

2013 Audits

by State Audit Office of Georgia

/ Major Trends, Problems and Recommendations /



2013 Audits by State Audit Office of Georgia – Major Trends, Problems and Recommendations

Since the 2012 parliamentary election the State Audit Office has conducted almost twice the number of financial and compliance and budget execution audits in 2011 and 2012 combined - 29 audits in 2011, 24 audits in 2012, 49 audits in 2010, and 95 audits in 2013 that captured the period from 2004 to 2013. Virtually all of the 2013 audit reports have been made public. We believe this momentum can help increase accountability and transparency in public spending.

Although there are a number of omissions and inaccuracies in the SAO audit reports summarized below,¹ we can safely say the number of thorough and comprehensive financial, compliance, budget execution and performance audits conducted in 2013 is the highest in a single year in the history of the State Audit Office and Chamber of Control, its predecessor. Despite the depth and breadth of the 2013 performance audits, the State Audit Office still has a lot of work to do, as performance audits present a completely different challenge to auditors as it is very difficult to reduce performance audits to any regulations or directions. However, it would be unfair to overlook the fact that a number of thorough and quality audits had been conducted before 2013 as well. The number of thorough audits before 2013, however, is much lower than in 2013. Therefore, 2013 stands out not just in terms of the number of audits, but also in terms of audit quality.²

¹ 1. The report on the audit of the efficiency of professional education contends that curricula development, as the international practice has it, is centralized, which is not the case. There are countries, e.g. Finland, where the development of curricula framework rather than curricula development is centralized. Needless to say, the totalitarian countries where curricula development is centralized do not offer models to replicate. 2. The 2011 report of the financial and compliance audits of the Ministry of Culture and Monument Protection and the 2012 report of the financial audit of the Ministry of Education and Science refer to consumption of capital as a problem in the Ministries' accounting overlooking the fact that it is impossible to track consumption of capital under the current budgetary system. According to the budgetary classification in force at the moment, consumption of capital involves the reduction in the value of the assets owned and used by a government entity due to physical wear, obsolescence or accidental damage in the accounting period, rather than just physical wear and tear. Consumption of capital, being more than just wear and tear, can be accounted for when the system of accrual budgeting is in place.

² 1. Financial and compliance audit of the Ministry of the Interior, 2011-2012; 2. Financial and compliance audit of the Constitutional Security Department of the Ministry of the Interior, 2011-2012; 3. Financial Audit of the Security Police Department of the Ministry of the Interior, 2008-2009; 4. State budget execution audit of the Ministry of Labour, Health, and Social Protection for 2012; 5. Audit of the legality of fundraising and purpose-specific spending on the construction of the parliament building in Kutaisi, 2009-2012. 6. Audit of financial accounts of Samkharauli National Forensic Bureau, 2009-2012; 7. Audit of the efficiency of the professional education reforms in Georgia, 2010-2012; 8. Financial and compliance audit of the Ministry of Culture and the Protection of Monuments, 2011; 9. Audit of the efficiency of measures for the establishment of domestic state financial control, 2010-2012; 10. HIV/AIDS: Audit of the efficiency of national response for 2008-2011; 11. Audit of the Ministry of Finance and Economy of the Ajara Autonomous Republic for 2012; 12. Compliance audit of the rehabilitation of education, cultural, sport, and recreation facilities in Batumi and education, culture, sport, and youth affairs programmes for 2011-2012; 13. Compliance audit of the privatization and assignment for use of the property of Kutaisi City Hall for 2009-2012; 14. Financial audit of the Civil Registry Agency for 2007-2010.

The audit reports typically document **1.** major shortcomings in planning budgetary programmes **2.** keeping track of accounts receivable and accounts payable **3.** other problems in accounting **4.** failure to comply with public procurement legislation and control public procurement, including artificial restriction of competition **5.** exuberant and inefficient budget spending **6.** essential weaknesses in public internal financial control.

State Audit Office: **1.** issued five adverse opinion reports.³ Auditors give adverse opinion, when they find essential shortcomings in accounting and find the information presented unreliable and incompatible with applicable standards and regulations **2.** issued a disclaimer of opinion,⁴ which is a statement by auditors that they do not express an opinion on the financial position because they have not completed an examination of the auditee's accounts or the examination is not broad enough to enable them to form an opinion. **3.** issued ten qualified opinion reports.⁵ Qualified opinion is given when the financial statements are materially misstated due to misstatement in one particular account balance, class of transaction or disclosure that does not have pervasive effect on the financial statement, or when the auditor is unable to obtain audit evidence regarding particular account balance, class of transaction or disclosure that does not have pervasive effect on the financial statements.

Below, we give user-friendly summaries of the key findings and recommendations in the SAO audit reports regarding public spending at variance with law and the state budget. The summaries do not give assessment of the findings and recommendations in the audit reports.

³ 1. Financial and compliance audit of the Ministry of Culture and the Protection of Monuments, 2011; 2. Audit of financial accounts of Samkharauli National Forensic Bureau, 2010; 3. Audit of financial accounts of Samkharauli National Forensic Bureau, 2011; 4. Audit of financial accounts of Samkharauli National Forensic Bureau as of 30 June 2012; 5. Financial and compliance audit of the Ministry of the Interior, 2011-2012.

⁴ Audit of financial reporting by Samkharauli National Forensic Bureau, 2009.

⁵ Financial audit of the Ministry of Education and Science for the period of 1 January 2012 - 31 December 2012; Financial and compliance audit of the Constitutional Security Department of the Ministry of the Interior in 2011-2012; Audit of the Ministry of Finance and Ministry of Economy of the Ajara Autonomous Republic for 2012; Financial and compliance audit of the staff of the government of the Ajara Autonomous Republic for 2012; Financial audit of the Ministry of Health and Social Protection of the Ajara Autonomous Republic for 2013; Compliance audit of the rehabilitation of education, cultural, sport, and recreation facilities in Batumi and education, culture, sport, and youth affairs programmes for 2011-2012; Compliance audit of the Ministry of Education, culture, and Sport of the Ajara Autonomous Republic for 2012; Financial audit of the Supreme Council of the Ajara Autonomous Republic for 2013; Audit of the Batumi Oil Refinery Ltd for 2010-2012.

1. Financial and compliance audit of the Headquarters of the Ministry of the Interior

Audit period: 1 Jan 2011 - 30 Sep 2012

The supreme auditor gave an adverse opinion in view of:

- 1. Serious Problems with purpose-specificity of Mol's public procurements** Under the pretext of urgent need and in violation of the applicable legislation the Mol concluded 507 simplified procurement contracts worth GEL 31.6 million in violation of the applicable procurement thresholds. The procurement of goods or services worth more than GEL 5,000 is often done without bidding even when these are not connected with maintaining security and public order. On occasions the Mol purchased expensive household goods that were not indispensable to the ministry's functions.
- 2. Numerous documents submitted to the accounting department are incomplete and fail to document spending.** Most of the accounting documents do not give detailed information on what the money was spent, which makes it impossible to establish whether or not the operation was lawful and purpose-specific, e.g., representational expenses are poorly documented (receipts, menus, invoice, documents of receipt of services, etc), which makes it impossible for the Accounting Department to establish whether or not expenses were incurred, how lawful/purpose-specific these were, what the money was spent on. The Accounting Department is not in possession of the public procurement documentation the Ministry was to file with the Ministry of Finance to avoid double taxation, which resulted in the Mol paying much more in the bidding round.
- 3. Suspicious A/R & A/P on the Mol balance sheet.**⁶ While suppliers deliver goods to the ministry, they often fail to (appropriately) document their delivery, which amasses millions of laris in accounts receivable: e.g. delivery of GEL 4 million worth of goods is documented with major inaccuracies.
- 4. Income tax is not paid.** The ministry rented flats for some of its employees but failed to pay income tax.
- 5. There are serious shortcomings in planning budgetary programmes.** Budget spending is often wasteful, unwarranted by circumstances and done on an ad hoc basis. Due to shortcomings in planning wages and public procurements, the ministry accumulated surplus, which it spent either on procurements not planned at the beginning of the year or on financing other structural entities. The spending of these free funds was mostly carried out on grounds of urgent need and procurements were made without bidding, which rules out competition and bears significant risks.
- 6. The Mol paid GEL 2.1 million in bonuses while it owed GEL 7.5 million in salaries.** A certain small number of employees (high-ranking officials) regularly received bonuses "for honestly carrying out their duties and high professionalism". These people often received bonuses

⁶ Accounts receivable (A/R) is a legally enforceable claim for payment from an organization to its suppliers for goods supplied and/or services rendered. Accounts payable (A/P) is money owed by an organization to its suppliers shown as a liability on the balance sheet.

twice a month, which resulted in a situation, where some of them received bonuses 13 to 25 times a year.

7. **8 Georgian and 26 Ukrainian citizens received gift of weapons without any grounds.** Those who were received the gifts (except one) were not employees of the ministry and none of the orders issued in connection with this mentions their job/position. The documents submitted for audit do not make it clear what specific services they rendered to the police or what contribution they made to the country's development.
8. **The carrying value of certain buildings on the balance sheet are at variance with their real value:** The real value of the property handed over to the MoI by the Ministry of Economy and Sustainable Development was not put on the MoI balance sheet as its value had never been established. Property worth GEL 347,900 privatized in 2008-2009 continued to remain on the MoI balance sheet into 2012.

Recommendation:

The Audit Office issued general recommendations regarding the problems, noting that the leadership of the ministry should set up a system of internal control to anticipate major misstatements caused by fraud and omissions. At the same time the State Audit Office emphasized the need to improve the process of planning and implementing the activities. The State Audit Office sent a criminal referral to the Chief Prosecutor's Office for the MoI.

2. Financial and compliance audit of the Constitutional Security Department of the Ministry of the Interior

Audit period: Jan 2011 - Nov 2012

Problems:

1. **Difference between accounting data and commodity balance.**⁷ The comparison between the remaining balance and the warehouse balance showed a difference. As a result of a physical check, the Audit Office found that items worth GEL 178,500 were not in their places.
2. **Public procurements.** The department often used the principle of simplified procurements, which was said to be due to the necessity. However, the procurement of various items was scheduled in advance and the department had sufficient time to announce bidding rounds.
3. **Planning business trips.** Business trips outside the country were often planned incorrectly, timeframes of the trips were expanded and tickets were purchased anew, which led to the excessive spending the budget. Orders for business trips inside the country were issued after the time of the trips was over.

⁷ Commodity balance (the same as inventory balance) is the amount of goods remaining in a warehouse and registered according to the regulations of the Tax Code.

4. **Expenses for repairing vehicles.** The department spent GEL 1,367,500 for maintaining transport and equipment in 2011 and GEL 1,445,900 in 2012. Given the fact that the department has 500 vehicles, repair costs are very high.
5. **Bonuses.** High-ranking officials received high bonuses in short periods. In particular, the head of the General Inspection received GEL 31,250 as bonuses during the period of three months, and the head of the Constitutional Security Department GEL 39,500 during four months.
6. **Arrears of salaries.** The arrears accumulated by excessive issuance of salaries amounted to GEL 4,100 from 1 January to 30 November 2012. The aforementioned sum is not reflected in accounting reports and did not undergo accounting registration, which is a violation of law.

3. Financial Audit of the Security Police Department of the Ministry of the Interior **Audit period: 1 Jan 2008 - 31 Dec 2009**

Problems:

1. **Public procurement** contravenes applicable legislation (the names of items purchased are not mentioned, nor are their technical detail, key features, identification data, numbers, and units price and all units in general; none of the protocols of the meetings of the tender board of the department contains information on price bids of applicants; members of the tender board made illogical assessments and gave fewer points to the applicants, who obviously had better bids according to some criteria, which led to the victory of applicants with worse bids; members of the tender commission also assessed wrongly the forms and conditions of payment).
2. No appropriate measures are taken to claim accounts receivable.
3. State property is written off without appropriate consent.
4. In addition to services mentioned in the reports of technical inspection of vehicles and work completion certificates, corresponding invoices comprise other works done and paid for.
5. The amount of work was artificially increased in several building and repair completion certificates.

4. Audit of the legality of fundraising and purpose-specific spending on the construction of the parliament building in Kutaisi **Audit period: 2009-2012**

Problems:

1. **The parliament building in Kutaisi was built without permit.** The aforementioned building is among the buildings of special importance. The Technical and Building Supervision Agency,

which is part of the Ministry of Economy and Sustainable Development, issues permissions for constructing such buildings. In this case, the agency had not issued such permission.

2. **Funds necessary for the construction were raised in violation of law.** Around GEL 100,000 million of public funds allocated by the programme for promotion of state-run enterprises to boost the capital of the State Services Ltd was spent on the construction of the parliament building in violation of the 2012 budget law.
3. **The Ministry of Economy failed to submit to the Audit Office documents reflecting the monitoring carried out by the ministry.** It remained unclear to what extent the buyers, who received the property of the State Services Bureau at a price lower than the estimated price in exchange for fulfilling certain obligation, met the requirements of the agreement.
4. **The real value of the property sold by the State Services Bureau Ltd was not established.** In a number of cases, the value of the property the auditor evaluated at the moment of sale was significantly higher than the evaluation of the value at the moment it became part of the capital and vice versa, the value evaluated at the moment of becoming part of the capital was, in some cases, much lower than the value of the property sold.
5. **Work was done without necessary documents.** No certificate of completion was drawn up for a piece of architectural work, but GEL 6,130,704 was nevertheless paid for the design work; an inspection group issued a report on the satisfactory completion of drilling and demolition work, but none of the members of the inspection group has signed the report, although the Improvement Service of Kutaisi City Hall decided that the aforementioned work was completed; they failed to file to the Audit Office the planning and estimate documents for the construction of the parliament building.

5. Audit of state budget execution of the Ministry of Labour, Health, and Social Affairs

Audit period: 2012

Problems:

1. **The programme of rehabilitating and equipping medical facilities.** The activities within the framework of the 2012 programme of rehabilitating and equipping failed to achieve its objectives. The national training centre that was part of the rehabilitation component has not started operating. No work for the money paid in advance for repair operations has been accepted as complete.
2. **Setting up the unified health care information centre.** Programme licences and services necessary for the technical infrastructure were paid for in advance, but without any appropriate banking guarantees. No steps taken to start setting up the system.
3. **Sales of rehabilitated facilities.** The buildings of the Georgian Railways Central Clinical Hospital with the adjacent area and Ghivi Zhvania Children's Clinic with the adjacent area realized GEL 9.6 million and GEL 8.7 million respectively (the estimated value of both GEL 47

million). The prices at which the properties were realized do not include costs of rehabilitation.

- 4. The unified database of job seekers.** The Agency for Social Services has failed to ensure that people other than job seekers should not be on the database
- 5. Evidence of work done.** The Agency for Social Services failed to produce evidence on the work done by contracted 21,837 staff worth GEL 5.280 million
- 6. The social assistance programme.** The database of the socially vulnerable has major inaccuracies. No efficient controls are in place. Although the director of the Agency for Social Services set a threshold of GEL 200 a month for discontinuing subsistence allowance to beneficiary families, the database had beneficiaries with annual income exceeding GEL 10,000 and those who owned two or more modern (non-Soviet) cars. The former received GEL 234,378 in subsistence allowances while the latter received GEL 373,494, total waste of GEL 607,872.
- 7. Social rehabilitation and child care programme (GEL 12.4 million).** In 2011-2012 the ministry did not plan the programme based on the number of registered beneficiaries. The ministry does not have procedures in place to replace ineligible beneficiaries with new beneficiaries so the programme should be made available to as many beneficiaries as possible.
- 8. Overlap.** A subcomponent - Outpatient Services in Tbilisi - was added to the Village Doctor programme in September (for a month in the transitional period). The budget of GEL 477,400 was allocated for the subcomponent although the aforementioned services were envisioned under the insurance programme (Government Resolution No 165 of 7 May 2012) from September. It follows that both programmes envisioned providing services to the people of the same age during the same period wasting GEL 477,400.
- 9. Inventory.** The central staff of the ministry has not taken inventory of assets on its balance sheet since 2008.

Recommendations:

- 1.** It is advisable that the ministry ensure precise planning of the budgets of healthcare programmes and correctly define the purposes of programmes in order to avoid non-purpose-specific expenditures.
- 2.** The ministry spent a big part of the budget on activities that were halted and the expected final result was not achieved at the end of the period. The ministry should ensure the continuity of the activities launched within the frames of programmes and effective spending of state resources in order to achieve set objectives. The aforementioned shortcoming in planning and managing funds that has been mentioned in all audit reports over the past five years is a distinctive problem for the ministry.
- 3.** The ministry and respective agencies should put in place efficient measures of control to ensure constant monitoring of the authenticity of property status of the socially vulnerable.
- 4.** The ministry should introduce a system of monitoring its A/P and A/R to be able to write off old debts

5. It is advisable that the Social Service Agency legal entity, whose functions are distinguished by large volumes and scale, elaborate an accounting policy and conduct software-based accounting. Manual accounting should be eliminated.
6. The ministry should introduce procedures of control in order to avoid shortcomings and correct existing ones in the process of submission of financial accounts and the consolidation of the accounting of individual entities of the ministry.
7. The ministry should ensure the evaluation of the real value of the property on the basis of the rules set forth in the legislation. It should also establish the size of the property on its own balance sheet and the area it occupies. It is advisable to take appropriate measures to improve the management of dysfunctional property listed on the balance sheet of the ministry.

6. Audit of the Heart Surgery Programme of the Ministry of Labour, Health, and Social Protection

Audit period: 1 Jan 2008 - 31 Dec 2011

Problems:

1. Unreasonable spending

- 1.1 In 2009-2012, treatment was conducted on the basis of vouchers, due to which biddings for purchasing services were no longer held. Tariffs of services under vouchers were significantly higher than the market prices in biddings. The use of the system of biddings in 2009-2010, when the programme was voucherized, could enable the ministry to save GEL 855,851 and citizens to save GEL 366,793, which amounts to a total of GEL 1,222,644.
- 1.2 The treatment tariff was established in 2011 at the low bidding prices of 2007. Due to the fact that in 2008-2010, surgeries under the programme were planned at high prices and high expenditures, GEL 2,012,560 were paid from the budget and beneficiaries of the programme co-paid additional GEL 1,064,034, which amounted to a total of GEL 3,076,594.
- 1.3 Surgery rates were not close to actual expenditures. Clinics fully used budget resources and expenses on operations were much lower than the tariffs.
- 1.4 The lack of standards of services and disregard for what medical interference is necessary for specific diseases were significant shortcomings of the pricing policy. Compared to the standards of factual treatment abolished in 2007, the number of treatment measures exceeds standards, which makes the tariff more expensive by 12.5%. As a result, the value of one episode increases by GEL 1,933.

2. Collusion Clinics and their main providers are connected with common financial interests, as the circle of their founders is identical. In conditions, where medicines and consumables are supplied by their own companies, clinics are not interested in purchasing products at competitive prices, which artificially maintain high tariffs of treatment.

Recommendation:

The ministry should study cases of treatment involving complications and mortality and monitor the indicators of the quality of treatment and regularly analyse these, which will allow it to minimize and manage risks linked to medical materials used in treatment and quality of treatment.

7. Compliance audit of the Programme of the Optimization of Medical Facilities of the Georgian Centre of Healthcare and Social Protection Projects (1 Sep 2004 - 1 Jul 2007) and the Rehabilitation and Equipment Programme (1 Jan 2007 - 1 Jan 2010)

Audit period: 1 Sep 2004 - 1 Jul 2007

1 Jan 2007 - 1 Jan 2010

Problems:

1. GEL 452,300 were spent for purposes other than intended.
2. The bidding price of the Block-Georgia Ltd company (GEL 6,376,100) that won the tender announced on 24 February 2006 was by GEL 2,590,800 higher than the bidding price of other contenders (GEL 3,785,300), which inflicted a direct damage of GEL 2,590,800 on the state budget.
3. Punitive sanctions envisioned by the agreement were not used in connection with the violations of the conditions of the agreement by suppliers in the period from 2004-2006 to November 2007, due to which GEL 3,200,000 were not directed to the appropriate account in the budget.
4. In the period from 2005 to November 2007, expenditures made without formalizing any legal provisions in disregard for laws and bylaws regulating public procurements as well as the demands of bidding documents amounted to GEL 8,400,000.

8. Compliance audit of the Georgian National Bank (non-classified part)

Audit period: 2009-2012

Problems:

The only problem mentioned in the audit report is the difference between the planned budget and expenditure actually made (a total of GEL 446,911 in 2009-2012), which is indicative of the fact that the management had weaknesses in planning the budget.

9. Financial audit of the Ministry of Education and Science

Audit period: 1 Jan 2012 - 31 Dec 2012

The auditor gave a qualified opinion⁸ in view of the following problems:

Problems:

1. **The internal system of state financial control** is weak.
2. **Public procurement.** Non-observance of law and rules in the process of making public procurements, artificial restriction of competition, mismatch between agreements signed, certificates of completion, and reimbursements paid.
3. **Unregistered property:** 63,08 hectares of land used by 10 scientific-research institutions and the National Scientific Library are not evaluated and registered on the balance sheet; 60,701 square metres of buildings on the balance sheets of scientific-research centres of Tbilisi State University and Georgian Technical University are not registered.
4. **Planning the budget:** The frequency and amount of changes in the accounting within the frames of the budget point to the fact that the budget is not planned in an appropriate manner. The total size of changes amounted to GEL 22,428,700 by the end of February.
5. **Accounts receivable.** The study of the common register of debtors and creditors showed dozens of thousands of laris of accounts receivable registered with the entities subordinated to the ministry.
6. **Incorrect classification of the main assets.**

Recommendations:

1. Ensure supervision of changes in the distribution of allocations; elaborate procedures for internal audit on the basis of international standards; and observe the demands of monitoring measures.
2. Request from the Georgian Municipal Development Fund public legal corporate entity submission of the project of changing and strengthening Georgia's education system, which will become the basis for writing off accounts receivable amounting to GEL 2,748,900; plan and carry out appropriate procedures aimed at writing off the accounts receivable of liquidated organizations; registering accounts receivable in the entities subordinated to the ministry, the receivers of a sum should register corresponding accounts receivable.
3. Improve the quality of planning the budget; observe the limits established by the budget code when distributing allocations.
4. Relevant agencies of the ministry should ensure the observance of laws and procedures regulating procurements, carry out audits, submit appropriate information and documents

⁸ Auditors give qualified opinions, when there are facts and circumstances (shortcomings and violations) that make an unqualified opinion impossible.

on violations found to law enforcement agencies, and ensure compliance of the data in the certificates of completion with the agreements signed.

10. Audit of Budgetary Spending by the Ministry of IDPs from Georgia's Occupied Territories, Housing, and Refugees

Audit period: 2012

Problems:

- 1. Realignment of GEL 15,460,800** was attempted 43 times during the year. The sum is 38.3% of the budget approved and is almost twice as much as in 2011. This points to shortcomings in planning the budget.
- 2. Accounts Receivable:** No appropriate measures were taken to liquidate the accounts receivable amounting to GEL 95,800.
- 3. Accounts Payable:** of GEL 3,921,700 is not traceable by organizations that owe it. The A/P which is not traceable by date and debtor is 76.7% of the total A/P.

11. Audit of Accounting of the Ministry of Finance

Audit period: 1 Jan 2011 - 31 Dec 2011

The auditor gave a qualified opinion in view of the following problems:

The ministry did not write off the unpaid GEL 5,517 of accounts payable accrued in the previous periods and the GEL 902,000 of irrecoverable accounts receivable and did not register them in appropriate articles of reference books, which goes contrary to the instruction set forth in Order 1321 of the minister of finance of 28 December 2007 "On the accounting of organization funded from the budget".

12. Financial and compliance audit of the Ministry of Culture and Monument Protection

Audit period: 1 Jan 2011 - 31 Dec 2011

The auditor gave an adverse opinion in view of the following circumstances:⁹

⁹Auditors give adverse opinion, when they find essential shortcomings in accounting and find the information presented unreliable and incompatible with applicable standards and regulations. Auditors issue a disclaimer of opinion, which is a statement by auditors that they do not express an opinion on the financial position because

- 1. Serious problems in accounting:**
 - 1.1.** Property of at least GEL 11,703,700 unaccounted for
 - 1.2.** GEL 172,300 in accounts receivable written off, which was unwarranted by circumstances
 - 1.3.** National Museum's accounts receivable unaccounted for.
- 2. Inaccuracies and shortcomings in public procurement:**
 - 1.** made under the pretext of urgent need
 - 2.** transfers made without proper estimates, which makes it impossible to track proceeds from sponsors or ticket sales. The difference between the two is how much a function receives from the state budget
 - 3.** identified essential discrepancies between certificates of completion and the documents confirming the amount of work done by contractors
 - 4.** terms and conditions for contenders as detailed in public procurement requests were incoherent and criteria for assessment unfounded
 - 5.** unreasonably tight schedules for rehabilitation projects in Kakheti: signing agreements completion of work.
- 3. Overpayments:**
 - 1.** The Ministry paid *Eastern Promotion* GEL 115,900, which it had never owed
 - 2.** *Eastern Promotion*, on its part, added an overpayment of GEL 75,000 to Horizon TV Studio to its operational budget, which was subsequently paid for by the Ministry
 - 3.** The National Museum overpaid GEL 31.2 for lifts it bought.
- 4. Unreasonable markups on goods and services (total of GEL 298, 400)**
- 5.** Major inaccuracies in cataloguing inventory in the storage facilities of the National Museum and associated high risks. The Ministry has never checked accuracy of cataloguing of inventory in the storage facilities
- 6.** Control of Assets: The Ministry has a number of buildings on its balance sheet that are not actually used by any of the organizations under the Ministry
- 7.** No inventory checks during the audit period in the music theatre, opera and other legal entities of public law. Property worth GEL 14.2 million needs to be verified.
- 8.** Major weaknesses in the public internal financial control
- 9.** Number of funding requests from contingency funds signals major shortcomings in the budgetary planning

13. Audit of budget execution of the Ministry of Culture and the Protection of Monuments

Audit period: 1 Jan 2011 - 31 Dec 2011

Problems:

- 1. Budget formation:** The ministry failed to plan its budget, which resulted in extensive expenditure realignment.

they have not completed an examination of the auditee's accounts or the examination is not broad enough to enable them to form an opinion.

2. While the ministry had its own resources they requested funds from the contingency funds.

Recommendations to address the problems provided.

14. Financial Audit of the Civil Registry Agency, Ministry of Justice of Georgia Audit period 1 July 2007 –1 Jan 2010

Problems:

1. **The Agency failed to record the revenues that it generated through its service provision** although the Agency offices turned in the required documentation.
2. **The Agency's public procurement flawed**, viz., the Agency failed to both advertise international tenders and properly maintain bidding documentation.
3. **The book value of fixed assets** of the Agency is inaccurate, e.g. as of December 31, 2009, the value of the fixed assets of the Agency is worth GEL 149.2 thousand less.
4. **Undocumented commodity grants:** a number of donors offered commodity grants to the Agency's regional offices, which were not properly documented. The Agency on its part failed to timely evaluate and recognize these grants as revenue, the items were recognized as overage as a result, which actually was a delayed recognition rather than overage.
5. **Incomplete business trip documentation** (missing numbers, dates and relevant signatures). Some of the travel expenses were written off without documentary evidence.
6. **A/R and A/P balances** are inaccurate due to the fact that accounting was conducted using two essentially different methodologies¹⁰

15. Audit of Accounting by the National Forensics Bureau Audit period: January 1, 2009 – June 30, 2012

In 2013 the State Audit Office audited accounting by Levan Samkharauli National Forensics Bureau for the years of 2009, 2010, 2011 and Q1-2, 2012. The supreme auditor issued a disclaimer of opinion, because it had failed to obtain sufficient and appropriate audit evidence to complete the examination of the auditee's accounts. As for the following three reports the supreme auditor gave an adverse opinion as the accounting in 2010, 2011 and Q1-2 2012 did not offer a fair presentation of the bureau's financial position.

¹⁰Most of the violations were the result of using elements of both cash and accrual accounting. Instead, the Agency should have used the instruction for Public Sector Accounting No 1321 by the Minister of Finance of December 28, 2007

Problems:

1. Accounting Problems:

- 1.1 The NFB 2010 and 2011 tax returns significantly differ from the accounting records, e.g. the accounting records show GEL 146,745 more in VAT turnover than in the tax returns. There are other discrepancies as well, e.g. property tax is GEL 61,921 more than recognized by the Bureau.
- 1.2 Spending of revenues generated through economic activity and government funding are not separated.
- 1.3 Salaries in the actual expenditures column¹¹ is GEL 332, 127 less than the correct amount in the accounting records.
- 1.4 In 2009 the NFB failed to recognize items of net wealth worth GEL 42,800 as expenditures.
- 1.5 In 2009 the NFB spent GEL 507,428 of its appropriation on non-financial assets to later recognize only GEL 418,738 as expenditures. Over the same period the NFB spent GEL 9000 worth of assets that do not fall under non-financial assets in violation of the 2009 state budget.
- 1.6 Documentation verifying settlement of GEL 50,917 in 2010 A/R does not show debtor(s). Repayment was not recorded correctly.
- 1.7 The NFB failed to properly perform initial recognition of the tools to check physical characteristics. Ignoring terms of receipt of these tools, the NFB recorded the tools as inventory and at a wrong date, which resulted in exchange rate fluctuations pushing their cost up.
- 1.8 The Bureau debited gifts awarded to the employees in 2010-2011 to the wrong account.

2. Inventory Checks

- 2.1. The Bureau did not monitor its A/R¹² in 2010-2011 in violation of the Presidential Decree, which requires checks of A/R be done on an annual basis.

16. Performance Audit of the reform of vocational education and training in Georgia Audit period: 2010-2012

Problems:

1. **Irrelevance of the priority educational programs to the labor market needs.** The Ministry of Education and Science cancelled the system of pre-defined financing of priorities since 2013. Approval of the labor market research strategy by the government in 2013 should be regarded as a positive step. It should have favorable impact on the development of the vocational educational programs. Until then the Minister of Education and Science approved

¹¹ Schedule #4

¹² Accounts receivable is a debt which is owed by a person / institution to another person / institution.

a list of priority programs. Priority educational programs were developed in accordance with the professions in demand in Georgian national and regional labor markets. As far as the Government of Georgia had not developed a labor market research strategy, priorities set by the Ministry were not based on reliable data of labor market needs. Although demand and supply match in some fields, the professional training of human resources is insufficient. The reason is that students acquire general, non-focused skills. As a consequence, only 23 per cent of the graduates have been employed per their respective trades and 10 per cent have found jobs elsewhere.

2. **Shortcomings in voucher funding and non-purpose specific spending.** Prior to September 2013 the voucher amount was transferred either in full or in two installments, the database of students was not revised in order to verify whether a student was still enrolled in a relevant program. It becomes apparent that in 2012-2013 vocational institutions spent significant sums on the students **1.** who are no longer enrolled in those institutions (GEL 866,515). Voucher is intended to finance education of an actual student. Therefore when a student drops out and vocational institution spends his/her voucher entirely, it means that the voucher does not serve its purpose, which is financing education of an individual student; **2.** who have dropped out (after the government spent GEL 1.97 million on them). The GEL 1.97 million, therefore, is inefficient spending in view of the dropout rates.
3. **Maximum number of students eligible for tuition waivers: lack of procedures.** A dedicated Council identifies the number of students to be enrolled in learning programmes in response to requests by educational institutions. The institutions, however, should justify providing services to the students. Due to the fact that no labor market research has been attempted, the Ministry and the Council are not in a position to determine a reasonable number of students to be financed by the government. Professional educational institutions can adopt system approved by higher educational institutions.
4. **Curricula development and credits systems**¹³. According to international practice curricula are being developed on a national level. However, in Georgia each vocational institution develops its individual curricula, which are general and lack detail. The same is true of the credits system - different colleges have different credit systems for the same profession. The practice does nothing to help educate professionals.
5. **Professional development of teachers.** Teachers of vocational institutions are trained and retrained every year. However, the trainings focus on general rather than specific skills.
6. **Insufficient coordination with private sector.** A Council was set up to coordinate vocational education institutions. The Council brings employers, government agencies, business associations, trade unions and employment agencies together. However, the Council has no action plan and its existence is a mere formality.
7. **Lack of access to Information.** The database of the Ministry fails to function properly. It provides information on the numbers of enrolled students and a number of graduates rather than students, colleges, teachers, personnel, programmes, etc.

¹³ See Footnote 1 above.

Recommendations:

1. The Ministry of Education and Science should develop a strategy of labor market research, which would provide the educational institutions with information on labor market requirements to help better identify priorities of educational programmes.
2. The Ministry should create a voucher management system, which will ensure rational spending throughout a student's enrollment to make sure that VEI-s do not receive funding for dropouts
3. The Ministry should support setting up a unified system of curricula development and credits compatible with applicable international standards.
4. Professional development of teachers should be system-based and address their professional skills.
5. Invite businesses to help approximate vocational education to the labour market requirements
6. Set up a single MoESc database

17. Performance Audit of promoting Georgian wines abroad

Audit period: January 1, 2009 – July 1, 2012

Problems:

1. **Lack of market research and single strategy.** Despite the fact that promotion of Georgian wines is made a national priority, the government agencies and related ministries have not researched opportunities entering new markets. There is also no single strategy of Georgian wine industry, which would have facilitated planning of what needs to be done.
2. **Sectoral approach and promotion of wine.** The Government ministries fail to adopt a sectoral approach to popularization of Georgian wines. The ministries do not do market research about where to promote and sell Georgian wines.
3. **Ineffective marketing.** The Wine Agency fails to properly perform its duties as a marketer of Georgian wine, which detracts from the effectiveness of its promotion effort , e.g. in 2011 ad-hoc promotion events outnumbered those planned in advance
4. **Image of Georgian wine.** Shipping of raw materials in tanks increases risks of adulterating the end product. It also creates risks that 1. the Georgian wine is marketed under other brand names . 2. Fake wine is marketed as Georgian wine, which will compromise the reputation of Georgian wines internationally

5. **Lack of coordination among government agencies.** The Ministry of Agriculture and the Ministry of Economy and Sustainable Development do not have a single document to streamline event management, negotiations with foreign investors, priorities and activities of their respective agencies. The lack of coordination often results in miscommunication and breach of trust on the part of foreign investors.
6. **Event management.** Government agencies sometimes fail to timely inform wine producers about the planned events. Companies often refuse to participate due to the time constraints and as a consequence very few of them represent Georgia at international fora.
7. **Ministries do not conduct monitoring.** The Ministry of Agriculture and the Ministry of Economy and Sustainable Development do not conduct appropriate monitoring of wine promotion. No one on the payroll of any of the two ministries is assigned to monitor activities of the National Wine Agency.

Recommendations:

1. Create a single strategy for promotion of the Georgian wine both domestically and internationally.
2. Responsible ministries coordinate planning of events in order to avoid duplication of effort. Define the format of cooperation between the Ministry of Economy and Sustainable Development and the Ministry of Agriculture to coordinate negotiations with investors and organization of events.
3. Ministries conduct monitoring of their respective agencies, examine the agency activity reports and strategies to both exercise appropriate control over the agencies and get them to deliver concrete outcomes.

18. Performance Audit of Public Internal Financial Control (PIFC)

Audit Period: 2010-2012

Problems:

1. **Separating Internal audit from inspection:** Internal Audit Units at the GoG ministries were set up to replace general inspectorates. IAU staff members were not retrained even though auditors' responsibilities are clearly different from those of inspectors. While the government agencies may have both an IAU and a general inspectorate, their responsibilities need to be clearly distinguished.
2. **Independence.** Even though independence is at the core of internal audit standards, head of an agency is authorized to dismiss its internal audit chief.
3. **Human resources:** New staff to be recruited, while old staff members to be put through rigorous retraining. The vision of general inspectorates, IAU-s' predecessors, is very different from modern

audit, which has compromised compliance of internal audit reports with applicable international standards.

4. **Ambiguous distribution of responsibilities:** Who is responsible for what is not clear from the GoG's Public Internal Financial Control Strategy
5. **The PIFC structure is at variance with the EU recommended model.** The applicable legislation does not provide for the structure that would enable the Ministry of Finance to coordinate introduction of the system of Public Internal Financial Control. The harmonization centre, the existing coordinator, set up by the Georgian government is at variance with the EU recommended model. The harmonization centre is not an effective coordinator as most of its responsibilities are implemented by its secretariat.

Recommendations:

1. Specify the role and responsibilities of the Ministry of Finance and accountability of the harmonization centre to the Minister of Finance
2. Improve effectiveness of the harmonization centre. Help reestablish the centre as a competent independent PIFC coordinator
3. Apply best international practices to reinforcing the independence of the harmonization centre as stipulated in the law
4. Ensure continuous professional development of internal auditors

19. Performance Audit National Response to HIV/AIDS in Georgia

Audit Period: 2008-2011

Problems:

1. **HIV/AIDS Policy:** The HIV/AIDS policy changed in 2011 to share responsibilities for HIV prevention among a number of dedicated institutions, which resulted in fewer intravenous drug-addicts under treatment. Since 2012, when screening for drug-addicts was discontinued, the risks have increased. The programme no longer pays for screening for gays and commercial sex workers, which is very likely to diminish the effectiveness of the programme.
2. **Inefficiencies.** Although the price of a post-test consultation is low, the costs of consultations are high – patients qualify for a consultation even when testing negative. In 2008-2011 this inefficiency alone cost the programme GEL 200,000-230,000, which would have been enough to check 16,104 more patients.
3. **Accounts Receivable:** Following introduction of co-payment in 2009 which prompted 398 patients in 2009-2011 to refuse paying GEL 58 188 and subsequently drop out , the patients were not requested to pay back what had been spent on them.

4. **Unrecorded expenditures.** Finance Department has the responsibility for calculating costs per patient and control over accuracy of prices of medicines, which it fails to implement failing to spot excess payments for check-ups that were neither prescribed by specialists nor actually conducted.
5. **Inventory Checks:** No inventory policy is in place: medicines and requisite materials given to the labs go unrecorded. Inventory checks are not done on a regular basis. 2400 films were found missing in the X-ray room. Using the films for check-ups would have let the HIV/AIDS Centre earn GEL 49,500 more over 2008-2011.
6. **Overhead Expenses:** GEL 246,625 requested from the Ministry of Labour, Healthcare and Social Affairs in excess of what was required. While the sum was not paid the fact signals a control failure. The right management would have saved the centre GEL 217 050 in overhead expenses.
7. **Rationality of Public Procurement**
8. **Lack of cooperation:** no single secure system of data exchange in place, which would have improved cooperation among the public and private sectors and civil society.

Recommendations:

1. The State Coordination Council and the Ministry of Labour, Healthcare and Social Affairs to introduce the system of monitoring and evaluation in stages
2. The Ministry to opt for quantitative research for high-risk groups
3. The Ministry and the Centre for Disease Control to revise screening mechanisms and medical services to find innovative ways increasing productiveness
4. Revise the organization and structure of the entire system of management. Reduce risks in public procurement to a minimum
5. Put all components of public internal financial control to work to improve economy, efficiency, and effectiveness of public spending