



# Management Letter

**State Audit Office**



## State Audit Office

### Management Letter

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

Audit of the consolidated  
financial statements of the Ministry of  
Internally Displaced Persons from the  
Occupied Territories, Labor, Health and  
Social Affairs of Georgia for the reporting  
period ending on December 31, 2023

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January 31, 2025

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

Dear Mr. Giorgi,

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 2023 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](http://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.

**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)

**IPSAS** – International Public Sector Accounting Standards

**Solidarity Fund** – NNLE Georgian Solidarity Fund

**Social Agency** – LEPL Social Service Agency

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

**Center**– LEPL National Center for Disease Control and Public Health

**Holding** – NNLE Georgian Medical Holding

# 1. Recommendations

## 1.1 Short-term receivable and liabilities

### Audit finding

An inventory was not conducted in the **Administrative Unit** in 2023, no reconciliation acts were formalized, and no procedures were performed to assess the existence, aging, and recoverability of receivables. The final balance of the Administrative Unit's "Other Short-term (Current) Assets" includes:

- A receivable of 20,547,605 GEL from LLC "Akademic Nikoloz Kipshidze Central University Clinic" under the "COVID-19 Management Program, <sup>1</sup>" of which 11,498,839 GEL<sup>2</sup> is supported by expenditure documentation presented in 2024 based on the Ministry's request. The review and processing of this documentation were ongoing and not completed before the submission of the financial statements. According to the Ministry, the remaining unused amount of 9,048,766 GEL is subject to return or reallocation for other purposes.
- A receivable of 3,393,478 GEL from LLC "G N L" is reflected under the "Short-term (Current) Receivables from Advance Payments" section, arising from the tripartite agreement<sup>3</sup> signed for organizing the lottery, in accordance with the Government of Georgia's decree<sup>4</sup>. Despite the Ministry's efforts, the act of mutual comparison between the parties has not yet been signed.<sup>5</sup>
- A receivable of 31,914,593 GEL from the Georgian representative office of the Danish Council for Refugees is recorded for the years 2019-2021, representing funds transferred by the donor under the grant project (KFW), with part of it reflected in the 2021 budget execution report<sup>6</sup>. The Ministry does not possess supporting documentation for this amount. According to the responsible person, the aforementioned receivable will be settled based on the the act of mutual compariso formalized according to the actual work performed, which is currently being developed by representatives from the Ministry, the Ministry of Finance, and the project.
- Receivables of 12,366,380 GEL, arising from court decisions made between 2011 and 2018. The organization has not provided information on the enforcement of these receivables, nor has the likelihood of their recoverability been assessed.
- The loss of non-financial assets resulting from inventories conducted between 2007 and 2019 amounts to 1,015,734 GEL. The Ministry has not undertaken actions prescribed by current legislation regarding these receivables. Specifically, no investigation into the causes of the loss, identification of responsible

<sup>1</sup> The Government of Georgia Order No. 674, dated December 31, 2019.

<sup>2</sup> This issue was also mentioned in the financial audit report of the previous period.

<sup>3</sup> Parties to the agreement: Ministry of Finance, the financier - Ministry of Health, and the lottery organizer - LLC "G N L".

<sup>4</sup> The Government of Georgia's Order No. 1627, dated September 9, 2021.

<sup>5</sup> This issue was also mentioned in the financial audit report of the previous period.

<sup>6</sup> Under the "Non-financial Assets" and "Other Current Expenses" sections.

individuals, or referral of the inventory results to law enforcement agencies for further investigation has been conducted<sup>7</sup>.

A significant portion of the receivables in the **Agency** has arisen from penalties imposed under the supervision of state programs, with the receivables being recognized in the accounting records as of the date the penalties are imposed. The organizations transfer the funds to the unified treasury account.

If a medical institution appeals an act/decision, the receivable remains on the balance sheet account until the final court decision is made. The inventory<sup>8</sup> conducted by the agency revealed that it was not possible to identify receivables amounting to 1,608,148 GEL, originating in previous years, based on primary documentation. Additionally, it was found that penalties amounting to 2,839,725 GEL, imposed on medical institutions under various state health programs, lack precise information regarding ongoing legal or administrative disputes.

As a result, in accordance with the inventory procedure, the reality of the receivables has not been verified, doubtful or uncollectible receivables have not been determined, and no appropriate measures have been implemented.<sup>9</sup>

#### Cause

Improper accounting practices and control weaknesses; failure to conduct inventory and absence of estimation of the probability of collection 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, recommendations were issued, the implementation status of which are: ongoing and partially implemented (see Chapter 3). Status of implementation of recommendations issued in prior period - recommendations N2 and N3.

#### Components recommended for implementation

Administrative Unit and Agency.

#### Audit finding

In the **Administrative Unit** and the **Solidarity Fund**, a receivable of 14,791,357 GEL has been recorded under the Referral Service Program for 860 individuals<sup>10</sup> from 2006 through 2023. An inventory has not been conducted in the Administrative Unit, and the receivables have not been evaluated in accordance with the procedure approved by the Minister of Finance of Georgia<sup>11</sup>.

In contrast, during the inventory conducted in the Solidarity Fund, documentation confirming the medical services provided to beneficiaries was obtained. As a result,

<sup>7</sup> Inventory Regulations, Article 13, Paragraph 2, and Article 15, Paragraph 2.

<sup>8</sup> The inventory was conducted as of September 30, 2023, and its results were approved on March 29, 2024. Therefore, the results of the inventory could not be reflected in the preparation of the financial statements.

<sup>9</sup> Inventory Regulations, Article 1, Paragraph 10.

<sup>10</sup> In the Administrative Unit from 2006 to 2010, 82 individuals with a total amount of 2,024,026 GEL, and in the Solidarity Fund from 2010 to 2023, 778 individuals with a total amount of 12,767,331 GEL.

<sup>11</sup> Inventory Regulations, Articles 2 and 11.

receivables totaling 10,144,970 GEL, originating from 2010 to 2022, were written off in 2023.<sup>12</sup>

<b>Cause</b>	Control weaknesses; failure to conduct inventory and absence of evaluating the probability of collection of receivables.
<b>Impact</b>	As a result, we could not obtain assurance regarding the accuracy of the final balance of 14,791,357 GEL reflected under the sections Short-term (current) receivables and Other short-term (current) assets.
<b>Recommendation</b>	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 implemented (see Chapter 3). Status of implementation of recommendations issued in prior period - recommendation N13.
<b>Components recommended for implementation</b>	Administrative Unit and the Solidarity Fund.

## 1.2 Inventory

<b>Audit finding</b>	<p>In the <b>Administrative Unit</b>, an inventory of stocks has not been conducted for the reporting year. The audit team, through selective on-site inspection at the warehouse located in the village of Mukhrani, Mtskheta Municipality (Warehouse N. 2), identified the following issues:</p> <ul style="list-style-type: none"> <li>• The warehouse does not provide proper conditions for the storage of assets. As a result, a significant portion of the assets has been damaged.</li> <li>• The internal area of the warehouse, where assets are stored, does not have video cameras installed, and video surveillance is not in place. Consequently, proper control mechanisms for the assets have not been established.</li> <li>• A large portion of the inventory in the warehouse has expired.</li> <li>• For selected inventories, precise identification was not possible as inventory numbers have not been assigned, and the accounting records reflect different prices and characteristics for the same type of inventory. Given the storage conditions, in most cases, it is impossible to confirm the completeness of the inventories.</li> <li>• Without proper documentation, the warehouse contains office inventory that is damaged and out of order. As a result, it is impossible to identify the assets recorded in the accounting records and confirm their existence and completeness.</li> </ul> <p>In light of the above, the following was revealed:</p> <ul style="list-style-type: none"> <li>• A loss of inventory: 2,595,857 units<sup>13</sup> amounting to 1,375,116 GEL,<sup>14</sup> for which the corresponding documentation could not be provided.</li> <li>• Expired inventory: 929,884 units amounting to 576,756 GEL and excess inventory: 36,975 units.</li> </ul>
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<sup>12</sup> Among these, 293,246 GEL unused by medical institutions was returned to the budget.

<sup>13</sup> Among them: 2,519,634 units – medical inventory valued at 1,352,446 GEL.

<sup>14</sup> Specifically, for 2,513,864 units of inventory – the total value of 1,257,759 GEL has been assessed using the average price of homogeneous inventory.

- A loss of office inventory: 266 units amounting to 24,471 GEL, which cannot be identified.

During the on-site inspection, assets<sup>15</sup> were identified that are located in the Ministry's warehouse but are not reflected on the Administrative Unit's balance sheet. These assets are owned by the Emergency Situations Center and the Holding, and no documentation was provided to substantiate their placement in the Ministry's warehouse.

Through selective on-site inspection of the Ministry's warehouse inventory, it was identified that some of the inventory balances recorded in previous years are obsolete and unusable. Additionally, assets were found for which the accounting department does not hold the corresponding documentary evidence, and their existence and completeness could not be confirmed through on-site inspection. Specifically:

- 13,428 units valued at 187,827 GEL of inventory that cannot be identified.
- 62,139 units valued at 673,829 GEL of obsolete and unusable inventory.
- 38,966 units valued at 252,842 GEL of inventory losses, for which the corresponding documentation could not be provided.

It is important to note that the organization does not have a person designated as materially responsible by order or contract.

Regarding the **Agency's** special medication registry, the final balance of inventory under the State Program for the Treatment of Drug-Addicted Patients is 552,935 GEL less than what is recorded in the accounting data. Specifically, discrepancies were found for two types of medication.

According to the responsible person's explanation, the difference is caused by a software error, as a result the inventory register does not accurately reflect the movement and final balance of medications. Additionally, the expenditure for the mentioned medications in October, November, and December 2023 is not recorded in the accounting books.

An inventory was conducted by the Agency as of September 30, 2023; however, the inventory period has been extended and was not completed by the date of the financial statement submission. Consequently, the inventory outcomes have not been reflected in the financial statements. According to the agency's explanation, the difference identified in the inventory of the stock within the registry of special medications under the State Program for the Treatment of Drug-Addicted Patients was retrospectively corrected. The information will be disclosed in the explanatory notes of the 2024 financial statements.

#### Cause

Deficiencies in accounting and control of inventory.

#### Impact

Consequently, we were unable to obtain sufficient assurance regarding the existence, completeness, and accuracy of the assets recorded under the "Inventories" account in the consolidated financial statements as of December 31, 2023, amounting to 5,242,859 GEL.<sup>16</sup>

<sup>15</sup> A total of 160 units of vehicles (including emergency medical service vehicles), 52 units of medical beds, 5 units of oxygen stations (oxygen respiratory apparatus), 132 units of medical cabinets, 22 units of refrigerators, 16 units of portable instrument kits, electrocardiographs, defibrillators, oxygen concentrators, glasses, and other medical supplies were identified, for which complete inventory was not possible.

<sup>16</sup> The Agency's material inventories amounted to 1,594,992 GEL, and the Central Apparatus' material inventories amounted to 3,647,867 GEL as of the reporting date.



<b>Recommendation</b>	For the fair presentation of financial statements and the effective management of assets, the Administrative Unit should ensure the identification of the causes of discrepancies revealed through on-site inspections and take the appropriate actions as provided by law. In relation to the mentioned issue, within the framework of the audit of the consolidated financial statements in previous years, recommendations were issued, the implementation status of which are: ongoing and partially implemented (see Chapter 3). Status of implementation of recommendations issued in prior period - recommendations N4 and N14.
<b>Components recommended for implementation</b>	Administrative Unit and Agency.
<b>1.3 Long-term financial Assets</b>	
<b>Audit finding</b>	As of 2023, the financial statements include accounts receivable of GEL 4,824,385 from 81 clinics, issued under the 20-year loans agreement provided by the Administrative Unit in 2014. <sup>17</sup> An examination revealed that the Ministry is unable to adequately monitor compliance with the terms of the loan agreement, as 23 clinics failed to demonstrate continuous provision of medical services under state healthcare programs as stipulated by the agreement. Additionally, no supporting documentation was provided by the clinics to confirm the targeted utilization of the disbursed loans. Communication with the clinics following the audit team's request revealed that three clinics are either non-operational or liquidated, while two clinics submitted an audit report confirming their operational status <sup>18</sup> due to their inability to confirm participation in healthcare programs. In the remaining cases, no evidence was provided to demonstrate the continuous functioning of medical services. According to the loan agreements, the Ministry was obligated to impose a one-time penalty equivalent to 25% of the total unpaid loan amount, which has not been enforced. This indicates inadequate monitoring of the loan agreement terms, resulting in inaccuracies in the "Short-term (Current) Accounts Receivable" accounts.
<b>Cause</b>	Absence of monitoring of the conditions stipulated in the agreement.
<b>Impact</b>	Inaccuracies in the account "long-term financial assets" in the consolidated financial statements.
<b>Recommendation</b>	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 implemented (see Chapter 3). The state of implementation of the recommendations issued in the previous period - recommendation N15.
<b>Component recommended for implementation</b>	Administrative unit.

<sup>17</sup> Government of Georgia Decree No. 309 of February 20, 2014, on 'Measures to Be Implemented for the Uninterrupted Operation of Certain Medical Institutions'

<sup>18</sup> which is determined in clause 3.1.4.2 of the contract.

**Audit finding**

In 2020-2021, the **Holding** received the full ownership of six medical institutions<sup>19</sup> shares and 100% of LLC stakes<sup>20</sup> based on a government decree<sup>21</sup> and acquisition agreement. Additionally, the holding company, as the recipient of the management rights, received the management rights of two more hospitals<sup>22</sup> from the Government of the Autonomous Republic of Adjara without charge, for an indefinite period.

In 2023, the Holding established LLC "Rukhi Republican Hospital." <sup>23</sup>

**According to the accounting instruction<sup>24</sup>, the equity method<sup>25</sup> is used for reflecting the shares in public sector commercial entities, which has not been implemented by the holding company.** <sup>26</sup>

The accounting instruction<sup>27</sup> specifies the grounds for deviation from the mandatory requirements of the State Accounting Standards, but if the mandatory requirement cannot be fulfilled, the entity must consider this when developing its accounting policies and disclose the reason for the deviation in the Disclosure notes to the financial statements.

The Ministry has not developed a unified accounting policy in line with the accounting instructions, which would explain the reasons for deviations from the standard requirements. Additionally, in the Disclosure notes to the consolidated financial statements, deviations from the mandatory requirements stipulated by the standards for the accounting of investments in state enterprises have been allowed, but these deviations have not been properly justified.<sup>28</sup>

**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 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 implemented (see Chapter 3). Status of implementation of recommendations issued in prior period - recommendation N1.

**Component recommended for implementation**

Holding.

<sup>19</sup> LLC "Tbilisi Children's Infectious Clinical Hospital", LLC "Akad. Nikoloz Kipshidze Central University Clinic", JSC "Universal Medical Center," LLC "Regional Health Center", LLC "Mental Health and Drug Prevention Center", JSC "National Center for Tuberculosis and Lung Diseases".

<sup>20</sup> through direct sale at a symbolic price of 1 (one) Georgian Lari.

<sup>21</sup> Decree No. 1471 of August 25, 2021.

<sup>22</sup> JSC "Batumi Republican Clinical Hospital" (registration number: 245428880) and JSC "Batumi Republican Clinical Hospital" (registration number: 245423514).

<sup>23</sup> The Founding Agreement of June 14, 2023.

<sup>24</sup> Article 10, Paragraph 46.

<sup>25</sup> IPSAS 36, Article 8.

<sup>26</sup> The issue was also reflected in the financial audit report of the previous period.

<sup>27</sup> Article 3, Paragraph 1.

<sup>28</sup> IPSAS 3, Article 29.

## 1.4 Property, Plant and Equipment and intangible assets

**Audit finding**

In the financial position report of the **Emergency Situations Center**, 12 non-residential buildings with a total value of GEL 308,459 and 3 land plots with a value of GEL 93,302, covering a combined area of 10,589 square meters, are recorded but not used for the organization's purposes. Additionally, a land plot and attached buildings valued at GEL 167,434 are reported on the balance sheet, without a distinction made between the value of the building and the land.

During the inventory of assets at the **Center** and the **Emergency Situations Center**, the useful lives of Property, Plant, and Equipment were not reviewed. Similarly, at the Social Agency, the useful lives of intangible assets were not reassessed. In the Administrative Unit, no inventory of Property, Plant, and Equipment and intangible assets was conducted in 2023, and the useful lives of Property, Plant, and Equipment and intangible assets were not reviewed. Additionally the determination of useful lives for intangible assets was not justified, and a uniform 10% depreciation rate was applied across all assets<sup>29</sup>.

An audit team's selective physical inspection revealed the following issues:

1. Inventory cards were not opened for the assets, and the accounting records lacked inventory numbers.
2. While inventory numbers were physically attached to assets by the Material Support and Logistics Department, these numbers did not match the accounting records.
3. The accounting data showed assets with similar names and characteristics but differing acquisition dates and costs, making their physical location untraceable.

As a result, the audit team was unable to identify 671 units of Property, Plant, and Equipment with a total carrying value of GEL 2,000,923.

Additionally, GEL 17,772,197 worth of fixed and intangible assets<sup>30</sup>, measured at historical cost, were fully depreciated as of 2023. According to IPSAS 17 and IPSAS 31<sup>31</sup>, the residual value and useful life of assets must be reviewed at the end of each financial year. If expectations differ from previous estimates, the changes should be accounted for as changes<sup>32</sup> in accounting estimates. This review process was not conducted.

**Cause**

Control system weakness, improper accounting practices.

**Impact**

Consequently, sufficient assurance could not be obtained regarding the existence and accuracy of the final balance of "Property, Plant, and Equipment" with a carrying value of GEL 2,000,923.

**Recommendation**

In relation to the mentioned issue, within the framework of the audit of the consolidated financial statements in previous years, recommendations were issued, the implementation status of which are: ongoing (see Chapter 3). Status of

<sup>29</sup> IPSAS 21 Article 29 and IPSAS 26, Article 25.

<sup>30</sup> Among these: assets of the Administrative unit - 12,724,220 GEL, the Center - 4,456,057 GEL and the Emergency situationa center - 591,920 GEL.

<sup>31</sup> IPSAS 17, Article 67 and IPSAS 11, Article 103.

<sup>32</sup> IPSAS 3 –Accounting policies, changes in accounting astimates and errors.

implementation of recommendations issued in prior period - recommendation N8 and N9.

## Components recommended for implementation

Emergency Situations Center, Administrative unit and Center.

### 1.5 Other long-term non-financial assets

#### Audit finding

In the final balance of the Administrative Unit's "Other Long-term Non-Financial Assets," the following are included:

- **Construction Project Costs:** On the account for unfinished assets, construction project costs purchased between 2010-2013, valued at GEL 1,724,970, are recorded. According to the responsible person, these projects are not identifiable, and without inventory, it is not possible to consider the issue of their further use. According to accounting instructions<sup>33</sup>, the standard provides information about impairment indicators. The organization did not assess the presence of impairment indicators in 2023. Consequently, we cannot confirm whether the criteria<sup>34</sup> for recognizing these as assets have been met.
- **Common Areas in Residential Buildings for Internally Displaced Persons (IDPs):** The common areas (corridors, stairwells) of residential buildings for IDPs, valued at GEL 276,944, are also recorded. However, the ministry does not own these areas, as property rights are registered in the public registry both under the names of IDP families and the state. Ownership rights between private individuals and the state remain undefined.

#### Cause

Incomplete implementation of inventory; improper control of assets; failure to comply with the requirements of the standard.

#### Impact

As a result, as of December 31, 2023, we could not obtain assurance regarding the existence and accuracy of GEL 2,001,914 in "Other Long-term Non-Financial Assets" presented in the consolidated financial statements.

#### Recommendation

In relation to the mentioned issue, within the framework of the audit of the consolidated financial statements in previous years, recommendations were issued, the implementation status of which are: ongoing and partially implemented (see Chapter 3). Status of implementation of recommendations issued in prior period - recommendation N5, 6 and N7.

## Components recommended for implementation

Administrative unit and Agency For IDPs.

<sup>33</sup> IPSAS 21, Article 27 and IPSAS 26, Article 25.

<sup>34</sup> IPSAS 1, Article 7.

**Audit finding**

The consolidated financial statements of the Ministry do not disclose information regarding Disclosure notes<sup>35</sup>. Specifically, information required by the accounting guidelines and defined under IPSAS has not been presented, including:

The requirements of IPSAS 20, "Related Party Disclosures."

The Disclosure notes do not include detailed information about transactions with related parties. Other information required by the standard has also not been disclosed.<sup>36</sup>

Based on the principle of fair presentation in financial reporting<sup>37</sup>, it is advisable to disclose information about legal disputes in the Disclosure notes to the financial statements or, if necessary, recognize them in the appropriate account<sup>38</sup>. However, the Ministry has not developed a policy regarding legal disputes, nor are their potential outcomes assessed and reflected in the relevant sections of the financial statements.

In the consolidated financial statements and Disclosure notes for the reporting year, information on ongoing legal cases, as well as issues related to their recognition as contingent assets or liabilities, is not presented. Specifically:

- The notes submitted by the **Administrative Unit** do not comprehensively reflect information on ongoing legal disputes. According to the responsible party, this accounting shortfall is due to the fact that cases are based on assessments requiring specific expertise. Additionally, the organization was unable to identify the exact amounts related to certain cases.
- In cases of control and audit acts by the **Agency**, if a medical institution appeals an act/decision, the claim remains on the balance sheet until the court's final decision. If the final court decision cancels or reduces the imposed sanction, the corresponding entry is written off the balance sheet as a loss arising from asset ownership.

In the financial statements, the **Agency** recognized services rendered under healthcare programs, for which final acceptance-delivery acts were confirmed and signed after the reporting date but before the submission of the financial statements, under the "Liabilities" account.

Additionally, amounts arising from medical services for which information existed in the electronic reporting module (regarding amounts claimed by medical institutions) but whose document inspection process had not yet been completed were recorded in the "Current provisions" section of the financial position report. Despite this, in 2023, the Agency recognized in the current period's expenses—under "Medical Expenses"—an amount of GEL 1,235,386 for work performed by medical institutions in 2022. This amount was not recognized in the previous year's financial statements under either "Medical Expenses" or "Current Provisions."

<sup>35</sup> Instruction on the Rules for Preparation and Presentation of Financial Statements, Article 17.

<sup>36</sup> IPSAS 20, Articles 27–41.

<sup>37</sup> IPSAS 1, Article 27.

<sup>38</sup> IPSAS 19.

	As a result, the expenses recorded in the 2023 financial statements also include costs originating from services rendered during the 2022 reporting period. However, this information has not been disclosed in the disclosure notes.
<b>Cause</b>	Imperfect control; Absence of a unified accounting policy; Inconsistent and incorrect accounting practices.
<b>Impact</b>	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.
<b>Recommendation</b>	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). Status of implementation of recommendations issued in prior period - recommendation N11.
<b>Components recommended for implementation</b>	Ministry, Administrative Unit and Agency.

### 1.7 Accounting Policy

<b>Audit finding</b>	<p>By the end of 2023, a unified accounting policy aligned with the accounting instructions<sup>39</sup> was developed in the Ministry but has not yet been approved or implemented. Developing, implementing and using such a policy is one of the main prerequisites for ensuring consistency in accounting practices within the organization.</p> <p>The accounting policy could include instructions and rules for the recognition of the following issues: claims/liabilities arising from court disputes, penalties, obsolete materials, revenues from fines and sanctions, and other issues specific to the Ministry's activities.</p> <p>The absence of an accounting policy has resulted in inconsistencies in the recognition methods/principles applied to the same items in subordinated organizations. For example, the Social Agency recognizes claims arising from court disputes under the "Accounts Receivable" balance sheet item, whereas some subordinated organizations record them as "Contingent Assets" in the reference account.</p> <p>Some of the Ministry's consolidated entities have developed and approved accounting policies in line with the instructions. In 2021, the Agency developed a document titled "Accounting Approaches and Policies for Significant Agency Operations," which identified substantial problematic issues. However, by the end of 2023, this document had not been approved. Moreover, recommendations were developed based on an analysis of specific circumstances and their impact on the Agency's financial data. These recommendations provide guidance for accurately and fully accounting for economic events to ensure that the data reflected in the financial statements is fair and reliable.</p>
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<sup>39</sup> Accounting Instructions, Article 5, Subparagraph "a".

<b>Cause</b>	Imperfect control; Absence of a unified accounting policy; Inconsistent and incorrect accounting practices.
<b>Impact</b>	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.
<b>Recommendation</b>	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). Status of implementation of recommendations issued in prior period - recommendation N12.
<b>Component recommended for implementation</b>	Ministry.

## 1.8 Financial statement

<b>Audit finding</b>	<p>The financial statements presented by <b>the Holding</b> do not present its financial position fairly and accurately, as not all transactions have been fully recorded in the accounting system. The following deficiencies were identified during the audit:</p> <ul style="list-style-type: none"> <li>• The completeness of recording all economic events undertaken by the entity in the accounting records and internal control is not guaranteed.<sup>40</sup></li> <li>• During the audit process, discrepancies were identified between the actual and recorded accounting data for receivables and payables based on the responses received to confirmation letters sent to selected debtors and creditors for external verification.</li> <li>• The receipt and issuance transactions of inventories under the "Rural Doctor" state program have not been recorded.</li> <li>• The audit team was not provided with a registry of Property, Plant, and Equipment and inventories reflected in the financial statements, as well as information on the movement of assets and inventories during the current year.</li> </ul>
<b>Cause</b>	Improper accounting practices and control deficiencies.
<b>Impact</b>	As a result, we were unable to obtain assurance regarding the existence, occurrence, completeness, and accuracy of the amounts reflected in the Holding's financial statements as of December 31, 2023.
<b>Recommendatuion</b>	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. (See Chapter 3). Status of implementation of recommendations issued in prior period - recommendation N16.
<b>Component recommended for implementation</b>	Holding.

<sup>40</sup> Accounting Instruction, Article 5, Paragraph 3.

## 2. Adjustments associated with financial statements

### 2.1 Receivables

#### Audit Finding

The consolidated financial statements do not include 4,413,553 GEL to be refunded by medical institutions and 293,734 GEL in financial penalties imposed by the **Regulatory Agency** in 2023 as part of planned and unplanned audits and controls of healthcare programs.

#### Component where discrepancy was found

Agency and Regulatory Agency.

### 2.2 Property, Plant and Equipment

#### Audit Finding

In the **Center's** financial statements, the accumulated depreciation of Property, Plant, and Equipment is overstated by GEL 327,491. Consequently, the carrying value of Property, Plant, and Equipment at the end of 2023 has been reduced by the same amount

#### Component where discrepancy was found

Center.



### 3. Status of implementation of recommendations issued in prior period

<b>Recommendation N1</b>	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.
<b>Recommendation implementation status</b>	Partially implemented.
<b>Recommendation N2</b>	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.
<b>Recommendation implementation status</b>	Ongoing.
<b>Recommendation N3</b>	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 Center, 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.
<b>Recommendation implementation status</b>	Partially implemented.
<b>Recommendation N4</b>	Establish a control mechanism to secure accurate record-keeping of inventory, aiming to minimize the risk of errors.
<b>Recommendation implementation status</b>	Ongoing.
<b>Recommendation N5</b>	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.
<b>Recommendation implementation status</b>	Ongoing.
<b>Recommendation N6</b>	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.
<b>Recommendation implementation status</b>	Partially implemented.
<b>Recommendation N7</b>	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.
<b>Recommendation implementation status</b>	Partially implemented.
<b>Recommendation N8</b>	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.
<b>Recommendation implementation status</b>	Ongoing.
<b>Recommendation N9</b>	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.
<b>Recommendation implementation status</b>	Ongoing.
<b>Recommendation N10</b>	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.
<b>Recommendation implementation status</b>	Implemented.
<b>Recommendation N11</b>	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.
<b>Recommendation implementation status</b>	Partially implemented.

<b>Recommendation N12</b>	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.
<b>Recommendation implementation status</b>	Partially implemented.
<b>Recommendation N13</b>	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.
<b>Recommendation implementation status</b>	Partially implemented.
<b>Recommendation N14</b>	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.
<b>Recommendation implementation status</b>	Partially implemented.
<b>Recommendation N15</b>	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.
<b>Recommendation implementation status</b>	Partially implemented.
<b>Recommendation N16</b>	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.
<b>Recommendation implementation status</b>	Ongoing.
<b>Recommendation N17</b>	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.
<b>Recommendation implementation status</b>	Implemented.

## Contact Information

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