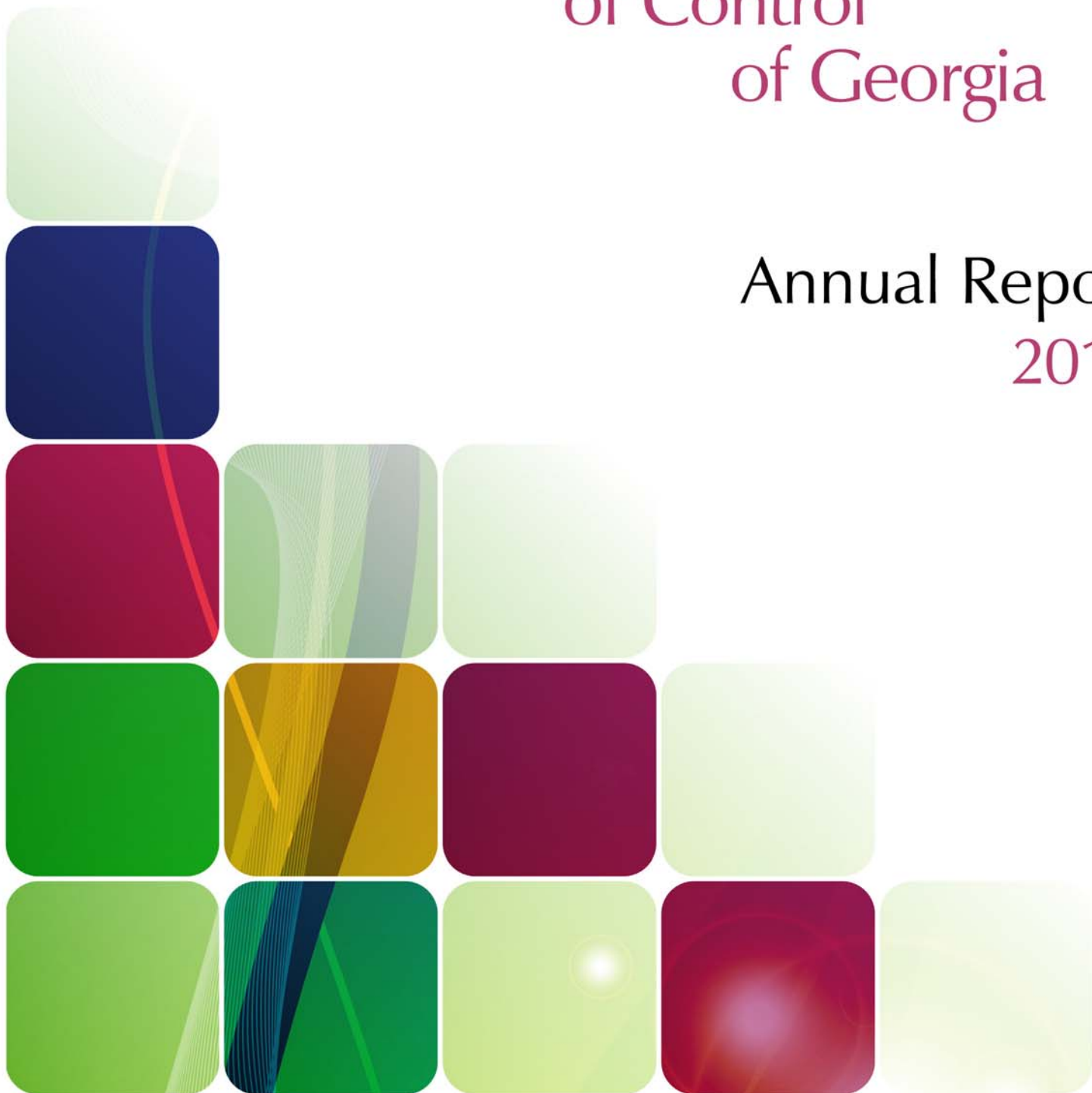
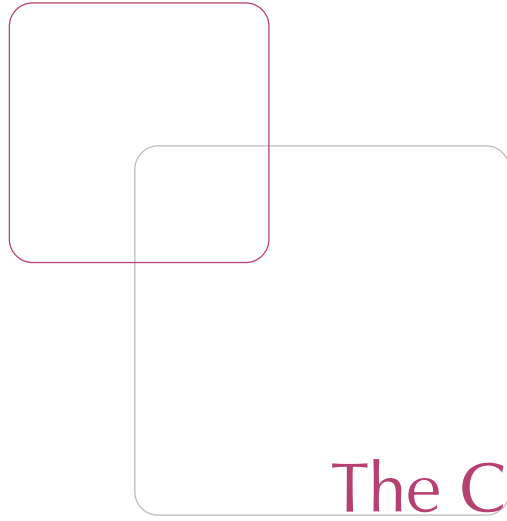




The Chamber of Control of Georgia

Annual Report
2010





The Chamber of Control of Georgia

Annual Report

2010



Tbilisi
2011

Contents

9
Introduction



Strategic Development Documents
of the CCG

10



List of Areas of
Special Public Interest

14



15

Methodology and
Manuals




Public Finance
Management
and Public Audit

17



23

First outcomes of the Structural Reform:
Audit of Local Self-Government



Audit Recommendations and
Implementation Follow up

26



Proposals and amendments in
Public Finance Management Regulations

29

Professional
Development and
Knowledge-Sharing



30

33



International Relations and Cooperation

36



Finances of the Chamber of
Control of Georgia

Annex



37





Foreword



The previous year, 2010, was a logical continuation of the institutional reforms of the Chamber of Control of Georgia representing an integral part of the global changes in the Public Finance Management system of the country. If the activities of the Chamber of Control in 2009 can be described as the establishment of conceptual foundations of modern audit system and the initial stage of its development, 2010 was the year of the active implementation of activities based on the above mentioned principles. In this view, the CCG activity envisages planning and implementation of concrete actions compliant with its strategic development directions.

Our goal is to develop the Supreme Audit Institution of Georgia based on the existing best practices, with the view of which we continue to carry out consistent and comprehensive activities in the international arena – partnership with the Supreme Audit Institutions of foreign countries, donor organizations and cooperation with international organizations offer the opportunity for the development in the right direction.

Also, an active involvement of the CCG in support of the education processes of the citizens must be mentioned – in 2010 we initiated a long-term educational project related to the public finance management and external public audit, the objective of which is to increase interest of the young population and to inspire them to develop contemporary financial management skills.

In addition, the CCG has been continuously performing its major constitutional mandate – promoting legal, efficient and effective public fund spending, as well as, facilitating the improvement of public finance management. In the process of implementation of audit activities, besides the aspect of compliance, a particular attention was paid to the performance – efficient use of public funds – that implies determination of whether all the possible ways to preserve resources have been taken into account by the responsible public managers and agencies. Popularization of the importance

of effective use of public funds and the facilitation of the enhancement of awareness of public sector on this issue represent one of the major priorities of the CCG.

The Chamber of Control of Georgia remains devoted to the principle – to act for the benefit of the society and be its representative in the public finance administration. In addition, our activity is not only directed at strengthening of public oversight, but is also dedicated to promotion of the improvement of public services. For this purpose, the CCG activities involve examination and evaluation of the conditions and development of progress-oriented recommendations.

In order for you to have an opportunity to objectively assess the accomplishment of this important mission by the Chamber of Control of Georgia we are presenting you the conclusive report of the results of the past year activities.

Levan Bezhashvili
Chairman of the Chamber of Control of Georgia





Introduction

The Chamber of Control of Georgia (CCG) is a Supreme Audit Institution of Georgia. Institutional, financial and functional independence of the CCG is guaranteed by law.

The role of the CCG is to promote legality, efficiency and effectiveness in public spending and improvement of public finance management.

Main principles of the activity of the CCG:

- Impartiality
- Independence
- Transparency
- Professionalism

The main benefit of the activities of the CCG is to promote good governance on the basis of the recommendations issued for the improvement of public finance management.

The Chamber of Control of Georgia is the institution that plays the major role in ensuring the accountability and transparency of public institutions.

The main benefit of the activities of the CCG is to promote good governance on the basis of the recommendations issued for the improvement of public finance management.

2010 represented a particularly important period for the CCG in its efforts to align its activities with international standards. In this context, the most noteworthy activities carried out by the CCG are the reform of the legislative framework, introduction of the new financial audit methodology, enhancement of audit quality, strategic planning for the introduction of advanced information technologies and other strategic developments.



Strategic Development Documents of the CCG

In 2010, for further enhancement of the capacity of the CCG, as well as, for the implementation of the activities in line with international standards, several important documents defining various directions of the strategic development of the CCG were introduced:

- Strategic Development Plan for 2010-2012 (updated) and Action Plan;
- Capacity Development Plan for 2010-2011;
- HR Management Strategy for 2011-2012;
- Internal and External Communication Policy;
- IT Strategy;
- IT Infrastructure Development Plan.

Strategic Development Plan

The Strategic Development Plan determines the CCG policy for the development of priorities through 2010-2012 with due consideration to the constantly changing environment of the Public Finance Management.

Mission

The mission of the Chamber of Control of Georgia is to promote better management of public services and public finances by ensuring accountability, legality and efficiency.



By implementing the abovementioned Strategic Development Plan, the CCG aims to develop modern independent public audit service that complies with international standards and is trusted by the citizens.

In order to achieve the set goals, the CCG defined three key strategic objectives:

1. Building Professional Capacity;
2. Building Organizational Capacity;
3. Corporate Image and External Communications.

Capacity Development Plan for 2010-2011

In order to achieve the goals set by the Strategic Development Plan a Capacity Development Plan for 2010-2011 has been developed. The CCG, as the Supreme Audit Institution plays a significant role in ensuring the transparency and accountability of government before the general public that, in turn, requires implementation of the activities in a highly professional manner. Development of institutional capacity of the CCG is important for the performance of its constitutional mandate.



In view of the new mandate determined by the Law “On the Chamber of Control of Georgia” 2009 the CCG is currently facing new challenges. These challenges are complex and are related both to the enhancement of professional capacity and to the improvement of organizational capabilities of the CCG by means of the establishment of the sustainable development system.

In order to perform the tasks set by the above mentioned strategic documents the CCG has defined concrete needs that should be met in order to ensure the progress.

HR Management Main Strategic Goals

The HR Management Strategy has determined the main objectives considered to be the high-priority for the development of the human resource management of the CCG:

- Provision of the CCG with relevant human resources;
- Development and implementation of training programs;
- Introduction of the staff evaluation system;
- Introduction of the career development system;
- Creation of motivation system.

Priorities for the next 2 years

The top priorities of the CCG for the next two years are:

- **Introduction of Quality Control** that implies establishment of a two-level system which shall ensure implementation of the audit processes in compliance with the international standards:

Quality control in line functions (during audit process) which enables the improvement of the audit quality prior to its completion (i.e. Hot Review etc);

Quality Assurance based on the assessment and evaluation of the completed audit engagements which allows identification of shortcomings in audit process and further improvement of the audit methodology (i.e. Cold Review etc).

- **Improvement of internal and external communications**, which is very important for the well-organized, target-oriented, consistent management and function of human resources, as well





as for the better perception of the CCG activities by the general public and other stakeholders. These promote the renewed approach towards the understanding of the new mandate of the CCG as well as its comprehension by the public.

■ **Development of IT, that will provide the following in the CCG system:**

- Creation of the unified IT environment;
- Security of information systems;
- Information protection and archiving;
- Quick and safe exchange of information;
- Network communication between the regional offices of the CCG;
- Centralized control of users;
- Support of audit software;
- Establishment of server infrastructure, intranet and external connections.

All listed above is necessary for the optimization of the audit processes and formation of the up-to-date information management system.



List of Areas of Special Public Interest

An important novelty in the process of transformation of the CCG into a modern Supreme Audit Institution that responds to public demands is the introduction of the List of Areas of Special Public Interest.

By including a certain public policy, program or project in the list, the CCG openly states that this area i.e. the policy/program and the executive authority will be paid particular attention (area-watching).

By including a certain public policy, program or project in the list, the CCG openly states that this area (the policy/program and the executive authority) will be paid particular attention (area-watching).

A policy/program can be included in List of Areas of Special Public Interest following the criteria developed by the CCG based on the obtained information (including the audit findings). The list will be taken into consideration during the determination of priorities and development of annual audit plans.

The criteria for the assessment of a policy/program, its inclusion in the List of Special Public Interest or its updating are:

1. Large amounts of budgetary funds (Materiality);
2. Improper management;
3. Fraud/abuse of position;
4. Need for the significant/system reform;
5. High public interest.





Methodology and Manuals

An important achievement in CCG institutional capacity building process is the development of the document which ensures implementation of audit in compliance with international standards by the CCG auditors. The document is the Financial Audit Manual approved by the Order N141/42 of the Chairman of the Chamber of Control of Georgia which has been highly appraised by the World Bank and is recognized as the indicator of the consistent progress of the CCG on the way to its development as a modern Supreme Audit Institution.

Implementation of financial audit in compliance with this Manual shall commence from autumn 2011.

“The Bank team congratulates the CCG on the development of its new financial audit methodology. It is a significant step forward consistent with international best practice including INTOSAI auditing standards and represents a solid foundation for the CCG’s future audit activities”.

The World Bank

*Source: Public Sector Financial Management Reform Support Project (PSFMRSP)
Implementation Report, November 29 – December 3, 2010*

- One of the important steps on the way of introduction of the international audit standards is the Code of Ethics of the CCG adopted in 2010. The Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors. The code of ethics considers the ethical requirements of civil servants in general and the particular requirements of auditors, including the latter’s professional obligations.



- In 2010 the CCG started the development of the Performance Audit Manual in accordance with the INTOSAI standards (ISSAI 3000-3999). The Swedish and German colleagues are actively involved in the process of the development and introduction of the Manual.
- Based on the experience gained in the course of the audits, guidelines have been elaborated which will be used as manuals by auditors during the audit:
 - Audit manual on State Procurement;
 - Audit manual on business trips.
- For the purpose of detection of audit risks and planning of corresponding audit procedures, an ongoing monitoring of the state budget implementation is being introduced that implies the current analysis of spending of budgetary assignments by the ministries;
- For the timely study of separate directions of the activities of the ministries preliminary audit procedures are being introduced by means of which various organizational and economic classification expenses are examined.





Public Finance Management and Public Audit

The CCG priorities for 2010 were:

- Public Sector Financial Management;
- Management of Diplomatic Missions of Georgia;
- Management of Social Programs;
- Management of Public Healthcare Programs;
- Management of Educational Institutions and Programs;
- Management of Public Security Sector;
- Management of Infrastructure Projects;
- Audit of Enterprises with Public Share (Public Private Partnership);
- Privatization of State-owned Property in the Regions of Georgia;
- Public Broadcasting.

The Chamber of Control of Georgia continues to follow the rationality principle when planning its audit activities: less auditees, more coverage of public resources, i.e. the CCG doesn't perform audit of all public institutions but of those ones that jointly manage a considerable amount of the State Budget.

The audits carried out by the CCG have revealed 859 cases of violations of the applicable law in different spheres.

The audits carried out by the CCG have revealed 859 cases of violations of the applicable law in different spheres.

The audits have revealed that the public funds allocated for the public programs/projects have not been spent purposefully or have been spent in other directions. The examples of such cases are

Public Sector Financial Management Reform Support Project at the Ministry of Finance of Georgia, Public Program for Social Rehabilitation of Disabled Persons at the Ministry of Health of Georgia, Agriculture Development Program in Regions at the Ministry of Agriculture of Georgia etc.

Management of Public Healthcare Programs

The audit of the Public Healthcare Programs has revealed system deficiencies that have exposed the increased audit risks in the healthcare sector:

- The healthcare programs at the Ministry of Labor, Health and Social Affairs of Georgia are approved with long delays whereby a great part of beneficiaries are deprived of services, and the budgetary funds remained unused due to these delays are not spent for the achievement of the program objectives;
- The cost of the medical services determined by the ministry is not based on the justified calculations;
- Medical tariffs are based on the outdated statistics of previous years;
- Consequently, public procurements are performed with considerable errors that inflict a considerable loss to the State Budget.
- There are no internal control procedures in place in the Ministry that would have allowed the assessment of financial statements and performance reports of the medical institutions participating in the healthcare programs.

Audit Findings and Significant Deviations

Compliance audit of the public program for Transplantation of Organs and Tissues and Renal Replacement Therapy revealed that the calculation and financial planning of the program in 2007-2009 were not justified.

- The cost of a dialysis session of 90 GEL, which increased up to 121 GEL in 2009, has been determined without any reasonable calculation that has caused the illegal and inefficient spending of the budgetary funds.

Namely, the ministry purchased expensive dialysis materials from the company which in turn artificially increased the prices. The cost of this material in Georgia, covering 80% the program, exceeded the prices of the Eastern European countries by 60% and exceeded the price of the same quality material offered by another company, also limitedly engaged in the program, by 100%.

Because of the unjustified financial calculations of the program, the State Budget has suffered the loss in the amount of 14 million GEL in 2007-2009.



As the result of the audit of the Public health Program of Immunization and Vaccination illegal spending of the budgetary funds through the public procurements have been revealed:

- Lack of coordination in the process of delivery of vaccines in various years resulted in the early expiration of vaccines that left the State Budget with the loss amounting to 132,900 GEL;
- The budget funds allocated for the procurement of measles-mumps-rubella vaccines have been deliberately used for the advantage of the provider. Without any justification, the procurements have been planned the way that the whole funds have been channeled to the one company which provided inadequate amounts of low-price package vaccines with the short term of storage. Accordingly, the price of a single vaccine has been increased significantly.

Through the procurements performed with violations of the law, the State Budget has lost 1,788,900 GEL.

The audit of the Public Program for Social Rehabilitation of Disabled has revealed a lot of system deficiencies that infringe the interests of program beneficiaries due to the limited availability and low quality of service. The program is not oriented on the achievement of the actual results.

- Namely, In 2007-2009 the program was approved with a long delay from the commencement of the fiscal year that affected the implementation of public procurement, financing of beneficiaries and gaining advantage of the program. During the period of the audit 2,465,300 GEL remained unemployed, which represents 19% of the estimated budgetary allocations. This amount could have benefited up to 3500 expectant beneficiaries.
- Necessary components and criteria for quality services for beneficiaries are lacking in the procurement processes, e.g. use of modern methods and technologies, infrastructure, adequate space, license etc. This has resulted in a low quality of service and program outcomes.
- There is no unified database of beneficiaries having the status of persons with disabilities in place. The mechanism of inclusion of beneficiaries in the respective institutions is ineffective. The category of disabilities of the people, their age, marital status, geographical location and other data is not being considered, which otherwise would have provided the high quality of objective treatment.
- According to the statistics of provision of cochlear implants to beneficiaries, with consideration of the existing finances, only 5 beneficiaries have been serviced. With such approach, it will take 11 years to satisfy the total demand, even if the number of beneficiaries does not increase. In such a long period the program loses its point taking into consideration the fact that the treatment is either not effective at all for an adult or is of a very low effect. Therefore, in order to attain the objectives of this program development of additional mechanisms is required.

Management of Educational Institutions and Programs

On the basis of the audit of 7 universities and scientific institutions the CCG has revealed the following shortcomings and deficiencies of the educational system:

- Shortcomings of the management of financial flow;
- Incorrect management of accounts receivable;
- Incorrect accounting of assets;
- Non-fulfillment of lease agreements;
- Low-quality repair and rehabilitation works;
- Artificially increased number of personnel;
- Inappropriate use of real estate;
- Law violations in the public procurements.

Audit Findings and significant deviations

Lomouri Land Cultivation Institute

- 85 % of 3000 ha land intended for scientific purposes have been utilized for economic activities for the private interests of the institute management for the purpose of which 2,664,800 GEL of the public funds have been inefficiently spent.
- Only 62% of the crops have been reflected as yielded according to the basic cultures. The market cost of the difference (38%) is 3,207,000 GEL whereby the State Budget has lost at least 630,000 GEL in income tax;
- The revenues from the sales of grown up plants was by 746,500 GEL less than the minimum market prices.
- The institute has been engaged in viticulture and sheep breeding that is not related to the scientific activity and resulted in a loss of 265,000 GEL;
- By the failure of the institute to present tax returns to the tax authorities and by reductions in taxes the State Budget has incurred the loss of 211,500 GEL;
- The public procurements in the amount of 2,574,300 GEL have been performed with violations of the law.

The responsible managers of the institute under the title of scientists at the expense of the state-owned property have been carrying out private entrepreneurship thus inflicting a significant loss of 9,891,400 GEL to the State budget.

Based on the results of the audit the CCG has concluded that the ownership of the state-owned property by the institute has been unjustified and has not met the state, public, educational and scientific interests.



State Agrarian University

- The scientific and economic projects financed by the University have not been result-oriented leading to the inappropriate spending of funds. In addition, 300 ha of 500 ha land owned by the University remained unemployed.
- Scientific projects in the amount of 250,000 GEL haven't been implemented. They aimed at: the creation of the Caucasian R&D and information center for the modern irrigation technologies; cultivation of the experimental plots with fruit and vine collection varieties; arrangement of a greenhouse at the Kutaisi sericulture station; scientific research of the unique Georgian breed of sheep.
- The University has signed agreement on the purchase of certain office equipment in the amount of 1,375,200 GEL with the company which has failed to properly fulfill its obligations in the amount of 380,800 GEL. Instead of the agreed type of the supply, the company has provided the equipment of lower price than required. By the illegal disqualification of low-price bidders of the tender the University has inflicted the loss of 651,800 GEL on the public funds.
- Due to the improper selection criteria by the university, the tenders for protective works and heating systems were won by the companies offering the highest prices that resulted in the inefficient use of 267,400 GEL from the State Budget.
- Five contractors failed to fulfill properly their obligations under the contract. As a result of the difference between the actually performed amount of work and the one still due 69,900 GEL have been illegally paid from the State Budget.

By the improper actions of the management of the University 1,010,900 GEL have been spent inefficiently.

Audit of Enterprises with Public Share

In 2010 the CCG carried out the audit of O. Gudushauri National Medical Center JSC and Iashvili Central Children Hospital JSC. The audit has revealed the following:

- Faulty financial accounts;
- Illegal payment of the program budgetary sums;
- Improper payment of patient service cost;
- Ineffective management of state property;
- Violation of norms regulating the state procurements.

Audit findings and significant deviations

Iashvili Central Children Hospital JSC

- In 2008-2009 within the Program of Medical Aid to Children the hospital incorrectly claimed 37,900 GEL from the Ministry of Health;

- Within the frames of the medical service provided by the program for global promotion of children development, the hospital instead of 38,400 GEL of the cost of the performed work has received 99,000 GEL from the Ministry of Health.
- Appropriate measures were not taken by the hospital against the providers who failed to fulfill the terms and conditions specified by the lease and state procurements agreements;
- Selective examination of the rehabilitation works revealed that the costs for the actual work performed of the examined part have been demanded in excess by 11.32%, amounting to 49,3 thousand GEL

Similarly, high audit risks have been detected in the financial management of the O. Gudushauri National Medical Center JSC as described in details in the audit report.

Privatization of State-owned Property in the Regions of Georgia

The audit of Kakheti and Shida Kartli regional departments of the Ministry of Economic Development of Georgia on the management of the state-owned property accounting and privatization has revealed 191 cases of violations of privatization law and non-fulfillment of privatization liabilities as the result of which the state has lost 5.8 million USD of investment.

The violations refer to:

- Non-fulfillment of investment liabilities;
- Incorrect evaluation of privatization objects;
- Nonpayment of the annual fee under the mortgage agreement of total 103,400 GEL;
- Nonpayment of privatization fee;
- Privatization of property in the illegal amount;
- Privatization of dozens hectares of land with breaches of terms or by unauthorized persons.

Non-fulfillment of privatization liabilities disclosed by audit resulted in the loss of 5.8 million USD of investment.





First outcomes of the Structural Reform: Audit of Local Self-Government

Due to the fact that the CCG has not been represented by a special structural unit for the audit of local self-governments since 2007 and that the effective at the time legislation didn't clearly define the CCG mandate to audit municipal funds and property, the activities of municipal authorities have been lacking the qualified audit for a long time. Establishment of the department of audit of local self-governments exercising additional authority granted under the law has improved the situation.

In 2010 audit performed by the Department covered 132 million GEL of the municipal budgetary finances.

The audits performed in municipalities have revealed the following system deficiencies and significant risks:

- **The high share of subsidies.** This strongly decreases the quality of budget transparency since quite often neither the approved budget nor the budget performance report reflects the detailed economic purposes for the allocation of the budget funds or the way they have been spent. The dynamics of staff flow in such organizations is unknown as well.
- **The poor state of the municipal property management and disposal.** Namely, some of the municipalities are lacking information about the quantitative and monetary amount of the non-financial assets owned by them.
- **Execution of municipal procurements with high risk-factors.** Inappropriately declared tender conditions, procurement prices, objects, terms and conditions of procurement agreements, low

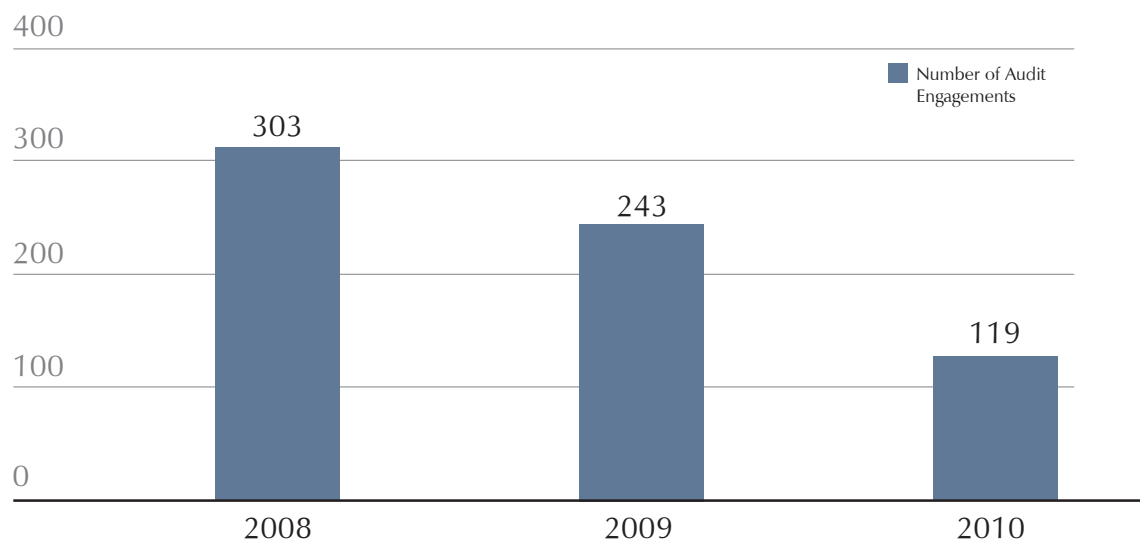
quality of supervision over performance of these terms and conditions and other factors may be the reason of significant loss for the local budget.

- **The inadequate accounting and reporting.** This contains high risks in terms of accuracy and completeness of the financial reporting and possible fraud. A part of municipalities still keeps the accounts manually and the other part applies the software of various origins in a complete or incomplete form.

As a result of the audit considerable deviations have been revealed in the Bolnisi and Khobi municipalities. Namely, the following has been detected: cases of exceeding the sums of approved allocations, breaching of the legislative norms regulating the public procurements, payment of sums without the documents certifying spending of cash funds and proper reflection of the costs of performed work in the expenses.

In 2010 the CCG has carried out 119 audit assignments.

Number of audits performed in 2008-2010





In 2010 the total of 29 audit reports were sent to the Parliament of Georgia and to the legislatures of Abkhazia and Adjara Autonomous Republics.

Findings of 10 audits engagements have been sent to the Prosecutor's Office of Georgia for the subsequent actions. Based on the materials sent to the law-enforcement bodies 3 cases of criminal offences were disclosed.

CCG auditors have performed 13 forensic audit engagements that resulted in 4 cases of fraud detection and seizure of 3.68 million GEL in favor of the State Budget.

The loss caused to the State Budget, as revealed by the CCG audit, amounted to 29.3 million GEL.

The overall amount of 8.7 million GEL was recovered in the public coffers as a result of the audit performed by the CCG.



Audit Recommendations and Implementation Follow up

As a result of each audit engagement the CCG has developed audit recommendations and submitted to the responsible public entities. The CCG actively followed up the implementation processes of these recommendations.

- The Ministry of Labor, Health and Social Affairs of Georgia has taken into consideration the recommendations provided by the CCG on the basis of the compliance audit of the Public Health Program of Transplantation of Organs and Tissues and Renal Replacement Therapy. Under Order N442 of the Minister of Labor, Health and Social Affairs of Georgia of December 31, 2010 the cost of the dialysis session in the program for 2011 has been lowered to the fixed cost of 80 GEL from 121 GEL. By implementation of this recommendation 7 million GEL have been saved in the State Budget for 2011.
- As a result of the implementation of recommendations provided by the CCG in consideration of the audit findings of the Public Immunization and Vaccination Program, the budgetary savings for the procurement of the annual stock of 3 different vaccines have totaled 2.6 million GEL.
- In order to implement the recommendations provided by the CCG on the basis of the audit performed at the I. Lomouri Land Cultivation Institute, the joint working group composed of representatives of the Ministries of Education and Science and Economy and Sustainable Development of Georgia has been created.

As a result of the joint work of the Ministries of Education and Science and Economy and Sustainable Development of Georgia the real estate owned by the Institute (together with the State Agrarian University) has been privatized.

- Following the recommendations provided by the CCG on the basis of the audit findings, Lagodekhi municipality has filed a lawsuit to the local court for invalidation of privatization of



the buildings and constructions together with the land of 51.5 thousand sq. m.. The judgment of the court of first instance has partially supported the suit and the property has been returned to the municipality.

- In consideration of the CCG audit findings regarding the Ministry of Economic Development of Georgia regional departments of Kakheti and Shida Kartli state-owned property accounting and privatization, as a result of the failure to fulfill the investment obligations, the buildings of 6450 sq. m space with the land of non-farming purpose of 35000 sq. m. of the Signaghi branch of Tbilisi State University located in the town of Signaghi was returned to the State, totaling 1.2 million USD equivalent GEL.

Transparency – tool for the follow up of the implementation of audit recommendations.

The CCG publishes the recommendations and the follow-up information on the web-page, through which, one can track the corrective actions taken by the auditees in the process of implementation of the CCG recommendations. The new tool increases the transparency of our institution and allows stakeholders to evaluate our input in the promotion of good governance.

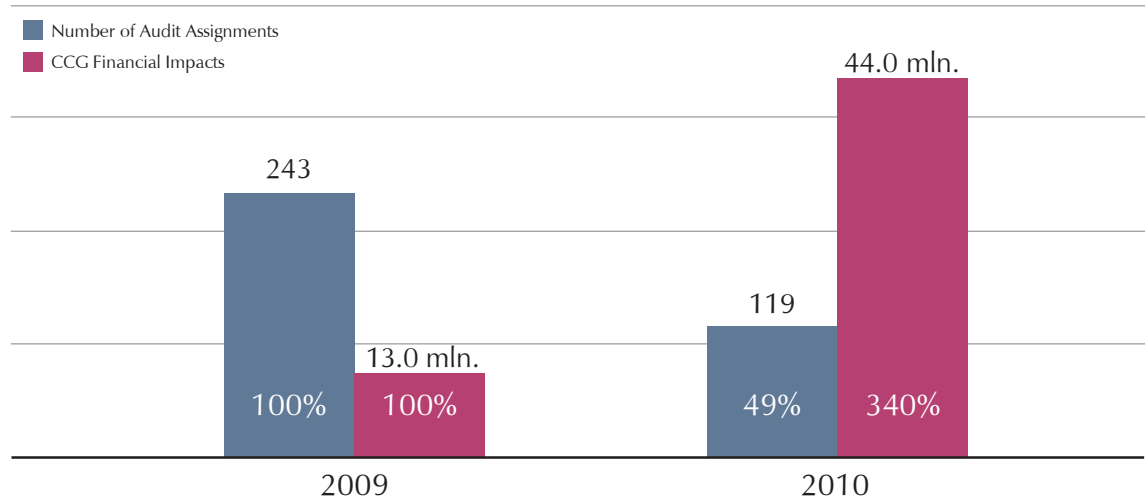
Quantified and Beneficial Change – A Key Measure of the CCG Success

As the result of the implementation of the CCG audit recommendations, the savings of the State Budget amounted to 11.03 million GEL.

The CCG achieved financial impact totaling 44 million GEL – over 3.5 times the CCG net running costs.

The CCG financial impacts have been increased by 340% compared with 2009 while reducing audit engagements by 51%. This implies that our audit is focused on the audit risks and that the CCG plans audit in a manner which ensures that an audit of higher quality is carried out in an economic, efficient and effective way. Thus the maximum results are attained with minimal expenses. Most of CCG impacts are cash-releasing, i.e. leading to reduced costs or increased revenues for the audited bodies.

The CCG Financial Impacts



Based on the results of audits performed by the CCG in 2010 as well as on the analysis of detected system deviations and also, in consideration of the List of Special Public Interest, the following priorities have been determined for 2011:

- Public Health Insurance Programs;
- Management of Social Care and Assistance System;
- Medical Service System and Programs;
- Management and financial security of agricultural;
- Environmental Activities and Programs;
- Financial Management of Defense;
- Science Support System;
- Management of Correction System;
- Management of Diplomatic Missions of Georgia;
- Tbilisi Self-Government.





Proposals and amendments in Public Finance Management Regulations

In order to further advance the reform of the public finance management and enhance the budget transparency, the CCG highlights 5 main issues, consideration of which should be the priority:

- Development of the system and methodology for monitoring anticorruption risks in public agencies;
 - Improvement of the management of local budgets and enhancement of the importance of their audit, among others by means of the legislative changes in accordance to which the CCG shall prepare the report on drawing/performance of local budgets and present it to the Parliament of Georgia.
 - Promotion of the accessibility of information on the budgets of public institutions to the public, publication of the information on the web-site;
 - Introduction of methodology of the development of program budget and program evaluation/self-assessment;
 - Development and implementation of standards and methodologies for internal audit.
-



Professional Development and Knowledge-Sharing

As it has already been mentioned, the CCG Strategic Development Plan aims at transformation of the CCG into a supreme audit institution and development of its services in line with international standards that require:

- Development/improvement of recourses;
- Creation of the training system based on the training strategy.

In order to achieve the goal the CCG has determined new strategic objectives of the HR management. In addition, for the purpose of the exchange of the best practices and audit skills in order to allow instant increase of capabilities, an active cooperation with partner organizations (GIZ, State Audit Office of Latvia, SIGMA, Swedish National Audit office, UNDP) has been extended. The following among the achievements of 2010 can be mentioned:

- Cooperation with the EU/Organization of Economic Cooperation and Development (OECD) within the frames of the joint project (EU/SIGMA) has been continued. Namely, the workshops and trainings for the CCG colleagues have been held. Also, with the support of the project, the CCG has started elaboration of training strategy in order to develop relevant training programs for internal and external advancement of skills. This strategy shall promote enhancement of professionalism and qualification of the CCG employees and compliance with the standards of modern audit institutions.
- The CCG employees have taken part in 36 workshops and trainings held inside and outside the country which have been mainly related to the theory and practice of the financial, compliance and performance audit.



- Four auditors of the CCG have undertaken the 6 months internship program at the Court of Auditors of the North Rhine-Westphalia land of the Federal Republic of Germany. The internship has covered both theoretical and practical studies. Namely, they have received on-the-job trainings and had the opportunity to participate in the audits performed by the Court of Auditors.
- One of the CCG auditors has undertaken a 4 months International Auditor Fellowship Program in the US Government Accountability Office dedicated to the exchange of information and international experience for the improvement of the accountability and management worldwide, and which facilitates improvement of audit methods and capabilities development of supreme audit institutions of foreign countries.
- The UNDP project promoted the development of management capabilities of the CCG. Cooperation covers the strategy of HR management and development of relevant software. An HR Management Strategy has been developed and the processes of implementation of the strategic objectives outlined in strategy are underway. In addition, an HR management program has been developed which is expected to be introduced by the end of 2011.



The reform of the Chamber of Control of Georgia allowed it to gather significant experience and knowledge in the fields of public sector management and modern audit methodology in order to share and transfer it to students.

The CCG as well as each its employees is considered responsible for making personal contributions into enhancement of the education system, and in particular, in ensuring the accessibility of knowledge that complies with the modern standards to the young people in regions. Thus, the CCG and the Kutaisi Akaki Tsereteli State University have signed a Memorandum of Understanding in accordance to which the relevant representatives of the CCG are going to deliver lectures free of charge. The lectures cover the following topics:

- Public Finance Management and Budget System;
- Introduction into the public and private law;
- Participatory democracy and budgetary process;
- The supreme audit institution and audit of public finances;
- Data analysis and decision-making;
- Public finances accounting;
- Basics of audit;
- Performance audit.

Upon the completion of the course successful students may be offered cooperation with the Chamber of Control of Georgia. In addition, this initiative may lay a foundation for the creation of a Masters' Program of Public Sector Audit that will be the first one in the educational system of Georgia.

The leading specialists of the Chamber of Control of Georgia have developed a specific training program for interns, upon the completion of which those interns who have successfully closed the 3-month course have been employed in the CCG.





International Relations and Cooperation

Memorandum of Understanding and Points of Cooperation Between the Swedish National Audit Office and the CCG

An MoU has been signed between the Chamber of Control of Georgia and the Swedish National Audit Office which will assist the CCG in the achievement the objectives determined by the long-term plans. Within the project of the institutional development, cooperation in the field of financial audit, performance audit, internal and external communications, IT strategy and SAI management has already commenced and still successfully continues.

Agreement with the State Audit Office of the Republic of Latvia and Pilot Audits

A Memorandum of Understanding has been signed between the CCG and the State Audit Office of the Republic of Latvia the aim of which is to promote close cooperation of the two Supreme Audit Institutions. Within the framework of the cooperation an agreement has been concluded under which the CCG started joint pilot financial audits in the three ministries together with the Latvian colleagues.

Memorandum of Understanding and Points of Cooperation with the Romanian Court of Accounts

An MoU has been signed between the CCG and the Romanian Court of Accounts, the objective of which is to promote exchange of knowledge and professional skills in the public finance audit.

MoU Signed with Supreme Audit Office of the Czech Republic Supported by the UNDP Program

The United Nations Development Program has initiated a project promoting the development of management capabilities of the CCG, the objective of which is to introduce HR management strategy and management software. Within the project, the partner of the CCG is represented by the Supreme Audit Office of the Czech Republic.

Cooperation Initiated Between the CCG and the Control Chamber of the Republic of Armenia

Bilateral cooperative relations have been initiated between the CCG and the Control Chamber of the Republic of Armenia that will promote development of partnership and cooperation of the two Supreme Audit Institutions.

Meeting with Donor and Partner Organizations

In 2010 the CCG held a meeting with donors and partner organizations attended by the representatives of the World Bank, USAID, EU Delegation to Georgia, German International Cooperation (GIZ), Support for Improvement in Governance and Management (SIGMA), United Nations Development Program (UNDP), the Swedish National Audit Office (SNAO), Royal Netherlands Embassy, Embassy of the Czech Republic and the Parliament of Georgia. During the meeting achievements of cooperation with the CCG in various fields have been reviewed and evaluated.

At the meeting the CCG Development Strategy for 2010-2012 (updated) was presented on the basis of which future directions and spheres of cooperation with donors and partner organizations have been determined.

The Chamber of Control of Georgia Partner of International Organizations

Harmonization of the CCG activities with international standards, involvement in the public finance management reform and striving for more effective and fruitful implementation of public resource management enhances the importance of its role in the process of European integration.

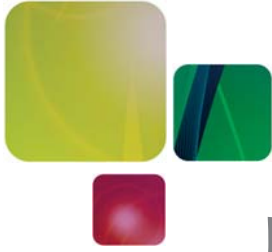
- The CCG is represented in 2 Committees, 2 Subcommittees and 2 Working Groups of the International Organization of Supreme Audit Institutions (INTOSAI):
 1. The CCG is a member of two Subcommittees of the Professional Standards Committee: Compliance Audit Subcommittee and Internal Control Standards Subcommittee.
 2. The CCG is represented in the Working Group on Environmental Auditing and Working Group on Program Evaluation of the Knowledge-Sharing Committee.
- In the frames of EUROSAI the CCG is a member of the Working Group on Environmental Auditing. Membership in this group and active involvement in the meetings are promoting awareness of the modern methodology and best practices as well as the development of the CCG performance audit capabilities.



- Harmonization of the CCG activities with international standards is actively supported and promoted by joint project of the EU and the Organization for Economic Co-operation and Development OECD (EU/SIGMA) that facilitates development of the CCG as an independent modern audit institution.
- Between the CCG and German International Cooperation (GIZ) an agreement on cooperation in the following fields has been signed:
 - Compliance of the Law “On the Chamber of Control of Georgia” with INTOSAI standards;
 - Audit of Local Self-government;
 - Audit of Infrastructure Projects;
 - Development of Performance Audit;
 - Internship and Professional Training of Georgian Auditors in Germany;
 - Evaluation of the CCG Auditor’s Reports.
- Within the framework of the project for institutional development and technical support, the World Bank and the joint group of Development Partners (Swedish International Development Cooperation Agency (SIDA), Ministry of Development and Cooperation of Netherlands (Koninkrijk der Nederlanden) and the UK Department for International Development (DFID)) are promoting the development of the CCG professional capacities by supporting its participation in the international training programs and workshops.
- Participation in the trainings, workshops and conferences organized either by the international organizations of Supreme Audit Institutions – INTOSAI, EUROSAI and ASOSAI or within the frameworks of bilateral cooperation has played a significant role in the professional development of the CCG. These activities allow constant exchange of the up-to-date information, review of significant topics, exchange of experience and establishment of best practices that adds value to the professional development of the CCG.

Audit on Protection of the Black Sea Against Pollution

Within the EUROSAI Working Group on Environment Auditing together with the SAIs of the Black Sea countries the CCG has taken part in the project of Coordinated Parallel Audit on Protection of the Black Sea Against Pollution. This was the first performance audit and environmental audit project which, in its turn, has made a significant contribution to the extension of operations of the CCG. The audit objective was to assess the efficiency of activities against pollution of the Black Sea envisaged by the Bucharest Convention. Coordination of this project was headed by the Accounting Chamber of Ukraine. All the SAIs of the Black Sea basin countries have been involved in the project. During the course of the audit, the CCG group has received a considerable support from the SNAO experts and closely cooperated with other participants of the project as well.

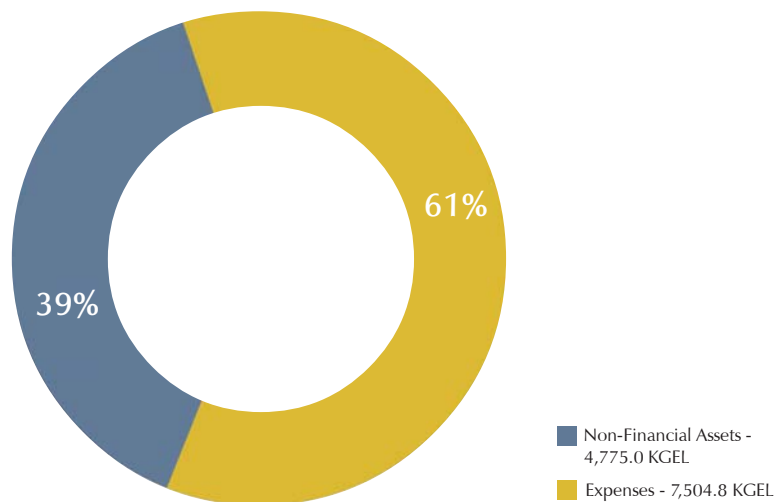


Finances of the Chamber of Control of Georgia

Budgetary allocations of the Chamber of Control of Georgia for 2010 were determined as 12,629,100 GEL. The total funds (paid) amounted to 12,287,600 GEL out of which 5,151.700 GEL represented the payroll fund for the CCG staff, 4,775,000 GEL were dedicated to the major interior construction works of the CCG administrative buildings located in Kutaisi and Tbilisi and for the construction of a new CCG office in the Adjara Autonomous Republic, and 417,100 GEL covered the procurement of equipment and stock.

3 million GEL were spent for the construction and furnishing of the new CCG Head Office opened in Kutaisi in 2010.

2010 Allocations of Chamber of Control of Georgia





Annex

Approved budget of Chamber of Control for 2010

Organization Code	Name	Approved for 2010	Including Budgetary Funds	Including Donor Grants
05 00	The Chamber of Control of Georgia	12 629.10	12 326.10	303.00
	Number of Staff	400.00	400.00	0.00
	Costs	7 950.10	7 647.10	303.00
	Salary	5 321.70	5 321.70	0.00
	Goods and Services	2 156.00	2 156.00	0.00
	Grants	5.00	5.00	0.00
	Social Care	80.00	80.00	0.00
	Other Costs	387.40	84.40	303.00
	Fixed Assets Increase	4 679.00	4 679.00	0.00
05 01	The Chamber of Control of Georgia	12 306.70	12 306.70	0.00
	Number of Staff	400.00	400.00	
	Costs	7 627.70	7 627.70	0.00
	Salary	5 321.70	5 321.70	
	Goods and Services	2 156.00	2 156.00	
	Grants	5.00	5.00	
	Social Care	80.00	80.00	
	Other Costs	65.00	65.00	
	Fixed Assets Increase	4 679.00	4 679.00	
05 02	Donor Funded Projects	322.40	19.40	303.00
	Costs	322.40	19.40	303.00
	Other Costs	322.40	19.40	303.00
	Fixed Assets Increase	0.00	0.00	0.00
05 02.01	Public Finance Management Support Project; The Chamber of Control Component – WB-SIDA-Netherlands-DFID)	322.40	19.40	303.00
	Costs	322.40	19.40	303.00
	Other Costs	322.40	19.40	303.00
	Fixed Assets Increase	0.00		



22, IRAKLI ABASHIDZE ST., KUTAISI, GEORGIA
TEL.: (+995 32) 243 81 78, FAX: (+995 32) 243 81 31
E-MAIL: thecontrolge@control.ge

For more information:

www.control.ge



