

**GEORGIA**

**GEORGIA HUMAN CAPITAL PROGRAM-FOR -RESULTS**

**P175455**

**Integrated Fiduciary Systems Assessment**

## **Abbreviations**

CAPEX – Capital Expenditure

CFAA – Country Financial Accountability Assessment

CHU – Central Harmonization Unit

CoA – Chart of Accounts

COFOG – Classification of the Functions of Government

FMIS – Financial Management Information System

GFS – Government Finance Statistics

The Program – Georgian Human Capital Program-for-Results

IAU – Internal Audit Unit

IPSAS – International Public Sector Accounting Standards

MOF – Ministry of Finance

MOES – Ministry of Education and Science

MOILHSA – Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia

MTBF – Medium Term Budget Framework

PEFA – Public Expenditure and Financial Accountability

PER – Public Expenditure Review

PFM – Public Financial Management

PI – Performance Indicator

PPL – Public Procurement Law

SPA – State Procurement Agency

SSA – Social Service Agency

SESA – State Employment Support Agency

TSA – Treasury Single Account

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## Section 1: Conclusions

### 1.1 Reasonable assurance

The fiduciary systems assessment has been carried out in accordance with the Bank Policy and Directives on Program-for-results financing to determine whether the institutional capacities and fiduciary systems of the MOES and MOILHSA for the proposed new Georgia Human Capital program provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. During the assessment no issues or constraints that can negatively affect Program implementation came to our attention. Therefore, the findings of the fiduciary assessment conclude that the overall fiduciary and governance framework is adequate to support the implementation of the proposed Georgia Human Capital Program-for-Results. Particularly assessment has confirmed that:

- (a) *Planning and budget.* The Program budget is realistic, policy based, and will be implemented in an orderly and predictable manner.
- (b) *Procurement.* Procurement system performance was assessed based on the government's procurement legal framework. The planning, bidding, evaluation, contract award, and contract administration arrangements and practices provide reasonable assurance that the Program will achieve the intended results through its procurement processes and procedures.
- (c) *Accounting and financial reporting.* Adequate program records are maintained, and financial reports produced and disseminated for decision-making, management, and Program reporting.
- (d) *Treasury management and funds flow.* Adequate and timely funds are available to finance Program implementation.
- (e) *Internal controls (including internal audit).* There are satisfactory arrangements to exercise control and stewardship of Program funds.
- (f) *Program audit.* Adequate independent audit and verification arrangements are in place following the international standards on auditing.
- (g) *Fraud and corruption.* Adequacy of regulatory and institutional arrangement to prevent, detect, investigate, and sanction cases of fraud and corruption.

### 1.2 Risk assessment

*Fiduciary risk.* The overall fiduciary assessment concludes that the Program Fiduciary risk is *Moderate*.

*Key risks identified.* During the assessment, team has identified following key risks, that may hinder the Program implementation: a) Program exclusion from annual internal audit programs of implementing entities; b) timely preparation of the annual Program financial statements and delivery of annual audited financial statements by the independent auditor under terms of reference acceptable to the Bank; and c) risk of non-compliance with the World Bank Anticorruption Guidelines in Program-for-Results financing within the whole Program boundaries; d) Risk of delays and failure in procurement process.

*Mitigation measures.* Measures are to be implemented to mitigate the identified risks are – a) MOES and MOILHSA Internal Audit Departments should include the Program audits into annual audit plans until the Program is fully implemented and communicate the internal audit results including findings and recommendations to the Bank (PAP); b) the Bank team, MOF and State Audit Office of Georgia (SAOG) to agree on the audit terms of reference and including audit of the financial statements into annual audit plan of the SAOG, audit will cover a fiscal year of the Borrower and audited program financial statements will be submitted to the Bank within 12 months of the end of each fiscal year (*legal requirement*); and c) the implementation agencies shall execute the activities in accordance with the World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results

Financing. The implementation agencies will (i) share information with the World Bank regarding all allegations of fraud and corruption in connection with the Program, investigate all credible allegations received, report to the World Bank on actions taken, and cooperate in any inquiry that may be conducted by the World Bank into allegations or other indications of fraud and corruption in connection with the Program; and (ii) monitor and abide by the World Bank's list of debarred/suspended firms (*legal requirement*); d) To enhance the procurement process, monitoring, assessment and reporting, the implementation agencies will develop an in-house procurement manual for reference by the Ministries and their LEPLs, complemented by training of procurement staff at all levels. The manual should include planning, market research, monitoring the process as well as performance evaluation, post-contract review, reporting and addressing complaints. The manual will also outline improved contract management/administration coordination, strengthened analytical capacity of procurement specialists, and the development and use of procurement performance indicators. The inhouse procurement manual is to be used as reference by all concerned individuals including directorates when participating in procurement activities under the Program.

### 1.3 Procurement exclusions

There are no High Value Procurement to be done under the Project, and the estimated value of MOILHSA and MOES procurement of works, goods, and services under the Project does not exceed OPRC thresholds.

## Section 2: Scope

The proposed Program Development Objective is “to make the human capital delivery system in Georgia more efficient and inclusive”. The human capital delivery system refers to the financial and administration system of selected education, health, targeted social assistance, and employment programs as defined in the Program Scope.

The GoG Program and Program Boundary is as follows:

Item	GoG program for human capital 2022-2031	Program supported by PforR
<b>Title</b>	Ten-Year Plan (2022-2031) for the Development of Education and Science and Ten-Year Plan (2022-2031) of the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia	GoG Program for human capital (2022-2027)
<b>Objective</b>	Education, Health and Social Protection services that provide for the development of human capital and its effective engagement in the development of the country	Making the human capital delivery system in more efficient and inclusive
<b>Duration</b>	2022-2031	2022 -2027
<b>Result Areas</b>	<ul style="list-style-type: none"> <li>A. Efficiency for better value for money of human capital expenditures</li> <li>B. Inclusion for quality of human capital expenditures for all beneficiaries</li> <li>C. C. Connectivity of digital systems across all areas of human capital</li> </ul>	Results areas are the same
<b>Geographical Scope</b>	All areas of the country where human capital services are provided by GoG	All areas of country where human capital services provided by GoG
<b>Financial Envelope</b>	US\$ 5,988 million in <i>period</i> 2022-2027; additional amount in 2028-2031	US\$ 5,988 million in 2022-2027

The Program of US\$5,988 million is composed of a set of subprograms that have been organized in three results areas:

- **Efficiency** for better value for money of human capital expenditures: This result area consists of subprograms related to general education, hospital care, pharmaceuticals, and targeted social assistance. Total projected expenditure is US\$4,865.67 million.
- **Inclusion** for quality of human capital expenditures for all beneficiaries: This result area covers education levels from kindergarten to secondary education-high school and transition to university, employment promotion programs, and vocational skills training and education. The result area includes provision of health care to the population with a focus on PHC and seeks to bring about reforms related to access of vulnerable people to skills and the labor market. Total projected expenditure is US\$699.67 million.
- **Connectivity** of digital systems across all areas of human capital provision: As with the other two result areas, this also includes subprograms in the three human development sectors. The focus is on upgrading digital services and increasing the post-pandemic resilience of the human capital delivery system to future disruptions. Total projected expenditure is US\$423 million.

The FSA assessed the PFM and procurement systems for implementing line ministries – MOES and MOILHSA. The focus of the assessment was to conclude over FM and Procurement capacity of the line ministries. Both Ministries have experience in implementing Bank-financed projects. Currently MOES is the implementing agency for the Bank funded Georgia I2Q - Innovation, Inclusion and Quality Project, and MOILHSA is the implementing agency for the Bank funded Georgia Emergency COVID-19 Response Project.

### Program Expenditure Framework

Column A	Column B	Column C	Column D	Column E	Column F	
			Main Implementing Agency	Annual Expenditure (2019-2021) (GEL m.)	Program Boundary Total Expenditures 2022-2027 (GEL m.) (US\$ m.)	
Theme	Expenditure Categories	Budget Code		(GEL m.)	(GEL m.)	(US\$ m.)
<b>Results Area 1:</b>	<b>Efficiency for better value for money of human capital expenditures</b>					
General Education	Transfers to schools (vouchers)	32 02 01	MOES	799.79	4,799	1,600
Protection of the general health of the population	Labor expenses, medicine, medical supply, consumables.	27 03 01	MOILHSA/NHA	828.67	4,972	1,657
Targeted Social Assistance (TSA)	Cash transfers	27 02 02	MOILHSA/SSA	784	4,704	1,568
SSA current expenditures	Labor expenses, management of social programs.	27 01 04	MOILHSA/SSA	17.4	104	35
SSA digitization	Software upgrade, Piloting design, Training, increase of non-financial assets.	27 01 10*	MOILHSA/IT Agency	0	18	6
<b>Results Area 2:</b>	<b>Inclusion for quality of human capital expenditures for all beneficiaries</b>					
Strengthening High Schools and reform of University Entrance	Rehabilitation of schools for extra students; Unified National Examinations Labor expenses for experts supporting curriculum reform.	32 01 02	MOES, NAEC, TPDC.	5.80	780 <sup>x</sup>	260
		32 02 13 01		10.90		
		32 02 01†		15.00		
		32 02 02		16.72		
		32 04 01		13.15		
32 07 01	55.64					
Provision of medical services to the population in priority areas	Labor expenses, medicine, medical supply, consumables.	27 03 03	MOILHSA/NHA	197.77	1,187	396
Rehabilitation and equipping of medical institutions	Equipment and hardware	27 04	MOILHSA	6.25‡	38	13
SESA administrative expenditures	Labor expenses, cars, and office equipment.	27 01 08	SESA	0.79	14	5
SESA ALMP delivery	Training, internships, job matching, placement.	27 05 01† 27 05 03†	SESA	13.28	80	27
<b>Results Area 3:</b>	<b>Connectivity of digital system across all areas of human capital provision</b>					

Digital Education (funded)	Purchase of hardware including computers for teachers, students, internet.	32 01 04 32 02 11 32 13	MOES	12.74 35.49 14.98	750T	250
Digital Education (to be funded)	Labor expenses and training for school community; developers and hosting.	32 02 15 32 02 16	MOES		15*	5
Digital Medicine, Admin systems etc.	Labor expenses, hardware, and software developers, and hosting.	27 03 02	MOILHSA	102.43	450]	150
SSA development of IRSSP	Software development, training, hardware, and licenses.	27 01 10*	MOILHSA/IT Agency	0	18	6
SESA Worknet	Worknet	27 01 10*	MOILHSA/IT Agency	0	36	12
<b>Total</b>				<b>2930.8</b>	<b>17,965</b>	<b>5,988</b>
Notes: * No current allocation; † Part; ‡ Spending in 2019; X about 10% increase from 3 year mean.						
T Represents 100% increase from 3 year mean; ] Represents about 1/3 <sup>rd</sup> decrease from 3 year mean.						

### Disbursement Linked Indicators and Disbursement Linked Results and Verification entities

Education	Health	Social Protection
Disbursement Linked Indicator	Disbursement Linked Result	Allocation to DLIs and DLRs (USD million)
DLI 1: Improvement of Government spending efficiency through adoption and implementation of appropriate administrative and financing mechanisms [USD 170m]	DLR 1.1.1: By June 30, 2024, or such later date as may be established by the Bank, MOES has: (i) carried out a study in at least three Mountainous Regions, three Rural Regions, and three Urban Regions, to calculate the per student operational costs and financing requirements for Selected Educational Networks to provide the Competency-based National Curriculum for Upper Secondary Levels; and (ii) prepared a report based on the findings of the study, detailing a General Education Financing Model, satisfactory to the Bank, including criteria for adequate quality of educational inputs and efficiency of government spending	10
	DLR 1.1.2: By June 30, 2025, or such later date as may be established by the Bank, all General Education Schools in Georgia receive financial transfers based on the General Education Financing Model specified in DLR 1.1.1	30
	DLR 1.2.1: By December 31, 2024, the DRG Payment System has been functional for at least 12 consecutive months in a manner satisfactory to the Bank, for at least two Service Groups	10
	DLR 1.2.2: By December 31, 2026, the DRG Payment System has been functional for at least 12 consecutive months in a manner satisfactory to the Bank, for at least five Service Groups	30
	DLR 1.3: By December 31, 2026, or such later date as may be established by the Bank, Managed-entry Agreements, satisfactory to Bank, have been entered into between the Borrower, through a legally authorized body, and pharmaceutical providers or suppliers for at least 50 percent of all new single-source medicines introduced in Georgia during each year starting with calendar year 2023	US\$7.5 million equivalent for every year during which the DLR has been achieved [Total US\$ 30m]
	DLR 1.4: By December 31, 2023, or such later date as may be established by the Bank, Borrower, through a legally authorized body, has adopted regulations or equivalent legal binding documents, satisfactory to the Bank, to introduce reference pricing for the purposes of setting or negotiating prices of publicly financed medicines covered under the UHC Program	20
	DLR 1.5.1: MOILHSA has adopted a decree, satisfactory to the Bank, requiring a pilot that revises the targeting formula used to identify poor families with children, determines their	10

	eligibility for poverty-targeted human capital benefits, and provides benefits under the revised formula	
	DLR 1.5.2: MOILHSA has adopted a decree, satisfactory to the Bank, to implement nationally the revised targeting formula, after completion of the pilot referred to in DLR 1.5.1	10
	DLR 1.6: MOILHSA, through SSA, has completed the digitization of Select Social Benefit Processes resulting in a reduction of the benefit processing time from application to submission of payment orders from five to less than two months and increasing SSA's ability to calculate the Vulnerability Score on a quarterly basis	20
DLI 2: Adoption and implementation of appropriate quality standards for human capital services enabled across all service delivery institutions [USD 140m]	DLR 2.1.1: By December 31, 2023, or such later date as may be established by the Bank, National Authorization Council for General Education has provided the authorization to operate High Schools based on the new Competency-based National Curriculum for Upper Secondary Levels	Subject to a minimum of 100 high schools and maximum of 300 High Schools authorized; US\$10,000 equivalent per school for the first 100 high schools; US\$45,000 equivalent for the next 200 High Schools [Total US\$ 10m]
	DLR 2.1.2 By December 31, 2026, or such later date as may be established by the Bank, National Authorization Council for General Education has provided the authorization to operate to at least 600 High Schools based on the new Competency-based National Curriculum for Upper Secondary Levels	US\$100,000 equivalent per school for each additional High School authorized above the 300-High School result referred to in achievement of DLR 2.1.1, with a maximum of 300 additional High Schools authorized [Total US\$ 30m]
	DLR 2.1.3: By December 31, 2025, or such later date as may be established by the Bank, at least a 15 percent reduction has been achieved in the UNE Test Score rural-urban performance gap as compared to the 2021 baseline for the UNE Test Score rural-urban performance gap	20
	DLR 2.1.4: By June 30, 2024, or such later date as may be established by the Bank, MOES has adopted a new regulation for a new admissions system to transition from High School to university (which factors in school performance and university requirements).	10
	DLR 2.1.5: By October 31, 2025, or such later date as may be established by the Bank, MOES has implemented a new admission system adopted in accordance with DLR 2.1.4	20
	DLR 2.1.6: By June 30, 2026, or such later date as may be established by the Bank, the Borrower, through a legally authorized body, has provided the authorization to operate at least 200 kindergartens in rural or mountainous areas on the basis of having met the quality standards set out in the Law on Early and Preschool Education or other official document, including for nutrition, education, and physical environment; all in a manner satisfactory to the Bank	10
	DLR 2.2: MOILHSA has adopted an order or an equivalent legally binding document, satisfactory to the Bank, to define clinical pathways and clarify the scope of primary and hospital care for at least the following selected ambulatory-care sensitive conditions: heart disease, chronic obstructive pulmonary disease, Type 2 diabetes, and mental health conditions	10
	DLR 2.3: Government of Georgia has adopted a decree, satisfactory to the Bank, to revise: (i) the type and number of services covered by the government for primary care as part of the benefits package and (ii) the performance-based payments received by primary care providers all for Selected Non-	20



	communicable Diseases in order to incentivize the appropriate level of care	
	DLR 2.4: SESA has adopted a <i>methodology</i> , through SESA Director's order, satisfactory to the Bank and consistent with ESCO, to identify skills in shortage (including skills required for green jobs) and for skills forecasting as a basis used for referrals to vocational training and other SESA ALMPs	10
DLI 3: Inclusion of the poor and vulnerable people in social protection services [USD 30m]	DLR 3.1.1: Regional SESA Offices have been established with Appropriate Staff and Proper Equipment in a manner satisfactory to the Bank  [Baseline: 0 offices in calendar year 2022; Target: 11 offices in calendar year 2026]	US\$454,545 for every regional SESA office subject to a maximum amount of US\$5 million [Total US\$ 5m]
	DLR 3.1.2: Increase in the number of Rural Jobseekers receiving Employment Support Services through Regional SESA Offices  [Baseline: 0 at the end of calendar year 2021]	US\$87,719 for every 1,000 Rural Jobseekers served by SESA starting with calendar year 2022  [Total US\$ 5m]
	DLR 3.2: Increase in the number of Vulnerable Unemployed Persons who participate in SESA ALMPs  [Baseline: 3,500 Vulnerable Unemployed Persons in calendar year 2021]	US\$476,190 for every 5,000 Vulnerable Unemployed Persons participating in SESA ALMPs  [Total US\$ 10m]
	DLR 3.3.1: The revised Worknet Job-matching Portal is operational in a manner satisfactory to the Bank	5
	DLR 3.3.2: Increase in the number of vacancies posted on the revised Worknet Job-matching Portal  [Baseline: 0 vacancies as of end of calendar year 2021]	US\$357,143 for every 10,000 vacancies posted on revised Worknet Job-matching Portal starting with calendar year 2025 [Total US\$ 5m]
DLI 4: Improvements in adoption of new digital services and upgradation of existing administrative and management systems towards meeting appropriate [EU] standards for digital services [USD 60m]	DLR 4.1: By December 31, 2024, or such later date as may be established by the Bank, at least 90 percent of Schools with more than 170 students across Georgia have adopted School Digital Action Plans satisfactory to the Bank and crossed a threshold score of 75% under the infrastructure module of the Self-Reflection Tool	15
	DLR 4.2: At least 80 percent of primary care providers have access to electronic health care records available with MOILHSA for at least 12 consecutive months	15
	DLR 4.3: At least 100 primary health care and ambulatory providers have provided telemedicine consultations that are covered by the UHC Program for at least 12 consecutive months	15
	DLR 4.4: An Integrated Reporting System for Social Protection, satisfactory to the Bank, is established by the IT Agency and is functioning, and can generate reports on the coverage of social and employment services administered by government agencies at the central and local levels in order to detect gaps and overlaps, reduce exclusion and inclusion errors, and improve the integration among social protection services/programs, including other governmental programs supporting households vulnerable to climate change.	15
<b>Total: Education</b>		<b>155</b>
<b>Total: Health</b>		<b>150</b>
<b>Total: Social Protection</b>		<b>95</b>
<b>TOTAL AMOUNT</b>		<b>400</b>
<b>Note:</b> Euro equivalent DLI/DLR amounts, adjusted for front-end fees are in the corresponding Loan Agreement		

## Section 3: Review of Public Financial Management Cycle

*Legal framework.* Below laws/by-laws and orders on broader PFM are general for all budget organization and particularly applicable for the Program management in Georgia:

- Budget Code
- Law of Georgia on Public Internal Financial Control.
- Law of Georgia on State Audit Office
- Organic Law of Georgia on Economic Freedom
- Law on Public Procurement
- Law on Accounting, Reporting and Audit
- Law on Annual State Budget
- The decree of the Minister of Finance of Georgia on “Approving the Methodology of Program Budget Compilation” defines the rules and the form in terms of in which period and through which structure the preparation, approval, execution and reporting of the annual budget should be implemented.

### 3.1 Planning and Budgeting

#### 3.1.2 Adequacy of budgets

Assessment confirms that Georgia’s budgeting system is acceptable for the Program. Program budgeting has been adopted in Georgia since 2011 in accordance. The Program budgeting will be subject to the national budgeting process as defined by the Budget Code. The budgeting start in Georgia in March and lasts until October and budget law review and approvals by the Parliament are always done by December 31.

**The proposed Program will be included in the national budget of the country under the respective line ministries’ budgets.** Georgia has a robust classification system, which includes the most important classifications and is broadly consistent with the IMF’s Government Finance Statistics Manual 2001, including administrative, economic, functional, geographical, and program classifications. These classifications are included in the current chart of accounts allowing for all transactions to be reported in accordance with the appropriate standards. The Public Financial Management Information System (PFMIS) is used for budget preparation. The budget of each line ministry, including those participating in this PforR, and all government programs with expected results and outcomes are all published in the MOF website. All line ministries and government units’ budgets annually publish—on the MOF website. 3-year key country basic data and directions (BDD), scenarios for key economic and financial indicators, macroeconomic and fiscal forecast, the core development direction for the line ministries are also published in the MOF website.

**Budgeting in the MOES and MOILHSA.** Once budget ceilings and number of employees are defined in the BDD, the economic department of both implementing agencies send budget applications to all departments and sub-ordinated legal entities under public law, except for secondary education schools. All these departments and sub-ordinated entities must submit budget applications to the economic departments with the set deadlines and budget applications are considered by the working groups within the ministries. All deputy ministers, heads of departments and heads of legal entities under public law are working group members (except for heads secondary and high education and scientific-research institutions).

Once working group reaches a conclusion over budget allocations within the set ceilings, the economic departments reflect budget requests in the GFMIS, and budget requests are submitted to the Ministry of Finance no later than September 1.

### *Medium-Term Action Plan.*

The MOES has approved mid-term action plan for 2021-2024. The action plan covers 15 programs and 74 subprograms of the MOES. Each program/sub-program has the description, objectives, expected indicators, final outcome and assessed risks. Similarly, the MOILHSA also has approved mid-term action plan for 2021-2024 and in the action-plan covers 6 programs and 47 sub-programs. Mid-term action plans are embedded into BDDs and reflected in annual budget applications.

### *Budget application review.*

The assessment team has reviewed the budget applications developed by the Information System of Education Management and Education and Scientific Infrastructure Development Agencies for GEL 45.4 million and GEL 264.4 million respectively for 2021. Also, the team has reviewed the methodology of budgeting for the secondary schools. Secondary schools are funded through the per capita financing (voucher funding), and in 2021, the MOF has allocated GEL 894 million for the secondary schools. In total assessment has covered budget application for GEL 1,076.8 million, this represents 68% of the total budget of the MOES for 2021.

The assessment team has also reviewed the budget application form of the Social Service Agency for GEL 3,793.4 million for 2021, this represents 69 % of the total budget of the MOILHSA for 2021.

Based on this review, both in MOES and MOILHSA administrative expenditures are presented in detail in budget application forms. The review has confirmed that reviewed agencies are all in compliance with standing laws and regulations.

Regarding the programs managed, MOES and MOILHSA have presented following information in the budget applications:

- Description and purpose of the program/sub-program
- Expected outcomes of the programs
- Expected outputs of the sub-program
- Baseline and expected results
- Potential risks and mitigation measures.

Finally, MOILHSA budget was reviewed and endorsed by the Health and Social Issues Committee of the Parliament, similarly the MOES budget was reviewed by the Science and Education Committee before budgets are reviewed and approved by the Parliament.

### 3.1.3 Procurement planning

Procurement planning is linked with the budget allocations and budget cycle. As soon as the draft budget is known, the procurement unit (under the administrative department or economic department) coordinates with other departments/units within the institution (e.g. Ministry or LEPL) to collect the required information needed to start the procurement activities. The information includes volume, specifications, timeframe, technical requirements, implementation period, etc. The procurement unit double-checks the demand with the inventory, previous year experience, market status and procurement plans based on the budget ceilings. The timeline of starting the process varies from institution to institution, depending on applied budgeting and procurement planning practice. There is no unified approach in starting the planning process, as there are no standardized procurement procedures in place even at the Ministries themselves. The procuring institution should share the procurement plans for subsequent year with the SPA no later than November 20 of the previous year. The requested format of the procurement plans is defined by SPA, however the excel format vary from entity to entity by its' sophistication and formatting. Normally, they are not user-friendly for quick sorting or analytics.

The procurement plans are flexible and can be changed during the year. According to Transparency International Georgia<sup>1</sup> (TI Georgia), the number of changes in procurement plans of selected 15 largest

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<sup>1</sup> "Access to the public procurement database remains a problem", October 18, 2020, <https://transparency.ge/en/blog/access-public-procurement-database-georgia-remains-problem>

procuring entities during 2017 was around 52%<sup>2</sup>. No similar updated information is available. There is no mechanism for assessing the cause of the frequent changes and development of the respective responsive measures.

#### 3.1.4 Procurement profile of the Program

Since 2010 significant changes were made in the modernization of public procurement in Georgia, including the replacement of paper-based procurement with the eProcurement system - Unified Electronic System of State Procurement. It has increased transparency, facilitated direct access for bidders to public tenders, reduced direct interaction between procurement officials and companies; and resulted in an increase in outreach and competition. The eProcurement system reflects the commitment of the Georgian Government to reduce administrative costs and eliminate manual intervention in the procurement process and strengthen the integrity of the entire procurement process.

The value of public procurement of Georgia in 2020 reached GEL 5,158 million, representing 33% of public spending and 10.4% of GDP. The figure was lower than in 2019 caused by the reduction of the economic activities due to the COVID-19 pandemic. The breakdown of the total value of the public procurement by procurement methods is as follows, 72% (GEL 3,711 million) electronic tenders, 21% (GEL 1,070 million) simplified procurement and 7% (GEL 377 million) consolidated tenders.

The legal framework (the PPL and the secondary legislation) is published and easily accessible to the public at no cost, available on the website of SPA (<http://www.procurement.gov.ge/>) and the official website of the Legislative Herald of Georgia (<https://matsne.gov.ge>). The efficiency and integrity of the public procurement system is ensured by the PPL, and the eProcurement system enhances the nondiscriminatory character of the PPL and ensures the overall transparency of public procurement activities (the assessment document of the Institute for Development of Freedom of information - IDFI)<sup>3</sup>.

## 3.2 Budget Execution

### 3.2.1 Treasury management and funds flow. The funds flow arrangements for Program Implementation

**Funds-flow and commitments management.** Treasury and funds flow management is comprehensive and acceptable for the program. All budget revenues of are immediately transferred to the Treasury Single Account. The Treasury has no expense suspense accounts and in accordance with Payment processing instructions, all payment orders in local currency/foreign currency are processed within 1 business day by the Treasury Settlements unit. Also, Treasury unit deposits a part of available cash in commercial banks through daily auctions and earn additional interest income on deposits. This is achieved, through robust and detailed cash inflow and outflow forecasts. The average balance of placements in 2020 was around GEL 1.3 billion and Treasury Service has earned additional GEL 100.2 to the state budget from depositing excessive cash into commercial banks. Consolidation of cash balances in TSA and deposits placed in commercial banks is conducted on a daily basis.

Cash flow forecasts are prepared annually for the whole year, broken-down by months and updated on a monthly basis. In addition, each month, the Treasury prepares a daily projection of cash flows for the following month.

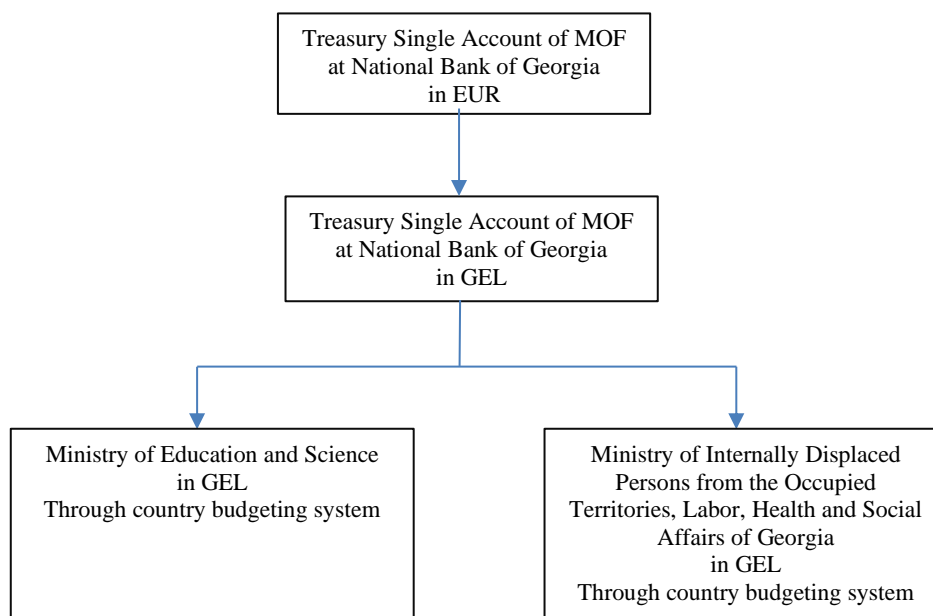
**Flow of Funds Arrangements for the PforR.** No Treasury constrains came to our attention during the assessment that could possible negatively impact the Program implementation. Therefore, the Program will use the funds flow arrangements used for the execution of the state budget. The funds will be transferred to the Treasury Single Account at the National Bank of Georgia. The disbursement

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<sup>2</sup> “Problem of Public Procurement Annual Reporting”, 2018, [https://www.transparency.ge/sites/default/files/saxelmcpo\\_shesqidvebis\\_cliur\\_gegmebtan\\_dakavshirebuli\\_problemebi.pdf](https://www.transparency.ge/sites/default/files/saxelmcpo_shesqidvebis_cliur_gegmebtan_dakavshirebuli_problemebi.pdf)

<sup>3</sup> “Implementation Assessment of the Georgian Public Procurement Legislation”, 2017 [https://idfi.ge/public/upload/IDFI\\_Photos\\_2017/tppr/PPL\\_Implementation-Assessment\\_Georgia.pdf](https://idfi.ge/public/upload/IDFI_Photos_2017/tppr/PPL_Implementation-Assessment_Georgia.pdf)

will be contingent upon the Government furnishing evidence satisfactory to the World Bank that it has achieved the respective disbursement-linked results (DLRs). Application for withdrawal from the World Bank’s financing account of amounts allocated to individual DLRs and calculated in accordance with the relevant formula will be sent to the World Bank any time after the World Bank has notified the Government in writing that it has accepted evidence of achievement of the DLRs and the amount eligible for payment. The withdrawal amount against the DLRs achieved will not exceed the amount of the financing allocated by the World Bank for the specific DLRs. No advance payments are envisaged under this PforR. Funds-flow diagram for the PforR:



**Commitments.** At the time State budget law is approved, allocations are reflected in the PFMS for each budgetary organization and broken down by quarters – quarterly commitment ceilings. The MOILHSA and MOES, have full authority to commit expenditure within the quarterly commitment ceilings.

Even in 2020, despite the pandemic and several country-wide lockdowns imposed by the government, no commitment ceilings were reduced for the MOILHSA and MOES and these line ministries were able to execute budgets as planned.

**Budget performance analyses.** Comparison of actual aggregate expenditure against the originally approved budget for the main implementing agencies concluded and found that actual expenditure deviated from the original budget is acceptable.

Budget expenditures outturn analysis for selected line ministries for 2018-2020:

Agency name	FY 2020			FY 2019			FY 2018		
	Actual	Budget	Var	Actual	Budget	Var	Actual	Budget	Var
Ministry of Finance	77	81	-4.7%	86	91	-5.4%	76	82	-7.2%
Ministry of Education and Science of Georgia	1,551	1,546	0.3%	1,650	1,636	0.9%	1,200	1,187	1.1%
Ministry of Internally Displaced persons from occupied territories, Labor, Health and Social Affairs	5,631	5,643	-0.2%	4,055	4,013	1.0%	3,555	3,531	0.7%

### 3.2.2 Accounting and financial reporting

**The Assessment concludes that the accounting and financial reporting systems are acceptable for purposes of the Program.** There are no concerns regarding integrity of records that may affect risks of Program accounting and reporting. Treasury Service, under Ministry of Finance, reconciles on a

daily basis all its balances with the TSA sub-accounts and other bank accounts held in the National Bank of Georgia. TSA is denominated in GEL; however, TSA is capable of processing payments in foreign currency, particularly in USD and EURO. Account turnovers and daily account balances are monitored through the Real-Time Gross Settlement System (RTGS). The RTGS is fully automated. It works in an online regime and data transfers are instantaneous. Records cannot be created or modified without leaving an audit trail. The IT department monitors unauthorized access to the accounting system.

The classification in the e-budget system is based on GFSM 2001. The e-budget system is integrated with the e-Treasury system. Budget expenditures are captured and accounted for in the e-Treasury system. Therefore, integrated system enables consolidation and preparation of in-year monthly, quarterly, and annual reports.

The MOES and MOILHSA have automated accounting system – ORIS Management for processing accounting transaction and generating accounting reports. Georgia is gradually moving to accrual basis of IPSAS in terms accounting and reporting. The transition is on-going and as of today 24 accrual basis IPSAS standards are implemented. However, full transition to accrual basis IPSAS requires further improvements in the E-Treasury system and staff training. The World Bank will support the Georgia in this journey through the Economic Governance and Fiscal Accountability Technical Assistance.

***In year reports.*** Treasury Service of the Ministry of Finance on a monthly basis publishes information about the execution of basic indicators of the state budget. These reports do cover MOES and MOILHSA budget executions. Also, within one month after the end of every quarter, the Ministry of Finance of Georgia prepares and submits to the parliament of Georgia the information quarterly budget execution. These reports also do include budget execution of MOES and MOILHSA.

***Annual budget execution report.*** Annual State budget execution report is prepared by the Ministry of Finance in accordance with Articles 53 and 55 - 58 of the Budget Code of Georgia. The report is submitted to the SAOG within 3 months after the end of the fiscal year, and SAOG audits, issues audit opinion and provides recommendations on the annual budget execution report. The audited budget execution report should be submitted to the Parliament not later than 5 months after the end of the fiscal year. This report also provides information on government programs, targeted results and actual results achieved.

The decree of the Minister of Finance of Georgia on “The Methodology for program budget compilation” defines rules, templates, and procedures for the programs under implementation, including reports on implementation status and progress. In accordance with this methodology, MOES and MOILHSA do report on programs under implementation in the annual budget execution reports.

***Financial statements.*** Georgia is gradually implementing accrual basis IPSAS in the public sector. Central government budget organization are required to prepare financial statements in accordance with accrual basis IPSAS. MOES and MOILHSA are in compliance with this requirement. These line ministries do produce annual financial statements and these financial statements are usually audited by the SAOG.

MOILHSA has 6 qualified employees in its Finance, Budgeting and Accounting Department. MOES has 8 qualified employees in its Accounting Department. People are hired based on education and professional experience. All job positions have clear job descriptions.

***Program reporting.*** During the assessment it was confirmed that MOF will, upon WB’s request, produce and submit to the Bank periodic consolidated program reports on commitments, budget executions, and arrears for participating line ministries in an agreed format and content.

### 3.2.3 Procurement processes and procedures

According to SPA 2020 Annual Report, out of 25,019 closed tenders on the eProcurement system, 74% were successfully awarded with the contract, increasing the previous year figures by 3%. The 26% of tenders were failed due to various reasons including the no-show of the bidders (16%), cancellation by the procuring entity (4%) and no possibility to select supplier due to poor qualification, or rejection of all bidders (6%). There is no format procurement performance indicator, or assessment process in place, therefore more data of repeating tenders by size and type could not be collected and aggregated.

Market research of prices and potential suppliers or service providers still remains a challenge. There are exceptional cases where Ministry is conducting market research at the procurement planning stage, resulting in reduced level of failed procurements. as a good practice, in some cases a separate team outside of the procurement division does the market research, usually at the request of procuring department during the year.

As a result of all these interventions and actions made by the SPA and the Government of Georgia, adequate and timely information is currently provided to the potential bidders about upcoming contracts and contract notices. The information about the status of ongoing procurement processes is transparent and trackable through the eProcurement system. However, according to TI Georgia, the overall data analytics function is still missing in the eProcurement system, e.g. the database in an editable format is not yet available. The stakeholders are missing easy and direct access to summary procurement data for reporting and progress tracking. According to TI Georgia, the attempt to launch the "Open Data Visualization Website - vod.spa.ge" was not successful, even though the work on the website was completed in June 2019.

Technical specifications/Terms of references of the procurement (tender or simplified procurement) are developed by specialized departments/units within public institutions (e.g. ministries, LEPLs) and shared with the procurement unit. There is no unified approach of the structural arrangements of the procurement units. Procurement divisions are represented, either under the administrative department, or the economic-financial department. These divisions are responsible to fulfil the procurement annual planning, conducting market analysis/research, arranging and supervising the bidding process, supporting the evaluation and contract awarding process. Bidding documents are directly uploaded by the bidder on the eProcurement system.

Annually each public entity assigns and approves the tender committee. Usually, one for administrative procurements and another one for program-related committees. As soon as the terms of references are approved by the tender commission and the relevant minutes of the meeting are uploaded on the eProcurement system, the tender is launched. The procurement unit reviews the compliance of the documents of the bidder(s) with the technical requirements. In case of need, requests clarification or information. The tender committee is authorized to terminate the electronic tender before finalizing the tender or reject the bid(s). However, the decision to terminate the tender must be substantiated, including the reason, grounds, specific circumstances, and arguments that led to the termination of the tender. In case the bidder with the lowest price was not qualified as per the requirements, the decision on rejection of bid is made by the tender committee, uploaded in the system and the same process is continued with the second-lowest bidder.

The Tender Committee is also responsible for due diligence and sign off on the absence of conflict of interest. During the tender, the signed document on the absence of conflict of interest should be uploaded in the eProcurement system together with the meeting minutes of the first meeting of the tender committee.

#### 3.2.4 Contract administration

The Assessment concludes that the contract administration is acceptable for Program purposes and no issues with contract administration that possible can negatively affect Program implementation came to our attention during the assessment. All contracts and changes to the agreement are uploaded in eProcurement system. However, on the procuring entity level the contract management process has room for improvement to become more systematic and unified for all spending agencies. At procuring entity, procurement units and inspection teams are involved in the contract management process, where each party is left to its general understanding of how to manage a contract. Primary responsibility relies on the designated inspector (Supervisor) or the inspection (Supervision) team established for each contract. The Inspection team is responsible for contract management of goods delivery, provided services, or carried out works, managing fulfillment of the deadlines of the contract by the contractor within the set budget and required standard, communicating any changes or challenges with the procurement division of respective units. The procurement division usually prepares excel files to keep general records of all contracts and oversight as part of record keeping process in eProcurement system

and informs accounting division on updates of the contract in case of changes to the payment, or deadline of the delivery. The accounting division controls payments and if requested prepares reports of overall transactions and expenses. There is no continuous improvement process in place, including post-contract review, annual reporting, and assessment of procurement performance indicators. The purpose of a post-contract review is to assess whether the procurement has delivered the benefits for which it was first conceived. It is also an opportunity to record lessons learned, capitalize on best practices, and record the performance of the economic operator and the whole project management team for future reference when another similar project may be undertaken.

### 3.3 Internal Controls

#### 3.3.1 Internal controls

The overall control environment is found acceptable for purpose of Program implementation. Budget execution controls are implemented and applied consistently throughout the implementing ministries, data has good integrity, transactions level controls are well designed.

*Payroll controls.* The assessment has concluded that the effective payroll controls are built and functional in all budget organization including the MOES and MOILHSA. All budget organizations held their respective HR databases within the E-Treasury system (payroll module) of the State Treasury. HR data and payroll records are reconciled on a monthly basis, before salaries are accrued and transferred to the bank accounts of civil servants. All HR related updates are real-time and are immediately reflected in the payroll module of the E-Treasury. No retroactive, back dated changes are allowed in the system. Changes to the payroll records are restricted to only authorized people in all budget organizations including the program implementing line ministries, any proposed changes are endorsed by an authorized person and approved by the head of the organization.

*Segregation of duties.* Clear rules and procedures are articulated in respect of segregation of individual duties and responsibilities for key financial management functions. Particularly, a transaction cannot be initiated, reviewed, and approved by one person. Users of the system have different profiles and based on the profile access to the information is limited.

*Controls over the payments.* Transaction level controls over the payments are established in accordance with the order of MOF#424 dd Dec 31, 2014 “On approval of payment rules instruction by organizations of State Treasury Service”. The order defined rules and procedures for the State Treasury. The Treasury has no right to conduct payments with *uncertain purposes* on behalf of budget organization. Therefore, there are not any expenditure suspense accounts. All expenditure related payments should have clear justification, supporting evidence and included into budget and registered under commitments in the TSA.

Advance payments should be made against contracts registered and commitments created in the Treasury system only through the transfer from the TSA and advances are made against Bank guarantees. The bank guarantee date is entered into the Treasury system and monitored. In a case if the expiry date of the bank guarantee matures and agreed services and goods are not delivered, or the expiry date is not extended accordingly, no further payments are allowed under the registered contract and advances are recovered.

*Petty cash.* No cash payments are allowed in all budgetary organization including the project implementing line ministries. Payments must be conducted only through the TSA. Therefore, commitments control applies to all payments made from the TSA. Actual expenditures incurred must be within the approved budget allocations and should not exceed quarterly budget commitments and projected available cash resources.

*Cash transfers – Targeted Social Assistance.* Guidance and procedures are developed over cash transfers. Information provided in the application for the social assistance is cross-checked with databases of Revenue Service, Ministry of Justice and Ministry of Environment Protection and Agriculture. Accredited employees of the SSA visit households that applied for the social assistance to verify accuracy of information provided. Visit conclusion is reflected in the database in parallel by two operators (to ensure data input accuracy). Based on the application, cross-checks, and physical visit conclusion a rating point assigned to the household, after this another visit is initiated to reconfirm the rating point. Based on rating point household



receives a social assistance on a monthly through a direct bank transfer. During the assessment no issues came to our attention that can negatively affect Program implementation.

### 3.3.2 Internal Audits

The Law of Georgia on Public Internal Financial Control defines 5 types of internal audit engagements, these are: financial, audit, system, performance, and IT audits. An internal audit must be independent by law, report to the head of the organization, and head of the organization should ensure adequate follow-up on internal audit recommendations.

Georgia has State Internal Control Center for Harmonization Unit (CHU) within the MOF in 2010. CHU reports to the Deputy Minister of Finance. Under Article 2 of the Georgian law on Public Internal Financial Control, the center ensures the assessment, coordination and harmonization of internal audit, financial management and control systems amongst budget organizations. The CHU provides methodological support to all internal audit units of budget organization and organizes capacity building trainings.

MOILHSA Internal Audit Department has currently 7 internal auditors and 4 vacant positions. Two internal auditors are assigned with monitoring and following-up on implementation of recommendations.

MOES Internal Audit Department has currently 16 internal auditors and no vacant positions. 4 internal auditors are assigned with monitoring and following-up on implementation of recommendations.

Internal audit functions in the project implementing organizations are guided by the Internal Audit Methodology and System Audits Manual. The manual broadly covers system, IT, compliance, and financial audits. The manual follows the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors. MOES and MOILHSA Internal Audit Departments have developed mid-term strategic and annual audit plans. Audit plans are based on assessed risks and ministries core functions and missions and annual plans are approved by the Ministers Annual audit plans are also shared with the CHU for monitoring. Therefore, if audit plans are not executed as planned, Internal Audit Departments should provide explanation to the Ministers and the CHU.

**Internal auditing arrangements for the PforR.** The internal auditing departments of the MOILHSA and the MOES will audit the Program annually. Both implementing agency heads should ensure incorporating annual audits of the Program into annual audit plans.

### 3.3.3 Program governance and anticorruption arrangements

As part of the FSA, the degree to which the Program systems handle the risk of fraud and corruption, including complaint mechanisms, was assessed. The Program embeds several fraud and corruption prevention, deterrence, and detection mechanisms in existing arrangements, including:

- program information is publicly available, including provision for handling stakeholder complaints
- comprehensive and clearly articulated procedures governing the use and accountability of funds, reflected in the PFM legislation, regulations, and operational guidelines
- a strong internal control and compliance monitoring mechanism, including: (i) internal control and internal audit; (ii) periodic program progress monitoring by the Parliament; (iii) effective auditing arrangements including an extended scope of audit focusing on systems strengthening applying a risk-based approach
- a strong track record of timely responsiveness in addressing and resolving audit findings and recommendations; and
- effective arrangements for accountability and reporting functions.

**Application of the Anticorruption Guidelines in Program-for-Results financing.** The World Bank's Anticorruption Guidelines will be applicable to the Program as a whole. Specific requirements of the

World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing are the following:

- (a) Sharing information regarding all allegations of fraud and corruption in connection with the Program, investigating all credible allegations received; reporting to the World Bank on actions taken, and cooperating in any inquiry that may be conducted by the World Bank into allegations or other indications of fraud and corruption in connection with the Program.
- (b) The Bank's will retain a right to conduct an inquiry into allegations or other indications within the Program, independently of or in collaboration with the Borrower regarding activities and expenditures supported by the Program and the related access to require persons, information and documents will be observed in accordance with the standard arrangements for this purpose between the Government of Georgia and the Vice Presidency Integrity Department ("INT") of the Bank.
- (c) Procurement entities monitoring and abiding by the World Bank's list of debarred/suspended firms. It will be the responsibility of the internal audit to monitor compliance of the different entities with this provision in terms of verifying contractors' name against the World Bank debarred/suspended list.

**The Intergovernmental Anti-Corruption Council** is an institution created according to Georgian Law on "Conflict of Interests and Corruption in Civil Service". The Council reports to the Government of Georgia and it is chaired by the Minister of Justice of Georgia. Its functions are coordinating anti-corruption activities in the country, updating, and controlling implementation of high-level anti-corruption strategy and action plan, controlling reporting to international organizations, initiating corresponding legislative actions, and preparing recommendations. Currently, the Council has 55 members, of which 17 are observers representing local and international NGOs, international organizations, donors, and business associations.

Georgia ranks 1st among South Caucasus states on the 2020 Corruption Perception Index (CPI). Georgia scored 56 points out of 100 both in 2020 and 2019 and Georgia ranks 45<sup>th</sup> globally among 180 states.

**Public complaints handling (procurement).** Complaints handling mechanism is regulated by the PPL and by the resolution №826 of the Government of Georgia on the Public Procurement Dispute Resolution Board regulation, approved on December 31, 2020. It regulates the procedure for bidders to appeal the decision or action of the procuring entity (e.g., Ministry, LEPL) or Tender committee, their decision or action under the PPL Law and relevant regulations, is in line with the Public-Private Partnership Law of Georgia. resolution №826 regulates the procedure for reviewing the dispute, the complaint form, and the procedure for submitting it to the Board, the procedure for payment and refund of the complaint fee. A special module is built in the eProcurement system - <https://tenders.procurement.gov.ge/dispute> and all complaints are sent via online system. The Board should conduct first round of review.

**Anti-corruption Arrangements for the Program.** In terms of institutional framework, the government has multiple institutions in place for combating fraud and corruption from preventing, reporting, detecting, investigating, prosecuting to sanction. First, within all public agencies including MOES and MOILHSA, there are special units/departments to receive, and process complaints. Second, public can report on fraud and corruption cases directly to the Office of Prosecutor General and/or to the Investigation Service of the MOF (agency for investigation financial-economic crimes including bribery, corruption, and fraud cases). Third there are internal audit units in each line ministry and external audit service in Georgia, and within their mandates they do design audits to address fraud and corruption and if during the audits, auditors suspect potential cases of fraud and corruption these cases are escalated further to the attention of the Office of Prosecutor General and/or the Investigation Service of the MOF. Any bidder in the case of procurement or any person can report fraud and corruption issues to any of these government agencies mentioned above and information can be communicated through hotlines, emails, sending messages through social networks or by any other means. It is envisaged that during the implementation of the Program, the MOF will be consolidating reports generated by MOILHSA and MOES units in charge of processing complaints and submit once a year consolidated report to the Bank in form and content acceptable to the Bank.

## 3.4 Auditing

### 3.4.1 Program audit

**The project implementing organizations will be audited by the State Audit Office of Georgia (SAOG).** Since 2019 the SAOG is eligible for auditing annual financial statement of the Bank funded projects in Georgia. Moreover, since 2017, annually the SAOG is conducting *performance audits* of the Bank funded Secondary Road Asset Management Project, the performance audit report is used to verify achievement of DLIs and basis for disbursement of funds.

The SAOG is a member of the INTOSAI, and it is in charge of performing the external audit function applied to the general government public institutions and audit of annual budget performance reports. The SAOG is governed the Auditor General, who is elected by the Parliament and who is accountable only to the Parliament. The SAOG publishes through its webpage all audited budgets reports, financial, compliance, performance audits, recommendation issued, annual audit plans and subsequent amendments to audit plans.

The SAOG deploys risk-based approach while drafting the annual audit plans, which considers the impact of the budget organizations/programs under implementation on the effective functioning of the public sector financial management system and the likelihood and magnitude of identified risks. The SAOG also considers feedback and initiatives received from all stakeholders including citizens of Georgia.

Financial statements of individual line ministries and annual state budget execution reports are following audited in accordance with International Standards of Supreme Audit Institutions (ISSAI). Also, SAOG is in compliance with Financial Audit Guidelines (ISSAI 1000-2999) and Compliance Audit Guidelines (ISSAI 4000-4200) in respect of financial and compliance audits. The SAOG has a quality assurance department since 2011. The department ensures compliance with the standards.

The SAOG annually covers around **94%** (this includes Program expenditures incurred by the MOILHSA and MOES) of the state budget expenditures through the audit of budget execution. During the last three completed fiscal years, the SAOG has submitted the annual report on state budget performance to the Parliament within 3 months after receipt of the report from the Ministry of Finance.

Based on annual plan the SAOG audits stand-alone financial statements of budget organizations, conducts compliance audits and performance audit of programs. Therefore, the MOILHSA and MOES financial statements are audited annually. However, no consolidated financial statements for the whole Government are audited by the SAOG.

In line with the Article 24 of the Law of Georgia on the State Audit Office, audit recommendations issued by the SAOG are monitored semi-annually and the SAOG reports on progress of implementation of the recommendations annually to the Parliament.

The SAOG has audited the MOILHSA financial statements for the year ended December 31, 2020. Also, SAOG has conducted 3 compliance audits in 2021, 1 compliance audit in 2020 and 1 performance audits over the MOILHSA and its units.

The SAOG has audited the MOES financial statements for the year ended December 31, 2020. Also, SAO has conducted 2 compliance audits and 3 performance audits in 2021 over the MOES and its units.

The SAOG has issued in total 59 recommendations for MOES and MOILHSA for the implementation, 7 recommendations were fully implemented, 52 recommendations are partially implemented, and implementation progress is monitored. Nature of majority (32 recommendations) are related to correction of records/transactions in financial accounting and reporting. Implementation of financial audit recommendations will be followed up during subsequent financial audits. Recommendations on asset management, HR and procurement are either implemented or still under implementation.

**External audit arrangements for the PforR.** The SAOG will audit annual consolidated financial statements for the PforR covering all participating line ministries and issue audit opinion and

management letter. The MOF will be responsible of coordinating the work with the SAOG. The PforR audit cost will be covered by the State Budget, therefore the PforR audit should be incorporated into annual audit plans and its funding would be annually requested by the SAOG through budgets requests.

### 3.5 Procurement and Financial Management Capacity

The assessment team has concluded that the program implementing ministries have adequate number of employees within functions in charge of PFM. Employees are well experienced and selected based on merits. Both Ministries have experience in implementing Bank-financed projects. Currently MOES is the implementing agency for the Bank funded Georgia I2Q - Innovation, Inclusion and Quality Project, and MOILHSA is the implementing agency for the Bank funded Georgia Emergency COVID-19 Response Project.

Procurement Capacity of the MOILHSA, MOES, and its Legal Entities under Public Law (LEPL), in terms of staffing and experience, is adequate.

## Section 4: Program Systems and Capacity Improvements

Based on the assessment following risks were identified and mitigations measure developed:

<b>Risk</b>	<b>Mitigation Action</b>	<b>Timing</b>	<b>Type of action (PAP or DLI)</b>
Program exclusion from annual internal audit programs of implementing entities	MOES and MOILHSA Internal Audit Departments should include the Program audits into annual audit plans until the Program is implemented and communicate the internal audit results with findings and recommendations to the Bank.	No later than 6 months after the end of each fiscal year MOES and MOILHSA should communicate the internal audit results with findings and recommendations to the Bank.	PAP
Timely preparation of the annual financial statements and delivery of annual audited financial statements by the independent auditor under terms of reference acceptable to the Bank	The Bank team, MOF and State Audit Office of Georgia (SAOG) to agree on the audit terms of reference and including audit of the financial statements into annual audit plan of the SAOG, audit will cover a fiscal year of the Borrower	No later than 12 months after the end of each fiscal year.	Legal requirement
Non-compliance with the World Bank Anticorruption Guidelines in Program-for-Results financing withing the	The implementation agencies shall execute the activities in accordance with the World Bank's Guidelines on Preventing and Combating Fraud and Corruption in PforR	No later than 12 months after the end of each fiscal year.	Legal requirement

<p>whole Program boundaries.</p>	<p>Financing. The implementation agencies will (i) share information with the World Bank regarding all allegations of fraud and corruption in connection with the Program, investigate all credible allegations received, report to the World Bank on actions taken, and cooperate in any inquiry that may be conducted by the World Bank into allegations or other indications of fraud and corruption in connection with the Program; and (ii) monitor and abide by the World Bank's list of debarred/suspended firms.</p>		
<p>Risk of delays and failure in procurement processes</p>	<p>Develop an in-house and user friendly procurement Manual for operations procedures as a reference for the Ministries and their LEPLs</p> <p>During the assessment it was noted that neither in MOILHSA nor in MOES, have an inhouse procurement manual to guide the procurement operating procedures. Document should include but not limited to planning, market research, reporting and monitoring the process, as well as performance evaluation and define clear roles and responsibilities among participated units in</p>	<p>No later than 180 days after the Effective Date</p>	<p>PAP</p>

	<p>procurement process, such as units responsible for budgeting, accounting, programing, inspection, warehousing, etc. The procurement procedures to be followed by all concerned individuals including directorates when participating in procurement activities under the Program.</p> <p>The MOILHSA and MOES should ensure capacity increase of procurement specialists in market research, analytics, post-contract review and performance evaluation of procurement process, including creation of performance indicators.</p>		
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## Section 5: Implementation Support

The current program implementation requires a substantial level of follow up and coordination. The role of MOF as a coordinating entity is crucial for the successful implementation of the Program. This will entail the monitoring of the DLIs achievement, periodic reporting of the program expenditures, and ensuring timely yearly external audit report submission to the Bank (not later than six months at the end of each fiscal year), as well as coordination on the auditor’s findings and application of recommendations and resolution of findings and irregularities. The Bank fiduciary team will a) review the implementation progress and working with the task teams to examine the achievement of Program Legal Covenants, and Action Plan that are of a fiduciary nature; b) help the implementing agencies to tackle implementation issues and carry out institutional support; c) monitor the performance of fiduciary systems and internal and external audit reports, including the implementation of the legal covenants and PAP; d) the Bank accredited fiduciary team will conduct implementation support missions semi-annually and e) work together with implementing agencies in developing remedial action plans on audit findings and monitor implementation.