



Management Letter



State Audit Office

Management Letter

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

Consolidated Financial Statement of the Ministry of
Internally Displaced Persons from the Occupied Territories, Labor,
Health and Social Affairs of Georgia for the accounting year of 2022

January 30, 2024

Deputy Minister of Internally Displaced Persons from the Occupied
Territories, Labor, Health and Social Affairs of Georgia
Mr. Ilia Gudushauri

Dear Mr. Gudushauri,

Following the audit of the Consolidated Financial Statement of the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia for the accounting year of 2022 as you are aware, the State Audit Office had issued qualified opinion.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI).

In response to the findings identified as a result of the audit, we are hereby presenting our recommendations and other information important to the management.

The results of the response to the recommendations issued as a result of the current audit and audits of the previous period are reflected in the Audit Recommendation Implementation System of the State Audit Office - ARIS (www.aris.sao.ge).

Sincerely,

Zaza Shekiladze

Deputy Auditor General

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Terms and Abbreviations

Accounting Instructions – Instructions authorized under the decree N108 issued by the Minister of Finance of Georgia on May 5, 2020, “Financial Reporting and Accounting Instruction for Public Sector Institutions in Accordance with International Public Sector Accounting Standards (IPSAS)”

Agency For IDPs – LEPL State Agency for Refugees, Eco-migrants, and Stateless Persons

Ministry of Economy – Ministry of Economy and Sustainable Development of Georgia.

Inventory Regulations – Instruction authorized under the Decree N364 issued by the Minister of Finance of Georgia on December 31, 2021, “Inventory of Assets and Liabilities and Recognition in Financial Statement for Public Sector Institutions, in accordance with International Public Sector Accounting Standards (IPSAS)”

Regulatory Agency – LEPL State Agency for Regulation of Medical and Pharmasutical Activities

Agency – LEPL National Health Agency

Emergency Situations Center – LEPL Emergency Situation Coordination and Urgent Assistance Center

Ministry – Ministry of Internally Displaced Persons (IDPs) from the Occupied Territories, Labor, Health and Social Affairs of Georgia and its Legal Entities under Public Law (LEPL)

Social Agency – LEPL Social Service Agency

Solidarity Fund – NNLE Georgian Solidarity Fund

IPSAS – International Public Sector Accounting Standards

ITA – LEPL Information Technology Agency

Financial Reporting and Disclosure Instructions – Instruction authorized under the Decree N24 issued by the Minister of Finance of Georgia on February 4, 2021 on Financial Reporting and Disclosure for Public Sector Institutions

Property Agency – LEPL National Agency of State Property

Depreciation Instruction – Instruction authorized under the Decree N289 issued by the Minister of Finance of Georgia on December 2, 2020 on Recognition of Depreciation in Financial Accounting and Reporting for Public Sector Institutions

Administrative Unit – Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia without its LEPLs

NCDC – LEPL National Center for Disease Control and Public Health

Holding – NNLE Georgian Medical Holding

1. Recommendations

1.1 Short-term account receivable and liabilities

Audit finding

During 2022 in **Administrative unit** the inventory process was not conducted, the Acts of Comparison were not signed, and the measures to study the actuality, limitation period, and probability of collection of receivables were not undertaken.

The Final Balance of "Other Short-term (current) assets" of **Administrative Unit** indicates:

- Within the framework of the "New Corona Virus Disease COVID-19 Management Program"¹ accounts receivables in amount of 20,547,605 GEL to LLC "Academic N. Kipshidze Central University Clinic". The clinic has submitted 11,498,839 GEL in response to the Ministry's 2024 request, supported by verified spending documentation. Currently, the documentation is being reviewed and processed. According to the **Ministry** the remaining balance of 9,048,766 GEL is either eligible for refund or can be reallocated for a different purpose.
- The receivables in amount of 3,393,478 GEL are reflected in the account "Short-term (current) receivables with advance payments" to "GNL" LLC, arising from the tripartite agreement² signed in accordance with the Decree of the Government of Georgia³ on organizing the lottery⁴. Despite the efforts of the Ministry, the act of mutual comparison between the parties has not been signed.
- Accounts receivable amounting to 31,914,593 GEL accrued between 2019 and 2021 from the Georgian representative office of the Danish Council for Refugees. This sum corresponds to the funds disbursed by the donor under the grant project (KFW), with its portion being accounted for in 2021 budget execution report⁵. The Ministry does not possess the documents that validate stated amount. As per the explanation provided by the responsible party, the above mentioned receivables will be covered through the act of mutual comparison, which will be signed based on the works actually performed. Representatives from the Ministry, the Ministry of Finance, and the project representatives are collaborating on these works.
- Receivables amounting to 12,366,380 GEL accrued between 2011 and 2018 due to a Court decision. The organization has not furnished details on the execution of these debts, and the likelihood of their recovery has not been evaluated.
- Depletion of non-financial assets resulting from inventories during 2007-2019, totaled 1,015,734 GEL. The Ministry was unable to provide documentation verifying the actions taken to address this deficit, specifically the materials submitted to law enforcement agencies and the information detailing the response status to these submissions.⁶

As a result of the inventory⁷ conducted by **the Agency**, it is clear that it was not possible to identify the receivables of 2,656,976 GEL arising in 2011-2017 according to the initial

¹ Resolution of the Government of Georgia No. 674 dated December 31, 2019.

² Parties involved in the agreement: Ministry of Finance, funder - Ministry of Health, lottery organizer - LLC "GNL"

³ Resolution of the Government of Georgia No. 1627 dated September 9, 2021.

⁴ The aforementioned matter was also highlighted in the financial audit report from the prior period.

⁵ In the accounts of "Non-financial assets" and "Other current expenses."

⁶ Inventory rule, Article 13, Clause 2.

⁷ The inventory, conducted as of September 30, 2022, had its results approved on April 5, 2023. Consequently, the inventory results could not be considered in the preparation of the financial statements.

documents. It was also discovered that the penalties amounting to 4,345,987 GEL, imposed on the medical institutions from 2011 to 2017 under the various state healthcare programs, have not been collected.

The receivables reflected in the account of "Other short-term (current) assets" of **NCDC**, is totaling 4,944,561 GEL to the United Nations International Children's Emergency Fund (UNICEF), for the purpose of which a confirmation letter has been sent. The reply letter states the amount in foreign currency – in USD. Since the debtor was not able to provide detailed information about the corresponding entries of the receivables balance, the Accuracy and Completeness of these receivables cannot be confirmed by the audit team. In the liability account of **Administrative unit** reflected uncertain debts of GEL 8,405,808, recognized in previous years and arising before 2010, documentation confirming their origin could not be provided to the audit team and is not identifiable at the level of specific creditors. No confirmation letters have been sent to the organizations selected from the creditors' register to confirm the debt balances due to the expiration of the statute of limitations for accounts payable (statute-barred debts). The creditor debts amounted to GEL 12,055,447, which arose in the years 2003-2019, no comparison acts were signed at the end of the year 2022, and no inventory was carried out.

The bulk of **the Agency's** short-term accounts payable represents the cost of work performed by medical institutions under various health care programs.

The Agency's financial statements reflect "current provisions", which are based on the cost of work performed in 2022, submitted by medical institutions registered as suppliers under government programs for which final acceptance certificates have not been signed at the date of presentation of the financial statements and/or the process of completing the relevant documentation was in progress. Information about the works performed by medical institutions within the framework of a certain component is not transmitted to the electronic reporting module, it is developed using the "Hesperus" program, so the supplier provides the implementer with reporting documentation in printed form and on a CD- in electronic form. At the stage of preparing the report, work continued to prepare documentation of the work performed in 2022, which was presented in material form. Accordingly, the financial statements do not fully reflect the cost of "current provisions" incurred in 2022.

Cause

Improper accounting practices and control weaknesses; inventory failure to conduct and underestimation of the probability of coverage of account receivables.

Impact

Inaccuracies in the accounts of "short-term (current) receivables", "other short-term (current) assets", "short-term payables, except for interest", current payments and "other short-term liabilities" in the consolidated financial statements.

Recommendations

In relation to the mentioned issue, within the framework of the audit of the consolidated financial statements in previous years, a recommendation was issued, the implementation status of which is: ongoing and partially implemented (see Chapter 3). The state of implementation of the recommendations issued in the previous period - recommendations N2, N3.

Components recommended for implementation

Administrative Unit, Agency and NCDC.

Audit finding

Consolidated financial statements reflect receivables totaling 24,539,988 GEL to 1,461 individuals⁸ within the referral service program⁹ from 2006 to 2022, which is generated by transferring of the medical services expenses outside of Georgia. As per the Ministry's clarification, receivables are recognized upon the transfer of the amount, and the justification for the write-off is substantiated by documentation, confirming the medical services, provided by the beneficiary and/or their authorized representative. No inventory took place in the **Administrative Unit** and the **Solidarity Fund**¹⁰, and debts were not assessed in compliance with the regulations approved by the Minister of Finance of Georgia¹¹. According to the Ministry, within the framework of the 2023 inventory, based on the documentation submitted by the medical institutions, the receivables were reduced by approximately 11 million GEL, and there was also a change in the rules for transferring the expenses of medical services outside of Georgia. On the basis of the guarantee letter issued by the **Solidarity Fund**, the cost of medical services/medicines provided outside of Georgia is subject to reimbursement upon presentation of documents confirming the work performed by the medical institution or the applicant/representative.

Cause

Control weaknesses; inventory failure to conduct and underestimation of the probability of coverage of account receivables.

Impact

As a result, we could not gain assurance on the correctness of the final balance of 24,539,988 GEL reflected in the accounts of "Short-term (current) receivables" and "Other short-term (current) assets".

Recommendation

In order to present the financial statements fairly, a complete and detailed inventory of the requirements arising within the referral service program should be carried out, as well as communication should be carried out with the relevant medical institutions and the beneficiary (or his representative) in order to obtain documentation confirming this expenditure. The results of the mentioned inventory and the assessment of the reality (removal) of the requirements based on it will be reflected in the financial statements of the next period.

Components recommended for implementation

Administrative Unit and the Solidarity Fund.

1.2 Inventory**Audit finding**

In the consolidated financial statement, the inventory balance as of December 31, 2022, amounts to 167,060,466 GEL, with a significant portion comprised 45,380,068 GEL from the Agency and 99,617,761 GEL from the **NCDC** inventory.

⁸ In the Administrative Unit in 2006-2010 - 82 individuals, with the amount - 2,024,026 GEL, and in the Solidarity Fund in 2010-2021 - 1,379 individuals, with the amount - 22,515,961 GEL.

⁹ Before 2010, the Administrative Unit was the executor, followed by the social agency and NCDC until 2020. Starting from June 2022, the Solidarity Fund took on this role.

¹⁰ In accordance with the Government of Georgia Resolution No. 473 dated September 14, 2018, the responsibility for executing the referral service of the National Health Agency was delegated to the Solidarity Fund of Georgia under the supervision of the Ministry.

¹¹ Inventory rule, articles 2 and 11.

In 2022, the **NCDC** conducted a stock inventory, and in certain instances, an actual stock inventory¹² was performed. However, the outcomes have not been reflected in the registers provided, indicating a variance between the actual and accounting data.

The documents submitted by **NCDC** to the audit group for the write-off of the stocks, used for internal consumption, are incomplete in certain cases. Specifically, a portion of the provided initial accounting documents fails to meet the requirements outlined in the accounting instructions. Notably, these documents lack information on the dates of the economic event and document preparation, as well as the signatures of the responsible individuals.

During the reporting year, the Administrative Unit did not conduct a stock inventory. Over the years, a substantial portion of the stocks, with an immovable balance of 1,836,284 GEL, is stored in the warehouse of Mukhrani village. According to the explanation provided by the person in charge, the stocks housed in this warehouse are deemed unusable. To facilitate further disposal, there are plans to gradually transfer the property to the Property agency, with one stage of this process already completed by the Ministry in 2022. Inventory for the remaining stocks is being conducted in 2023, and the stock balance will be determined based on the decision of the inventory commission.

Cause

Deficiencies related to inventory accounting and control.

Impact

Consequently, we were unable to obtain assurance regarding the existence and accuracy of the assets amounting to 35,444,648 GEL reported in the Inventory account of the consolidated financial statements as of December 31, 2022.

Recommendation

In order to improve the control environment and fair presentation of financial statements, organizations should create inventory commissions within the terms stipulated by the law, ensure the verification of the actual balances of assets and reflect the results of the inventory in the financial statements of the relevant year. To assess the extent to which the said assets meet the criteria for recognition as assets. Also, in relation to the mentioned issue, within the framework of the audit of the consolidated financial statements of the previous years, a recommendation was issued, the implementation status of which is: current (See Chapter 3). Status of implementation of the recommendations issued in the previous period - recommendation N4.

Components recommended for implementation

Administrative unit and NCDC.

1.3 Long-term financial Assets

Audit finding

The Ministry initiated legal proceedings against three clinics between 2018 and 2021, seeking a penalty for breaching loan repayment conditions and contractual terms¹³. Among these, two clinics have successfully settled both the loan principal and the

¹² 31,384,870 GEL inventory, including: Guria-23,373 GEL, Imereti-16,703,318 GEL, Telavi 188,401 GEL, Racha-Lechkhumi-17,641 GEL, Samegrelo-Zemo Svaneti 23,133 GEL, Samtskhe-Javakheti-44,682 GEL, Fo 18,331 GEL, chemical laboratory - 51,729 GEL, Shida Kartli 21,745 GEL, Tbilisi - 13,643,508 GEL, Adjara 649,012 GEL.

¹³ "ALSS" LLC, "Tbilisi First Clinical Hospital" LLC and "Medical Center Neoclinica" LLC, which changed its brand name to "Neo Group" LLC on September 14, 2018.

associated fine¹⁴. However, the financial records indicate the repayment of the loan principal by only one clinic, namely "Als" LLC. The third clinic, "Tbilisi First Clinical Hospital" LLC, was mandated by a Court decision in 2018 to pay 70,415 GEL¹⁵. Despite ongoing compulsory enforcement proceedings, as of today, the decision has not been enforced. The fine imposed on the hospital has not been recorded in the accounting registers of the Ministry and is not reflected in the financial statement as well.

Consequently, there was an increase of 11,267 GEL in "long-term financial assets," accompanied by a decrease of 9,083 GEL in "short-term (current) receivables" in the financial statements.¹⁶

In response to the audit group's inquiry to validate the amount of received loans, the Ministry issued confirmation letters to the loan-receiving organizations. Only 49 of these organizations confirmed the presence of the specified loans. Apart from the three aforementioned Court cases, the audit team faced challenges to acquire information regarding the existence of defined monitoring procedures for managing the issued loan and the associated enforcement process. There is also uncertainty about the measures undertaken by the Ministry over the years to ascertain whether the loan-receiving organizations complied with the conditions outlined in the agreement. Specifically, the Ministry could not provide the following information:

- The criteria for the uninterrupted and continuous provision of medical services to organizations receiving loans, with violations subject to fines;
- Whether or not the Ministry received information from the bankruptcy administrator of the insurance company "Archimede Global Georgia" regarding the repayment of credit by the borrowers? This communication occurred only during the ongoing audit period, as per the audit team's request.
- Quarterly updates on the medical institution obtained from the state health care program administration system or audit findings every six months.
- Details and appropriate documentation regarding the utilization of the granted loans.

Cause	Absence of monitoring of the conditions stipulated in the agreement.
Impact	As a result, we could not obtain assurance on the completeness and correctness of 4,844,823 GEL reflected in the final balance of "long-term financial assets" in the consolidated financial statements submitted as of December 31, 2022
Recommendation	In order to present the financial statements fairly, it is necessary to create a working group that ensures the development and implementation of the rules for monitoring the conditions stipulated in the agreement.
Components recommended for implementation	Administrative unit.
Audit finding	Between 2020 and 2021, in accordance with the Decrees of the Government of Georgia ¹⁷ , six medical institutions were transferred to the Holding for their entire

¹⁴ "ALSS" LLC and "Neo Group" LLC.

¹⁵ The amount of loan - 56,332 GEL, Fine fee - 14,083 GEL.

¹⁶ Reduced by 14,083 GEL and increased by 5,000 GEL.

¹⁷ Resolution N222 of February 6, 2020 and Resolution N349 of March 11, 2021.

duration. This transfer occurred at a nominal price of 1 (one) GEL, granting the right to manage them through the direct transfer¹⁸.

Similarly, in accordance with the Decree of the Government of Georgia¹⁹ and as part of the purchase agreement, 100% ownership of the shares of the mentioned organization and LLCs were transferred to the Holding through a direct sale, at a nominal price of 1 GEL.

In accordance with the 2021 decree²⁰ issued by the Chairman of the Government of the Autonomous Republic of Adjara, the holding, as the designated manager, obtained 100% ownership of two additional hospitals²¹. This transfer includes the right to manage them without any fees for the entire duration of their existence.

Additionally, in 2021, through the Decree of the Government of Georgia²², 100% of the state-owned shares of JSC "Scientific-Practical Center of Infectious Pathology, AIDS, and Clinical Immunology" were transferred at no cost through the direct transfer, allowing holding to manage them for the entire duration of their existence.

In accordance with the accounting instructions,²³ the equity method²⁴ is employed to account for shares in commercial entities of the public sector, a practice not adopted by the Holding.²⁵

The recommendation from the previous financial audit period was only partially heeded by the Administrative Unit. In 2022, the Administrative Unit acknowledged the share of JSC "Scientific-Practical Center of Infectious Pathology, AIDS, and Clinical Immunology" in the share capital, but the share was not adjusted based on the financial results of 2022.

In accordance with accounting instructions,²⁶ the criteria for deviating from the mandatory requirements of the IPSAS are established. However, if compliance with a mandatory requirement is not feasible, the entity is obligated to consider this circumstance when formulating the accounting policy. Additionally, the entity must disclose such information in the explanatory notes to the financial statements, providing an explanation for the pertinent deviation.

The Ministry does not have an unified accounting policy in line with the accounting instruction, which would provide explanations for deviations from standard requirements. Furthermore, the explanatory notes in the consolidated financial

¹⁸ Tbilisi Children's Infectious Clinical Hospital LLC, Academic Nikoloz Kipshidze Central University Clinic LLC, Universal Medical Center LLC, Regional Health Center LLC, Mental Health and Drug Addiction Prevention Center LLC, National Tuberculosis and Lung Diseases LLC Center".

¹⁹ Resolution N1471 of August 25, 2021.

²⁰ Decree N1973 of September 9, 2021.

²¹ LLC "Batumi Republican Clinical Hospital" (245428880) and "Batumi Republican Clinical Hospital" LLC (2454235514).

²² Resolution No. 1436 of August 16, 2021.

²³ Article 10, paragraph 46.

²⁴ IPSAS 36, Article 8.

²⁵ The aforementioned matter was also highlighted in the financial audit report from the prior period.

²⁶ Article 3, paragraph 1.

statements permit exceptions or deviations from mandatory standards,²⁷ which is not properly justified.

Cause	Improper accounting practices, non-compliance with standard requirements.
Impact	Inaccuracies in the "long-term financial assets" item in the consolidated financial statements.
Recommendation	In connection with the mentioned issue, within the scope of the audit of the Ministry's annual consolidated financial statements, a recommendation was issued, the implementation status of which is: current (see Chapter 3). Status of implementation of the recommendations issued in the previous period - recommendation N1.
Components recommended for implementation	Administrative unit and Holding.

1.4 Fixed and intangible assets

Audit finding	<p>NCDC did not furnish the audit team with a comprehensive register of fixed assets, encompassing intangible assets, information technology, computer and telecommunication equipment, furniture, equipment, and the primary portion of transport equipment. The register should have included the following details for each asset: initial historical cost and accumulated depreciation. The provided register does not align with the explanatory notes presented in the financial statements.</p> <p>The Emergency Center was unable to furnish a comprehensive register²⁸ of the fixed and intangible assets. As explained by the responsible individual, this limitation arises from specific challenges inherent to the organization. Despite conducting an inventory in 2022, the conclusive results could not be incorporated into the 2022 financial statements, as ongoing research is being conducted on the identified outcomes.</p> <p>Since January 1, 2020, the Emergency Center has been utilizing land plots and buildings that were transferred under usufruct during the period of existence to the Emergency Medical Assistance Center of Tbilisi Municipality, with the legal succession now held by the Emergency Center. However, in the financial statement, the corresponding entries do not account for assets located in 19 different districts of Tbilisi, encompassing 4,200 square meters of land and 4,352 square meters of buildings.²⁹ As per the responsible party, the process of determining and assessing the value of these assets in use commenced in 2022. The evaluation of these assets is being conducted progressively throughout 2023 and will be appropriately reflected in the 2023 financial statements.</p> <p>Fixed assets with a historical value of 379,414³⁰ GEL, as recorded on the Statement of financial position of the Administrative Unit and the Social Agency, were fully depreciated in 2022. According to IPSAS 17 and IPSAS 31,³¹ it is mandated to review the residual value and useful life of an asset at the end of each financial year. If the expected outcomes differ from previous estimates, any changes should be reflected as a</p>
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²⁷ IPSAS 3, Article 29.

²⁸ Register produced by the Logistics Department.

²⁹ The aforementioned matter was also highlighted in the financial audit report from the prior period.

³⁰ Including: social agency assets totaling 196,932 GEL at historical value, and a Administrative Unit valued at 182,481 GEL.

³¹ IPSAS 17, Article 67 and IPSAS 11, Article 103.

modification in the accounting estimate.³² However, this process has not been carried out. It should be noted that, in 2023, the **Social Agency** evaluated the value of fully depreciated assets and assets listed on the balance sheet through an external audit and determined the useful lives.

On December 1, 2022, the Administrative Unit recorded the "Rukhi multi-profile clinic" in the village of Rukhi with a value of 41,261,979 GEL, based on the act of acceptance signed between the Ministry and "State Construction Company" LLC. As outlined in the act of acceptance, "State Construction Company" LLC will transfer the facility, and the Ministry, within the scope its authority, and will assume ownership of the assets obtained as a result of construction works within the approved project for the construction of a "multi-profile university clinic" in the village of Rukhi. This encompasses buildings N 1, N2, N3, N4, N5, N6, N7, N8, and N9. To finance these works, the Ministry allocated 41,261,979 GEL to the construction company from 2014 to 2020, that was fully reflected in the company's charter capital.

It should be noted that in 2020, based on the resolution of the Government of Georgia, a free usufruct agreement was signed between the Academic Nikoloz Kipshidze Central University Clinic LLC and the Ministry, according to which the clinic takes advantage of the plot of land (43.10.42.174), the building located on it with buildings. In addition, the right of ownership has been registered in the National Agency of the Public Registry as of October 6, 2022.

As a result, in the 2022 financial statements, the above asset should be recorded as an adjustment of capital instead of income of the reporting period.

The ending balance of fixed assets of the **Emergency Situations Center** shows:

- 41 tablet computers worth GEL 147,494 and 41 "Piaggio MP3 500 Hpe Sport Advance motorcycle with DVR" worth GEL 2,029,108, which were received by the Ministry on January 28 and March 25, 2022,³³ and transferred to the Emergency Situations Center. The value of the assets includes the costs of training and warranty service for GEL 19,597 and GEL 88,513, respectively.

As a result, in the consolidated report, the carrying value of assets is overstated by GEL 88,793³⁴, depreciation expenses - by GEL 19,320, warranty expenses are understated by GEL 44,985, and short-term receivables - by GEL 43,528.

- Assets of various denominations³⁵ received by the Ministry for transfer to the Emergency Situations Center during the period from December 2020 to August 2021, by the agreement concluded between Motorola Solutions Germany GmbH and the Ministry on November 6, 2020³⁶. These assets were accompanied by a license, a one-year warranty service and training. The acceptance certificate indicates April 23, 2021, as the date of final receipt of assets; their installation in the Emergency Center is dated June 28, 2021. The total value of assets amounted to GEL 8,378,195, including the value of assets - GEL 7,268,938, license - GEL 845,050, training - GEL 143,025 and warranty service - GEL 121,181.

³² IPSAS 3 - Accounting policies, changes in accounting estimates and errors.

³³ Acceptance certificates dated January 28 and March 25, 2022.

³⁴ 1 year warranty for tablet computers - 12,425 GEL and 2 year warranty for motorcycles - 78,576 GEL.

³⁵ Portable, touch and car radios, base station with software package, remote control device, statistical converter, switch with power system and battery.

³⁶ Acceptance Certificate dated May 11, 2021 and Acceptance Certificate dated August 16 N10 07/14/2020 (Agreement OVID19/G/DC-26).

The transfer of the specified property to the Center for Emergency Situations worth GEL 8,378,195 was registered into the accounting registers on July 19, 2022, with a delay of one year, and accordingly, depreciation of the Assets began later.

For the reporting period of 2022, depreciation costs were understated by GEL 462,573³⁷, and the cost of warranty service was understated by GEL 70,689. The total carrying value of fixed assets in 2022 is overstated by GEL 1,064,863, and intangible assets by GEL 84,505.

- 10 units of artificial lung ventilation devices worth GEL 461,766, which the Ministry received from LLC M-D-S on July 7 and 14, 2020³⁸ for delivery to the Emergency Center. The transfer of the specified property to the Emergency Center was reflected in the accounting registers on December 7, 2022.

According to the accounting instructions³⁹, the Emergency Center should have accepted these properties for accounting as fixed assets in 2020 and began depreciating them. As a result, in the consolidated financial statements for 2022, the depreciation expenses of these assets were understated by GEL 46,177, and the cost of the fixed asset was overstated by GEL 111,593⁴⁰.

The Statement of Financial position of the **Emergency Situations Center** records 198,115 GEL of buildings and structures⁴¹ that are no longer in actual use, the right to use has been terminated by the beginning of 2021; Also on the Statement of Financial position of the organization are taken into account land plots and buildings attached to them carrying value GEL 863,182 as of December 31, 2021, for which the value of the building and the land plot is not divided..

In the case of a **Social Service Agency** and a **NCDC**⁴², when inventorying assets, the useful lives of fixed and intangible assets are not revised. In the **Administrative Unit** in 2022, an inventory of fixed assets and tangible assets was not carried out at all, and the final results of the inventory in the **Emergency Situations Center** were not reflected in the financial statements for 2022, accordingly, the useful life of the fixed assets was not revised.

According to IPSAS 31⁴³, the useful service periods of intangible assets should be estimated; In particular, it should be determined whether the useful life is definite or indefinite because assets with indefinite useful lives are not depreciated, but annual impairment testing is required⁴⁴.

³⁷ Depreciation expenses for assets – GEL 413,278, depreciation expenses for intelligible assets – GEL 49,295, training costs are fully expenses of 2021.

³⁸ Acceptance certificate N1 and N2 dated July 7 and 14, 2020 (contract COVID19/G/DC-03).

³⁹ Accounting instruction, Article 7.

⁴⁰ 29 months of depreciation expense.

⁴¹ Buildings in the cities of Sighnaghi, Lagodekhi, Shuakhevsky district, Tsorsky district, Marneuli, Gori and Kharagauli region.

⁴² Except for assets under the Global Fund grant agreement.

⁴³ IPSAS 31 - intangible assets, article 87.

⁴⁴ IPSAS 21, Article 26.

	In the reporting year, the above-mentioned instruction of IPSAS 31 has not been applied to the Central Office ; There is no justification ⁴⁵ for determining the useful service periods of intangible assets, and a 10% depreciation rate is charged on all assets.
Cause	Control system weakness, improper accounting practices.
Impact	As a result, in the consolidated financial statements submitted as of December 31, 2022, the final balance of "fixed assets" has been overstated by 42,725,343 GEL. Also, we could not get assurance about the completeness and correctness of the final balance of "fixed assets" and "intangible assets" of 97,495,542 and 857,966 GEL respectively.
Recommendation	In connection with the mentioned issue, within the framework of the audit of the consolidated financial statements of the Ministry of previous years, a recommendation was issued, the implementation status of which is: current (see Chapter 3). The state of implementation of the recommendations issued in the previous period - recommendations N8, N9.
Components recommended for implementation	Emergency Situations Center, Administrative unit and Social agency.

1.5 Other long-term non-financial assets

Audit finding	<p>The ending balance of "Other long-term non-financial assets" of the Central Office reflects:</p> <ul style="list-style-type: none"> Construction work projects worth GEL 1,724,970 acquired in 2010-2013 on the account of unfinished assets, which, according to the person in charge, are not identifiable, and without an inventory the discussion of the further use of the facility cannot be carried out. According to the accounting instruction⁴⁶, the standard provides information about impairment indicators, but the organization did not consider the existence of impairment indicators in 2022. Accordingly, we could not be confident that the criteria for their recognition as an asset⁴⁷ were met. Memory module, hard drive and support service worth GEL 1,056,221, 68,552, and 148,056 respectively, which were received by the Technology Agency on November 30 based on a tripartite acceptance certificate signed⁴⁸ on December 15, 2022. <p>These assets⁴⁹ met the definition of fixed assets⁵⁰, were depreciable assets, and were subject to depreciation⁵¹ in December 2022. As a result, instead of "other long-term non-financial assets" in the consolidated financial statements of the Ministry, the above assets should be reflected as fixed assets - with a carrying amount of GEL 1,106,026 in 2022, i.e. expenses of the current period are GEL</p>
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⁴⁵ IPSAS 21, Article 26 and IPSAS 26, Article 25.

⁴⁶ IPSAS 21, Article 27 and IPSAS 26, Article 25.

⁴⁷ IPSAS 1, Article 7.

⁴⁸ Signed between representatives of the manufacturer - Green Service LLC, the buyer - the Ministry and the beneficiary - the Technology Agency.

⁴⁹ Memory module, hard drive.

⁵⁰ IPSAS 17, Article 13.

⁵¹ Instructions for calculating depreciation, article 4, paragraphs: 1, 3, 4, 41.

22,859⁵², and receivables arising within the framework of warranty services are GEL 143,944⁵³.

In the financial statements of the , the account “other long-term non-financial assets” indicates GEL 276,944 of the common use area (corridors, staircases) of a residential building for Internally Displaced Persons, which the **Ministry** does not own, and the ownership is registered in the state register for both IDP families and for the state. There is no division of property rights between the individuals and the state.

- As for buildings worth GEL 587,305 acquired in 1999-2011 and located in the regions of Georgia, for which for many years it was not possible to establish a cadastral code and primary documentation confirming the purchase was not found, as part of the recommendation made based on the audit report for the previous year, a working group created following the order⁵⁴ of the director of the Agency for Internally Displaced Persons made a research work, identified and clarified information⁵⁵ about the property. As a result of the analysis of this information of 2022, 57 residential buildings worth GEL 252,206 have already been transferred to eco-grantees

Cause	Incomplete implementation of inventory; improper control of assets; failure to comply with the requirements of the standard.
Impact	As a result, in the consolidated financial statements presented as of December 31, 2022, the closing balance of “Other long-term non-financial assets” is overstated by GEL 1,525,035 . We were also unable to obtain confirmation of the existence and correctness of assets of GEL 2,001,914.
Recommendation	<p>In order to improve the environment of fair presentation and control of financial statements, organizations should create inventory commissions within the terms stipulated by the law, ensure the verification of the actual balances of assets and reflect the results of the inventory in the financial statements of the relevant year. to assess the extent to which the said assets meet the criteria for recognition as assets; Also, a control mechanism should be developed that ensures a complete, timely and accurate reflection of the assets received for transfer to other entities in the accounting registers.</p> <p>In relation to the mentioned issue, within the framework of the audit of the consolidated financial statements of the Ministry of previous years, a recommendation was issued, the implementation status of which is: current and partially fulfilled (see Chapter 3). The state of implementation of the recommendations issued in the previous period - recommendations N5, N6, N7.</p>
Components recommended for implementation	Administrative unit and IDP.

1.6 Explanatory Notes

⁵² Among them, depreciation cost - 18,746 GEL, warranty service cost - 4,113 GEL.

⁵³ Including short-term (current) receivables - 49,352 GEL and other long-term receivables and non-monetary claims - 94,591 GEL.

⁵⁴ Order No. IDP 6 23 00000611 06/05/2023.

⁵⁵ purchased houses in 1999 - 32, in 2002 - 35 and in 2004 - 101.

Audit finding

Information on explanatory notes is not disclosed in the consolidated financial statements of the Ministry. Information determined following the IPSAS, provided by the accounting instruction⁵⁶ is not presented, namely:

No information has been disclosed on categories administered on behalf of the state as of December 31, 2022⁵⁷.

The explanatory notes to the consolidated financial statements as of 31 December 2022 do not provide information following the requirements of IPAS 20 Explanatory Notes on Related Parties.

Explanatory notes do not provide details of transactions with related parties and other information required by the standard is not provided⁵⁸.

Based on the principle of reliability/fair presentation of financial reporting⁵⁹, it is advisable to present information about legal disputes in explanatory notes to the financial statements or, if necessary, record them in the appropriate article⁶⁰. The **Ministry** has not developed a policy regarding litigation, their expected results are not assessed and are not reflected in the relevant items of the financial statements. Explanatory notes and reference reports to the consolidated financial statements presented in the reporting year do not contain information about cases considered in court, as well as issues of accounting for contingent assets and contingent liabilities, namely:

The reference reports provided by the **Administrative Unit** do not fully reflect information about the ongoing litigation. In the opinion of the responsible person, this accounting deficiency is because cases are based on estimates requiring appropriate competence, and at the same time the organization was unable to identify the exact amount of money in some cases.

In the case of acts of control and inspection by the **Agency**, when the medical institution appeals the act/decision, the request remains on the balance account until the final decision of the court; If the imposed sanction is canceled or reduced by a court decision that has entered into legal force, the corresponding act is written off from the balance sheet as a loss arising from the possession of assets.

In the financial statements of the **Agency**, services provided by medical organizations under health care programs for which, after the date of preparation of the report, but before its submission, final acceptance certificates were indicated and signed, are recognized under the item "liabilities", as well as amounts arising on the basis those medical services for which the electronic reporting module contained information about the funds requested by medical institutions, but the process of verifying the submitted documentation had not yet been completed, this was reflected in the financial statements under the item "current provisions".

Despite the above-mentioned circumstances in 2022, the **Agency** recognized as the current period "medical expenses" - the cost of work performed by medical institutions

⁵⁶ Instructions for the preparation and submission of financial statements, Article 17.

⁵⁷ Instructions for the preparation and submission of financial statements, Article 2.

⁵⁸ IPSAS 1, Articles 20, 27, and 41.

⁵⁹ IPSAS 1, Article 27.

⁶⁰ IPSAS 1, Article 19.

in 2021 of GEL 421,418,722, which was not recognized in the financial statements of the previous year neither in the corresponding accounts “medical expenses”, nor in the accounts “current provisions”.

Accordingly, the expenses reflected in the financial statements for 2022 include part of the expenses incurred for services provided in the previous reporting period of 2021, information about which is not disclosed in the explanatory notes.

Cause	Imperfect control; Absence of a unified accounting policy; Inconsistent and incorrect accounting practices.
Impact	Users of financial statements are not provided with all the necessary information; Also, unfair presentation of requirements and liabilities, contingent assets and contingent liabilities in the statement of financial position.
Recommendation	In relation to the mentioned issue, within the framework of the audit of the consolidated financial statements in previous years, a recommendation was issued, the implementation status of which is: partially fulfilled. (See Chapter 3). The state of implementation of the recommendations issued in the previous period - recommendation N11.
Components recommended for implementation	Administrative unit, Agency and Regulatory Agency.
1.7 Accounting Policy	

Audit finding	<p>The Ministry has not developed and implemented a uniform accounting policy corresponding to the specifics of its activity, the development, implementation, and use of which is one of the main prerequisites for the consistency of accounting in the organization and is required by the accounting instruction.</p> <p>The accounting policy may include instructions and rules on the accounting of the following issues: requirements/liabilities arising from cases appealed to the Court, obligations, obsolete material assets, incomes from sanctions and fines, as well as other issues arising from the specifics of the Ministry's activities.</p> <p>Due to the lack of accounting policies, in several cases, subordinate organizations use different methods/principles of recognition about the same items (for example, a Social Agency recognizes claims for litigation cases in the balance sheet of accounts receivable, and some subordinate organizations in the reference account - as a “contingent asset.” In all cases, income accrued from sanctions and fines is not recognized as income in the report, etc.).</p> <p>None of the consolidated units of the Ministry has an accounting policy developed and approved following the instructions. In 2021, the Agency developed the document “Approaches and policies for accounting for the Agency’s significant activities”, for identification of problematic issues of a significant nature. Additionally, as a result of an analysis of specific circumstances and their impact on the agency's financial data, recommendations were developed that provide guidelines for the correct and complete accounting of economic events, so that the data reflected in the financial statements is fair and accurate.</p> <p>According to the Ministry, it is planned to develop an accounting policy.</p>
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Cause	Imperfect control; Absence of a unified accounting policy; Inconsistent and incorrect accounting practices.
Impact	Users of financial statements are not provided with all the necessary information; Also, unfair presentation of requirements and liabilities, contingent assets and contingent liabilities in the statement of financial position.
Recommendation	Relatedly within the scope of the audit of the consolidated financial statements in previous years, an implementation status of the issued recommendation is: ongoing. (See Chapter 3). Status of implementation of the recommendations issued in the previous period - recommendation N12.
Components recommended for implementation	Ministry.

1.8 Financial statement

Audit finding	Form N1 and Form N2 of the financial statements submitted by the Holding for consolidation do not correspond to the information reflected in the accounting register submitted to the audit team. The responsible person was unable to provide explanations for these differences, and the audit team could not determine the reasons for the distinction.
Cause	Improper accounting practices.
Impact	As a result, we could not gain assurance about the completeness of the amounts reflected in the financial statements presented by the holding company as of December 31, 2021.
Recommendatuion	In order to present the financial statements fairly, the management should select and implement such an accounting system, which will ensure the complete and timely reflection of the performed operations in the accounting registers.
Components recommended for implementation	Holding.

2. Adjustments associated with financial statements

2.1 Receivables

Audit Finding

The consolidated financial statement does not include the sum of 10,904,013 GEL and the financial penalty of 2,461,957 GEL, which the medical institution is obligated to return based on planned and unplanned revision and control acts of healthcare programs in 2022, as stipulated by the **Regulatory Agency**.

NCDC has not accounted for additional financial fines of 10,090 GEL and the amount to be reimbursed, totaling 57,881 GEL, within the scope of planned and unplanned revision and control acts conducted by the **Regulatory Agency** within the framework of healthcare programs.

Within the **Administrative Unit of the Ministry**, the account of "Other short-term (current) assets" encompasses 11 ventilators specifically, 6 Drager Evita and 5 Mindray Synovent E5, which were transferred at no cost to 2 clinics⁶¹. These ventilators represent receivables arising from the temporary usage transfer.

On November 5, 2020, in accordance with the decree⁶², the Ministry transferred 5 ventilators valued at 208,536 GEL to "LJ and Company" for a temporary one-year use, free of charge. Subsequently, based on the Minister's decree dated November 12, 2021, N01-453/o, the Ministry extended the deadline for the property transfer for an additional year.

Up until and including November 5, 2022, the Ministry, pursuant to the Minister's decree of November 20, 2020, N01-557/o, donated 6 ventilators⁶³ to Ltd St. Davit Aghmashenebeli Church Hospital of Kutaisi for temporary use, free of charge, for a one-year period starting from November 25, 2020. Furthermore, in line with the Minister's decree of November 19, 2021, N01-464/o, the ministry extended the property transfer deadline for an additional year.

Considering the asset transfer deadlines being concluded on November 6 and 25, 2022, and the Ministry failed to provide documentation for the extension of these deadlines or the transfer to other entities, these assets should be accounted for on the Ministry's balance sheet at their amortized value by the end of 2022. Consequently, short-term receivables should be adjusted accordingly.

Components where discrepancies were found

Administrative Unit, Agency, Regulatory Agency and NCDC.

2.2 Fixed and other non-financial assets

⁶¹ Ltd. St. Davit Aghmashenebeli Church Hospital of Kutaisi (S/C 212685414) and LLC "LJ and Company" - West Georgia Center for Tuberculosis and Infectious Diseases" (S/C 212691354).

⁶² Decree of the Minister of Health of November 3, 2020 N01-534/o.

⁶³ 2 ventilators (Drager Evita XL) - Cost - 42,029 GEL and 4 ventilators (Drager Evita 4 edition) - Cost - 72,464 GEL.

Audit Finding

The Social Agency's balance sheet includes 6 vehicles acquired in May 2022, depreciation has been calculated for the entire fiscal year instead of the correct period of 7 months. Consequently, the balance sheet value of fixed assets has decreased, leading to an increase in depreciation expense by - 19,703 GEL.

Due to a technical glitch, the vehicles listed on the **Administrative Unit's** balance sheet, purchased in December 2021, have experienced an error in depreciation calculation. Instead of being charged for the correct 12-month period, depreciation has been erroneously applied for only 1(one) month. This has led to an increase in the balance sheet value of fixed assets and a corresponding decrease in depreciation expense by 9,392 GEL.

The account of "other non-financial assets" of the Administrative Unit includes:

- A multilayer tomographic system with a value of 980,000 GEL, leased to the non-commercial legal entity Joe Ann University Hospital, was transferred to the clinic from April 27 to December 31 under a contractual agreement. Starting from May 2022, the aforementioned asset met the criteria for recognition as a fixed asset, necessitating an 8-month depreciation period. This has resulted in a reduction of 46,667 GEL in the depreciation expense for 2022, while the asset's value has concurrently increased by the same amount.
- A standard portable computer with a value of 74,360 GEL was allocated to designated individuals within the Ministry in 2021, and consequently, depreciation should be applied.

In the out of balance accounts the **Administrative Unit**, there is a record of 8 cars utilized by the Administrative Unit and designated for insurance purposes in 2023. When combined with other vehicles on the balance sheet, their total estimated value is 223,000 GEL. According to the organization, these vehicles are anticipated to have a useful service life of 5 years.

During the preparation of financial statements, the Administrative Unit had reliable information about the fair value of the mentioned vehicles, enabling a one-time assessment of their fair (actual) value. As a result, the balance sheet value of the fixed assets as of December 31, 2022, would be 211,850 GEL, with a corresponding depreciation expense of 11,150 GEL for the current year.

Components where discrepancies were found

Social Agency and Administrative Unit

2.3 Intangible Assets

Audit Finding

The closing balance of the "intangible assets" account at the NCDC is reduced by 24,031 GEL. This reduction stems from the calculation of annual depreciation for intangible assets, where new useful service periods were determined in 2020. The calculation is based on the initial historical value rather than the book value at the beginning of the 2020 accounting year.

Components where discrepancies were found

NCDC

2.4 Expenses

Audit Finding	<p>The financial results report of the Agency does not capture the 40,250 GEL expenses resulting from services provided to 2 medical institutions within the SARS-CoV-2 infection (COVID-19) management program. This omission is due to a mechanical error and will be addressed through adjustments in 2023.</p> <p>In the financial results statement of the NCDC, there is a discrepancy of 139,859 GEL in reported expenses compared to the data in the accounting register, Oris. According to the explanation provided by the responsible party, this difference stems from the correction of a mechanical write-off related to fines imposed on legal entities supplying goods and services. These fines were incurred due to the untimely execution of contracts in state procurement and losses caused to the state during the reporting year of 2021. Consequently, the submitted financial statements display a reduction in expenses by 139,856 GEL.</p>
Components where discrepancies were found	Agency and NCDC

3. The current status of implementing the recommendations issued in the preceding period.

Recommendation N1	To ensure the fair presentation of financial statements, it is recommended to establish an accounting policy for shares in state-owned companies. Specifically, the Ministry should explore the possibility of conducting a one-time fair value assessment of shares in state-owned companies. Alternatively, if reliable information is available, adjustments to the closing balance of equity instruments in state-owned companies should be made, considering both cash and equity contributions from previous years. Additionally, adherence to the requirements of the equity method is essential.
Recommendation implementation status	Ongoing
Recommendation N2	To achieve the fair presentation of financial statements and efficient allocation of budgetary funds, it is crucial to distinctly outline the rights and responsibilities of the concerned parties. Furthermore, there should be an enhanced focus on monitoring the fulfillment of agreed-upon conditions.
Recommendation implementation status	Ongoing
Recommendation N3	To achieve a fair presentation of financial statements, it is imperative to establish a working group responsible for verifying the accuracy of recorded receivables and liabilities on the balance sheets of the Administrative Unit, the NCDC, and the Agency. This involves drafting mutual comparison documents, examining relevance, assessing limitation periods, and evaluating the probability of collection. Subsequently, the group should take necessary actions in compliance with the prevailing legislative requirements.
Recommendation implementation status	Partially implemented.
Recommendation N4	Establish a control mechanism to secure accurate record-keeping of inventory, aiming to minimize the risk of errors.
Recommendation implementation status	Ongoing
Recommendation N5	The administration of both the Agency for IDPs and the Administrative Unit is responsible for diligently acquiring comprehensive information concerning assets. This includes obtaining cadastral codes, supporting documentation, and details regarding ownership rights. Ensure a thorough and analytical accounting of the properties based on relevant categories and values. In cases where obtaining the mentioned details proves challenging, provide a detailed explanation in the accompanying explanatory notes.
Recommendation implementation status	Partially implemented

Recommendation N6	To ensure the fair presentation of financial statements within the Agency for IDPs, the Agency, and the Administrative Unit, it is necessary to form a working group. This group should conduct an inventory and analysis of the assets specified in the financial statements and assess the extent to which these assets align with the criteria for recognition.
Recommendation implementation status	Ongoing
Recommendation N7	To achieve a fair presentation of financial statements, the Agency for IDPs and the Administrative Unit should establish control mechanisms that guarantee efficient communication between involved parties and the timely exchange of primary documentation and other crucial information.
Recommendation implementation status	Partially implemented
Recommendation N8	In order to ensure the accuracy and completeness of accounting for long-term asset items in financial statements, it is essential to conduct an evaluation and accounting of assets without a determined value in actual ownership. Additionally, amortized assets meeting the recognition criteria should be included in the assessment.
Recommendation implementation status	Ongoing
Recommendation N9	To ensure the fair representation of financial statements, organizations should categorize intangible assets based on their useful lives, distinguishing between definite and indefinite categories. Furthermore, an annual impairment test should be carried out for assets falling under the category of indefinite useful lives. To achieve a fair presentation of financial statements, it is essential to establish a working group responsible for conducting an inventory of assets recorded in the financial statements. The group should thoroughly assess the extent to which these assets meet the criteria for recognition.
Recommendation implementation status	Ongoing
Recommendation N10	To achieve a fair presentation of financial statements, organizations should, after a comprehensive analysis of the terms in each contract, report them in the financial statements as income derived from non-exchange transactions in accordance with the accrual method as per IPSAS. Additionally, the Ministry should formulate an accounting policy for revenues, encompassing fines.
Recommendation implementation status	Ongoing
Recommendation N11	To ensure the fair presentation of financial statements, it is crucial to formulate a policy on litigation, establish prompt and formalized communication between the finance and legal departments, assess the anticipated outcomes of legal proceedings, and reflect

	receivables, liabilities, contingent assets, and contingent liabilities accordingly in the financial statements.
Recommendation implementation status	Partially implemented
Recommendation N12	To achieve a fair presentation of consolidated financial statements, it is crucial for the balance units within the Ministry, working in coordination with the Administrative Unit, to develop and implement accounting policies and procedures. These measures should be designed to minimize the risk of inaccuracies, omissions, and discrepancies arising from different accounting approaches in the financial statements. Furthermore, ensuring the disclosure of vital information for users is equally important.
Recommendation implementation status	Ongoing

Contact Information

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