ASSESSMENT OF THE INTERNAL CONTROL SYSTEM AT NATIONAL INSTITUTIONS IN THE AREA OF CONFLICT OF INTEREST AND CORRUPTION IN LATVIA

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Abstract.

Purpose and aim of the study: *to assess the effectiveness of conflict of interest and corruption risk management at national public administration institutions and develop proposals for the improvement therein.*

Design / Methodology / Approach: *The research employed logical construction and deduction, the graphical and monographic methods, as well as SWOT analysis and pairwise comparison.*

Main Findings: *In 2017, a Cabinet Regulation of the Republic of Latvia regarding the implementation of internal control systems (ICS) to prevent conflict of interest and corruption risks became effective. However, some research studies found that the systems were practically formal and did not lead to effective risk management. Comprehensive ICS policies were found to be implemented by national institutions with the policies being designed by their risk management departments, and effective risk management was achieved by implementing three lines of protection as well as regularly reviewing and enhancing the risk management policies.*

Originality: *The novelty of the present research: no shortcomings were found in the legal framework for internal control systems or in the binding guidelines, yet there was a problem with meeting the requirements set by the formal legal framework, which were not aligned with the specifics of institutions and the respective field.*

Implications: *The research found that the application of risk management tools beyond the relevant legal framework for internal control systems by national institutions needed to be improved to increase the effectiveness of the system applied in practice and enhance risk management processes.*

Keywords: *conflict of interest, control, internal control system, organization, risk management.*

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Introduction

Risk management is the key to the effective performance of companies or institutions because identifying potential risks and developing a risk

response plan can ensure that an organization is fit for purpose and transparent and builds public trust. It is the internal control system (hereafter ICS) that is the tool whereby the above can be achieved; therefore, it is important to comprehend the role and basic elements of internal control and identify the preconditions that might make the establishment, development and maintenance of an ICS ineffective in practice. Risk is often referred to as an indicator of the difference between an opportunity and the probability of undesirable consequences. A definition of risk specifies that risk represents the outcome of probability and the cause. Risk is also considered a factor that negatively affects the goals of an individual (Šotić& Rajić, 2015). Risk management represents systematic activities to reduce threats or uncertainties that might affect an organization, which involves performing an analysis of risk probability and impacts, designing strategies to reduce the harm and monitoring the effectiveness of the measures (Gibson, 2023). The relevant theory also distinguishes between crisis risk management, which is an essential tool for preventing crises and building up the capacity to respond to future crises (Eriksson, 2023). Effective institutional risk management contributes to achieving goals, facilitates strategic management, prioritizes activities, contributes to the implementation of processes, functions and service delivery as well as increases the institution's capability to respond flexibly to the risks identified and changes made (Deloitte, 2015).

The present research aims to assess the effectiveness of conflict of interest and corruption risk management at national public administration institutions and develop proposals for the improvement therein. The following specific research tasks were set: to assess the conflict of interest and corruption risk management policies made by national institutions in Latvia and their effectiveness and to draw conclusions and develop proposals for increasing the effectiveness of risk management at the national institutions. The research employed the logical construction, deduction, graphical and monographic methods, as well as SWOT (strengths, weaknesses, opportunities and threats) analysis and pairwise comparison. The following research hypothesis was put forward: the performance of internal control systems of national institutions in Latvia aimed at preventing conflicts of interest and corruption risks is poor due to the shortcomings of the relevant legal framework.

Research results and discussion

When identifying the key aspects of risk management at a national institution, it is important to understand the tools used to ensure that risks are managed according to the goal set. Internal control is the process of an

organization to control its activities to effectively and efficiently achieve its mission and objectives (What is..., 2020). There are several key elements of an ICS, for example, the internal control environment consists of management's stance and setting with respect to specific risks, taking into account the culture of the institution and the ethical standards applicable to it; information and communication is an essential prerequisite for the implementation of risk management, which involves communication and information to appropriate audiences about different risks, their levels, trends, potential consequences; monitoring is the review and effectiveness of the elements of an ICS (Risk Management..., 2023).

Many institutions apply an internal control framework developed by COSO ERM (Committee of Sponsoring Organizations Enterprise Risk Management) to create an ICS. The framework is not mandatory, yet it is considered to be the most effective way for identifying and assessing risks objectively (Committee of...).

In fact, the internal control framework developed by COSO ERM does not represent guidance, as it is a compendium of skills, approaches, competencies, tools, cultures and many other aspects that work together to achieve effective risk management (Anderson, 2017).

Regarding the introduction of an ICS as a mandatory requirement for national institutions in Latvia, attention should be paid to the fifth part of Section 1 of the Internal Audit Law, which states that an ICS is a set of risk management, control and management measures aimed at achieving the goals of a ministry or an institution, the effective operation thereof, the protection of its assets, the reliability of its reports, the compliance of its activities with the relevant legislation, with the state secretary of the ministry or the head of the institution being responsible for designing and implementing the ICS (Internal Audit..., 2012).

A public institution acts on behalf of a public entity, having competence in public administration and in managing financial resources to perform its activities as well as its personnel. A derived public entity is a municipality or other public body founded by law. It is granted autonomous competence by law, which also includes budgeting. In the Republic of Latvia, direct administration involves institutions as well as officials as the initial public entity, while indirect administration involves those of derived public entities (State Administration..., 2002).

The authors point out that situations of conflict of interest and corruption can manifest themselves in any institution or company, yet the greatest risk of the violations might be present in the activities of officials whose responsibilities related to financial transactions, financial administration and the use of European Union funding. To draw conclusions on the effectiveness of an ICS, it is important to examine the

risk management policies of a number of sectoral institutions in relation to conflict of interest and corruption prevention. Next, the research analyses the conflict of interest and corruption risk management policies of transport, telecommunications, health and local government institutions and compares the ICS measures, see the SWOT analyses and the pairwise comparison matrix.

The state limited liability company Road Transport Administration (hereinafter the Road Transport Administration) has been delegated the responsibilities of state administration – to implement and maintain, in accordance with the national as well as international and European Union laws, a system of high-quality and legally sound services in the field of passenger and freight road transport to have fair and equal competition between the carriers, as well as to do public transport planning, financial analyses and audits to shape a uniform, continuous and accessible public transport system working in the interests of the state, society and carriers (Statutes of..., 2024). The website of the Road Transport Administration contains information on its structure in 2024, which shows that it is headed by the chairman of the Executive Board and two executive board members. The Customer Service Centre, the Licensing Department, the International Road Transport Coordination Department and the Board Secretariat are under the authority of the chairman. An executive board member is responsible for the Public Transport Planning, Analysis and Control Department, which in turn coordinates the Public Transport Planning Department, the Rail Services Department, the Public Transport Audit Department and the Public Transport Financial Analysis Department. The Legal Department, the Finance and Accounting Department and the IT and Economic Support Department are under the supervision of the other member (Statutes of..., 2024). It follows from the above that the institution has a separate risk management department with the goal of introducing, developing and maintaining the ICS.

On 21 June 2021, internal rules of the Road Transport Administration No 2.20/3 Policy on Preventing Corruption and Conflict of Interest Risks entered into force, which stipulates that the goal is to design uniform guidelines for preventing conflicts of interest and implementing an ICS to prevent corruption risks, as well as to contribute to the functioning and development of the internal control environment of the institution (Internal rules, 2021). Next, the rules give definitions for the following terms: official, conflict of interest, corrupt practices, risk of corruption and relatives. The authors believe that the risk management process is aimed at not only managing individual risk situations in a preventive way and developing a mechanism to deal with them but also, first of all, to comprehend the nature

of each risk identified. Accordingly, it is important that all the terms are defined clearly and accurately in the institution's risk management policy.

While it is generally positive that the policy is "binding on all personnel of the institution, irrespective of their positions", the ICS might not achieve its goal practically if it comprises general statements that apply to "all personnel", without specifying their positions, risks and risk prevention measures that are binding to prevent conflict of interest and corruption risks for particular personnel and positions.

In the authors' opinion, the ICS of the Road Transport Administration might achieve one of the key objectives by requesting the Road Transport Administration to publish on its website information about the annual measures taken to prevent corruption and conflicts of interest to achieve openness and transparency. Besides, it is important to note that the institution's risk management policy highlights the transparent and easily accessible internal whistle-blowing system, thereby enabling the personnel to safely report potential violations within the institution, with appropriate protection, to promote legal, fair and open activities at the Road Transport Administration (Internal rules, 2021).

An analysis of the structure of the Road Transport Administration does not reveal any indications that the institution has a separate department for risk management, including the establishment and maintenance of an ICS. At the same time, its internal rules state that the Executive Board shall designate a person responsible for the establishment of an ICS. The responsibilities of only one employee include the identification of risks, the development of an action plan to deal with the risks and the responsibility to inform the personnel – this does not indicate a sustainable and effective ICS–, as the risk management team is crucial to ensure quality risk management, and in a situation where an institution has a large number of personnel, it is unlikely that one responsible employee can ensure effective risk control. It should be noted that the Road Transport Administration's anti-corruption plan is drawn up for three years and the effectiveness of the ICS and the measures to prevent corruption risks are reviewed and assessed annually (Internal rules, 2021).

It is positive that overall the strategy provides for specific timeframes for the management of conflict of interest and corruption risks, as it could be agreed that the effectiveness of the ICS should be assessed annually because one year might be an appropriate review period for assessing the quality of the risk prevention mechanism. In the authors' opinion, however, the risk management policy, including the ICS, should be complemented by a requirement that the list of risks should be reviewed, updated and enhanced quarterly.

The analysis of the internal control systems of the Road Transport Administration revealed that there were no identifiable measures indicating the involvement of the Executive Board in risk management. The risk management policy of the institution referred to the involvement of the Executive Board only in the approval of the anti-corruption action plan and an assessment of reports once a year, but it was not evident that the Executive Board being one of the links in the flow of information on the risks identified was actively involved in risk management and made subsequent decisions on the integration of risks into the ICS and on the mechanisms to deal with them.

The factors in the performance of the ICS of the Road Transport Administration are summarised in the SWOT matrix (Table 1).

Table 1 SWOT analysis of the operational performance of the ICS of the Road Transport Administration (authors' own compilation)

<p>Strengths:</p> <ul style="list-style-type: none"> • clear definitions of the terms; • transparency of activities in the public domain; • detailed whistleblowing procedure. 	<p>Weaknesses:</p> <ul style="list-style-type: none"> • incomplete list of managerial functions; • unclear (broad) risk management policy; • guidelines of the Corruption Prevention and Combating Bureau (KNAB) adopted and not adapted to the specifics of the institution.
<p>Opportunities:</p> <ul style="list-style-type: none"> • increasing public confidence; • raising public awareness (publicly available information); • promptly identifying conflict of interest situations through clear whistleblowing/reporting procedures. 	<p>Threats:</p> <ul style="list-style-type: none"> • personnel's insufficient understanding of the ICS undermines risk management; • personnel lack motivation to comply with and understand the ICS, which could lead to poor implementation of the ICS; • formal adoption of the KNAB guidelines and ineffective functioning of the ICS pose a threat to the institution's ability to deal with corruption and conflict of interest risks.

The website of the Road Transport Administration includes a section "Measures taken by the Road Transport Directorate to prevent corruption risks in 2023". This summary contains the measures to prevent conflict of interest and corruption risks. The summary clearly reveals the circumstances why the implementation of internal control systems and the management of the risks by institutions tended to be formal in practice.

The authors point out that most of the measures stemmed from requirements set by the legal framework (e.g. the obligation of a contracting institution to publish procurement outcomes on the website of the Procurement Monitoring Bureau is set by the Public Procurement Law), while restrictions for employees to access systems are subject to the requirements of the General Data Protection Regulation) or is a common practice at institutions (e.g. posting vacancies on the website of an institution or the website of the State Employment Agency), and thus cannot be considered to be sufficiently effective to prevent conflict of interest and corruption risks.

Next, the research analysed the risk management policy of the joint stock company Passenger Train (Pasažieru vilciens) (hereinafter JSC Passenger Train). The company is the sole provider of domestic public transport services for passengers by rail throughout Latvia (About us. JSC...). The company has been delegated functions under Section 88 of the State Administration Structure Law, Part 2 of Paragraph 1, which states that a public entity may found a capital company for performing its functions efficiently if this leads to the production of goods or services that are strategically important for an administrative territory of Latvia or a municipality or for national security (State Administration..., 2002). Therefore, the company should be considered to be a derived public entity the purpose of which involves supplying sustainable, accessible and uninterrupted passenger transport services that meet the needs of efficient mobility, contribute to the accessibility of the country's regions and promotes public confidence in public rail transport, thereby making it an informed and rational choice due to the convenience and quality of the services, as well as develop competitive and economically justified mobility services in the Baltic region (State Administration..., 2002).

The general rules of internal policy provide that the creation of an ICS at a company is the responsibility of its executive board, with the effectiveness monitored by its supervisory board. In contrast to the example of the Road Transport Administration described above, the strategy of the JSC Passenger Train for internal control prescribes an important requirement that can contribute to effective risk management – a strict goal and obligation for senior officers to create an ICS and monitor its effectiveness. This requirement has been complemented by the need to achieve the company's strategic objectives through implementing a risk management system after the approval of a risk management policy based on a decision of the Supervisory Board and the approval of risk management rules based on a decision of the Executive Board, with the Executive Board discussing a report on the risk management measures

taken and the risk management policy implemented twice a year (Internal control...).

The above allows us to conclude that managing the ICS involves three lines of protection: first-line functions include management controls, internal controls and risk management; second-line functions comprise financial control, risk management and process management, thereby ensuring that the risks and controls set at the first line are managed; and third-line functions involve assuring the effectiveness of first- and second-line functions (Internal Control...). The three lines of protection are controlled by department heads, the executive board and the supervisory board through applying the classical management approach that views management as a process of planning, leading, managing and controlling personnel to achieve goals, i.e. management is a process that involves strategic planning, goal setting and resource management (Kumar, 2017). In the opinion of the authors, defining clear competencies for the mentioned management levels is a prerequisite for a quality ICS that directly prevents conflicts of interest and corruption, as clear roles are set for the manager at each level.

In the opinion of the authors and as mentioned above, a significant advantage of a company, which distinguishes it from other institutions in connection to risk management, is the fact that it involves stronger involvement of the executive board not only in identifying risks but also in controlling them. At the same time, the aspects of the risk management policy that provide for specific elements of risk management without giving definitions and explanations for the implementation make an impression that such an approach might not be fully applied in practice.

The weaknesses include no risk management programme, no training obligation and no approved procedure for the flow of information on the risks identified. The opportunities identified: sustainability of the ICS, quality risk management and control, as well as clear managerial expectations for personnel.

The principles of internal control in the transport industry have been analysed above, but it is also worth examining the risk management policies of institutions in the telecommunications industry, specifically in the area of conflict of interest and corruption. The Latvian State Radio and Television Centre (LVRTC) is a capital company owned by the government, and its mission is to ensure that every resident has an opportunity to receive and broadcast information in a safe way and quickly. The key mission of LVRTC is to supply and develop information and communication technology infrastructures and services of high availability, integrity and security, thereby contributing to effective governance and security in the country and the growth of the economy (About us. Latvia...).

According to the LVRTC website, risk management at LVRTC involves a set of measures that allows the company to identify and analyse risks and take adequate measures regularly to mitigate the probability of risks occurring or impacting the effective achievement of the company's goals and objectives and the performance of its functions (Risk Management). To achieve the operational objectives set by LVRTC, the LVRTC Risk and Quality Management Department has developed an internal control policy. The above-mentioned fact shows that the institution has a separate department mandated to design rules for introducing an ICS. In the authors' opinion, the internal control policy of LVRTC has been made comprehensible and clear to everyone by giving all the relevant terms and abbreviations at the beginning of a chapter, in addition to a general description of its internal control. The internal control policy clearly specifies the level of responsibility for those involved in internal control by stating that the introduction of an ICS is a goal for the management, while the effective implementation thereof is the responsibility of any LVRTC personnel (Internal Control Policy...).

The above finding, in the authors' opinion, might show a significant cornerstone in the functioning of internal control systems, as the effective implementation of risk management (including the identification and prevention of conflicts of interest and corruption) depends on the responsibility of the institution's personnel (including their knowledge and perception of the need to prevent such risks).

An assessment of the general requirements for the introduction of an ICS set by LVRTC indicates that the ICS should provide a reasonable balance between the risks and the costs of mitigation measures. The research has already extensively analysed measures to prevent conflict of interest and corruption risks: every official is responsible for preventing conflict of interest and corruption in his/her activities, and to ensure this, it is necessary to be aware of the nature and manifestations of the risks in practice. In addition, every official should also carefully consider his/her involvement in decision-making on a case-by-case basis and responsibly combine positions and exercise the powers granted to the position. It is not clearly understood why the internal control policy of LVRTC emphasizes the need to adapt to risks and balance them with mitigation measures, as this approach raises legitimate concerns about quality control of risk management. The risk monitoring procedure established could be viewed positively, as it prescribes regular control of activities, continuous monitoring elements are integrated into the information system and LVRTC performance reports or indicators are analysed to identify internal control weaknesses and the ways to eliminate them.

The analysis of the ICS policy of LVRTC ends with a section of the rules that envisage the development of the ICS. As mentioned above, it is important that the risk prevention plan and risk coordination are “viable” in practice, enhanced and adjusted in line with the latest approach and risk management standards. The chapter clearly states that planning the development of the ICS is expected to result in a consistent, continuous and integrated ICS (Internal control policy...). However, despite the plans to develop the ICS, the ICS policy of LVRTC is reviewed only every three years, which, in the authors’ opinion, is too long a period for risk management to be considered effective at the institution.

The health industry is one in which risk management is crucial to the functioning of the institution, as this activity is directly linked to patient safety, which in turn is interpreted as reducing the risk of unnecessary healthcare-related harm to an acceptable minimum (Pelčeja, 2016). Public perceptions of conflict of interest and corruption in a health institution are much more negative than those in other industries, as it should be taken into account that the main goal of medical personnel is to provide care to patients, and financial benefits should only be a secondary consideration (Conflicts of Interest...).

The National Health Service (hereinafter the NHS) is an institution controlled by the Ministry of Health, and its purpose is to implement national policies related to healthcare services and administer government budget funding allocated for healthcare, thereby contributing to rational and efficient use of public funding for the supply of healthcare services, as well as implementing national e-health policies (About us. National...). To objectively assess the aspects of internal control systems and risk management at national institutions, it is worth examining the health industry’s private sector ICS policies affected by the NHS. The NHS has designed guidelines for private outpatient medical institutions on basic requirements for an ICS to prevent corruption and conflict of interest risks (Guidelines on...). The NHS guidelines include some content of the KNAB guidelines, while giving some clarifications and explanations. For example, concerning the procedure for combining positions, it is additionally pointed out that the employer’s awareness of whether an employee is an employee or employer in another institution(s), how the working hours are planned and other important information might help to prevent potential conflicts of interest, find solutions thereto, i.e. in situations where complaints are independently received about the quality of services supplied by a particular employee etc. The risk communication procedure has been supplemented by a note that the information about potential violations could be used for the identification, analysis and prevention of corruption and conflicts of interest (Guidelines on...).

After analysing the above, it could be concluded that the NHS has not applied a specific individual approach to the health industry for risk management at a health institution, e.g. it is not clear how poor-quality services provided by a medical practitioner could give rise to indications of a conflict of interest risk, nor is it self-evident that information on violations identified contributes to further risk identification and analysis. In view of the above, it is clear that formal adoption of the KNAB guidelines cannot ensure effective risk management at an institution. The authors have analysed the information contained in the KNAB guidelines and generally concluded that they contain many useful tools for managing conflict of interest and corruption risks, yet it is important to be aware that the requirements for institutional practice need to be aligned with the specifics of and subordinated to the operational functions of a particular institution, as successfully implemented by institutions such as the JSC passenger Train and LVRTC.

As regards the prevention of conflict of interest and corruption risks in municipalities, the authors examined basic requirements for an ICS set by the local governments of Ropazi municipality and Rezekne municipality. Initially, attention should be paid to the terminology used in the regulations – the local government of Rezekne municipality defines corruption terms and includes a definition of a “corruption risk area”, which has not been found in other policy documents on risk management to date. Ropazi municipality focuses on broader risk management terms such as institution, head of institution, risk analysis and risk management (Regulation regarding..., 2022). Ropazi municipality has emphasized the role of a manager in managing the risks, stating that the manager approves ethical principles and assigns responsibilities and powers to personnel and decision-making procedures (Regulation regarding..., 2022).

The approach differs from the usual practice of assigning risk management responsibilities by the manager, as this does not require the manager to implement, control and monitor risk management. It is important to note that the manager is obliged to approve ethical principles for employees. However, in the authors’ opinion, this approach is superficial and does not fully ensure the manager’s involvement in risk management, which significantly affects the quality – in this case, the regulations adopted by Rezekne municipality are more effective because the head of the institution sets the procedure for identifying potential corruption risks and job positions exposed to corruption risks (About Corruption..., 2023). Particularly noteworthy is the information included in the risk management policy of Rezekne municipality on updating the institution’s anti-corruption plans in cases the institution has undergone reorganization, an operational mandate is given, a corruption or conflict of

interest situation has occurred, potential violations at the institution have been reported and an anti-corruption measure set by the anti-corruption action plan has been taken (About Corruption..., 2023). It should be mentioned that once the risk management procedure has been designed and if it is actively and practically applied at an institution, the level of risk management maturity increases naturally, leading to an enhanced risk management system (Risk Management). In view of the above and as repeatedly pointed out in the research, one of the quality indicators of an ICS is the review and enhancement of the risk management policy. In the opinion of the authors, it is the risk management regulations of Rezekne municipality that provide detailed and effective indicators to be taken into account when making changes to an ICS (e.g. the need to update the anti-corruption plan is strictly defined in cases a specific corruption or conflict of interest situation has occurred).

Although the above-mentioned advantage is significant for managing conflict of interest and corruption risks in Rezekne municipality, the requirements for an ICS are short and contain only a description of the role of the manager and the anti-corruption plan, whereas a description of an ICS established in Ropaži municipality is more detailed and includes a procedure for identifying, analysing and assessing corruption risks, as well as an assessment of positions exposed to corruption risks and measures to prevent the corruption risks (Regulation regarding..., 2022). In this case, similar to the guidelines developed by the NHS, the KNAB guidelines have been transposed exactly and not aligned with the specifics of the institution. In addition, employing the pairwise comparison method for prioritization, the authors analysed the key elements of the internal control systems of the above institutions (Table 2) and gave a score of 1 point to the risk prevention measure that was more important than the one being compared with.

The above analysis revealed that a combination of positions was one of the most important elements of the ICS compared with others. It should be noted that before the entry into force of Cabinet Regulation No 630 in 2017 and the implementation of the KNAB guidelines in 2018, a combination of positions was practically the only tool to prevent potential conflicts of interest at national institutions. Naturally, the risk management policies of all the institutions analysed above predominantly provided for position combinations. This was due to the possibility of identifying potential conflicts of interest that might arise in the most preventive way.

Table 2 Pairwise comparison of the key elements of the internal control systems of the institutions (authors' own compilation)

	Clear definitions	Management involvement	Communication procedure	Procedure for updating the risk policy	Obligation to observe ethical principles	Employee training	Combination of positions	Total:
Clear definitions		0	0	0	1	0	0	1
Management involvement	1		1	0	1	0	0	3
Communication procedure	1	0		0	1	0	0	2
Procedure for updating the risk policy	1	1	1		1	1	0	5
Obligation to observe ethical principles	0	0	0	0		0	0	0
Employee training	1	1	1	0	1		0	4
Combination of positions	1	1	1	1	1	1		6

The second most important factor involved updating risk management policies (including internal legal documents and a risk register). The SWOT analysis revealed that a threat caused by a risk management policy that was not regularly enhanced and updated was the ineffective functioning thereof in practice. The fact that risk registers were not updated with new, previously unidentified risks and the impact was not adequately assessed made an impression of a formal ICS being prepared but not implemented in practice. Regular personnel training on conflict of interest and anti-corruption was ranked third highest, while a cross-comparison of ICS measures showed that management involvement in ICS implementation and development was ranked only fourth. Although the theory stresses the role of management involvement in risk management, a comparison with other measures revealed that combining positions, training personnel and updating risk management policy documentation were more important measures for effective risk management. In the authors' opinion, this was due to the fact that the manager's role in introducing and monitoring an ICS represented mostly a control function, whereas the above measures related to real actions to prevent potential conflict of interest and corruption risks.

The lowest scores were given to the communication procedure and the availability of clear definitions in the ICS documentation. However, the introduction of ethical standards in the ICS did not get any points. An analysis of risk management at national institutions in other European countries found that implementing the ethical guidelines in practice could prevent conflict of interest and corruption risks. At the same time, compliance with the ethical standards by officials in the Republic of Latvia

was referred to in several legal acts. Incorporating the ethical standards in the ICS documentation actually serves as a reminder to officials to perform their responsibilities in good faith, but it is not a crucial aspect for preventing conflict of interest and corruption risks.

Conclusions and suggestions

A complete and risk-management-compliant ICS policy was implemented by national institutions in which it was designed by a separate risk management department – this was confirmed by the example of LVRTC and its knowledge-based risk management approach, as well as the opinion of the officials interviewed about the need to establish a separate risk management department as a crucial factor in effective risk management.

Following the example of the risk management policy of the JSC Passenger Train, an effective risk management process could be established by integrating three lines of protection into an institution's operations, with risk management control being delegated to three management levels, thereby ensuring full involvement of the institution's management in risk management.

The high performance of an ICS could be achieved by establishing a detailed procedure for reviewing and enhancing the risk management policy – the regulations regarding the ICS in Rezekne municipality clearly and explicitly stipulated the obligation to review the content of the risk management policy after specific risks had occurred in the activities of the institutions.

To achieve the full implementation of an ICS in the area of conflict of interest and corruption, sectoral representatives together with KNAB need to introduce specific regulations for each industry, depending on the kind of activity; e.g. in the healthcare industry, measures should be taken to prevent the risks of medical institution employees using their official position to create better conditions for patients (their relatives) at a particular institution.

To raise awareness of the need for an ICS among personnel in institutions, it is essential to ensure that risk management policy documentation, including ICS binding documents, includes definitions of terms and the purpose of introducing an ICS at an institution – these aspects should be included by KNAB and the Cabinet in Cabinet Regulation No 630.

To ensure transparency of institutional activities as well as to achieve strategic goals, the institutions need to comply not only with the obligation set by the KNAB guidelines to publish the measures taken in the previous

year to prevent conflict of interest and corruption but also to publish the above-mentioned risk management policy documentation (excluding classified information), which would raise public awareness of the control of activities of officials at a particular institution.

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