Performance of the State Audit Office of Georgia

Repeat-assessment based on the Supreme Audit Institution Performance Measurement Framework

Final Report

16 September 2022

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Abbreviations

AAP	Annual Action Plan
AFROSAI	African Organization of Supreme Audit Institutions
AG	Auditor General
AMS	Audit Management Software
BER	Budget Execution Report
CA	Compliance Audit
CBER	Consolidated Budget Execution Report
COBIT	Control Objectives for Information and Related Technologies
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSO	Civil Society Organisation
DAG	Deputy Auditor General
DCFTA	Deep and Comprehensive Free Trade Area
ECA	European Court of Auditors
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
FA	Financial Audit
FS	Financial Statement
GDP	Gross Domestic Product
GEL	Georgian Lari
GGI	Good Governance Initiative
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoG	Government of Georgia
HR	Human Resource
iCAT	ISSAI Compliance Assessment Tool
IDFI	Institute for Development of Freedom of Information
IDI	INTOSAI Development Initiative
IFPP	INTOSAI Framework of Professional Pronouncements
INTOSAI	International Organisation of Supreme Audit Institutions
IntoSAINT	International Self-Assessment on Integrity Tool

IPSAS	International Public Sector Accounting Standards
ISA	International Standard on Auditing
ISB	Information Security Board
ISSAI	International Standards for Supreme Audit Institutions
IT	Information Technology
ITSA	IT Self-Assessment
KPI	Key Performance Indicator
LEPL	Legal Entity of Public Law
MDA	Ministry, Department, Agency
MoF	Ministry of Finance
MP	Member of Parliament
OECD	Organisation for Economic Cooperation and Development
PA	Performance Audit
PAI	Public Audit Institute
PMF	Performance Measurement Framework
QC	Quality Control
SAI	Supreme Audit Institution
SAO	State Audit Office of Georgia
SOE	State Owned Enterprise
SP	Strategic Plan
SWOT	Strengths Weaknesses Opportunities Threats
ToR	Terms of Reference
UN	United Nations
USAID	United States Agency for International Development
USD	United States Dollar
WP	Working Paper

Executive Summary

A. Introduction

This report has been prepared by SIGMA, a joint initiative of the Organisation for Economic Cooperation and Development (OECD) and the European Union (EU), principally funded by the EU.

The report provides an assessment of the performance of the State Audit Office (SAO) of Georgia against the International Standards for Supreme Audit Institutions (ISSAIs) using the methodology prescribed by the INTOSAI Supreme Audit Institution - Performance Measurement Framework (SAI-PMF).

The State Audit Office (SAO) is the Supreme Audit Institution (SAI) of Georgia. A first assessment of the performance of the SAO performance using the SAI-PMF framework was carried out in 2017. This initial SAI-PMF assessment (hereafter referred to as SAI-PMF 2017) provided a baseline of the SAO's capability in delivering on its mandate in line with the International Standards for Supreme Audit Institutions (ISSAIs).

The term of the current Auditor General (AG) has started in September 2017 and is ending in September 2022. During his term, the AG has continued the reform-orientation of the SAO and has received support from various development partners (DPs):

Especially, the EU supported four result areas in the period 2017 – 2020, including (1) Legal and de facto independence of the SAO; (2) Compliance and financial auditing and reporting capacities: (3) Upscaling of modern IT technologies (4) SAO's broader role in PFM reforms and the implementation of the Association Agreement. Other providers of technical assistance to the SAO were USAID on the implementation of audit recommendations and IDI on strategic planning, GIZ supported the SAO until 2020 in improving performance audit and relations with the Parliament.

By the end of his term, the AG agreed to carry out a repeat SAI-PMF assessment. This Performance Report based on the SAI-PMF measurement can be used to:

- to demonstrate the reform achievements of the current SAO leadership team to SAO's stakeholders including the DPs that have supported the SAO;
- to inform the new AG on the performance level against the ISSAIs to date;
- to inform the new SAO Strategic Plan 2023-2027 that is currently in development;
- to demonstrate to the Parliament and other stakeholders the strengths and weaknesses of the SAO's performance including limitations in independence and mandate.
- The assessment recognises performance as observed up to April 2022. The assessment of the audit quality was based on audits carried out during the fiscal year 2021.

This assessment will constitute a baseline for the new leadership team that is expected to assume responsibilities in the last quarter of 2022.

B. Quality assurance statement

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SAI Performance Report of the State Audit Office of Georgia

dated 16. September 2022

Independent Review Statement

The INTOSAI Development Initiative (IDI), as operational lead on SAI PMF, provides support to SAI PMF assessments where requested. Such support includes conducting independent reviews (IR) of draft assessment reports. A request for such an IR was received from the State Audit Office of Georgia on 10th of June 2022.

This SAI Performance Report (SAI-PR) was prepared by Teona Makalatia and George Jerenashvili. Quality control was carried by Ferdinand Pot from OECD-SIGMA. The team leader and other team members together are considered to have the appropriate skills and experience to produce a high-quality assessment.

In compliance with recommended SAI PMF methodology, the Head of the State Audit Office of Georgia received the draft report for review and official comment with the objective of ensuring that the report is factually correct. The design of the independent review process was included in the assessment Terms of Reference, which was independently reviewed by one of IDI's certified reviewers, and approved by the Head of State Audit Office of Georgia.

The Independent review arranged by IDI was carried out by Dafina Dimitrova, Head of Well-Governed SAIs work stream and IDI certified SAI PMF independent reviewer, who had no responsibility for preparing the SAI-PR, and is considered to have the appropriate knowledge and experience necessary for this task. The objective of this review was to ensure that the SAI PMF methodology had been adhered to, that the evidence in the SAI-PR was sufficient to justify the indicator scores, that the analysis was consistent with the evidence, and that the executive summary was consistent with the analysis in the rest of the SAI-PR. The review concluded that all objectives have been satisfactorily met in the final report dated 16. September 2022.

Prepared by: Dafina Dimitrova

Date: 19.09.2022

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C. Observations on the SAO's performance and impact

i. Integrated assessment

The SAO did a first SAI-PMF assessment in 2017. The results serve as a baseline for this repeat assessment. The 2017 SAI-PMF report assessed the performance of the SAO on average between a '1' and a '3' on the SAI-PMF scale from 0 – 4 (with '4' reflecting full adherence to the international standards).

The assessment demonstrated strengths and weaknesses in the SAO's performance across the various domains. However, the main weakness that was observed in SAI-PMF 2017 concerned the inconsistent implementation of the audit standards in the conduct of financial and compliance audit. While the SAO has adopted the ISSAIs (or, the Standards) and adopted manuals and guidance to facilitate their implementation, the Standards were not always complied with during the audits that SAO undertook before 2017.

The issue was addressed by the new SAO leadership that took office in September 2017 in several ways. With the support of the European Union, a first activity that has been undertaken was the update of FA and CA manuals, guidance materials, simplification of the audit management software and training both on the job and classroom. The SAO leadership has ensured consistent implementation by strengthening various policies. First, it adopted the new FA and CA manuals and it made the use of the audit software mandatory. Furthermore, it implemented a performance appraisal system to establish a feedback mechanisms to the SAO auditor staff and managers are held accountable for non-compliance with the standards and policies. Finally, the leadership strengthened the quality control and quality assurance mechanisms in the SAO. This 2022 assessment observes that the SAO has steadily improved the application of the standards and records them more consistently in actual audit files.

In this way, the SAO has further build its professional reputation with its stakeholders as a main source for evidence-based, unbiased recommendations on the public finance management system and overall public governance in Georgia. The relevance of the SAO has been strengthened by carrying out government-wide thematic compliance audits (rather than entity-based) and to strengthen its communication on broader key messages derived from its reports.

The improvements are reflected in the performance ratings of the SAO in the 2022 assessment. The SAO managed to increase performance to a medium to high level with ten indicators with an overall rating of '4', nine indicators with an overall rating of '3' and two indicators with a ranking of '2'. As compared to the performance in 2017, the assessment demonstrates improvement across nearly all 21 applicable indicators:

• For 16 indicators, this was reflected in the overall indicator score;
• For 4 indicators, this was reflected in the underlying dimension scores, but not in the overall indicator score;
• No change in 1 indicator.

In summary, in 2022, the SAO operates under a relative strong legal framework composed of the Constitution and the Organic Law on the State Audit Office (SAO Law). In the period 2017-2022, the legal framework was improved the Law on Remuneration in Public Institutions, adopted in December 2017, in which it was established that the AG has the authority to determine the salaries of the employees independently. Furthermore, from 2018 the SAO Law was granted the status of an organic law which gives it prevalence in case of disputes with lower level legislation. In addition, the SAO has also been granted the right to appeal directly to the Constitutional Court of Georgia. A remaining weaknesses relate to the lack of constitutional protection of the AG and the length of tenure which could potentially affect his position to act and decide independently.

The mandate of the SAO is broadly defined in the legislation and allows the SAO to cover the entire public sector by various kinds of audit including financial audit (FA), compliance audit (CA) and performance audit (PA) and to report on the audit findings without impediments. A main limitation on the mandate is the lack of sufficient clarity on the SAO's mandate related to revenue audit and the need to request separate permission from the Court by the SAO in order to access information on tax revenues for its audit purposes. In 2022, the SAO has initiated a pilot audit of revenues in agreement with the MoF, but the law has not been clarified/amended in this respect.

There is a separate Strategic Planning Unit in the SAO that includes a medium term plan, annual operational plans, performance indicators and monitoring mechanisms.

The SAO has established a good control on the main organisational risks. It operates a consistent strategic planning cycle. New tools to guide and control ethical conduct and ensure integrity across the SAO were adopted and the SAO has established an intensified focus on quality. It conducts hot-reviews by experienced auditors of departments ('peers') on selected audit reports It also increased capacity of the Audit Quality Assurance Department that oversees the implementation of quality control instruments.

The SAO applies a sophisticated risk based annual audit planning methodology to guide the preparation of the overall annual audit plan which, generally, is applied in practice. Improvements in audit planning since 2017 reflect the link between the audit plan and the human resource capacity. This has resulted in a lower number of audits, but better planning and higher quality. The tension between the broad mandate and actual capacity remains a challenge for the SAO. A lot of capacity is allocated to the certification of the financial statements of all central government entities. However, there is no legal requirement of the SAO to do this type of audit. By law, the SAO is required to prepare report on the CBER. While this is the only required legislative task of the SAO, the SAO's report on the CBER is not based on the Standards and it is not accompanied with an audit opinion of reliability or regularity.

The SAO has established a functioning PA practice that has published 30 performance audits in the last two fiscal year (2020, 2021). It has adopted a PA manual and guidance that is consistent with ISSAI 300. It conducts PA largely in line with these standards using a specialised PA department and sectoral audit departments. The PA practice could further benefit by specialised training on research design and research methods and recruitment of staff with a PhD qualification.

Most of the compliance audit of central government entities is conducted as part of the financial audit. For other entities, it is done as an entity level where the entities are selected on the basis of a risk assessment. Increasingly, the SAO has carried out thematic CAs government-wide including topics as vehicle management and public procurement.

The SAO shows a relative strong performance in reporting and publication of its audit reports. Audit reports are completed within a reasonable time period after the audit started and publication is prompt. However, for compliance audits, the performance was less strong. Out of 32 compliance audit reports issued in 2021, only 9 were certified and issued within 12 months after the audited period. The delay was caused by factors out of the control of the SAO such as Covid and municipal elections that affected timely communication between the SAO and auditee.

The sustainability of the improvements looks good. The SAO has a functioning Human Resources (HR) Department covering the main HR functions guided by a HR strategy, a competency framework and adequate job descriptions. In the period 2017-2022, the SAO has further professionalised its HR function by implementing a comprehensive performance appraisal system that guides remuneration, promotions and training needs. As part of that strategic aim to retain well-performing staff, the SAO leadership increased staff remuneration by 10% during 2018-2019 and additionally by 10-13% from January 2022. This measure was possible as the SAO managed to secure autonomy for staff remuneration defined by the law on "Remuneration

in Public Service" (see SAI-1). The SAO addresses the need for further professional development by the Public Audit Institute, which is organized as a Legal Entity of Public Law (LEPL) under the SAO. Based on an annual training needs assessment, the PAI updates its training offer to which all SAO staff can subscribe. The SAO manages professional development pro-actively by having a systematic training plan for each staff member that is aligned with the organisational needs. In the period 2017-2022, the SAO has established clear responsibilities for the methodological development (including training) for each of the three audit types (FA, CA and PA) to the most experienced auditors in those domains.

The SAO's work has impact. Various cases of corruption were identified by the audit work of the SAO and the implementation rate of the SAO recommendations by the executive has increased from 43% (2017) to 60%. However, the SAO's impact could be higher. With regard to financial audit, the performance of ministries is stagnant and most of the ministries received adverse opinions for their financial statements. Although communication with Parliament has improved in recent years, there is little interest of the Parliament to scrutinize the audit reports. Although the number of audit reports that are discussed has increased up to 22 in 2021, ten financial audit reports were discussed in one session only. Assurance audit of the CBER, horizontal compliance audit and performance audit seem to gather more interest of the Parliament and give more value and benefits to the citizens of the Georgia.

ii. The values and benefits of the SAO: Making a Difference to the Lives of Citizens

INTOSAI-P 12 promotes three mechanisms by which SAIs can have an impact on society and deliver value and benefits that improve the life of the citizens:

  i.   By strengthening the accountability, transparency and integrity of government and public sector entities;

  ii. By demonstrating ongoing relevance to citizens, Parliament and other stakeholders;

  iii. By being a model organization through leading by example.

In view of the changes in performance reported in Table 1, it can be observed that the SAO has reinforced its impact via each of the three mechanisms.

On the first mechanism, the SAO leadership has made significant efforts to improve on the technical quality of its financial and compliance audit practice. It has adopted two separate new manuals, one for financial and one for compliance audit, that are fully aligned to the ISSAIs. Also, the mandatory application of the audit management software across SAO financial and compliance audits has stimulated adherence to the ISSAI risk-based audit methodology. Finally, the SAO has invested in improved quality control by increasing the capacity of the Quality Assurance Department and installing a hot review process for high risk audits by experienced peer auditors.

On the second mechanism, the SAO leadership has made various efforts to increase its relevance to citizens and Parliament. First, it has changed its audit portfolio and transferred resources from financial audit to compliance and performance audit. While in 2016, the SAO delivered on its mandate through 71 audit reports divided in 35 FA, 26 CA and 10 PA, in 2021 it produced 61 audits divided in 12 FA, 32 CA and 17 PA reports. Moreover, the SAO has started to perform compliance audits in a horizontal way and, since 2019, it published audit reports on vehicle management, public procurement, contract management, inventories and capital projects in Municipalities.

On the third mechanism, the SAO leadership has taken various initiatives to act as a model organisation. First, the strengthening of the quality assurance department strengthens the reputation of the SAO as an organisation that is serious about its core mandate and complies

with relevant professional standards. Second, the SAO introduced a comprehensive performance appraisal process mechanism. The appraisal process aims to professionalise the management of the organisation's various departments and to inform a merit-based promotion practice. Third, the SAO leadership has introduced a formal ethics policy and related staff trainings. This also includes clear whistle blower policy that would allow SAO staff to raise integrity issues of managerial staff.

iii. Analysis of the SAO's capacity development efforts and prospects for further improvement

The current SAO's Strategic Development Plan (SDP) covers the period from 2018 to 2022. Five central goals were outlined in the Strategy:

1.   Strengthening independence and mandate;
2.   Improvement of public financial management as a result of high quality audit work;
3.   Strengthening engagement of the main stakeholders;
4.   Strengthening internal governance for more efficiency;
5.   Professional development of employees.

As reflected by this SAI-PMF assessment, the SAO has made good progress on the achievement of the goals. Currently the SAO started to work on a strategic development plan for 2023-2027. This report will inform the new SDP. The following items should be addressed in the SDP.

- Accountability, transparency and integrity of government and public sector entities can be strengthened by clarifying the mandate of the SAO to audit government revenues. Historically, the government revenues were not audited by the SAO due to provisions in the law that inhibit access to individual tax payer information. In 2022, a first pilot audit into government revenues is being execution in agreement with the Ministry of Finance, but legislative reforms that clearly underline the SAO's mandate to audit revenues and allows it access to necessary information into tax payer files are still outstanding.

- A further main bottleneck in the accountability, transparency and integrity of the public sector is concerned with local government. The SAO is able to conduct a compliance audit in all municipalities once in every three years. In contrast, except for the two largest municipalities, Tbilisi and Batumi, no financial audit is conducted at municipal level. Within its current resources, the SAO cannot be expected to deliver more value to citizens. However, the SAO could do more to promote wider government reforms to strengthen the accountability of municipal government.

- The SAO's compliance with the ISSAI-based manuals is strained by the tension between the increased reliance on IT systems in the public entities covered by the SAO audit mandate and the limited IT audit capacity in the SAO. This imbalance risks that audit reports are finalised without sufficient and relevant evidence on key IT controls and systems.

- A crucial point of attention is the object of the FA practice of the SAO. Although the SAO has reduced the number of financial audits, the SAO still allocates a large number of resources to the audit of financial statements. FA reports receive less attention by the auditees, the Parliament and the citizens. Furthermore, the audit of financial statements is not included in the legislation as a mandatory task. The SAO has only a legal task to report on the annual Consolidated Budget Execution Report (CBER). In this regard, the SAO should consider the fundamental importance of focusing its financial audit on the CBER. Given that the Auditor General addresses the full Parliament on its report on the CBER, it is important that AG can provide an audit opinion on this key accountability document. Currently, the SAO prepares only a report on the CBER and the opinion incorporated in this document is not based on

ISSAI-based audit procedures and gives an incomplete picture of the management of public funds by the Government of Georgia.

- Finally, the SAO could improve is the systematic measurement of its own impact and the satisfaction of its main stakeholders. Impact assessment is important for the SAO to lead by example as it is nowadays a common expectation that public institutions are transparent on their objectives and outcomes. In this regard, the SAO should also systematically measure the satisfaction of its key stakeholders and organise feedback mechanisms to ensure that stakeholder's expectations are met as far as possible within the SAOs legal and budgetary mandate.

In September 2022, the tenure of the current leadership team will come to an end and it is expected that a new leadership team will take office. Except for the need to work on further improvement in the above mentioned areas, the SAO will be challenged to sustain the performance improvement observed in this assessment report.

Various international development partners (DPs) have finalized their projects to the SAO. On the other hand, they increasingly use the SAO for the audit of their support projects in Georgia. Although this is in principle a positive development, it is noted that the SAO does not receive additional funds for this work. In case the trend will continue and more resources of the SAO will be used for the audit of DP projects, the SAO should receive additional funds to ensure that these tasks do not come at a cost for its overall audit coverage.

D. SAO's Management Use of Assessment Results

STATE AUDIT OFFICE OF GEORGIA

AUDITOR GENERAL

Response of the State Audit Office of Georgia to the results of SAI PMF Report

The SAO Performance Report has been prepared by the external expert team that was part of the European Union and the Organization for Economic Co-operation and Development (OECD) joint project SIGMA. This is the repeat SAI PMF assessment which aims to measure the progress of the State Audit Office of Georgia (SAO) during the last five year and assess the performance of the SAO against international standards. The SAI PMF recognizes performance as observed up to March 2022 and audit quality assessment during the fiscal year 2021.

The SAI PMF report highlights our core values and identifies the achievements and the areas of progress which we need to address in order to increase our efficiency and quality. In many instances, the findings of the SAI PMF were consistent with our own assessment and hence we are already implementing measures to strengthen the institutional and technical capacity of the SAO. The assessment will allow to the SAO in the preparation of the Development Strategy for 2023-2027 to be approved in December.

The assessment has demonstrated that the SAO complies with international standards and has sufficient capacity to address the areas of focus in the next five years. In addition, the annual plans will include measurable key performance indicators categorized by our key goals.

We rely on the continuous support from our stakeholders and partners and we are confident that the assessment will assist the SAO and its stakeholders in further strengthening its capacity to deliver professional, reliable and high-quality audit service in compliance with international standards. We are committed to our development and prepared to invest in our capacity building.

Erekle Mekvabishvili

Auditor General

1 Introduction to main report

1.1 Process of preparing the SAO's Performance Report

The SAI-PMF report was prepared by OECD-SIGMA on the request of the AG of the SAO. SIGMA has hired an external expert team with solid knowledge of the ISSAIs and the national context of the State Audit Office.[1] SIGMA conducted quality control.

A Terms of Reference was prepared and approved by the SAO in December 2021.

The fieldwork was carried out in February – March 2022. The working papers were prepared and quality controlled by SIGMA's engagement leader. A contradictory process with the SAO on the ratings was conducted in April 2022 and the draft report was submitted to the SAO management on 31 of May 2022. Written comments were received on the draft report on 07 June 2022.

The report was submitted for quality assurance by IDI in June 2022. The comments of IDI were incorporated during July and August. A final quality assurance certificate of IDI was received in September 2022.

1.2 Scope of the SAO's performance report

The assessment is based on the SAI-PMF methodology endorsed by INTOSAI of November 2021.[2] From the 25 indicators included in the methodology, the assessment will not include the indicators SAI 5, 18, 19 and 20 reflecting the fact that the SAO does not outsource audits and does not have a judicial function.

The assessment has covered all audit and support services of the SAO. The assessment did not include the SAO's statutory tasks of monitoring the financing of political parties and providing an opinion on the Government of Georgia's (GoG's) budget estimates.

The assessment has reviewed the current situation in the SAO as per time of the assessment in March 2022. With regard to the audit performance, the assessment is based on audits that were carried out during the fiscal year 2021.

The assessment has covered performance in the central office of the SAO. The regional office in Batumi (see section 2.3) was not assessed.

1.3 Data collection methods

The evidence supporting the assessment was collected using the following methods:

  i.   Document review (annex 3 includes an overview of the documents used);
  ii. Interviews with SAO leadership and middle management as well as external stakeholders (Parliament and Ministries);
  iii. Review of a sample of audits.

With regard to the third data collection method, a sample of FA, CA and PA was scrutinized. The sampling was based on the list of completed/published audits during 2020 and 2021. In line with the SAI-PMF methodology, the sample was not-statistically representative, but the sampled audit files were selected randomly and independently by the assessment team. The sample was stratified to cover different factors which might affect the quality of the audits. A key criterion was

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[1] The assessment team was composed of Teona Makalatia and George Jerenashvili. Quality control was carried by the Dr. Ferdinand Pot (senior adviser public finance management at OECD-SIGMA).

[2] For the assessment of the SAO Georgia, the 2021 methodology is similar as the 2016 methodology. The differences in the 2021 methodology affect only SAIs that have a judicial function.

to include audits carried out by different audit departments located in the SAO central office in Tbilisi.

Based on these considerations, the assessment has selected the audits as in Table 1:

Table 1 Selected audit carried out during 2020-2021 for review during the SAI-PMF assessment

Type of audit	Name of audit	Date of publication
Financial audit	2019 year's budget report of Tbilisi Municipality	11-02-2021
	Ministry of Education, Science, Culture and Sports of Georgia	19-12-2021
	Ministry of Internal Affairs of Georgia	20-12-2021
	Ministry of Justice of Georgia	02-11-2021
	Ministry of Regional Development and Infrastructure of Georgia	15-11-2021
Compliance audit	Compliance Audit of the State program for the provision of medicines for the treatment of chronic diseases	31-08-2020
	Compliance audit on Contract Management	08-06-2020
	Compliance audit on the inventory process in Public Sector	15-12-2020
	Compliance Audit on the financing of the executive bodies of Tbilisi Municipality	14-04-2021
	Compliance Audit on Systemic Issues of Public Procurement Management	09-12-2021
Performance audit	Human Resource Management in the public sector	27-05-2021
	Forest fires emergency management	01-02-2021
	Supporting in studying abroad	09-02-2021
	Providing legal assistance to citizens	19-10-2021
	Measures taken by the state to ensure food safety	08-12-2021

Two audits for FA and two for CA were added during the assessment process. The reason was that in only one of the five selected audits for FA and CA some shortcomings were found that were not present in the other four selected audits. The additional sample aimed to identify whether the particular shortcomings were pervasive or specific to the one audit.

1.4 Scoring Methodology

The SAI PMF consists of 6 domains that assesses the SAI performance in key areas:

A. Independence and Legal Framework
B. Internal Governance and Ethics
C. Audit Quality and Reporting
D. Financial Management, Assets and Support Structures
E. Human Resources and Training
F. Communication and Stakeholder Management

Each of the domains contains a number of indicators, 25 in total. The indicators each consist of between two and four dimensions, which again may contain several criteria. An illustration of how the indicator system is built up is presented in figure 1 below.

Figure 1 SAI PMF Terminology
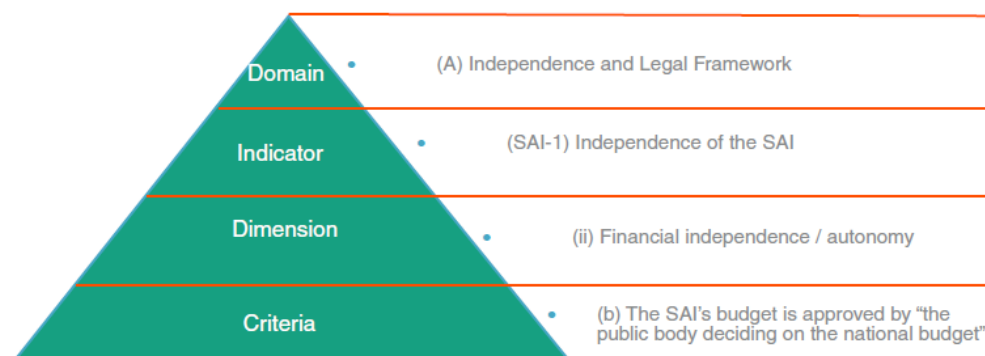
The criteria are mostly taken directly from the INTOSAI Framework of Professional Pronouncements (IFPP) or other international good practice. After each criterion is assessed against appropriate evidence and scored either met or not met, the score at the dimension and indicator level is aggregated using the conversion tables in the SAI PMF document".

Indicators and dimensions are scored using a numerical scale from 0 to 4, where 0 is the lowest level, and 4 is the highest. Scores broadly correspond to the level of development in the area measured by the indicator. The SAI PMF does not provide an aggregated score at the domain level or for the sum of the SAI's activities like some other tools do. The level of development and hence the scores, may vary widely across the SAI's activities. The indicator score levels 0-4 reflect the level of development for the different activities as described in Table 2.

Table 2 SAI-PMF scoring methodology

SAI-PMF scoring levels	Meaning
Score 0: Not established	There is no activity or it barely functions or the particular feature only exists in name."
Score 1: The founding level	The feature exists, but is very basic. For example, an SAI is conducting performance audits, but these are so irregular that a systematic approach, and accumulated experience and knowledge have not been obtained, and this is reflected in the quality of the work."
Score 2: The development level	The feature exists and the SAI has begun developing and implementing relevant strategies and policies, but these are not complete and are not regularly implemented. For example, the SAI may have a strategic and development action plan, a human resource strategy and a communications strategy. However, if these are weak and/or only partially implemented, this will be reflected in the score."
Score 3: The established level	The feature is functioning broadly as expected under the ISSAIs (levels 1-3). Under Domain C, this would mean that compliance, financial and performance audit are all undertaken broadly following the principles in level 3 in the ISSAI framework. A large proportion of the financial statements received are subject to financial audit. Audit reports give a holistic view on the use of all public resources and on the performance of audited bodies. The majority of audit reports are published in a format that is appropriate for the intended audience."

Score 4: The managed level	The feature is functioning following the principles in the ISSAIs (levels 1-3) and the SAI implements the activities in a way that enables it to evaluate and continually improve its performance. For Domain C, compliance, financial and performance audits are all undertaken following the principles at level 3 in the ISSAI framework and are seen as adding value by audit clients. In addition, the SAI has undertaken an independent review of its audit practices, for example using the ISSAI Compliance Assessment Tool (iCAT), confirming that the SAI's audit practices comply with level-4 ISSAIs."

1.5 Structure of this report

This report is made up of the following chapters:

- Chapter 2 describes the context in which the SAO functions. The SAO's performance cannot be considered in isolation from its environment. In particular, the SAO's performance is influenced by the rule of law, the legal framework and the performance of main stakeholders in Georgia's governance structure including the Parliament, the Ministry of Finance (MoF) and the wider public sector;

- Chapter 3 presents the findings regarding the SAO's performance on the 25 indicators of the SAI PMF, broken down into six dimensions:

  o A. Independence and Legal Framework;

  o B. Internal Governance and Ethics;

  o C. Audit Quality and Reporting;

  o D. Financial Management, Assets and Support Services;

  o E. Human Resources and Training;

  o F. Communication and Stakeholder Management.

- Chapter 4 describes the Capacity and Organisational Development Process within the SAO.

2 Country and background information

2.1 Country context

General economic development

Georgia is an upper-middle income country with a population of around 3.689 million people. Gross domestic product (GDP) per capita in 2021 is 5,015 USD. Georgia ranks 61st out of 189 countries/territories in the 2020 UN Human Development Index. Absolute and relative poverty incidence indicators indicate a poverty rate close to 21.3%. The unemployment rate is 20.6 percent in 2021. It increased from 12.7% in 2017 because of pandemic. The pandemic also caused a slowdown in the tourism sector and a widening of the trade deficit. Still, a gradual recovery in tourism and substantial transfers from abroad helped to narrow the current account deficit.

Fiscal performance in 2021 has improved compared to the previous year when the exit clauses from the fiscal rules were applied and the fiscal deficit totalled to 9.0% of GDP. In 2021 the figure was 6.2% of GDP and is projected to revert to its sustainable level by 2023. Another fiscal rule that limits government debt to GDP at 60% level amounted to 50.2% in 2021.

For the SAO, this macroeconomic and fiscal environment provides a stable foundation for its activities.

Governance arrangements

Georgia gained independence in 1991 after the breakup of the Soviet Union. A referendum took place on 31 March 1991 and the Independence Act was adopted on April 9, 1991.

After independence, conflicts arose in the Autonomous Republic of Abkhazia and the Administration of Southern Ossetia. These two regions are currently not controlled by Georgia and are claiming independence, but the SAO continues to audit the relocated government from the Autonomous Republic of Abkhazia.

The Constitution of Georgia was adopted in 1995 stating that the political structure of the State of Georgia is a democratic republic. The Parliament of Georgia consists of 150 members (MPs) and is elected for four years. The President is elected for 5 years by the Parliament. The Government of Georgia consists of the Prime Minister, Ministers and one or several State Ministers. The Prime Minister is the Head of the Government. There are 12 Ministries in Georgia. The Constitutional Court of Georgia is a judicial body of constitutional control.

Georgia has shown stable progress in the area of democratic reforms. The 2020 parliamentary elections were competitive and well-administered, generally respecting fundamental freedoms. Despite certain shortcomings, international observers have characterised the elections to be free and fair.

Georgia's governance continues to be characterized by a dominant executive branch and a rather weak (although improving) practice of parliamentary oversight. A well-functioning system of checks and balances, comprising for example an independent judiciary has not yet been fully institutionalized. Civil society organizations are growing and becoming more professional. In addition, policy formulation and decision-making remain centralised, with little genuine self-governance at local/municipal level or participatory approaches.

In this context, Georgia has been able to undertake significant economic, social and governance reforms resulting, inter alia in progress in reducing petty corruption and crime rates, and in

developing a more favourable business environment. Georgia also actively follows the path of its European-reform oriented agenda. The signing of the EU-Georgia Association Agreement including a Deep and Comprehensive Free Trade Area (DCFTA) in June 2014 constituted a historic milestone. Moreover, Georgia has officially applied for EU membership in 2022.

Georgia continued steadily on its European path including in the challenging COVID-19 context. The Association Implementation Report on Georgia published in February, 2021 makes an overall positive assessment of the on-going reform process.[3] Due to the progressive approximation of technical regulations and standards with those of the EU, Georgia continues strengthening its participation in international value chains. In 2021, the EU was an important trade partner of Georgia with up to 20% share in its overall trade.

Georgia has made modest progress in reforming the justice sector and important challenges still remain to consolidate the progress achieved and safeguard the rule of law. Concerns have been raised by civil society on potential political interference on the judiciary and on media pluralism. Effective implementation of human rights and anti-discrimination legislation continues to be a challenge.[4]

Although the fundamental institutions of Georgian democracy are in place, it is increasingly important to ensure the proper functioning of these institutions, in full respect of their independence and of the principle of separation of powers.

Education, media and civil society

Education in Georgia is compulsory and free from early childhood to graduation from Secondary school (at the age of eighteen). Participation up to secondary school is 85 percent and the country has a total adult literacy rate (%) 99.7. Students with a secondary school certificate have access to a higher education. Only the students who have passed the Unified National Examinations may enroll in a state-accredited higher education institution, based on ranking of scores he/she received at the exams. Most of these institutions offer three levels of study: a Bachelor's Program (3–4 years); a Master's Program (2 years), and a Doctoral Program (3 years). As of 2021, 53 higher education institutions are accredited by the Ministry of Education and Science of Georgia.[5]

In terms of media freedom, Georgia scores 60 out 180 countries before European countries such as Hungary and Greece.[6] There is a wide variety of media outlets in Georgia including national and commercial TV, radio and daily newspapers. Freedom of speech and freedom of association is protected by the law. While some aspects of the media are subject to government control through Georgian National Communications Commission and the media continue to be very polarized, there is a broad consensus that the press in Georgia operates independently and is pluralist.

Religion plays a very important cultural and social role in Georgia. Orthodox Christianity is the largest religion whose faithful make up to nearly 85% of the population. Remaining are adherents to other religion (such as oriental Orthodoxy, Islam, Catholics, and Jewish community).

According to the annual CSO sustainability index, Georgian civil society has been stable over the last years and continue to benefit from a benign enabling environment in terms of legal and regulatory aspects. Despite the difficult circumstances related to COVID-19 in the country, CSO sustainability remained largely stable, although improvements were noted in most dimensions.

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[3] The Association Implementation Report on Georgia, Brussels 05.02.2021
 https://www.eeas.europa.eu/sites/default/files/2021_association_implementation_report_in_georgia.pdf

[4] Ibid.

[5] https://www.mes.gov.ge/content.php?id=1855&lang=geo

[6] https://rsf.org/en/index?year=2021

Overall CSO sustainability did not change significantly in 2018, and local CSOs continue to point to persisting challenges with access to funding, institutional capacities, public image, and constituency building. Only a few CSOs, most of which are concentrated in Tbilisi and several large municipal centres in the regions, are able to attract, train, and retain qualified staff, while regional CSOs continue to struggle to secure adequate human and financial resources.[7]

2.2 Public sector budgetary environment

Structure of the public sector

As depicted in Figure 2, the public sector in Georgia consists of five categories: Constitutional Bodies, Ministries, Legal Entities of Public Law (LEPL), Government branches of the two autonomous regions of the republic of Georgia (Adjara and Abkhazia), Municipalities and state-owned enterprises.

Figure 2 Public sector categories in Georgia (number of entities within brackets)[8]

Table 3 shows the fiscal importance of the various categories in the total public sector.

Table 3 Fiscal importance of the various categories in the Georgian public sector in % of GDP in 2021 (MOF, 2021)

				Revenue	*Expenditure*	*Balance*
Public Sector				**39%**	**40%**	-1%
	General Government			**32%**	**31%**	1%
		Central Government		**27%**	**26%**	0%
			Constitutional Bodies and Ministries	**24%**	**24%**	0%
			LEPL	**2%**	**2%**	0%
		Local Government		**6%**	**5%**	1%
	Public Corporations			**6%**	**8%**	-2%

A comprehensive recent overview of the fiscal arrangements in the Georgian public sector is given on the website of the MoF.[9] The most recent Public Expenditure and Financial

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[7] The 2020 CSO Sustainability Index For Central And Eastern Europe And Eurasia, USAID, https://www.fhi360.org/sites/default/files/media/documents/csosi-europe-eurasia-2020-report.pdf
[8] The number of footnotes is based on the data from 2017. No updated information was made available to the assessment team.
[9] https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/19.FRS_III_2021.pdf

Accountability assessment dates from 2018.[10]

Audit arrangements

The following audit arrangements apply for the various public sector entities:

Constitutional Bodies (central government)

Georgia is a unitary parliamentary system with the President and Parliament elected with the universal suffrage. The GoG is formed by the Parliament. The other important constitutional institutions are the Judiciary (the Supreme Court, the Constitutional Court, and common courts), the National Bank of Georgia, and Public Defender. The audit authority of the SAO extends to the legislative, executive and judiciary branches, legal entities of public law, local self-government, National Bank of Georgia, other legal and natural persons, organizations and institutions.

The Executive

Under the Constitution, the executive authority rests with the Government, comprising of the Prime Minister and Ministers of 12 ministries. Ministries run government programs and services through LEPLs which are supervised by the ministries. There are more than 2,500 LEPLs (among these 2,300 are public schools). The audit authority of the SAO fully covers the executive branch.

Regional government and municipalities (local government)

Besides the central government ministries, the two autonomous republics have their own High Council (the legislature), the Council of Ministers and the Ministries to manage their own affairs.

There are nine governorates in Georgia totalling up to 69 municipalities. The governorates and governors coordinate the activities of the central government in municipalities. The Municipalities comprise of the Council and City Hall (or mayor in different entities) as legislative and executive branches, respectively.

All the regional and local governments fall under the mandate of the SAO.

State-owned enterprises (SOEs)

The central government, the governments of the autonomous republics, and municipalities establish public enterprises in different area of economy. The SAO mandate includes enterprises in which the state, autonomous republics and/or local self-government hold 50 percent and more of capital shares. The number of SOEs has reduced over recent years resulting from privatization reforms. Currently, there are more than 300 enterprises under the SAO's mandate. Government possesses more than 50% share in 320 out of 346 public enterprises.

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[10] http://www.pefa.org/assessments/summary/276

Accounting standards, reporting requirements and practice

Budget Execution Reports

Based on the Budget Code, public entities prepare the Budget Execution Reports (BER) which include narrative and data on the results of the budgeted programs and activities. The reports are submitted to the Treasury Service no later than two months after the fiscal year ends.

Similar to the financial statements (see below), the ministries consolidate the budget execution reports of the LEPLs under their supervision. The MoF consolidates this data and prepares the government's budget execution report which is submitted to the SAO no later than 3 months after the fiscal year end. The report is submitted to the Parliament no later than 5 months after the fiscal year end. The SAO submits its report on the budget execution report of the government to the Parliament within 50 days after receiving the report from the government. In 2021, the SAO report on the consolidated BER was issued on May 20.

Financial statements

In addition to the BER, public entities (including the central and local government, LEPLs etc.) are obliged to prepare financial statements (FS). The accounting standards in the public sector of Georgia are regulated by Order No 108 of the Minister of Finance approved on 5th of May 2020. The Order is based on IPSAS standards.

Public entities are required to submit their complete financial statements to the Treasury Service at the MoF no later than 1st of April. The ministries consolidate the financial statements of the separate LEPLs which fall under their supervision. The SAO is mandated to audit the financial statements and, on average, completes the certification process within 9 months.

The GoG prepares a government-wide consolidated financial statement in pilot regime.

State-owned enterprises

The most public enterprises are accountable to the Ministry of Economy and Sustainable Development, and they have their financial statements audited by private companies. The SAO is mandated to audit the public enterprises notwithstanding the fact that these are audited by private audit companies.

Other Public Finance Management stakeholders

Internal audit

The Parliament of Georgia has adopted the law on Public Internal Financial Control which requires that public institutions (ministries, LEPLs, local governments, several public enterprises) establish an internal audit function. The internal audit units cooperate with the SAO through sharing information and audit evidences. The SAO promotes the development of the internal audit function through frequent emphasis on its importance in its financial, compliance, or performance audit reports.

Law enforcement and other anti-corruption agencies

The SAO cooperates with the different enforcement agencies which include the Prosecutors' Office of Georgia and the Investigation Service at the MoF.

The SAO is required by law to send enforcement authorities audit materials and evidence that indicate potential signs of criminal offences. This cooperation includes sharing the information. On the request of the investigating agency, the SAO is entitled to involve its auditor as an expert in the investigation.

Apart from these agencies, the SAO is a member of the Anti-Corruption Council of Georgia at the Government Administration whose mandate is to coordinate anticorruption activities at the national level, strategic planning and implementation control, proposing legal amendments and provide recommendations. The Council meets regularly. The SAO representative participates in the meeting and coordinates the development activities at the SAO to meet with the national anti-corruption objectives.

Inter-institutional Working Group on Implementation of provisions of the Title VII of the EU-Georgia Association Agreement

The SAO is one of the members of the inter-institutional working group consisting of the executive agencies such as the Ministry of Foreign Affairs, Ministry of Internal Affairs, Ministry of Finance, and Prosecutor's office of Georgia. The working group is created to achieve the following objectives:

- Develop and introduce the institutional and legislative framework for preventing fraud with regard to EU assistance funds;
- Elaborate the format of cooperation between the European Anti-Fraud Office (OLAF) and the Office of the State Minister of Georgia on European and Euro-Atlantic Integration.
- Once all the details are elaborated, train staff of all the agencies actively involved in combating against fraud.

The SAO actively participates in the working group to promote the proper implementation of the provisions of the Association Agreement.

Public Sector Accounting Standard Setting Board

To promote the development of the public sector accounting and public finance management, and to increase public interest and trust toward it, the GoG has established the Public Sector Accounting Standard Setting board which is an advisory council. The SAO is an invited member represented by the Deputy Auditor General. The Board meets ad hoc, and regularly consults with the SAO on matters dealing with accounting regulations. It submits its opinion on the draft regulations prepared by the Board.

2.3 Description of the SAO's institutional framework

Legal framework

The State Audit Office of Georgia made a significant progress in strengthening its independence and mandate in 2018-2021 years. In particular, with a new constitution entering into force in 2018, the Law on the State Audit Office has acquired the status of an organic law. The SAO has also been granted the right to appeal directly to the Constitutional Court of Georgia. In addition, guarantees of independence have been strengthened with introducing the exception to the Law on Remuneration in Public Institutions ensuring the independence of the SAO in management of human resources, employment and determining the labour terms. Also the financial control of the SAO is conducted by the Big Four.

The legal framework is composed of the Constitution and the State Audit Office Organic Law (SAO Organic Law).

Article 69 of the Constitution is devoted to the SAO. The Article stipulates the task of the SAO and guarantees its independence.

The SAO Organic Law further defines the legislative guarantees for independence, structure,

responsibilities and activities of the SAO.

In addition Art. 4 defines the key goals of SAO's activities as *"to promote lawful and purposeful spending and use of public funds and other state material values, their effectiveness, protection of the national wealth, properties of the state, autonomous republics and local self-government units, as well as improvement of management of public finance."*

To fulfil these objectives, the SAO is mandated by Article 6 to conduct audits of all three common types i.e. FA, CA and PA.

Furthermore, the range of SAO's auditees and its respective audit powers are defined by Article 17 covering the (-) legislative, executive and judicial authorities; (-) LEPLs; (-) local self-government bodies and (-) state owned enterprises (with 50% or higher state interests).

The SAO is obliged to submit to the Parliament four statutory reports as a minimum:

- An opinion on the estimates of the upcoming year's state budget;
- A report on the budget execution, comprising descriptions of public spending and recommendations for improvement;
- Biannual report on the audit results in local government;
- An annual performance report of the SAO.

The audit reports of the SAO are submitted to the Budget and Finance Committee of the Parliament of Georgia. A permanent working group within the committee has been set-up to foster closer cooperation between the SAO and the Parliament. The working group is responsible for reviewing the audit reports.

A more detailed analysis of the SAO's legal framework is included in the assessment of SAI-1 and SAI-2 in Chapter 3.

Organisational structure

Westminster model

The SAO's organisational structure corresponds to a Westminster model with an Auditor General (AG) at the top of the institution and three deputy AGs. Based on the competencies described in the SAO Organic Law, the AG determines the organisational structure of the institution.

As defined by the current SAO Organic Law, the institution is managed by the AG. The AG has three DAGs who are in charge of directing SAO activities. The current organogram including functional responsibilities and delegation of authority and tasks is regulated by the AG's Order No 14/37.

The Presidium is a meeting including the AG (Chair), the three DAGs, and heads of departments and operates as an advisory body to the AG.

Regional offices

The main office in Tbilisi houses the AG and his Deputies and most departments. A second office in Batumi accommodates the Audit Department of the Autonomous Republic of Adjara. In 2019, the SAO moved the Local Self-Government Entities Department and its staff from the regional office in Kutaisi to the head office in Tbilisi. Consequently, the SAO has currently only one regional office in Batumi.

Organogram

Number, function and responsibilities of departments are defined by the AG Order No. 14/37. It comprises of 10 audit departments that carry out the core audit mandate and 7 departments with

overhead functions.[11]

Figure 3 Organogram

Public Audit Institute

Subordinated to the SAO is the Public Audit Institute (PAI) which is organised as a LEPL. The mandate of the PAI is to provide audit training and audit-related consultancy in the public sector.

The SAO's resources

Table 4 shows the budget (estimates and actuals) of the SAO for the fiscal year 2021. It is derived that nearly 80% of the total budget is spent on staff salaries. The SAO has an approved establishment of 320 staff and 75% have an audit-related job title.

Table 4 SAO Estimates and Actuals, 2021 in 000 Georgian Lari[12]

	Estimates	**Actuals**	**% of total**
Expenses	16,235	14,879	92%
Salaries	13,498	12,472	92%
Goods and Services	2,135	1,944	91%
Grants	5	4	80%
Social security	240	140	58%
Other expenses	357	319	89%
Non-financial assets	576	654	114%
Total Budget	**16,811**	**15,533**	**92%**

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[11] Quality Assurance Department and Department of State Budget and Strategic Analysis are considered as audit departments.

[12] On the reporting date, the exchange rate of 1,000 Lari equalled to 320 Euro.

3 Indicator-led analysis of the SAO's Performance

3.1 Domain A: Independence and legal framework

Domain A covers two indicators: the SAO's independence from Government (SAI-1) and the SAO's legal mandate (SAI-2). The purpose of the domain is to consider the institutional basis for the SAO's operations. It is recognized that the SAO's independence and legal framework are not directly under the control of the SAO itself. The legal framework is decided by other state powers. The domain has nevertheless been included in the SAI-PMF because the independence and legal framework significantly affect the effectiveness of the SAO.

Table 5 provides an overview of the scores. Section 3.1.1 and 3.1.2 provide further details.

Table 5 Overview of assessment scores in domain A

Domain A		Year	Dimensions				Overall score
Indicator	**Name**		**i**	**ii**	**iii**	**iv**	
SAI-1	Independence of the SAI	2017	3	4	3	2	3
		2021	3	4	4	2	3
SAI-2	Mandate of the SAI	2017	1	2	3		2
		2021	1	2	4		2

SAI-1 Independence of the SAI

According to INTOSAI-P 1, objectives of the SAI which operates in an effective manner can only be achieved if the SAI is independent of the audited entity and is protected against outside influence. SAI-1 measures the degree of independence enjoyed by the SAI, by assessing the key aspects of independence as identified by INTOSAI members themselves, through the Lima Declaration (INTOSAI-P 1) and the Mexico Declaration (INTOSAI-P 10).

The indicator is separated in four dimensions:

   i.   Appropriate and Effective Constitutional Framework;
   ii. Financial Independence / Autonomy;
   iii. Organizational Independence / Autonomy;
   iv. Independence of the Head of SAI and its Officials.

Dimension i: Appropriate and Effective Constitutional Framework

In March 2018, the Parliament adopted the constitutional amendments. The new edition of the article specifies the mission of the SAO as promoting the effectiveness and accountability of the public administration.

The new Constitution renumbered the relevant provisions for the SAO from the old article 97 into 69. However, it included similar legal provisions on the establishment of the SAO, the position of the Auditor General, independence and the SAO's duties and powers:

"The use and expenditure of budgetary funds and other public resources shall be supervised by the State Audit Office, with the purpose of facilitating the efficiency and accountability of public governance. It shall also be entitled to scrutinize the activities of other state bodies of fiscal and

economic control and to submit proposals on improving tax legislation to Parliament." (…) "Twice a year, together with the submission of preliminary and full reports on the execution of the State Budget, the State Audit Office shall submit to Parliament its conclusions on the Government report. Once a year, it shall submit to Parliament its own activity report."

Paragraph 3 of Article 69 states that *the State Audit Office shall be independent in its activity'*. And according to the paragraph 6 of the article 69 *"Thee competences, structure, procedure for the activity and guarantees for the independence of the State Audit Office shall be determined by the organic law"* The organic law referred to in this article is the SAO Law. The relevant sections of the SAO Law specify in more detail the guarantees for the SAO's independence, and add to the powers, functions and responsibilities of the SAO (specifically articles 3, 4, 5, 6, 17, 23-25, and 31).

As a new, based on Article 48 of the Constitution, *no less than one-third of the total number of the Members of Parliament shall have the right to raise the question of impeachment of the … Auditor General … if the actions of the official in question violate the Constitution or contain signs of crime.* **Such cases shall be transferred to the Constitutional Court, which shall consider the case and submit its conclusion to Parliament within 1 month.** The paragraph 4d of Article 60 of the Constitution states that: *the Constitutional Court of Georgia shall, in accordance with the procedures established by the Organic Law, review disputes about the competences of a respective body on the basis of a claim submitted by the … General Auditor…* It creates adequate legal protection by a Supreme Court against interference with the SAI's independence, which was not guaranteed in the previous version. This entitles SAO to have direct access or right of audience with the Constitutional Court of Georgia, if other public agencies infringe on its independence or powers.

However, similar to the previous assessment, partial compliance with the constitutional provisions of the INTOSAI-P 1 (Lima declaration) remains the same. INTOSAI-P 1, Section 6 requires that the independence of the AG's decision-making powers is also guaranteed in the Constitution. These guarantees are only set out in the SAO Law; in particular, Section 4 of Article 9 states that the Law ensures the independence of the AG. *No one is authorized to influence his/her decision.* The SAI-PMF assessment team notes that for criterion 'd' to be met, these guarantees should also be put in the Constitution, similar to the independence guarantees set for the Judiciary and judges.

Dimension ii: Financial Independence / Autonomy

The legislative framework for the SAO explicitly provides for its financial independence. Paragraph 3 of the Article 3 of the State Audit Office Act stipulates that the SAO shall have financial, functional and organisational independence. The SAO's budget is presented by the Auditor General to the Parliament for approval. The budget of the SAO cannot be less than the corresponding amount for the previous year. Any reduction in the appropriations approved in the budget law (State Budget) for the current year is only permitted subject to the consent of the SAO. The budget of the SAO is passed to the Government for consolidation in the state budget through the Parliament and is not subject to amendment by the Government. Once the budget is approved by Parliament the SAO has full access to these resources without interference or constraint by the Executive.

The SAO is free to use the budget allocated to it as it sees fit subject to the general laws on matters such as the use of public funds, the remuneration of public servants etc., and the internal budgetary control regime within the SAO. The SAI-PMF assessment team were provided with no indication that during the last three years the Executive has sought to interfere unduly with the SAO's budget proposals or sought to deny resource once the budget is approved.

Under the dimension, all criteria are met. Since the previous assessment, no changes have taken

place that could negatively impact the SAO's financial independence.

Dimension iii: Organizational Independence / Autonomy

The positive development is shown with the AG being free to decide independently on all human resource matters, including appointments of staff/hiring external experts and establishment of their terms and conditions, which are constrained only by staffing and/or budgetary frameworks approved by the Legislature.

In accordance with the constitutional amendment on October 13, 2017, the SAO Law was granted the status of an organic law. Paragraphs 'd', 'e', 'f', and 'g' of Article 10 of the SAO Law state that *the AG appoints and dismisses employees of the State Audit Office, he/she appoints the Head of the structural unit of the State Audit Office in the autonomous republics in agreement with the Supreme Council of the relevant autonomous republic; The AG determines the maximum number of the employees of the SAO, and approves the staff list, defines the position titles and the amount of remuneration within the limits of the payroll fund established for the SAO.* In addition, in the Law on Remuneration in Public Institutions, adopted on December 22, 2017, it was established that the AG has the authority to determine the salaries of the employees independently.

The legal framework for the SAO explicitly stipulates its functional and organizational independence. The SAO is independent in the organisation of its activities and is bound only by the general framework of law. The AG adopts the Rules of Procedure and other methodological guidelines for the SAO for managing business and for fulfilling its mandate.

The SAO's accountability to Parliament and the reporting structure are defined clearly in the law. The SAO Law, the Budget Code and the Rules of Procedures of the Parliament set the milestones in the annual budget deliberation and reporting cycle when the SAO reports to the legislature. In addition, the SAO annually reports to the Parliament on its performance.

Dimension iv: Independence of the Head of SAI and its Officials

Article 48 of the Constitution specifies the rules according to which the AG may be removed from office via impeachment if he or she has violated the Constitution and/or committed an offence. This requires that the Constitutional Court confirm that the AG has engaged in criminal conduct and/or violated the Constitution by his/her actions followed by a majority vote of the total number of MPs.

Within the past 3 years, there have been no periods exceeding 3 months during which there has been no properly appointed head with tenure. The last AG had served his full five-year term when he stood down on 25th of July 2017 and a new AG was appointed in September 2017.

Paragraph 2 of the Article 3 of the SAO Law stipulates that the SAO has full discretion in the discharge of its functions and is governed only by the law. It is prohibited for external parties to interfere with and/or control its activities, or to request reports related to its activities unless expressly set forth in the law. Any political pressure as well as any other actions that may infringe upon the SAO independence is prohibited.

For audit staff, there is a specific reference in the SAO Law (23:2 (c)) which prohibits the auditees from intervening with the SAO staff performing their work or impeding the course of the audit, and to support the SAO staff to minimize interference with the day-to-day activities of the auditee in the course of its examination of documents during working hours.

The SAI PMF report of 2017 assessed that the AG is not given an appointment with sufficiently long and fixed terms to allow them to carry out their mandates without fear of retaliation. According to the good practices provided in the GUILD 9030 Principle 2, the Heads of the SAIs are elected or appointed until the age of retirement, or their tenure is longer than five years.

However, according to paragraph 2 of Article 69 of the Constitution and paragraph 1 of Article 9 of the SAO Law, *the Auditor General shall be elected for a term of 5 years by a majority of the Members of Parliament on the current nominal list upon his/her nomination by the Chairperson of the Parliament.* Furthermore, according to Paragraph 6a of Article 204 of the Rules of Procedure of the Parliament of Georgia, *the same candidate may be nominated only twice for the position of the General Auditor.*

In addition, like in the 2017 report, it is assessed that the AG appointment is not done through a transparent process that ensures his/her independence. The candidates for the AG are nominated and elected in Parliament. However, the process for selecting the successful candidate is not transparent to the wider public, as this is done by the limited competition, and there are no additional mechanisms that ensure a higher level of transparency in the given process.

Rating

Based on the above, the performance of the SAO is rated as follows:

Dimension	Findings/Justification	Score
(i) Appropriate and effective constitutional framework	Criteria 'a', 'b', 'c', 'e', 'f' and 'g' are met: • "The establishment of Supreme Audit Institutions (…) shall be laid down in the Constitution; details [including the role, powers and duties of the SAI] may be set out in legislation."; • The SAI's "(…) independence shall be laid down in the Constitution (…)."; • "The independence of Supreme Audit Institutions provided under the Constitution and law also guarantees a very high degree of initiative and autonomy (…)."; • There is "adequate legal protection by a supreme court against any interference with a SAI's independence"; • "SAIs should report on any matters that may affect their ability to perform their work in accordance with their mandates and/or the legislative framework."; • "SAIs should strive to promote, secure and maintain an appropriate and effective constitutional, statutory or legal framework.". Criterion 'd' is not met • The Constitution includes guarantees for the independence of the SAO and the SAO Law guarantees independence of the AG. However, as required by criterion 'd', the independence of the decision-making power of the AG is not mentioned explicitly in the Constitution.	3 Criterion a, b and at least three of the other criteria are in place.
(ii) Financial independence /autonomy	All criteria have been met: • The legal framework explicitly or implicitly provides for the SAI's financial independence from the executive; • The SAI's budget is approved by "the public body deciding on the national budget"; • The SAI is free to propose its budget to the public body deciding on the national budget without interference from the executive; • The SAI "shall be entitled to use the funds allotted to them under a separate budget heading as they see fit";	4 All of the above criteria are in place.

	• After the SAI's budget has been approved by the Legislature, the Executive (e.g. the Ministry of Finance) should not control the SAI's access to these resources; • The SAI has "the right of direct appeal to the Legislature if the resources provided are insufficient to allow [it] to fulfil [its] mandate.; • During the past 3 years there have been no cases of undue interference from the Executive regarding the SAI's budget proposal or access to financial resources.	
(iii) Organizational independence /autonomy	All criteria have been met: • The legal framework ensures that the SAI has "(…) the functional and organisational independence required to accomplish [its] tasks."; • In practice, the SAI is "free from direction or interference from the Legislature or the Executive in the (…) organization and management of [its] office."; • The SAI has the power to determine its own rules and procedures for managing business and for fulfilling its mandate, consistent with relevant rules affecting other public bodies; • The Head of the SAI is free to independently decide on all human resource matters, including appointments of staff and establishment of their terms and conditions, constrained only by staffing and/or budgetary frameworks approved by the Legislature; • The relationship between the SAI and the Legislature and also the Executive is clearly defined in the legal framework; • The legal framework "(…) provides for accountability and transparency [by covering] the oversight of the SAI's activities (…)."; • The SAI is entitled to call on and pay for external expertise as necessary.	4 All of the above criteria are in place.
(iv) Independence of the Head of SAI and its Officials	Criteria 'a', 'c', 'd', 'f' and 'g' are met: • "The applicable legislation specifies the conditions for appointments, reappointments, [and] removal (…) of the Head of the SAI, and [where relevant] members of collegial institutions (…) by a process that ensures their independence (…)."; • "The Head of SAI and [where relevant] members of collegial institutions are (…) immune to any prosecution for any act (…) that results from the normal discharge of their duties."; • Within the past 3 years, there have been no periods longer than 3 months during which there has been no properly appointed Head with tenure; • During the last 3 years there have been no cases where the Head of the SAI (or where relevant) members of collegial institutions were removed through an unlawful act or in a way that compromised the SAI's independence; • The legal framework ensures that "in their professional careers, audit staff of Supreme Audit Institutions must not be influenced by the audited organisations and must not be dependent on such organisations.".	2 Criterion 'a' and at least two other criteria are in place, but not criterion 'e'

	Criteria 'b', and 'e' have not been met: - The head of SAO is not given an appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation. - The appointment process by which the Parliament selects the Head of the SAO among the nominated candidates is competitive and transparent. However, the pre-nomination process through which candidates are nominated to the Parliament is not.	
Overall score SAI-1		**3**

SAI-2 Mandate of the SAI

The indicator aims to assess the operational powers allocated to the SAO through the legal framework. As the SAO is responsible for auditing government financial resources, it needs to be sufficiently empowered by a legal framework establishing its role and clearly describing the public financial operations it is responsible for auditing.

The indicator is separated in three dimensions:

   i.   Sufficiently Broad Mandate;
  ii.   Access to Information;
 iii.   Right and Obligation to Report.

Dimension i: Sufficiently Broad Mandate

As described in Section 3.1.1, the mandate of the SAO in general terms is provided in the Constitution and more broadly defined in the SAO Law and particularly in articles 2, 4, 6, 17, 23-25, and 31.

The SAO is given a comprehensive mandate to audit all expenditures within the national budget and at all levels of government within Georgia. According to the SAO Law *the audit authority of the SAO, within its competence, extends to the legislative, executive and judiciary branches, legal entities of public law, local self-government, National Bank of Georgia, enterprises in which the state, autonomous republics and/or local self-government hold 50 percent and more of capital shares, other legal and natural person, organizations and institutions.*

In performing its duties and functions stipulated in Paragraph 2a of Article 17 of the SAO Law, *the SAO examines expenditures and execution of the state budget and budgets of autonomous republics and local governments.* The legal framework does not specifically ensure its mandate for the audit of all central government activities. Especially, the explicit recognition of the mandate to audit revenues is lacking. As a positive development, there was an agreement between the Parliament of Georgia, MoF and SAO to conduct an audit of tax revenues, which is indicated in the Annual Audit Plan of the SAO 2022. However, there were no legislative changed adopted that would give the SAO an unambiguous clarity to audit revenues.

The SAO is empowered to undertake different types of audit such as FA, CA and PA. In addition to the audit mandate, *it issues opinions on the drafts of primary and secondary legislation, regulating areas of finance and economics, as well as on the programs involving funds from state budget. It is authorized to submit its proposals to the Parliament and other relevant institutions on adopting and improving the tax legislation.*

Article 17 of the SAO Law stipulates that *the SAO is independent in planning its annual audit program.* Similarly, its functional independence is guaranteed by the law. The SAI-PMF assessment team did not identify any cases of interference in the SAI´s selection of audit clients

or subjects within the last three years, in a way that may compromised the SAO's independence.

The SAO is mandated with two additional tasks that are not covered by the IFPPs. First, it is given the responsibility of monitoring the legitimacy and transparency of financial activities of political unions, including financing of electoral campaigns. Although the performance of this task receives international appreciation, the SAO involvement in administrative activities regarding political parties is a potential risk on its political neutrality. Second, the SAO is required to examine the justification and lawfulness of the draft state budget of the Republic of Georgia.[13]

Dimension ii: Access to Information

The SAO Law stipulates that *in performing audit functions, the SAO audit staff are entitled to request any necessary information and any document, regardless of its form (electronic copy, etc.), and have an unimpeded access to premises of an auditee. Auditee is obliged to secure necessary working environment for the SAO staff, including the office space during the fieldwork.*

Moreover, fulfilment of these legal requirements is mandatory for an auditee. Article 26[1] sets administrative sanctions for failure to comply with these requirements. In particular, *avoiding to provide information/documentation necessary for the SAO, provision of false information, interfering in or otherwise impeding the SAO's activities makes the responsible person liable to a fine in amount of 1000 GEL.*

In practice the SAO staff frequently have to overcome various administrative barriers in obtaining information but these are generally overcome. For example, in practice there has been various limitations for IT auditors to plan and implement IT audit procedures.

The most important infringement on access concerns tax payer data. Article 20.4 of the SAO Law requires a court order to access taxpayer information. It states: *in order to exercise its authority, the SAO may, on the basis of a judicial order, receive personally identifiable information on each tax payer (confidential tax information) in accordance with the Tax Code of Georgia, as well as information on public procurement in accordance with the Law of Georgia on Public Procurement.* This restriction causes the SAO not to be able to audit tax revenues, and, based on this limitation, the criterion *"The law provides the SAI with unrestricted right of access to records, documents and information"* is not met.

Dimension iii: Right and Obligation to Report

The SAO's right to publish is stated in the Constitution and the SAO Law. The Section 4 of Article 69 of the Constitution states that *twice a year, together with the submission of preliminary and full reports on the execution of the State Budget, the State Audit Office shall submit to Parliament its conclusions on the Government report. Once a year, it shall submit to Parliament its own activity report.*

Further details are provided in the SAO Law. The Section 5 of Article 24 of the State Audit Office Act stipulates that *the SAO is entitled to submit information related to audit results to the President of Georgia, the Parliament and the Government of Georgia, also initiate the consideration of the audit results at the relevant Parliamentary committee and implement other relevant measures in order to prevent violations.* At the same time, under Article 10, *upon the AG request, s/he is heard by the Parliament of Georgia, Parliamentary committees, factions and/or investigation or other temporary commission of the Parliament.*

To ensure that the SAO is free to decide on the timing of their reports, Article 19 of the SAO Law states that the General Administrative Code of Georgia shall not apply to the time limits for

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[13] Paragraph 2b of Article 17 of the SAO Law states that, *for the purpose of performing the tasks provided for by the Constitution of Georgia and this Law, the State Audit Office shall examine the justification and lawfulness of the expenditures and revenues of the draft state budget (…).*

conducting an audit.

In view of the above, the compliance with the criteria under the second dimension remains similar to what is described in the previous SAI PMF report of 2017. The SAO Law provides it with the right and obligation to report. As a positive change, the criterion 'f' is now met, as there has been no interference in the SAO's decisions on the content of its audit reports during the past three years. This is proven by the absence of such cases published in the media.

Rating

Based on the above, the performance of the SAO is rated as follows:

Dimension	Findings/Justification	Score
(i) Sufficiently broad mandate	Criteria 'a', 'b', 'd', 'e', 'f', 'g', 'h' and 'i' are met: • "All public financial operations, regardless of whether and how they are reflected in the national budget, shall be subject to audit by Supreme Audit Institutions."; • Where criterion (a) is not in place, the SAI has the right to address the Legislature or the relevant legislative committee regarding concerns it may have over audit arrangements for any public financial operations which are not within the mandate of the SAI; • "(…) SAIs are free from direction and interference (…) in the selection of audit issues, planning, (…) conduct, reporting and follow-up of their audits."; • During the past 3 years the SAI has not been given and has not taken any tasks which influence the independence of its mandate; • There have been no cases of interference in the SAI´s selection of audit clients or subjects within the last three years, in a way that may compromise the SAI's independence; • As a minimum, "SAIs should be empowered to audit the legality and regularity of government or public entities' accounts"; • As a minimum, "SAIs should be empowered to audit the quality of financial management and reporting"; • As a minimum, "SAIs should be empowered to audit the economy, efficiency and effectiveness of government or public entities' operations". Criterion 'c' is not met: • The SAO's mandate does not explicitly include the audit of all government revenues.	1 (at least two of the criteria are in place but not criterion 'c' which is a minimum requirement for a score of 2)
(ii) Access to information	Criteria 'b', 'c', 'd' and 'e' are met: • The SAI has the right to decide which information it needs for its audits; • In case the access to information required for the audit is restricted or denied, there is an established and appropriate process for resolving such matters, e.g. the possibility to address the Legislature or one of its committees, to take the matter to court, or	2 (Four criteria are in place but not criterion 'a' which is required to score a '3' or higher)

	direct powers to sanction those preventing access to information; • For jurisdictional controls, in the event that access to information considered necessary is hindered, the SAI has specific powers to sanction those responsible for such hindrance. (E.g. fines for failing to produce information, fines for hindering access, etc.); • SAI staff have right of access to the premises of audited bodies in order to do the fieldwork the SAI deems necessary. Criterion 'a' is not met: • The law does not provide the SAI with unrestricted right of access to records, documents and information given that a court order is required to get access to tax files of tax liable private actors.	
(iii) Right and obligation to report	All criteria have been met: • "The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament."; • The SAI has the right to publish its annual audit reports; • "The SAI shall also be empowered to report on particularly important and significant findings during the year."; • "SAIs are free to decide the content of their audit reports."; • "SAIs are free to decide on the timing of their reports except where specific requirements are prescribed in law."; • During the past 3 years there has been no interference in the SAI's decisions on the content of its audit reports; • During the past 3 years there has been no interference in the SAI's efforts to publish its audit reports.	4 All of the above criteria are in place.
Overall score SAI-2		**2**

3.2 Domain B: Internal governance and ethics

One of the objectives of ISSAI 12 is that SAIs should lead by example and be model organisations. An SAI should advance transparency and accountability through good governance of the SAI and ethical conduct in order to fulfil their mandates. This domain measures the SAI's overall performance in the area of internal governance and ethics. It seeks to give an understanding of the SAI's efforts, strengths and weaknesses at the organizational level.

The following table provides an overview of the scores in the five indicators of domain B. Section 3.2.1 till 3.2.5 provide further details for each indicator.

Table 6 Overview of assessment scores in domain B

Domain B Internal governance and ethics		Year	Dimensions				Overall score
Indicator	Name		i	ii	iii	iv	
SAI-3	Strategic Planning Cycle	2017	3	4	4	3	3
		2021	4	4	4	3	4
SAI-4	Organizational Control Environment	2017	0	1	2	2	1
		2021	4	3	4	4	4
SAI-5	Outsourced Audits	not applicable					
SAI-6	Leadership and Internal Communication	2017	2	4			3
		2021	4	4			4
SAI-7	Overall Audit Planning	2017	3	1			2
		2021	4	3			3

SAI-3 Strategic Planning Cycle

This indicator reviews the strategic planning cycle of the SAO. An SAI should have systems in place to provide direction for the SAI and which enable it to plan for both the long term and the short term. It should also monitor and report on its performance. Consistent with INTOSAI terminology, long term planning will here be referred to as "strategic planning".

The indicator on strategic planning is separated in four dimensions:

  i.   Content of the Strategic Plan;
  ii. Content of the Annual Plan/Operational Plan;
  iii. Organizational Planning Process;
  iv. Monitoring and Performance Reporting.

Dimension i: Content of the Strategic Plan

Using the findings from the 2017 SAI PMF report and the stakeholder's analysis, the SAO has adopted a new Strategic Development Plan (SDP) that covers the periods 2018-2022. It identifies the challenges the SAO is facing. The AG presented the strategic plan to the stakeholders, including MPs, high government officials, development partners, and CSOs.

The SDP 2018-2022 has the following structure: mission, vision, and values, key stakeholders, key internal and external challenges, Strategic Goals, Objectives, Key Performance Indicators (KPIs) and emerging risks. The SDP defines five high-level strategic goals to be achieved by the end of the planning period, including:

  1) Strengthening independence and the mandate;
  2) Improvement of public financial management as a result of high quality audit work;
  3) Effective engagement of main stakeholders;
  4) Strengthening internal governance for more efficiency;
  5) Enhancing the capacity of employees.

The strategic goals are both inward focusing on strengthening the SAO's institutional environment and outward to increase audit impact. The SP includes a results framework with a manageable number of KPIs in the domain of each strategic objective. All KPIs are regularly monitored and assessed (statistical, quantitative, and qualitative).

The SP is accompanied with the implementation matrix which identifies and prioritises the

projects that need to be undertaken to achieve the goals and objectives of the strategic plan. The plan specifies baseline and target indicators across the years covered by the strategy (2018-2022).

Dimension ii: Content of the Annual Plan/Operational Plan

The SAO's SDP is translated into an Annual Action Plan (AAP). In the AAP, activities are defined and linked to timetables with the allocation of responsibilities among respective units and individuals.

The Annual Action Plan (AAP) is essential for strategic planning. In the AAP, every project description contains baseline and target information, how to achieve the target, rationale behind the indicator, and potential impact. The AAP also includes a separate column for assessing risks connected to achieving the objectives of the specific activities in the plan. As a positive development, it should be noted that the column is consistently used and filled for all the strategic objectives and associated activities compared to the previous assessment. The AAP recognizes risks and mitigative measures.

The SAO's AAP meets expectations on the following issues:

- All the main audit support services are included in the Plan;
- The links to the SP are evident (the action plan refers to the relevant parts of the SP)
- The budgeting of the AAP is done in terms of identifying assigned staff. The link with the budget is not observed consistently for all AAP activities. However, there is evidence that considerations have been made regarding the staff capacity needed to complete the activities in the Plan.
- There are measurable indicators at the outcome and output level with the baseline data of current performance and milestones for major indicators.

Dimension iii: Organizational Planning Process

The organizational planning process is guided a by a newly adopted AAP development methodology and the Rules and Procedures approved by the AG. The SAO has a clearly defined set of responsibilities, actions and timetable for developing the organizational and other related plans.

In accordance with this methodology, the State Budget and Strategic Analysis Department coordinates the SAO's planning process in collaboration with the other Departments. It develops/prepares its strategic, operational, and audit plans, in addition to SAO Annual Performance Report. The core part of strategic planning is coordinating the process with representatives of all departments concerned. The departments contribute by:

- participating in all the discussions regarding strategic planning;
- jointly identifying the main objectives/goals of SAO;
- spreading the information about ongoing processes in their departments;
- communicating the interests (in relevant areas) of their departments to the representatives of the other departments.

The representatives update and revise strategic, operational, and audit plans; the proposal of evaluated plans are then presented to the SP working group, and if there is a consensus, the AG officially approves the proposed plans. The SAO consults with its stakeholders to obtain and incorporate their views and concerns in preparing the Organizational Plans. A draft of the existing strategic plan for 2018-2022 was discussed with the stakeholders at the end of 2017 in an external retreat c.q. workshop.

This methodology assesses the performance of activities planned during the reporting period.

The methodology also describes the stages of conducting each type of audit.

Dimension iv: Monitoring and Performance Reporting

The SAO prepares and submits to the Parliament an Annual Performance Report, which describes its progress in all areas covered in the SP 2018-2022 and achievements in its audit work.

The report contains a number of KPIs that focus on the SAO performance in outputs and outcomes: For example, budget coverage by audit, share of performance audits, implementation of recommendations.

As a positive development since the 2017 SAI PMF, in the SAO SP 2018-2022, the strategy result framework presents "strengthening engagement of the main stakeholders" as one of the goals, in which performance indicators are linked to every output when this information is not visible and separated in the last Strategic Plan. In the Annual Performance Report the SAO presents information about the savings and budget gains received from its audits. However, the SAO in its Annual Performance Report uses no performance indicators to assess the value of audit work for Parliament, citizens and other stakeholders.

The 2017 SAI PMF report assessed that the SAO did not publicly report the results of peer reviews and independent external assessments. Although an independent (interim) SAI PMF assessment was conducted as part of an EU-funded technical assistance project in 2020, the report has only been circulated internally within the SAO and it was not published.

Rating

Based on the above, the performance of the SAO is rated as follows:

Dimension	Findings/Justification	Score
(i) Content of the Strategic Plan	All criteria have been met: • The current strategic plan is based on a needs assessment covering the main aspects of the organization and an identification of gaps or areas requiring performance improvements; • The strategic plan incorporates a results framework, logical framework or similar which has a logical hierarchy of purposes (e.g. mission-vision-goals-objectives; or impact-outcome-output-activities-inputs); • The strategic plan contains a manageable number of indicators measuring the SAI's external deliverables (e.g. reports), internal capabilities and its operating environment; • The strategic plan is complemented by an implementation matrix or similar document which identifies and prioritises the projects that need to be undertaken to achieve the goals and objectives of the strategic plan, and which identifies risks to achievement of the strategic plan; • "Stakeholders' expectations and emerging risks are factored into strategic (...) plans, as appropriate"; • The current strategic plan is based on an assessment of the institutional framework (e.g. the formal and informal practices that govern the SAI's operations, as well as country governance, political	4 All of the above criteria are in place.

		economy and public financial management systems) in which the SAI operates, and the current capacity of the SAI's key stakeholders to make use of the SAI's reports; • Where necessary and appropriate, the strategic plan includes measures designed to strengthen the SAI's institutional environment.	
(ii)	Content of the Annual Plan / Operational Plan	All criteria have been met: An effective annual plan should contain: • Clearly defined activities, timetables, and responsibilities; • Coverage of all the SAI's main support services, like financial management, HR and training, IT and infrastructure, etc.; • Clear links to the strategic plan; • The annual plan contains or is linked to a budget, and there is evidence that considerations have been made about the resources needed to complete the activities in the plan; • An assessment of risks connected to achieving the objectives of the plan; • Measurable indicators at the outcome and output level; • Baselines of current performance and milestones for major indicators.	4 All of the above criteria are in place.
(iii)	Organisational Planning Process	All criteria have been met: An effective organizational planning process requires: • High-level ownership of the process: the head of the SAI and the SAI management are involved in and own the process; • Participation: the opportunity for everybody within the organization to provide input into organizational planning in some form; • A variety of appropriate external stakeholders are consulted as part of the process; • Communication: there is effective communication of the organizational plans to everybody within the organization; • The strategic plan is made publicly available; • There is a process for annual and/or in-year monitoring of progress against the strategic plan and annual/operational plan; • Planning the plan: there are clearly defined responsibilities, actions and a timetable for developing the organizational plans; • Continuity: the last strategic plan was in place by the time the previous strategic planning period had ended; • The organizational planning process has been evaluated to provide input to the next planning process.	4 All of the above criteria are in place.

(iv) Monitoring and Performance Reporting	Criteria 'a', 'b', 'd', 'e' and 'g' are met: Regarding measuring and reporting on the SAI's performance: • "SAIs assess and report publicly on their operations and performance in all areas (…)."; • SAIs use performance indicators to measure achievement of internal performance objectives; • "SAIs follow up their public visibility, outcomes and impact through external feedback"; • Where appropriate, "the SAI… publish[es] statistics measuring the impact of the SAI's audits, such as savings and efficiency gains of government programs"; In addition to the SAI's annual performance reporting: • SAIs make public the audit standards and core audit methodologies it applies. Criteria except 'c' and 'f' are not met. • The SAO uses no performance indicators to assess the value of audit work for Parliament, citizens and other stakeholders. • The SAO did not publicly report the results of peer reviews and independent external assessments.	3
Overall score SAI 3		**4**

SAI-4: Organisational Control Environment

Like all other public organisations, a SAI should have an internal control system in place that provides reasonable assurance that the institution is managing its operations economically, efficiently, effectively and in accordance with laws and regulations. The INTOSAI guidelines on internal control standards for SAIs take into account all relevant and recent evolutions in internal control and incorporate the concept of the COSO report "Internal Control – Integrated Framework" in the INTOSAI GOV 9100 standard.

The COSO framework defines a risk-based system of internal control as consisting of five interrelated components: 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, 5) monitoring.

As the reputation of the SAI is crucial for its effectiveness, the internal control system should focus on preserving its credibility. The internal control system should thus focus on controlling the main risks to the SAIs credibility which are identified as inadequate ethics, integrity and quality of work performed by SAIs. As an overriding objective, each SAI should consider the risks to the quality of its work and establish a system of quality control that is designed to adequately respond to these risks. Maintaining a system of quality control requires ongoing monitoring and a commitment to continuous improvement (ISSAI 40).

The indicator on the organisational control environment is separated in four dimensions:

  i.   Internal Control Environment – Ethics, Integrity and Organisational Structure;
  ii.   System of Internal Control;
  iii. Quality Control System;
  iv.   Quality Assurance System.

Dimension i: Internal Control Environment - Ethics, Integrity and Organisational Structure

The SAO has a comprehensive organisational structure which identifies the primary and supporting functions (see also Section 2.3.2). The organisational structure is established by the order of the AG which is the bylaw and ensures that responsibility is clearly assigned for all work carried out by the SAO. The HR function has set Job Descriptions covering the main responsibilities throughout the organisation.

The 2017 SAI-PMF observed a number of weaknesses in the ethical control environment at the SAO. Since the assessment, the SAO has taken various measures to strengthen its organisational control environment with regard to ethics and integrity. In 2018 and 2022, IntoSAINT assessments were conducted with the support of experts from the Netherland Court of Audit, the Latvia State Audit Office and the Ukraine Accounting Chamber. Based on the recommendations, the SAO implemented various new reforms.

- The SAO adopted a revised Code of Ethics (CoE) on November 26, 2019, which describes the implications of the ethical concepts and principles along with the expected ethical behaviour of the SAO Staff. The Code includes all the ethical values enshrined in ISSAI 130. The SAO also developed Ethics Handbook.
- The SAO also established the Ethics Commission (EC) on December 31, 2020, consisting of 5 members, three appointed by the AG, while the SAO servants elect two members. The EC assures that all audit staff complies with CoE in their day-to-day work. The EC raises employee awareness and responds to non-compliance with CoE standards. The EC also, until January 25 of each year, prepares and submits to AG a report that includes the organization's Ethical Culture Survey Results, analysis, and improvement recommendations.

  The Ethics Commission is also mandated to carry out investigations based on internal/external sources reporting potential misconduct. Investigations must follow the due process using an open and transparent administrative procedure resulting in formal adjudication. In practice, the EC had only several cases to study.

  In 2021, the EC held 5 meetings to discuss various issues related to these mechanisms.

- Several integrity policies were incorporated in other policies:
    - Establishing an ethical value system;
    - Recruitment procedures;
    - Rotation;
    - The principle of the four eyes;
    - Professional Development Rule;
    - An ethics corner in the service virtual space;
    - Consulting an interested employee by the EC.

- Several other mechanisms to reinforce the CoE principle:
    - Independence confirmations: Filing of Declarations/Certificates of independence signed off by auditors at individual audit engagement level and reviewed by senior management;
    - Whistle-blower/Anonymous reporting - The Law of Georgia guarantees whistle-blower protection on Conflicts of Interest and Corruption in the Public Sector.

The SAO does not contract out any of its audit work to third parties. Therein, there is no need or practice to require that any party it contracts out work to on its behalf to commit to the SAI's ethical requirements.

Dimension ii: System of Internal Control

SAI should have an internal control system that provides reasonable assurance that the institution is managing its operations economically, efficiently, effectively, and according to laws

and regulations. The INTOSAI guidelines on internal control standards for SAIs consider all relevant and recent evolutions in internal control and incorporate the COSO report "Internal Control-Integrated Framework" concept in the INTOSAI GOV 9100 standard.

The organisational structure of the SAO clearly assigns functions and roles among departments. In each major area of the SAO's activities, business policies and procedures are well established and controls are in place to mitigate operational risks. However, risk management is not brought together in a clearly defined system for identifying, mitigating, and monitoring significant operational risks. Internal control policies and procedures have not been formally documented and adopted. The annual process for the heads of all the SAO departments/units to provide assurance that they have carried out their risk management responsibilities is informal, through meetings of the Presidium and the regular management chain. There is no formal process of providing structured assurance to the AG on an annual basis and there is no legal requirement on the AG to sign an annual statement on internal control. Such a statement was not prepared in 2021.

On the side of internal audit, the structures in the SAO are more formally developed. The internal audit function is positioned as a Department reporting to the Presidium. The Internal Audit Department (IAD) consists of 10 staff members. The staff have a legal and financial background and have been trained in internal audit through the Public Audit Institute. Following its reorganization, it has started to conduct system-based audits focusing on the effectiveness of the internal controls. By 2023, all departments of the SAO (including audit and non-audit) will be covered by such system audits. The IA department developed the Internal Audit Quality Assurance Policy in 2021, which is based on the Public Internal Financial Control (PIFC) Law of Georgia and is approved by the AG.

The 2017 SAI PMF report observed that the SAO had not developed and implemented a job rotation policy to manage possible conflicts of interest. As a positive change, during the assessment period, the SAO has developed and implemented a job rotation policy within its reforms. The policy is about job rotation principles to enhance the motivation of the auditors by assigning to the different sphere auditees and avoiding tight links with the auditee representatives, however, the job rotation is not directed to the department heads level. The SAO also has a notification procedure for employees to report suspected violations relating to suspected fraud, waste, and abuse. There were no such cases. Only one case was under investigation, and due to the lack of evidence it was stopped.

Dimension iii: Quality Control System

The SAO has adopted a new Quality Assurance Policy (QAP) and a Quality Control Manual (QCM) in 2018 based upon international quality control standards, including ISSAI 140, ISSAI 2220, and ISQC1 and integrated with the new financial and compliance audit manuals, which also have sections on quality control and quality assurance. The new manuals are supplemented by working papers that include prompts to check quality for those team members responsible for reviewing the quality of audit work. The QAP does not extend to other non-audit work.

Also, the QAP is supported by a series of detailed quality control checklists that are tailored from those produced by INTOSAI Development Initiative (IDI) for use in Quality Control Reviews. Quality Control Review procedures ('hot reviews') are conducted on a significant proportion of audit files by auditors (peer reviewers) from other departments to the audit engagement team and overseen by SAO Audit Quality Assurance Department (AQAD). The Annual Action Plan consists of risks factors, what is mandatory to be assessed and updated by each Department, together with State Budget and Strategic Analysis Department quarterly. The risks are quantitative and qualitative. The AAP is uploaded on Intranet.

The AQAD is working to take into account the expected risk and impact of audit work for audit

engagements. It determines annually how many cold and hot reviews should be conducted in its action plan. Therefore, the department covers all audits through internal and external sources (this refers to the auditors from the various audit departments who conduct hot reviews). The department has a concrete criterion for choosing an audit theme based on the QCM. Because of limited resources, the Department has created a pool of almost 40 auditors who perform hot reviews of the audits.

Dimension iv: Quality Assurance System

As noted in the previous section, the SAO has adopted a QAP and QAM that cover quality assurance as well as quality control. The AQAD is established independently from the audit departments. Its staff does not participate in any of the audit work and so can act independently from those leading audit engagements. The staff consist of individuals with sufficient and appropriate experience and authority in the SAI to assume that responsibility.

The AQAD conducts a number of reviews yearly to evaluate the quality control system which includes both hot and cold reviews. Those reviews are included in the Departments' action plan approved by the AG. In total, in 2021, the Department conducted hot reviews for 37 audit engagements:

- 11– Financial Audit (FA);
- 24 – Compliance Audit (CA);
- 2 – Performance Audit (PA);
- 1 cold review of CA.

Hot reviews result in specific recommendations for audit engagement teams to address the deficiencies for each stage of audit before the audit is completed and report is issued.

In addition, the AQAD completed one cold review in 2021 covering a sample of 4 completed compliance audit engagements Cold reviews result in a separate report summarizing findings and conclusions against the selected ISSAI criteria (subject matter). It also includes recommendations for improvements addressed to the AG. The report was submitted to the AG within a week after the completion of the review. Based on the cold review report recommendations, the AG requested actions from responsible managers.

Based on the QAP, audit selection for cold reviews must ensure that at least one completed audit engagement in each category (financial, compliance and performance) for each audit department is subject to cold review in every three-year cycle.

As per 2022, the SAO plans to reduce AQAD's involvement in hot reviews in FA. Hot reviews of FAs will only be performed by the peer-reviewers from other audit departments under the supervision of the AQAD.

Similarly, the AQAD will reduce its involvement in performing hot reviews in CA and PA from 2023 and 2024 respectively and delegate the authority to peer-reviewers. This will increase AQAD's capacity to carry out cold reviews and supervising hot reviews.

The SAO is an independent auditor of the USAID and the WB financed projects in the region. Before granting this status to the SAO, both organizations conducted comprehensive screening/review of the quality control system of the SAO including audit methodology and its compliance to the ISSAIs, audit quality control and quality assurance systems, audit teams experience and qualification etc. Based on the review results the USAID and the WB granted to the SAO the status of their project's independent auditor and listed in the eligible auditor's list.

Rating

Based on the above, the performance of the SAO on SAI-4 is rated as follows:

Dimension	Findings/Justification	Score
(i) Internal Control Environment – Ethics, Integrity and Organisational Structure	All criteria have been met: To promote ethical behaviour and a strong control environment, the SAI should: • Have a code of ethics; • The code of ethics sets out "ethical rules or codes, policies and practices that are aligned with ISSAI 30." As a minimum it should contain criteria which address the auditors' "integrity, independence and objectivity, competence, professional behaviour and confidentiality."; • Review the code of ethics at least every ten years to ensure it is in line with ISSAI 30; • "require all staff to always engage in conduct consistent with the values and principles expressed in the code of ethics, and […] provide guidance and support to facilitate their understanding."; • "require that any party it contracts to carry out work on its behalf commit to the SAI's ethical requirements."; • Make the code of ethics publicly available; • "implement an ethics control system to identify and analyse ethical risks, to mitigate them, to support ethical behaviour, and to address any breach of ethical values, including protection of those who report suspected wrongdoing."; • Have an approved and applied organizational structure and "ensure that responsibility is clearly assigned for all work carried out by the SAI."; • Use clear job descriptions covering main responsibilities throughout the organization; • Ensure staff is clear on their tasks and reporting lines; • Have assessed its vulnerability and resilience to integrity violations, through the use of tools such as IntoSAINT or similar, in the past five years; • "Apply high standards of integrity ... for staff of all levels" by adopting an integrity policy based on an assessment using IntoSAINT or a similar tool.	4
(ii) System of internal control	Criteria 'a', 'b', 'c', 'e', 'f', 'g', 'h', 'i' and 'j' are met: To promote effective internal control within the SAI, the SAI should: • Operate a clearly defined system for identifying, mitigating and monitoring major operational risks; • Ensure its internal control policies and procedures are clearly documented and applied; • Maintain an annual process for the heads of all SAI departments/units to provide assurance they have carried out their risk management responsibilities; • Have undertaken a review of its internal control system and reported upon it within the past five years; • Clearly assign responsibility for internal auditing and ensure the staff tasked with this have the appropriate	3

	mandate, skills set, experience and resources to do the job; • Ensure its internal auditors are independent from management and report directly to the highest level of authority in the organisation (e.g. an Audit Committee, a committee with a similar function or to the head of SAI.); • Have a system for monitoring the implementation of recommendations from internal audit and its audit committee (or committee with similar function or the Head of SAI); • Have a notification procedure in place for employees to report suspected violations ("whistle blowing"); • Have developed and implemented a job rotation policy to manage possible conflicts of interest. Criterion 'd' is not met. • The SAO does not ensure that the Head of the SAI signs a statement of internal control which is published as part of the SAIs annual report.	
(iii) Quality Control System	All criteria have been met: The SAI has a system of quality control in place for all its work (audit and non-audit activities, like e.g. procurement processes) which has the following characteristics: • "An SAI should establish policies and procedures designed to promote (...) quality as essential in performing all of its work."; • Quality control policies and procedures are clearly established and "(…) the Head of the SAI (…) retains overall responsibility for the system of quality control."; • "The Head of the SAI may delegate authority for managing the SAI's system of quality control to a person or persons [considered individually or collectively] with sufficient and appropriate experience to assume that role."; • "The SAI has established systems to consider the risks to quality which arise from carrying out the work."; • "The SAI should consider their work programme and whether they have resources to deliver the range of work to the desired level of quality. To achieve this, SAIs should have a system to prioritize their work in a way that takes into account the need to maintain quality."	4
(iv) Quality Assurance System	All criteria have been met: The SAI's Quality Assurance (QA) System/monitoring of quality control system should: • "Include an ongoing consideration and evaluation of the SAI's system of quality control, including a review of a sample of completed work across the range of work carried out by the SAI."; • There are written procedures and/or plans for QA which specify the frequency with which QA reviews	4

	should be carried out, and QA is carried out according to the frequency specified in the plan; • "(…) Responsibility for the [QA] monitoring process [is] assigned to an individual or individuals [or a college] with sufficient and appropriate experience and authority in the SAI to assume that responsibility."; • The QA reviews result in clear conclusions and, where relevant, recommendations for appropriate remedial actions for deficiencies noted; • There is evidence that the Head of SAI has examined the recommendations resulting from the quality assurance review of the audits/controls and drawn the necessary conclusions; • "(…) those carrying out the review are independent (I.e. they have not taken part in the work or any quality control review of the work)."; • "(…) the results of the monitoring of the system of quality control are reported to the Head of SAI in a timely manner."; • "(…) SAIs could consider engaging another SAI, or other suitable body, to carry out an independent review of the overall system of quality control (such as a peer review)."	
Overall score SAI 4		**4**

SAI-6 Leadership and Internal Communication

ISSAI 12 underlines the principle of SAIs leading by example. In practice, it is the Head of the SAI and the leadership who are responsible for setting the 'tone at the top'. In order for the SAI to achieve its objectives, sound leadership practices and good communication with staff are necessary.

The indicator on Leadership and Internal Communication is separated in two dimensions:

  i. Leadership;
  ii. Internal Communication.

Dimension i: Leadership

The SAO's leadership team took office in 2017 when the previous SAI PMF report was released. Since then, the leadership introduced various management policies and practices to improve internal management and communication. Compared to the previous SAI PMF assessment results, the compliance with the criteria under this dimension which were unmet is improved.

The previous SAI PMF report of 2017 stated, that the SAO leadership does not hold periodic decision-making process. As a positive development, the management meeting is organized on a weekly basis, every Tuesday; meetings between audit departments and the Deputy AG is organized on a quarterly basis; all-staff meetings are organized on a yearly basis; there are also various work-related meetings. All management meeting minutes are documented, and the management decisions are clearly communicated to all staff through intranet and corporate email. The documented management decisions are followed up through management meetings regularly, based on the deadlines identified.

The previous SAI PMF report of 2017 points out, that the SAO leadership has not successfully implemented a system where authority is delegated and where managers are held accountable

for their actions. As a positive change, SAO actively uses email, intranet task module to delegate the tasks from the top management to the middle, and from the middle to the staff/auditors. Besides, the Department statutes clearly outline the responsibilities of the middle managers, who are accountable to the Deputy AGs and to the AG.

Based on the previous SAI PMF report of 2017, the SAO leadership has not demonstrated initiatives for building an ethical culture in the organization by identifying ethics as an explicit priority. As a positive development, the importance of the ethical culture in the SAO is well-emphasized by the SAOs' leadership and internal control environment during the assessment period. This is demonstrated through thorough investigation and adequate response to the cases of breaches of ethical deviations by the SAO staff.

In addition, the SAO's leadership demonstrated the initiatives to establish "an internal culture recognising quality in performing all of its work." Namely, the leadership team initiated to reform the existing quality assurance system. This included increase the number of human resources in the AQA Department and the introduction of the peer review approach to review audit reports, which was not established in 2017.

Dimension ii: Internal Communication

The SAO has developed a set of principles and practices for internal communication which are laid down in the communication policy approved in 2020 and annual communication action plan. The communication team monitors the implementation of the communication action plan and reports the activities carried out quarterly. The recent report covers 2020-2021.

The leadership of the SAO communicates its mandate, vision, core values and strategy to staff through the key documents and statements issued to all members of the SAO and through the behaviours exhibited by the leadership team itself. In addition, Management has Strategic planning and Strategic direction implementation meeting with staff.

On the weekly management meetings, top and middle management are participating. SAO management also has annual meetings with all staff to communicate its vision and core values. The communication policy requires that the unit (audit departments) meetings are held biweekly.

The most widely used communication channels are corporate emails and intranet which is daily updated with all news, developments, and events briefly reported along with enclosed evidences and materials. The SAO distributes SAO digital newsletters to all staff and uses intranet for information sharing as well. The SAO also uses Link messenger for internal purposes.

The SAO Human Resources Management unit periodically conducts staff surveys and disseminates other questionnaires to consult the staff on a variety of organisational issues such as organisational culture, staff insurance system, catering service in the office, professional development opportunities, IT equipment etc. By and large, the survey results show satisfaction of the staff on proactive communication between the top management and the staff, the engagement of employees in organizational issues and the transparency of decision-making processes.

Rating

Based on the above, the performance of the SAO on SAI-6 is rated as follows:

Dimension	Findings/Justification	Score
(i) Leadership	All criteria have been met: Features of effective SAI leadership:	4

	• The SAI leadership holds periodic decision making meetings; • Key decisions made by the SAI's leadership are documented and communicated to staff; • The SAI leadership has identified and disseminated the SAI's values and promotes these in its public activities, core documents and regular communications; • The SAI leadership has successfully implemented a system where authority is delegated and where managers are held accountable for their actions; • The SAI leadership has considered strategies (within its available powers) to incentivise better performance and implemented these; • The SAI leadership has demonstrated initiatives to set a tone enabling accountability and strengthening the culture of internal control; • The SAI leadership has demonstrated initiatives for building an ethical culture in the organisation by identifying ethics as an explicit priority; leading by example; maintaining high standards of professionalism, accountability and transparency in decision making; encouraging an open and mutual learning environment where difficult and sensitive questions can be raised and discussed; recognising good ethical behaviour, while addressing misconduct; • The SAI leadership has demonstrated initiatives to establish "an internal culture recognising that quality is essential in performing all of its work."	
(ii) Internal Communication	All criteria have been met: Regarding internal communication, the following criteria should be met by the SAI in the period under review: • The SAI has established principles for internal communication, and monitors the implementation of these; • The SAI leadership communicates the SAIs mandate, visions, core values and strategy to staff; • The SAI leadership informs and consults employees regularly on key issues related to the organization; • The SAI uses appropriate tools to promote effective internal communication, e.g. newsletter/magazine, email addresses for all staff, an intranet etc.; • There are regular and open interactions between management and staff, e.g. organizational and unit wide briefings, regular team meetings; • The SAI has an electronic communication system which allows all staff to communicate and share information.	4
Overall score SAI 6		**4**

SAI-7 Overall Audit Planning

ISSAI 1 emphasizes that SAIs shall audit in accordance with a self-determined programme. SAI-7 looks at the process of developing an overall audit plan/control programme for the SAI, and the content of the plan/programme itself. The overall audit plan/control programme defines the audits/controls that the SAI plans to conduct in a set period. It is important that the overall audit plan/control programme is feasible, reflecting actual circumstances and conditions. ISSAI 140

Quality Control states that SAIs should consider their overall audit plan/control programme, and whether they have resources to deliver the range of work to the desired level of quality. To achieve this, SAIs should have a system to prioritize their work in a way that takes into account the need to maintain quality.

The indicator on overall audit planning is separated in two dimensions:

  i.   Overall Audit Planning Process
  ii. Overall Audit Plan Content

Dimension i: Overall Audit Planning Process

According to the article 17 (3) of the SAO Law "*the SAO is independent in planning its annual audit programme". * Article 3 of the Rules and Procedures of the SAO requires *the AG to approve the annual audit plan.* Article 6 stipulates that *the State Budget and Strategic Analysis Department coordinates audit planning and monitors progress.*

The SAO applies a risk based annual audit planning methodology for FA, CA and PA. Each audit department prepares its proposals using standard templates. These are brought together in an annual audit plan which is discussed by the Presidium, chaired by the AG.

The SAO's audit plan takes into consideration two resource factors - human and time - that are respectively assigned to each audit and the corresponding man-hour cost is calculated. The audit plan includes information about the audit teams, position of each team member, needed man-hour, corresponding budget and the necessary external expertise if any. The plan takes into account the auditor's salary which is fixed per position and the administrative costs. Budget information for travel related to the implementation of audit is not included in the audit plan as such costs is not considered material.

The SAO has a register of the audit requests from different stakeholders, such as the CSOs, government agencies, ordinary citizens, political parties etc. There are evidences that the SAO management considers these requests from different stakeholders to be applied in decision-making on the audit plan. The audit directors produce specific memos communicating the AG about the requests and the SAO's responses/reactions on them.

The SAO with the support of the EU project identified room for improvement of the overall audit planning process beyond the SAI PMF criteria. Not all recommendations were adopted. Among others, it was recommended to focus financial audit on the consolidated budget execution report (CBER). This was not done. Another recommendation to focus compliance audit on horizontal themes and to move away from entity-based compliance audit has partially been picked up. In addition, updates of the Annual Audit Planning Methodology were implemented. This templates define more clearly the timeline, responsibilities and procedures for developing annual audit plan.

Dimension ii: Overall Audit Plan Content

The audit plan of the SAO is reflected in various documents.

First, the SAO website contains a document labelled as 'audit plan'. This document lists the auditee/topics, responsible department, the year covered and type of audit (FA, CA and PA). As an improvement since the 2017 assessment, the SAO's annual audit plan of 2021, 2022 defines the objectives of financial, compliance and performance audit on a high level.

Second, there is the Annual Action Plan (AAP) which contains as one of the programmes the schedule of audits that will be carried out in the relevant year. This schedule includes a time plan, the necessary resources and the risks.

This schedule also contains the objective related to the coverage of financial audit (in terms of the covered central government budget) and the coverage of performance audits (in terms of the

number of reports and the coverage of sectors). However, the AAP does not explain to what extent the SAO is covering its mandate regarding municipalities and state-owned enterprises.

Neither the published audit plan nor the annual action plan explain to what extent the SAO is covering its mandate regarding the state-owned enterprises. Therefore, criterion 'c' remains unmet.

Rating

Based on the above, the performance of the SAO on SAI-7 is rated as follows:

Dimension	Findings/Justification	Score
(i) Overall Audit Planning Process	• All criteria are met. - The SAO documents the process followed for developing and approving the Overall Audit Plan. - The process for developing the SAO's Overall Audit Plan identifies the SAO's audit responsibilities from its mandate. - The audit planning process follows a risk-based methodology. - There are clearly defined responsibilities for planning, implementing and monitoring the audit plan for the SAO. - The SAO monitors the implementation of its audit plan. - The audit planning process takes into account the SAO's expected budget and resources for the period to which the plan relates. - The SAO should ensure that stakeholders' expectations and emerging risks are factored into Audit Plans as appropriate.	4 All criteria are in place.
(ii) Overall Audit Plan Content	• Except criterion 'c', all criteria have been met: - The overall audit plan defines the objective of the audit/control at a high level; - The overall Audit Plan includes a schedule for the implementation of all audits. - The overall Audit Plan specifies the necessary human and financial resources to conduct the planned audits/controls. - The overall Audit Plan contains an assessment of risks and constraints to delivery of the Plan. • Criterion 'c' is not met: - The overall audit plan does not demonstrates that the SAO is discharging its audit mandate over a relevant timeframe as scheduled in its plan and does not include a summary and explanation of any differences between the SAO's mandate and the Audit Plan.	3 (Criteria (a), (b) and at least two other of the above criteria are in place, but not all.)
Overall score SAI 7		**3**

3.3   Domain C: Audit quality and reporting

Domain C covers the core audit activity of the SAI. The domain separates four types of public sector audit:

- **Financial audit** focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. ISSAI 200 elaborates on this further.

- **Performance audit** focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. ISSAI 300 elaborates on this further.

- **Compliance audit** is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities which govern the audited entity. ISSAI 400 elaborates on this further.

- **Jurisdictional control**: The purpose of jurisdictional control is to make rulings in the form of specific decisions: orders, rulings or ordinances. The principles specific to jurisdictional control for SAIs with jurisdictional functions are not described in the ISSAI framework.

The review of the audit process within the SAO will cover financial, compliance and performance audit. The SAO has no jurisdictional mandate and the associated indicators SAI 18-20 are, therefore, not applicable. In 2021, the SAO issued 61 (2016: 71) audit reports classified as 12 (2016: 35) financial audits, 32 (2016: 26) compliance audits and 17 (2016: 10) performance audits (see Annex 4). Each audit discipline is measured through three indicators:

- Foundations which assess the audit standards and guidance, competencies and quality management that constitute the basis for the audit work carried out.

- Process which assesses the quality of actual practices throughout the audit processes that took place in the SAI under the period under review, from planning, to implementing the audits, evaluating evidence and finally reporting.

- Results which capture the outputs of the audit work, and how the results of the audit work have been submitted and followed-up.

Table 7 provides an overview of the scores in the seven indicators of domain C. Section 3.3.1 to 3.3.10 provide further details for each indicator.

Table 7 Overview of assessment scores in domain C

Domain C Audit quality and reporting		Year	Dimensions				Overall score
Indicator	**Name**		**i**	**ii**	**iii**	**iv**	
SAI-8	Audit coverage	2017	1	3	2	n.a.	2
		2021	0	4	2		2
SAI-9	Financial audit foundations	2017	4	3	2		3
		2021	4	3	3		3
SAI-10	Financial audit process	2017	1	1	2		1
		2021	3	3	3		3
SAI-11	Financial audit results	2017	3	4	2		3
		2021	3	4	4		4
SAI-12	Performance foundations	2017	4	3	2		3

Domain C Audit quality and reporting		Year	Dimensions				Overall score
Indicator	Name		i	ii	iii	iv	
		2021	4	3	4		4
SAI-13	Performance audit process	2017	3	3	3		3
		2019	3	3	3		3
SAI-14	Performance audit results	2017	0	3	3		2
		2021	2	4	4		3
SAI-15	Compliance audit foundations	2017	2	3	1		2
		2021	4	3	3		3
SAI-16	Compliance audit process	2017	0	1	2		1
		2021	3	3	3		3
SAI-17	Compliance audit results	2021	3	2	2		2
		2021	1	4	4		3

SAI-8: Audit coverage

The indicator 'coverage' measures the extent to which the SAI is able to audit the entities within its mandate. For this assessment, only three dimensions are considered (as jurisdictional control is not applicable):

i.   Financial Audit Coverage;
ii.   Performance Audit Coverage;
iii.   Coverage, Selection and Objective of Compliance Audit.

Dimension i: Financial Audit Coverage

Financial audit coverage is assessed by comparing the number of financial statements received (and required to be audited under the mandate of the SAO) to the number of financial statements that were actually audited.

In the current context of the SAO, financial audit focuses on the financial statements of the Ministries (and their subordinated LEPLs) of Central Government, two autonomous regions, 63 municipalities and around 100 state-owned enterprises. In 2021, 11 financial audits were carried out covering all ministries and one municipality. No financial audits were carried out by SAO on state owned enterprises, which were audited by private auditors.

In terms of financial value, the coverage is calculated as 90% of public expenditures of the consolidated budget. However, the legislation does not require the SAO to audit the financial statements of ministries. The only report that is included in the SAO Organic Law is the Consolidated Budget Execution Report (CBER). Although the legislation does not literally stipulate that the CBER is to be subjected to financial audit, the SAO is given the task to prepare a report on the CBER. The SAO could use this mandate to conduct a financial audit of the CBER, but it does not do it. Instead, it prepares a report on the CBER. This report makes use of audit findings but it is not an audit report based on the ISSAIs.

In sum, the SAO is conducting financial audit on the financial statements of central government's ministries and achieves a substantial coverage of the central government's expenditures. Nevertheless, based on the criteria of this dimension, the SAO does not reach the requirements of a score '1'. This is because, by law, the SAO is required only to audit (or, 'report on') only one

document which is the CBER. But on this document it does not prepare a financial audit based on the ISSAIs.

Dimension ii: Performance Audit Coverage

PA is carried out in two ways by the SAO. First, the SAO has a separate Performance Audit Department (PAD) staffed by auditors focusing entirely on PA. Second, the four main audit departments, the State Budget and Strategic Analysis Department, and the regional offices auditing the autonomous regions and local governments are expected to carry out PA besides their responsibility for FA and CA.

In 2021, was planned 19 PAs (see Annex 4) which is 34% of the total audit activity (56 audits). This signals that PA is increasingly prioritised.

Within the sectoral departments and the Performance Audit Department, during the process of preparation of the SAO's Annual Audit Plan potential topics for PAs are selected on the basis of 'area watching' and included in the Annual Audit Plan. Criteria for selecting PA topics are: alignment with the mandate, accountability of government entities; materiality; risk; auditability; and potential for change (impact the SAO can have). Politically sensitive topics have been dropped in the past by management decision. Potential PA topics can also come from suggested areas submitted by stakeholders though the Budget Monitor platform.

In 2020, pandemics have created new realities around the world in a number of directions.

Given the scale and substance of the issue, SAO in 2021 covered several issues related to the pandemic through performance audits.

For the topics that are scheduled for PA in the Annual Audit Plan, a 'Pre Study memo' is prepared before the actual PA is started. The principal tool for the pre-study is the design matrix that consists of a statement of the problem, the significance of the programme, potential problem or concern and its magnitude, political environment and stakeholder analysis. The planning process is concluded with a 'design summit meeting' involving various internal stakeholders.

Further improvement from previous SAI PFM assessment is that selection of audit topics in SAO makes use of an institution-wide strategic planning process by analysing potential topics and conducting research to identify risks and problems.

The audit selection process has resulted in the following list of audits completed in 2021 (see Table 8). It can be concluded that the selection process results in a broad coverage of difference sectors.

Table 8 List of completed performance audits in 2021 categorized per sector

Sector	PA topic / entity
Public finance and public administration	State grant management
	Strengthening connections with the Georgian Diaspora
	Providing legal assistance to citizens
Health	Access to the services, provided by the state health programs
Education	Management of NNLE -,,Preschool Educational organizations" founded by municipalities of Tbilisi, Poti, Kutaisi and Rustavi
	Follow-up Performance Audit of vocational education system
	Professional development of teachers
	Supporting in studying abroad
Infrastructure	Secondary Roads Asset Management Project (SRAMP)

National economic development	Promoting the development of tourism in the Autonomous Republic of Adjara
	Follow up audit of Commercial and Social Management of Timber
	Performance Audit on management of NNLE's, founded by municipalities
	Management of IT projects in the public sector
Defence, public order and safety	Forest fires emergency management (prevention, preparedness)
	Measures taken by the state to ensure food safety (Follow-up audit)
Significant public sector reform programs	Human Resource Management in the public sector

Dimension iii: Coverage, Selection and Objective of Compliance Audit

Compliance audit is now carried out separately to financial audit, and the SAO adopted a new Compliance Audit Manual and working papers incorporated into MK Insight in 2018 that replaced the previous regularity audit manual.

The SAO carried out 26 separate audits classified as compliance audits in 2021 (see Annex 4) including three 'horizontal' thematic compliance audits. Single auditee compliance audits included central government ministries (9), municipalities (10) and autonomous region bodies (7).

To select the entities for compliance audit, as described under SAI-7, the SAO applies a risk-based annual audit planning methodology to prepare the Annual Audit Plan. The methodology ensures that the SAI is covering all central government entities with CA.

For the coverage of municipalities, the SAO applies a methodology that incorporates a target that all the municipalities are audited during the course of three years. This target was met from 2019.

The SAO does not apply a procedure so that SOEs are covered by CA over a reasonable period of time, instead auditing the largest SOEs under the SAO's mandate on a regular basis.

Rating

Based on the above, the performance of the SAO on SAI-8 is rated as follows:

Dimension	Findings/Justification	Score
(i) Financial Audit Coverage	The actual performance does not meet the criteria for a '1' score. The SAO is legally required to prepare a report on the Consolidated Budget Execution Report. However, it does not audit this document based on the ISSAIs. Instead, it prepares ISSAI-based financial audits of the financial statements of Ministries (and their subordinated LEPLs), but this task is not legally required.	0 (In the year under review, less than 25 % of financial statements received (and required to be audited under the mandate of the SAI) were audited.
(ii) Performance Audit Coverage	All criteria are met. • The percentage of staff dedicated to performance audit reflects that the SAO equals importance to PA relative to CA and FA.	4 (all criteria are met)

	• The PA manual defines that performance auditing is concerned with the audit of economy, efficiency and effectiveness. • The selection of audit topics in SAO makes use of an institution-wide strategic planning process by analysing potential topics and conducting research to identify risks and problems. • The SAO's planning process ensures that stakeholders' expectations and emerging risks are factored into Audit Plans. • The SAO's planning process considers the significance of the PA topics; • The SAO's preliminary study plans consider that audit topics are auditable and in keeping with the SAO's mandate; • The SAO's planning process aims to maximize the expected impact of the audit; • During the last 5 years, the SAO's performance audit covered at least 6 different sectors.	
(iii) Compliance Audit Coverage	Except criteria 'c', all criteria are met, and during 2021, at least 50 % of the central government entities were subject to compliance audit. • Criterion 'c' is not met. • The process of selecting entities does not ensure that all the entities within the SAO's mandate are audited during the course of a reasonable period of time.	2 (Criteria a) and b) above are in place. During the year under review, 50 % of entities in the plan for that year and at least 50 % of central government entities were subject to compliance audit.)
(iv) Coverage of Jurisdictional Control	Not applicable	n.a.
Overall score SAI 8		**2**

SAI-9: Financial audit foundations

This indicator assesses the SAI's approach to financial auditing in terms of its overall standards and guidance for financial auditing, as well as how matters of audit team management and skills and quality control are implemented at the audit engagement level. (The quality of these functions at the organisational level is assessed elsewhere in the framework: quality control in SAI-4; professional development and training in SAI-23.)

For the assessment of SAI 9, three dimensions are considered:

i. Financial Audit Standards and Policies;
ii. Financial Audit Team Management and Skills;
iii. Quality Control in Financial Audit.

Dimension i: Financial Audit Standards and Policies

The SAO adopted a new Financial Audit Manual (FAM) in 2018 to guide its FA practice. This Manual replaced the Regularity Audit Manual introduced in 2010 with the support of the Swedish National Audit Office. The new Manual was based on the Financial and Compliance Audit Manual developed by The European Court of Auditors which was considered to be user friendly and process-driven while at the same time comprehensive and technically sound.

The new Financial Audit Manual is comprehensive. The Manual also reflects the key elements of an ISSAI risk-based approach to financial audit. It makes ample reference to the International Standards on Auditing (ISAs) and the International Standards for Supreme Audit Institutions (ISSAIs).

This Manual was underpinned by a new suite of Electronic Working Papers that were closely linked to the Manual and built into the MK Insight audit management system. All FAs conducted in 2021 by the SAO utilised the new methodology. Table 9 shows how the manual and supporting working papers address SAI-PMF requirements.

Table 9 Presence of SAI-PMF requirements on FA standards in the SAO's financial audit manual and supporting working papers

Detailed ISSAIs on Financial Audit	Yes/no	Presence in the SAO Financial Audit Manual/WP
a) The auditor should assess whether the preconditions for an audit of financial statements have been met.	Y	Financial Audit Manual sets out requirements for auditors regarding Financial Reporting Framework (Section 1.10.1) and Management Responsibility (3.5.1). Overall Audit Strategy working paper covers these issues
b) The auditor should reduce audit risk to an acceptably low level in the circumstances of the engagement to obtain reasonable assurance as the basis for a positive form of expression of the auditor's opinion.	Y	Financial Audit Manual (Section 2.3.1) covers audit risk and link to reasonable assurance. Working paper 'Summary of Identified Risks' addresses and feeds into the 'Overall Audit Strategy' working paper
c) The auditor should apply the concept of materiality appropriately when planning and performing the audit.	Y	Financial Audit Manual (Section 2.2.1-2.2.9) cover all aspects of materiality. Working papers 'Group Materiality' and 'Component Materiality' address including performance and qualitative materiality
d) The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, with no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed, the results and the audit evidence obtained.	Y	Financial Audit Manual (Section 1.8) covers nature, timing and extent of documentation. Also working papers in MK Insight require minimum level of documentation for completion of the file.
e) The auditor should, after determining the appropriate person(s) within the audited entities governance structure communicate with those persons regarding the planned scope and timing of the audit and significant findings from the audit."	Y	Financial Audit Manual contains multiple sections from planning, execution to reporting on communication with Those charged with governance (incl. Sections 1.10.5, 2.3.1, 2.3.2, 3.5, 3.7.3, 3.8, 4.4, 4.5). 'Communicate with Those Charged with Governance' working papers details timing and matters needing communication
f) The auditor should agree the terms of the audit engagement with management or those charged with governance, as appropriate	Y	Financial Audit Manual (Section 1.10.5). 'Audit Letter' and 'Communicate with Those charged with governance' working papers set out terms of engagement and communication, also Audit Letter Template
g) The auditor should develop an overall audit strategy that includes the scope, timing and	Y	Compilation of Overall Audit Strategy from other Planning WPs in Financial Audit Manual (Section 2.3.10). 'Overall Audit Strategy', 'Summary of

	direction of the audit, and an audit plan which directs the audit		Identified Risks', 'Audit Plan' working papers
h)	The auditor should properly plan the audit to ensure that it is conducted in an effective and efficient manner	Y	Financial Audit Manual (Chapter 2 - Planning) covers all aspects of audit planning. 12 Strategic Planning working papers and 2 Detailed Planning working papers including 'Overall Audit Strategy', Audit Plan', 'Summary of Risks & Planned Audit Evidence' working papers
i)	The auditor should have an understanding of the audited entity and its environment, including internal control procedures that are relevant to the audit	Y	Financial Audit Manual (Sections 2.3.1-2.3.5). Working papers 'Understanding the Entity', 'Internal Controls', 'Internal Audit', 'IT Considerations'.
j)	The auditor should assess the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances, and disclosures to provide a basis for performing further audit procedures.	Y	Financial Audit Manual (Sections 2.3.1 - 2.3.8) cover Risk of Material Misstatements (RoMM) and Significant Risks. 'Summary of Identified Risks' working paper covers transaction level and FS level risks. Working papers on 'Preliminary Analytics' covers RoMM and 'Summary of Identified Risks' for both RoMM and specific risks, linked to 'Summary of Risks & Planned Audit Evidence' for responses to risks
k)	The auditor should respond appropriately to address the assessed risks of material misstatement in the financial statements." ISSAI 200:97 (I.e. design audit tests such as tests of controls and substantive procedures including tests of detail and substantive analytical procedures, considering the assessed inherent and control risks related to material misstatement at the assertion level	Y	Financial Audit Manual (Section 2.5). Working papers 'Summary of Identified Risks', 'Overall Audit Strategy' and 'Summary of Risks and Planned Audit Evidence' cover
l)	The auditor should design and perform substantive procedures for each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement	Y	Financial Audit Manual (Sections 2.5 and 2.6) cover the designing of audit procedures and formulation of an Audit Plan. Audit Plan generates detailed controls testing and detailed substantive testing plans for each risk of material misstatement identified, both Assumed RoMM and Specific Risks. Working papers 'Summary of Risks and Planned Audit Evidence', 'Substantive Analytics' and multiple substantive testing templates
m)	The auditor should identify and assess the risks (…) due to fraud and obtain sufficient appropriate audit evidence regarding the assessed risks (…) due to fraud, and respond appropriately to fraud or suspected fraud identified during the audit.	Y	Financial Audit Manual (Section 4.8), Appendix on auditors' responsibilities in regard to fraud. Fraud Risk Assessment work paper focused exclusively on identifying and assessing risks of fraudulent nature
n)	The auditor should identify the risks (...) due to direct and material non-compliance with laws and regulations [and] obtain sufficient appropriate audit evidence regarding compliance with those laws and regulations.	Y	Financial Audit Manual (Section 2.3.2) covers understanding the audited entity and its environment including applicable laws and regulations. Working paper 'Understanding the Entity' includes a section on laws and regulations
o)	The auditor should perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw conclusions on which to base the auditor's opinion.	Y	Financial Audit Manual (Chapter 3 - Fieldwork) details the performance of audit procedures to gather sufficient appropriate audit evidence. Audit Plan working paper requires designing of detailed procedures, multiple testing procedures working papers
p)	The auditor should accumulate misstatements identified during the audit, and communicate with management and	Y	Financial Audit Manual (Sections 3.3.6 and 3.3.7) detail types of misstatement, their accumulation, and impact on audit report. Working Papers

	those charged with governance as appropriate on a timely basis all misstatements accumulated during the course of the audit." (I.e. The auditor needs to determine whether the uncorrected misstatements are material, individually or in aggregate).		'Summary of Identified Misstatements (Corrected)', 'Summary of Identified Misstatements (Uncorrected)' and 'Evaluating Misstatements' accumulate, while 'Communication with those charged with Governance' necessitates their communication.
q)	The auditor should form an opinion based on an evaluation of the conclusions drawn from the audit evidence obtained, whether the financial statements as a whole are prepared in accordance with the applicable financial reporting framework. The opinion should be expressed clearly through a written report that also describes the basis for that opinion."	Y	Financial Audit Manual (Chapter 4 - Reporting) covers all forms of opinion. Working paper 'Reporting' includes opinion options and additional disclosures. Model audit opinions templates included in MK Insight
r)	Where relevant: "Auditors engaged to audit group financial statements should obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the whole of government financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework	Y	Financial Audit Manual has additional sections throughout on Group Audit considerations. MK Insight includes Consolidation template, and Component templates
s)	How to determine materiality for the financial statements as a whole, the materiality level or levels to be applied to particular classes of transactions, account balances or disclosures." "The auditor should also determine performance materiality." ISSAI 200:60 (Including assessment of materiality by value, nature and context)	Y	Financial Audit Manual (Section 2.2.1-2.2.9) cover all aspects of materiality. Working papers 'Group Materiality' and 'Component Materiality' address including performance and qualitative materiality
t)	Requirements on the auditor in relation to documentation in the following areas: the timely preparation of audit documentation; the form, content and extent of audit documentation; the assembly of the final audit file.	Y	Financial Audit Manual (Section 1.8) covers nature, timing and extent of documentation. Also, Completion Checklist establishes the minimal documentation requirements and content of audit file
u)	The nature, timing and extent of audit procedures (…) based on and (…) responsive to the assessed risks of material misstatement at the assertion level." ISSAI 200:99 (If necessary including an approach to calculating minimum planned sample sizes in response to materiality and risk assessments, based on an underlying audit model).	Y	Financial Audit Manual establishes audit approach. Audit Plan provides very detailed procedures and Execution stage MKI comprehensive documentation of procedures carried out as per Audit Plan
v)	When adopting or developing audit standards, SAIs also consider the necessity for requirements to obtain sufficient and appropriate audit evidence in relation to: I. The use of external confirmations as audit evidence II. Audit evidence when using analytical procedures and different audit sampling techniques III. Audit evidence when using the work of internal audit functions (…) IV. Audit evidence when using external experts.	Y	Confirmation templates on MKI including usage guidance. External Confirmations working paper for compiling receivables, payables and bank confirmations; Substantive Analytical Procedures working papers used for evidencing analytical work and very detailed sampling guidelines within MK Insight; Internal Audit' working paper; Evaluate the Work of Experts' working paper

As the Manual and working papers were developed by a working group supported by technical experts and focused upon ISSAI standards the materials fully comply with ISSAIs.

Dimension ii: Financial Audit Team Management and Skills

Dimension ii assesses whether the SAO supports the implementation of its financial audit standards by policies in (-) the domain of the composition of the engagement team and (-) in providing the auditors of the engagement teams with materials that facilitate the implementation of the standards. The SAO continues to recognise the importance of its performance on both aspects.

First, by training through the PAI, the SAO continues to enhance the understanding of professional standards and applicable legal and regulatory requirements. There is a clear link between the matters identified by the AQAD during the cold reviews and trainings provided by the PAI. The SAO also provides on-job trainings to less experienced auditors and interns. The SAO has also managed the composition of audit teams in such a way that engagement teams combine auditors with sufficient qualifications and experience with the audit standards with auditors with less experience to support the mentoring process. Team composition is managed by the head of the audit department; there are no formal guidelines. Knowledge of the industry/entity is ensured by the organisation of the SAO in sectors, separating government in seven sectors (general government services sector, social sector, economic activities sector, security sector, municipalities and autonomous regions). Also, the system of promotion in the SAO is largely merit-based (see SAI-22) and a system of quality control giving clear responsibility in planning audits, managing the teams and reviewing the working papers has been established.

The SAO has acted upon shortcomings of the FA systems identified during the previous assessment with the establishment of a uniform methodology implemented by all sector departments and disseminated through the Financial Audit Manual, the electronic working papers built into MK Insight and monitored by extensive Quality Control Reviews.

The weakness that generally audit teams have limited knowledge of IT remains. Although a separate IT unit is established, its involvement in regular financial audits is limited and the unit focuses on specific IT audits. This is caused by limited number of IT auditors and despite unmet demand from the Financial Audit Departments for greater involvement of IT auditors.

Finally, the number of auditors with an internationally recognised degree in auditing above the in-house training given by the PAI, such as ACCA, is still limited. Consequently, some audit teams have limited knowledge on specialised areas of accounting. The SAO has no practice in hiring external expertise.

The FA suite of working papers are set out in Table 10:

Table 10 Working papers contained in the SAO's Financial Audit Methodology

Audit Stage	Working Paper
Pre-Engagement	Audit Team Competency Matrix
	Ethical/Independence considerations
	Budgeted vs. Actual hours
	Audit Letter
Strategic Planning	Understanding the Entity and its Environment
	Understanding the Entity's Internal Controls
	Understanding the Entity's Internal Audit Function
	IT Considerations
	Fraud Risk Assessment
	Follow up Prior Year's matters

Audit Stage	Working Paper
	Preliminary Analytics
	Summary of Identified Risks
	In-Scope Components
	Group Materiality
	Component Materiality
	Scoping
	Overall Audit Strategy
Detailed Planning	Control Activities
	Summary of Risks and Planned Audit Evidence
	Audit Plan
Fieldwork	Substantive Analytical Procedures - Guidance
	Substantive Analytical Procedures - Results
	Test Consolidation Process
	Representation Letter
	Evaluating the Work of Management's/Auditor's Experts
	Accounting Estimates
	Subsequent Events
	Related Parties
	Summary of Audit Matters
Completion and Reporting	Revision to Materiality
	Overall Conclusion Analytics
	Evaluating Misstatements
	Summary of Uncorrected Misstatements
	Summary of Corrected Misstatements
	Summary of Uncorrected Misstatements - Disclosures
	Communication with Those Charged with Governance
	Reporting
	Completion Checklist

The working papers support the SAO audit teams on implementing the following FA standards included in the SAI-PFM requirements (see Table 11).

Table 11 Support by SAO guidance materials on selected SAI-PMF criteria

Guidance to FA audit teams	Yes/no	Presence in the SAO working papers
i) Developing the overall audit strategy and the audit plan, including "The nature, timing and extent of planned risk assessment procedures; [and] the nature, timing and extent of planned further audit procedures at the assertion level.	Y	Working papers 'Overall Audit Strategy' and 'Audit Plan' guide audit teams and establish necessary content
j) How to evaluate the overall internal control environment	Y	Working paper 'Internal Control' and 'Control Activities'
k) How to gain an "understanding of internal control relevant to financial reporting	Y	Working paper 'Internal Control' and 'Control Activities'
l) Assessing the risks of material misstatements (…) at both the financial statement level and at the assertion level, including "due to fraud" and "due to non-compliance with laws and regulations.	Y	'Summary of Identified Risks' working paper covers transaction level and FS level risks. Working papers on 'Preliminary Analytics' covers RoMM and 'Summary of Identified Risks' for both RoMM and specific risks, linked to 'Summary of Risks & Planned Audit Evidence' for responses to risks

Dimension iii: Quality Control in Financial Audit

The last dimension of SAI-9 is concerned with the quality control procedures at the engagement level. These procedures should provide reasonable assurance that the audit complies with professional standards, applicable legal and regulatory requirements, and that the auditor's report is appropriate in the circumstances.

At the institutional level, the SAO has adopted a new Quality Assurance Policy and Manual in addition to the existing Quality Control Policy Statement outlining the SAO's broad framework for quality control. At engagement level, guidance for quality control has been strengthened with sections in both the Financial and Compliance Audit Manuals supported by the working paper 'Completion checklist' and numerous prompts to establish sound quality control procedures throughout MK Insight working papers. A third level of review is required on all audits assessed as high risk.

Quality Control Review (QCR) procedures (so called hot reviews) are conducted on a significant proportion of audit files by auditors from other departments to the engagement team, and overseen by Quality Assurance function. From the sampled 7 audit files all except one (Tbilisi Municipality budget execution report FA) were subject to QCR. On each sampled audit were assigned quality control reviewers in MK Insight. In sampled audit files were documented in MK Insight the comments and findings from QC reviewers. Comments were quite detailed on each stage (planning, execution, completion) of the FA. These reviews utilise detailed QC checklists developed by INTOSAI Development Initiative (IDI). While reviews are carried out at each stage of the audit, there is new mechanism in MKI to ensure that issues and failures highlighted by the QC review have been resolved before the report is issued. But differences of opinions still are not clearly documented in some of audit files.

In addition, the implementation of quality control reviews at SAO has improved markedly at SAO since SAI-PMF 2017. During 2021, all financial audits (except one budget execution report FA) were subject to quality control reviews, compared to seven quality control reviews out of 71 audits in 2016.

In addition in each Quality Control Review together with the Quality Department team there is one audit peer group team member involved in quality control review. It gives a chance for "on the job coaching" and staff development understanding quality control procedures more deeply and utilising SAO's resources.

All audits which are not covered by "hot review" are covered by "cold review".

Rating

Based on the above, the performance of the SAO on SAI-9 is rated as follows:

Dimension	Findings/Justification	Score
(i) Financial Audit Standards and policies	Criteria (b), (c), (p), (q) and at least sixteen of the other criteria of SAI-PMF manual are in place (see Table 6)	4
(ii) Financial Audit Team Management and Skills	Except for criteria 'c', all of the criteria are in place: • The SAO has established a system to ensure that the "engagement team… collectively have the appropriate competence and capabilities"; • SAO also provides support to its auditor teams on the following: (E.g. in the form of guidance material, continuous on-the-job training and promotion of	3 (Criteria 'a' and 'i' and at least seven of the criteria are in place, but not all)

	professional development in the daily work, access to experts and/or information from external sources.). Criterion 'c' is not met: • Audit teams may lack technical expertise, including expertise with relevant information technology and specialized areas of accounting or auditing and the SAO does not contract external expertise. Especially, the lack of IT auditor's involvement in financial audit is a matter of concern.	
(iii) Quality Control in Financial Audit	Except criterion 'c', all criteria are met: • The dedicated QC working paper is consistently used within the SAO so that all work carried out is subject to review as a means of contributing to quality. • The SAO ensures that appropriate resources (such as technical experts) are used to deal with difficult or contentious matters. • The SAO fully recognizes the importance of engagement quality control reviews for their work. • Procedures are in place for authorizing reports to be issued. Criterion 'c' is not met. • Any differences of opinions within the SAI are resolved before a report is issued but are not clearly documented in some of the audit files.	3 (At least three of the criteria are in place)
Overall score SAI 9		**3**

SAI-10: Financial audit process

SAI-10 looks at how financial audits are carried out in practice based on a sample of financial audits carried out in the last fiscal year. The indicator separates the planning phase, the implementation phase and the reporting phase and, thus, the following dimensions are assessed.

  i.   Planning Financial Audits;
  ii.   Implementing Financial Audits;
  iii. Evaluating Audit Evidence, Concluding and Reporting in Financial Audits.

The assessment of this indicator was performed based upon a random sample of 5 financial audits selected out of a list of 11 audits conducted in 2021. Section 1.4 includes the details on the selected sample of financial audits.

It is noted that one of the five audit files reviewed was the financial audit of budget execution report of municipality of Tbilisi. Audit procedures were planned to obtain comfort for the only assertion "Classification". No procedures were planned and performed for the rest of the assertions. Per SAO this type of audit was one-off and will not be conducted in future. The Audit Plan for 2022 does not consider any financial audit of budget execution report. To ensure sufficient evidence on assessing SAI-10, two additional Financial Audits were added to the sample and reviewed only the criteria that were not fully positively scored among the four audits of the original sample.

Dimension i: Planning Financial Audits

The SAO has carried out an independent assessment (e.g. quality assurance review, peer or independent review, iCAT subject to independent quality assurance) in the last five years. In

2020, an EU technical assistance project carried out an interim SAI-PMF assessment. The assessment was presented to the SAO management, but it was not published and it noted that not all criteria were yet met.

Therefore, the SAI-PMF team has carried out its own review. Based on the available audit documentation of the sample of five FA-files, Table 12 has been compiled. The table indicates for each applicable criterion whether the audit file demonstrates evidence that the criterion is met (✓), not met (X) or not applicable (n/a).

Table 12 Observation of compliance with standards in the financial audit planning process across selected audit files

SAI-PMF criteria	Selected audit files					Added		Assessment
	1	2	3	4	5	I	II	
a) Where relevant: the auditor determines whether the financial reporting framework is acceptable	✓	✓	✓	✓	✓			Met
b) The auditor should determine materiality for the financial statements as a whole (…), the materiality level or levels to be applied to (…) particular classes of transactions, account balances or disclosures	✓	✓	✓	✓	✓			Met
c) The auditor should identify the appropriate contact person(s) within the audited entity's governance structure and communicate with them regarding the planned scope and timing of the audit	✓	✓	✓	✓	✓			Met
d) The auditor should develop an overall audit strategy that includes the scope, timing and direction of the audit (…)	✓	✓	✓	✓	X	X	✓	Not Met
e) The auditor should have an understanding of the audited entity and its environment	✓	✓	✓	✓	✓			Met
f) The auditor should evaluate the overall internal control environment	✓	✓	✓	✓	✓			Met
g) The auditor should gain an "(…) understanding of internal control relevant to financial reporting	✓	✓	✓	✓	✓			Met
h) The auditor should assess the risks of material misstatement at the financial statement level.	✓	✓	✓	✓	✓			Met
i) The auditor should identify and assess the risks of material misstatement of the financial statements due to fraud.	✓	✓	✓	✓	✓			Met
j) The auditor should identify the risks of material misstatement of the financial statements due to (...) material non-compliance with laws and regulations.	✓	✓	✓	✓	✓			Met
k) The SAI has established a system to ensure that, at the audit engagement level, its auditors [and any contractors] comply with the following ethical requirements: integrity, independence and objectivity, competence, professional behaviour, confidentiality and transparency.	✓	✓	✓	✓	X	✓	✓	Met

Table 12 shows that the sampled audit files met most of the required criteria. This represents a significant improvement on the previous SAI-PMF assessment with 10 of 11 criteria met compared to 7 of 11 in 2017. Criterion 'd' was not met for 2 of the reviewed audits. This resulted from the nature and extent of planned audit procedures. In one reviewed audit procedures were planned only for one assertion, no audit procedures were planned on other assertions. For one additionally reviewed audit, the substantive audit procedures were not planned for material financial statement line item.

Dimension ii: Implementing Financial Audits

Based on the available audit documentation of the sample of five FA-files, Table 13 has been compiled. The table indicates for each applicable criterion whether the audit file demonstrates

evidence that the criterion is met (✓), not met (X) or not applicable (n/a).

Table 13 Observation of compliance with standards in financial audit implementation across s audit files

SAI-PMF criteria		Selected audit files					Added		Assessment
		1	2	3	4	5	I	II	
a)	The auditor "respon[ds] to assessed risks [by] designing audit procedures (…) such as substantive procedures and tests of controls." "The nature, timing and extent of audit procedures are based on and are responsive to the assessed risks (…) includ[ing] the inherent risk (…) and the control risk." Where the SAI has adopted policies and procedures regarding an approach to calculating minimum planned sample sizes in response to materiality and risk assessments, these are followed in practice.	✓	✓	✓	✓	X	✓	✓	Met
b)	The auditor should (…) obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud and should respond appropriately to fraud or suspected fraud identified during the audit.	✓	✓	✓	✓	✓	✓	✓	Met
c)	The auditor should obtain sufficient appropriate audit evidence regarding compliance with the laws and regulations that are generally recognized to have a direct and material effect on the determination of material amounts and disclosures in financial statements.	✓	✓	✓	✓	✓	✓	✓	Met
d)	Where relevant: During their audits, SAIs "obtain sufficient and appropriate audit evidence in relation to: - The use of external confirmations as audit evidence; - Audit evidence from analytical procedures and different audit sampling techniques (…); - Audit evidence from using the work of internal audit functions (…); - Audit evidence from external experts (…).	✓	✓	✓	✓	X	✓	✓	Met
e)	Where relevant: "Auditors engaged to audit [whole of government financial statements] should obtain sufficient appropriate audit evidence regarding the financial information of all components and the consolidation process to express an opinion (…).	✓	✓	✓	✓	✓			Met
f)	Audit procedures [were performed] in such a way as to obtain sufficient appropriate audit evidence and thus draw conclusions on which to base the auditor's opinion.	✓	✓	✓	✓	X	✓	✓	Met
g)	All planned audit procedures were performed, or where planned audit procedures were not performed, an explanation as to why not is retained on the audit file and this has been approved by those responsible for the audit.	✓	✓	✓	✓	X	X	✓	Not Met

Table 13 shows that, as with planning, implementation of financial audits has improved on the previous SAI-PMF assessment in 2017. Six criteria were met against one in the previous assessment, but this meant one criteria were not met, the particularly criterion g) for two of the reviewed audits. This resulted from the failure to perform all planned audit procedures, where not

performed an explanation was not retained in MK Insight. In one audit file was planned to obtain comfort over only one assertion. Also one substantive analytical procedure was planned but not performed. In another audit file procedures were not covered material classes of transactions such as operating income and expenses although they were planned.

Only in the special purpose audit (of the budget execution report), it was observed that criteria a), d) and f) were not met. As it was the only special purpose audit assessment team assessed the criterias as 'met'.

Dimension iii: Evaluating Audit Evidence, Concluding and Reporting in Financial Audits.

Based on the available audit documentation of the sample of five FA-files, Table 14 has been compiled. The table indicates for each applicable criterion whether the audit file demonstrates evidence that the criterion is met (✓), not met (X) or not applicable (n/a).

Table 14 Compliance with standards in evaluating audit evidence and reporting in selected audit files

SAI-PMF criteria		Selected audit file					Added		Assessment
		1	2	3	4	5	I	II	
a)	The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, with no prior knowledge of the audit, to understand the nature, timing and extent of the audit procedures performed, (…) the results (…) and the audit evidence obtained	✓	✓	✓	✓	✓			Met
b)	The SAI's documentation procedures have been followed regarding: "the timely preparation of audit documentation; the form, content and extent of documentation; (…) the assembly of the final audit file.	X	X	X	X	X			Not Met
c)	The auditor should identify the appropriate contact person(s) within the audited entity's governance structure and communicate with them regarding (…) any significant findings" and "all misstatements recorded during the course of the audit.	✓	✓	✓	✓	✓			Met
d)	The SAI's audit findings are subject to procedures of comment and the recommendations [or observations] to discussions and responses from the audited entity.	✓	✓	✓	✓	✓			Met
e)	Uncorrected misstatements should be evaluated for materiality, individually or in aggregate	✓	✓	✓	✓	✓			Met
f)	The auditor should form an opinion based on an evaluation of the conclusions drawn from the audit evidence obtained, as to whether the financial statements as a whole are prepared in accordance with the applicable financial reporting framework.	✓	✓	✓	✓	X	✓	✓	Met
g)	The auditor's report should be in a written form and contain the following elements: I. "A title (...). II. An addressee as required by the circumstances of the engagement. III. An introductory paragraph that (1) identifies whose financial statements have been audited (...); IV. A section with the heading 'Management's responsibility for the financial statements'(...); V. A section with the heading 'Auditor's Responsibility', stating that the responsibility of the auditor is to express an opinion based on the audit of the financial statements (...); VI. A section with the heading 'Opinion'(...); VII. The auditor's signature. VIII. The date on which the auditor obtained sufficient	✓	✓	✓	✓	✓			Met

	appropriate evidence on which to base the auditor's opinion on the financial statements (...)"; IX. The location in the jurisdiction where the auditor practices.								
h)	Reports should be easy to understand, free from vagueness and ambiguity and complete. They should be objective and fair, only including information which is supported by sufficient and appropriate audit evidence and ensuring that findings are put into perspective and context.	✓	✓	✓	✓	✓			Met
i)	Any audit observations and recommendations are written clearly and concisely, and are directed to those responsible for ensuring they are implemented.	✓	✓	✓	✓	✓			Met
j)	Where relevant: "If the (…) conditions [for the acceptance of the financial reporting framework] are not met, the auditor should evaluate the effect of the misleading nature of the financial statements on the auditor's report and the opinion, and consider the need to inform the legislature about the matter.	n/a	n/a	n/a	n/a	n/a			n/a
k)	Where relevant: "The auditor's report on special-purpose financial statements [i.e. budget execution reports], the report should: describe the purpose for which the financial statements are prepared" ISSAI 200:173 and "the auditor should include an Emphasis of Matter paragraph alerting users to the fact that the financial statements have been prepared in accordance with a special-purpose framework	n/a	n/a	n/a	n/a	✓			Met

Table 14 shows an improvement in concluding and reporting on financial audits compared to the previous SAI-PMF assessment in 2017. Out of eleven criteria, nine were met against five in 2017.

One criteria f) was not met in one of the selected audit file, above mentioned special purpose budget execution regarding the forming of audit opinion. This resulted from the failure to perform audit procedures other than on one assertion. But it was determined to be an isolated occurrence after expanding the sample of audits examined in regard to this criterion, and the overall assessment of criteria f) was considered met.

Rating

Based on the above, the performance of the SAO on SAI-10 is rated as follows:

Dimension	Findings/Justification	Score
(i) Planning financial audits	See Table 9: • Ten (2017 - seven) out of eleven criteria were met.	3 (Criteria (b), (h) and at least six of the other criteria above are in place)
(ii) Implementing financial audits	See Table 10: • Six (2017 - one) out of seven of the criteria were met. • criteria g) was not met.	3 (Criteria (a), (f)and at least three of the other criteria above are in place,)
(iii) Evaluating audit evidence, concluding and reporting	See Table 11: • Nine (2017 – five) out of eleven criteria were met. • Criteria 'j' is not relevant.	3 (Criteria (e), (f) and at least six of the other criteria above are in place).

Overall score SAI 10	3

SAI-11: Financial audit results

This indicator assesses outputs of the financial audit function in the SAO. The outputs of the financial audit are assessed using three dimensions:

i. Timely Submission of Financial Audit Results;
ii. Timely Publication of Financial Audit Results;
iii. SAI Follow-up on Implementation of Financial Audit Observations and Recommendations.

Dimension i: Timely Submission of Financial Audit Results

Following the contradictory process between the engagement team and the auditee, the final output of the financial audit of the SAO is an audit report including the SAO's audit opinion and details on the scope of the audit, findings on any outstanding weaknesses in the internal control systems and recommendations.

This dimension assesses whether the final report is submitted to the audited entity in a timely manner. The measurement of the timeliness compares the date of the receipt of the draft financial statements to the date of certification by the SAO. In Georgia, except for the SAO's report on the consolidated budget execution report, no legal deadlines are posed on the timeliness of such reports. In the absence of legal deadlines, best practice would leave less than six months between the dates.

In Georgia, the draft financial statements are prepared by the auditees and available for audit within three months after the end of the fiscal year (end of March). Certification by the SAO is a delegated responsibility from the AG to the directors of the audit departments. Once the audit is certified it is submitted to the auditee on the same day. Out of the 12 financial audit reports issued in 2021, 5 were issued within 6 months, 5 within 9 months and two within 12 months.

According to the legislation the SAO has 20 days grace period before the publication of the audit report and submission to the Parliament. Out of the 12 FA reports issued in 2021, 3 were submitted to the Parliament within 6 month, 6 within 9 months and 3 within 12 months.

This performance is a slight improvement with the 2017 SAI-PMF assessment where all audit reports were issued within 12 months and that 60% are issued and submitted to the auditees and the Parliament within a term of 9 months.

Dimension ii: Timely Publication of Financial Audit Results

The previous dimension assessed the submission of the audit results to the audited entity and other authorities. Dimension ii focuses on the time gap between the date that the SAO is allowed to publish the audit report and the date that the SAO actually publishes the report.

The SAO is entitled to publish the audit report as soon as the report is certified by the audit Engagement Leader. After certification, the report is shared with the auditee and the SAO applies a period of 20 working days for the auditee to appeal against the report. After this date SAO has 5 days to publish it. This Decree was activated in 2019. The date of publication in 2021 was similar to the date of submission to Parliament.

Performance is approximately the same in comparison to the 2017 SAI-PMF assessment. On average, publication and submission to the Parliament was six days after the 20-day grace period.

Dimension iii: SAI Follow-up on Implementation of Financial Audit Observations and Recommendations

In 2020, the SAO updated the guideline on "Elaboration of Recommendations and Monitoring of Implementations". The Guideline includes procedures to agree recommendations with auditees through a contradictory process.

Based on the SAO Law, within 30 days after completion of contradictory process and approval of the audit report, the auditee must prepare and submit its Action Plan for mitigating deficiencies and implementing recommendations to the SAO. This process from the last quarter of 2021 is performed in the electronic system. The database is accessible from the official web page of SAO.

The SAO maintains an overview of all recommendations in the system. The SAO has developed this system and it's accessible from the SAO's web page. It's called Audit Recommendation Implementation System. All auditees have their usernames and passwords to access the database from the web site of SAO. The SAO monitors the status of each recommendation included through this database, including details on the implementation of each recommendation along with supportive evidence. If a recommendation is not implemented, the auditee is expected to give a justification. At the time of SAI-PMF assessment, recommendations for the 12 engagements were already documented in this database. For all upcoming audits it's the mandatory process to present them in the database. At the time if the assessment, 188 recommendations from 12 engagements are in the database, the status shows that 25% of these recommendations are already fulfilled. This technological solution is a major development for the follow-up on implementations of FA observations and recommendations.

The Parliament has an access to the Audit Recommendation Implementation System and to all documents, materials, action plans and statuses of the recommendations. This gives the Parliament possibility to get follow-up information on the recommendation in continuous mode and monitor the process.

In addition, the SAO annually produces a separate Summary Report on implementation of recommendations. The summary report provides comprehensive analysis, statistics, common trends, systemic issues and root cause analysis on the implementation of FA, CA and PA recommendation. The report also includes detailed follow-up information on the particular recommendations. The report is submitted to the Parliament and published.

Rating

Based on the above, the performance of the SAO on SAI-11 is rated as follows:

Dimension	Findings/Justification	Score
(i) Timely Submission of Financial Audit Results	For at least 60% of financial audits, the audit opinion and/or report is submitted to the appropriate authority within the established legal time frame (or where no timeframe is defined, within 9 months from receipt of the financial statements by the SAI	3
(ii) Timely Publication of Financial Audit Results	For all audit reports and/or opinions where the SAI has the right and obligation to publish, the report and/or opinion is made available to the public through appropriate means within 15 days after the SAI is permitted to publish.	4
(iii) SAI Follow-up on Implementation of	All criteria have been met.	4 All criteria are

Financial Audit Observations and Recommendations	• The SAO has an internal follow-up system to ensure that the audited entities properly address their observations and recommendations; • The SAO applies materiality to decide on the need for follow-up investigations; • The follow-up focuses on whether the audited entity has adequately addressed the matters raised in previous audits; • The SAOs' follow-up procedure allows for the audited entity to provide information on corrective measures taken or why corrective actions were not taken. • The SAO submits its follow-up report to the Legislature. • The SAO publishes the results of its follow-up audit activities.	met
Overall score SAI 11		**4**

SAI-12: Performance audit foundations

This indicator assesses the SAI's approach to performance auditing in terms of its overall standards and guidance for performance auditing, as well as how matters of audit team management and skills and quality control are implemented at the audit engagement level. (The quality of these functions at the organisational level is assessed elsewhere in the framework: quality control in SAI-4; professional development and training in SAI-23.)

For the assessment of SAI 12, three dimensions are considered:

   i.   Performance Audit Standards and Policies
  ii.   Performance Audit Team Management and Skills
 iii.   Quality Control in Performance Audit

Dimension i: Performance Audit Standards and Policies

This dimension examines whether the SAO's audit standards are in line with fundamental principles of performance auditing in ISSAI 3000.

The SAO audit standards for performance audit are included in the Performance Audit Manual (PA Manual). The PA Manual has been developed with the support of the Swedish National Audit Office and GIZ and was adopted in 2012. The SAO PA Manual is based on the AFROSAI-E Manual and covers the following topics (see Table 15 below). After the previous SAI PMF Report of 2017, the Manual was updated in November 2021. The PA Manual has undergone changes in the methodology, appendixes, and enriched with new work documents.

Table 15 Table of contents of the SAO's performance audit manual

1. Introduction		
2. The Context of Performance Auditing and Its Organization in the SAO	2.1 Definition of the Performance Audit	2.1.1 The three core principles of the PA
		2.1.2 The Connection between the elements of the PA
		2.1.3 Focus on productivity and/or efficiency

	2.2 The Special Features of Performance Auditing	
	2.3 Stages in the Performance Audit Process	
	2.4 Audit Standards Requirements	
	2.5 Code of Ethics	
	2.6 Organizing Performance Audit	
	2.7 Key Players within the SAO	
	2.8 Internal Communication	
	2.9 External Communication	
3. Planning and Selection of Audit Topics	3.1 Planning	3.1.1 Strategic Planning
		3.1.2 Annual Planning
	3.2 Area watching	3.2.1 General research
	3.3 Selecting Potential Audits	
	3.4 Introducing Potential Audits	
4. Pre-study and audit plan	4.1 Approach of Performance Auditing	
	4.2 Carrying out the Pre-Study	4.2.1 Data gathering
		4.2.2 Data analysis
		4.2.3 Select an audit problem
		4.2.4 "Problem Tree" Analysis Technique
		4.2.5 Topic picking criteria
	4.3 Pre-study Memo	
	4.4 Project Plan	
	4.5 Audit Matrix	4.5.1 Audit Subject Matter
		4.5.2. Audit Objective and Problem
		4.5.3 Audit Scope
		4.5.4 Audit Questions
		4.5.5 Assessment Criteria
		4.5.6 Methodology and information source
	4.6 Resource Planning	
	4.7. Quality Control and Supervision	
5. Collection and Analysis of Audit Evidence	5.1 Notification to Audited Entities and Entrance Meetings	
	5.2 Key Concepts of Evidence	
	5.3 Sources and collection methods	5.3.1 Testimonial evidence
		5.3.2 Documentary evidence
		5.3.3 Physical evidence
	5.4 Surveys and Case studies	
	5.5 Preparing for analysis while collecting data	
	5.6 Analysis of Audit Evidence	
	5.7 Documentation	5.7.1 Guidelines for preparation of working papers
		5.7.2 Audit files
	5.8 Developing audit findings, their causes and effects	
6. Drafting of the report	6.1 Synopsis	
	6.2 Audience Analysis	
	6.3 Preparing Draft Report	
	6.4 Revision/ Correction	
7. Concurrence of the Report	7.1 Concurrence of the Draft Report	
	7.2 Sending the Draft Audit Report to the Auditee	
	7.3 Concluding Meetings	
	7.4 Completing the Report within the Organization	
8. Release of the report		

9. Follow up	9.1 Follow-up of own work	
	9.2 Follow-up of recommendations	
	9.3 Follow-up Audit	9.3.1 Planning Follow-up Audits
		9.3.2 Reporting follow-up audits

Appendix 1 – Process description PA 1121
Appendix 2 – Process description results PA 1122
Appendix 3 – Internal control and fraud questionnaire PA 1130
Appendix 4 – Planned and actually spent hours PA 1000
Appendix 5 – Audit approach PA 1110
Appendix 6 – Register of requested information PA 1140
Appendix 7 – SWOT Analysis PA 1150
Appendix 8 – Stakeholder analysis PA 1160
Appendix 9 – Design Matrix PA 1200
Appendix 10 – Scoring Matrix
Appendix 11 – Audit Initiation memo
Appendix 12 – Pre-study memo PA 1400
Appendix 13 – Audit Team concluding meeting at planning stage PA 1500
Appendix 14 – Main study plan PA 1600
Appendix 15 – Competency Matrix PA 1800
Appendix 16 – Audit initiation letter PA 1910
Appendix 17 – Primary communication with the auditee PA 1910
Appendix 18 – Matrix of Findings PA 2200
Appendix 19 – Discussion of findings and recommendations by the audit team PA 2410
Appendix 20 – Discussion of findings and recommendations within the auditee PA 2420
Appendix 21 – Performance Audit Draft Report PA 3100
Appendix 22 – Auditee's response PA 3200
Appendix 23 – Performance auditor's competency and skills
Appendix 24 – Quality control within a performance audit

Table 16 Presence of SAI-PMF requirements on PA standards in the SAO's performance audit manual

	Detailed ISSAIs on Performance Audit	Yes/no	Presence in the SAO PA Manual
a.	The need to identify the elements of each performance audit (auditor, responsible party, intended users, subject matter and criteria	Y	Section 4.5.1 – Audit Subject Matter Section 4.5.2 – Audit Objective and Problem Section 4.5.3 – Audit Scope Section 4.5.4 – Audit Questions Section 4.5.5 – Assessment Criteria
b.	The need to "set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness.	Y	Section 2.1 – Definition of the Performance audit Section 4.5.1 – Audit Subject Matter
c.	The need to choose an audit approach, to facilitate the soundness of the audit design.	Y	Section 4.5.6 - Methodology and information source
d.	The need to "establish suitable [audit] criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.	Y	Section 4.5.5 – Assessment criteria
e.	The need to "actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.	Y	Section 5.6 – Analysis of Audit Evidence

Detailed ISSAIs on Performance Audit	Yes/no	Presence in the SAO PA Manual
f. The need to "maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit.	Y	Section 2.9 – External Communication Section 6.2 – Audience analysis Section 6.3 – Preparing draft report Section 7.2 – Sending the Draft Audit Report to the Auditee
g. The need for the audit team to "have the necessary professional competence to perform the audit.	Y	Section 2.4 – Audit Standards Requirements Appendix 15 – Competency Matrix Appendix 23 – Performance Auditor's Competency and skills
h. The need to apply professional judgment and scepticism.	Y	Section 5.6 - Analysis of Audit evidence
i. The need for auditors to "apply procedures to safeguard quality, ensuring that the applicable requirements are met	Y	Appendix 24 – Quality control within a Performance Audit
j. The need to "consider materiality at all stages of the audit process	N	Section 4.2.5 – Topic picking criteria
k. The need to "document the audit (…)" so that "information [is] sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations	Y	Section 5.7 – Documentation Appendix 1-24
l. The need to "plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management.	Y	Section 4 - Pre-study and audit plan
m. The need for auditors to "obtain sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issue recommendations." ISSAI 300:38	Y	Section 5.2 – Key concepts of Evidence Section 5.3 – Sources and collection methods Section 5.4 – Surveys and Case studies Section 5.5 – Preparing for analysis while collecting data Section 5.6 – Analysis of Audit evidence Section 5.8 – Developing audit findings, their causes and effect
n. The need for auditors to "strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced." ISSAI 300:39	Y	Section 6 – Drafting of the report
o. That the SAI shall "seek to make their reports widely accessible, in accordance with the mandate of the SAI.	Y	Section 8 – Release of the report
p. That the SAI shall "seek to provide constructive recommendations" if relevant and allowed by the SAI's mandate.	Y	Appendix 19 – Discussion of findings and recommendations by the audit team Appendix 20 – Discussion of findings and recommendations within the auditee
q. The need to "follow up previous audit findings and recommendations wherever appropriate."	Y	Section 9 – Follow-up
r. Audit planning, including selection of audit topics. The policies and procedures should be designed to ensure that auditors analyse and research potential audit topics, and consider the significance, auditability and impact of planned audits. They should allow for flexibility in the planning.	Y	Section 3 – Planning and selection of Audit Topics

Detailed ISSAIs on Performance Audit	Yes/no	Presence in the SAO PA Manual
s. The analytical processes that enable the auditors to obtain sufficient appropriate audit evidence to establish findings and reach conclusions in response to the audit objectives and questions.	Y	Section 4.2.2 – Data analysis Section 5.5 – Preparing for analysis while collecting data
t. Format of the audit report, which should contain information about the audit objective, criteria, methodology, sources of data and audit findings, conclusions and recommendations.	Y	Sections 6 – Drafting of the report
u. Audit documentation: The policies and procedures should be designed to ensure that "information [is] sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.	Y	Appendix 1-24

A detailed review of the PA Manual against the requirements of the ISSAIs shows that all criteria are in place, except for 'j.'

Criterion 'j' states that the SAI PA Manual should cover the need to consider materiality at all stages of the audit process. This is mentioned in section 4.2.5, "Topic-picking Criteria," as a part of the pre-study stage of the performance audit process. However, materiality is not considered in the implementation and reporting stages of the process. The PA Manual should consider the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information, or failing to add value for users in the implementation stage; and producing inappropriate or low impact audit findings or audit reports in the reporting stage.

It is worth to be mentioned that criterion 'p' states that the SAI shall "seek to provide constructive recommendations." In the SAO PA Manual, only appendixes 19 and 20 aim to discuss the recommendations within the audit team and with the auditee. As for providing constructive recommendations, the SAO has developed an Audit Recommendations Development Guideline, which is not a part of the SAO PA Manual.

Dimension ii: Performance Audit Team Management and Skills

This dimension examines whether the SAI has established a system for ensuring that members of a performance audit team collectively possess the professional competence, skills and experience necessary do carry out the audit and that the SAO provides support to its auditors to implement the adopted audit standards and develop their professional skills.

The system that is established by the SAO includes a number of elements to ensure that performance auditors have a sound knowledge of performance auditing including an understanding of the applicable auditing standards and government organizations, programs and functions, such as recruitment requirements, PAI training, and a Performance Audit Manual based upon ISSAIs.

The PA Manual was developed in 2012 and updated in late 2021. There are two mechanisms to transfer knowledge to auditors. A first mechanism is through the Public Audit Institute (PAI) Auditors Certification Training Course, where performance auditing is one of the modules of the course syllabus. This training course is delivered systematically and all performance auditors undergone through it. At the end of the course there is a certification exam.

Another mechanism is the training courses provided by the Government Accountability Office (GAO) based on the USAID GAO memorandum of understanding (MOU), and by the INTOSAI

Development Initiative (IDI). However, these training courses are funded by development partners and are not systematic. In addition, there is no tracking/monitoring system of auditors' qualification assessment and performance after the trainings were provided.

PA Department advises Sectoral audit departments performing PAs on audit selection, team composition and reporting. Also, the Head of Performance Audit Department assigns an experienced PA auditor from the PA Department to act as supervisor and/or coach for the sectorial PA team ensures quality standards.

As for criterion 'b,' there are tailored trainings for performance auditors developed in the PAI, like research design, social science methods, investigation or evaluation techniques. However, the SAO's recruitment qualification requirements for Financial, Compliance, or Performance auditors are standard, and it's challenging for recruiting relevant performance auditors. The lack of knowledge in research design and social science methods could be mitigated by recruiting professionals with an accreditation in social sciences such a PhD or prior experience in social science research. This is not the current practice and new recruits tend to be young university graduates with little prior working experience.

As for criterion 'd', the SAO is making efforts to improve the qualifications of its auditors. The Heads of the Audit Departments, together with the HR Department, draft auditors' training plan to respond to their needs based on Performance Evaluation System. However, the SAO through PAI does not provide tailored training courses for interview techniques.

Table 17 shows that the SAO also provides support to its auditors to implement the ISSAIs on PA by the relevant sections in the PA Manual:

Table 17 Additional guidance given to PA audit teams

SAI-PMF criteria on additional guidance given to PA teams		Presence in the SAO PA Manual (yes/no)
h.	How to develop audit objectives and audit questions that relate to the principles of economy, efficiency, and/or effectiveness.	Y	Section 4 – Pre-study and audit plan Appendix 9 – Design Matrix
i.	How to establish suitable audit criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.	Y	Section 4.5.5 – Assessment Criteria
j.	How to design the audit procedures to be used for gathering sufficient and appropriate audit evidence.	Y	Section 5.2 – Key concepts of Evidence Section 5.3 – Sources and collection methods Section 5.4 – Surveys and Case studies
k.	How to apply different data gathering methods.	Y	Section 4.2.1 – Data gathering Section 5.3 – Sources and collection methods
l.	How to evaluate the audit evidence in light of the audit objectives.	Y	Section 5.5 – Preparing for analysis while collecting data Section 5.6 – Analysis of Audit Evidence
m.	How to write audit reports which are comprehensive, convincing, reader-friendly and balanced.	Y	Section 6 – Drafting of the report
n.	How to write recommendations that are well-founded and add value.	Y	Section 5.8 – Developing audit findings, their causes and effects Audit Recommendations Development Guideline

Dimension iii: Quality Control in Performance Audit

This dimension examines how quality control measures for performance audits have been

implemented in practice, as evidenced through a review of PA files. Quality control describes the sum of the measures taken to ensure the high quality of each audit product and is carried out as an integrated part of the audit process.

The SAO has incorporated various procedures to ensure the quality of the PA report:

- Audit Management Software (AMS) has built-in mandatory audit working documents. The Audit Team fills the working documents; the Supervisor Auditor, and afterwards, the Head of the Audit Department verifies and approves them.
- Working meetings are held with the Head of the Audit Department to review the audit's progress and discuss evidence, findings, conclusions, and recommendations with the audit team.
- The Quality Assurance Department and peer reviewers are involved in the audit engagement and conduct hot and cold reviews.
- The quality of the audit report is reviewed by the Supervisor Auditor, the Head of the Audit Department, the Deputy AG, the AG, and, finally, by the Editor.

It is noteworthy that the final audit report quality control is conducted by different internal stakeholders, as mentioned above in the last bullet. Also drafting of the audit report is in compliance with the PA Manual requirements. However, aspects, like reader-friendliness of the report with balanced, impartial in content and tone, and presented in an unbiased manner, is conditional upon individual competencies rather than system approach with methodological support.

The previous SAI PMF report of 2017 has stated that the SAO has not ensured that the appropriate resources [such as technical experts] were used to deal with difficult or contentious matters. The SAO, as needed, involves external experts in performance audits. For example, external experts were involved in a Small and Medium Business Development Audit, Secondary Road Asset Management Project Audit, and Performance audit of Activities Against Brown Marmorated Stink Bug and other Harmful organisms. One of the experts was funded by the donor organization, and two were recruited by the SAO from its internal resources.

The SAI PMF report of 2017 has also stated that the SAO has not implemented engagement quality control reviews for their PA work. The SAO approved the QCM and QAP in 2018, which defined independent involvement in the external assessment of the audit process. The SAO is already conducting a quality control procedure on performance audits. In 2021, two audit quality control reviews were conducted, documented in the AMS. The review covers all stages of audit including planning, field work and reporting. Also, corresponding working files are reviewed. Quality control review uses questionnaire based on iCAT covering audit scope, audit evidence, documenting the audit etc. with various sub-themes to be resolved before the audit reports were issued.

Rating

Based on the above, the performance of the SAO is rated as follows:

Dimension	Findings/Justification	Score
(i) Performance Audit Standards and policies	Except for criterion 'j' (reference to the need to "consider materiality at all stages of the audit process), all criteria are met. This qualifies for the score '4'.: • The need to identify the elements of each performance audit (auditor, responsible party, intended users, subject matter and criteria);	4

- The need to "set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness.";

- The need to choose an audit approach, to facilitate the soundness of the audit design;

- The need to "establish suitable [audit] criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.";

- The need to "actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.";

- The need to "maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit.";

- The need for the audit team to "have the necessary professional competence to perform the audit.";

- The need to apply professional judgment and scepticism;

- The need for auditors to "apply procedures to safeguard quality, ensuring that the applicable requirements are met (…).";

- The need to "document the audit (…)" so that "information [is] sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.";

- The need to "plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management.";

- The need for auditors to "obtain sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issue recommendations.";

- The need for auditors to "strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced.";

- That the SAI shall "seek to make their reports widely accessible, in accordance with the mandate of the SAI.";

- That the SAI shall "seek to provide constructive recommendations" if relevant and allowed by the SAI's mandate;

- The need to "follow up previous audit findings and recommendations wherever appropriate.";

The SAI has also adopted policies and procedures about how it has chosen to implement its audit standards. ISSAI 20:3; 40:pg 11. These should cover the following areas:

- Audit planning, including selection of audit topics. The policies and procedures should be designed to ensure that auditors analyse and research potential audit topics, and consider the significance, auditability and impact of planned audits. They should allow for flexibility in the planning;

	- The analytical processes that enable the auditors to obtain sufficient appropriate audit evidence to establish findings and reach conclusions in response to the audit objectives and questions; - Format of the audit report, which should contain information about the audit objective, criteria, methodology, sources of data and audit findings, conclusions and recommendations; - Audit documentation. The policies and procedures should be designed to ensure that "information [is] sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations."	
(ii) Performance Audit Team Management and Skills	All criteria except 'b' and 'd' are met: The SAI has established a system to ensure that "the audit team [collectively and including external experts where required] has the necessary professional competence to perform the audit", including: "sound knowledge of [performance] auditing", including an understanding of the applicable auditing standards; "sound knowledge of government organisations, programmes and functions."; - The ability and experience to exercise professional judgement; - The system ensures that the knowledge, skills and expertise required for conducting the performance audit are identified; - The system ensures that there are clear reporting lines and allocation of responsibilities within the team; The SAI also provides support to its auditors as required to implement the adopted audit standards and develop their professional skills: - How to develop audit objectives and audit questions that relate to the principles of economy, efficiency, and/or effectiveness; - How to establish suitable audit criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness; - How to design the audit procedures to be used for gathering sufficient and appropriate audit evidence; - How to apply different data gathering methods; - How to evaluate the audit evidence in light of the audit objectives; - How to write audit reports which are comprehensive, convincing, reader-friendly and balanced; - How to write recommendations that are well-founded and add value. Criteria 'b' and 'd' are not met: - The system pays attention to training on research design and research methods. However, there are no staff PhD qualification and not emphasis on such qualification in recruitment; - Trainings on personal strengths such as research methods are provided, but as they are funded by development partners they are not yet systemic. The curriculum for performance audit trainings lacks trainings on interview techniques.	3

(iii) Quality Control in Performance Audit	All criteria are met:	4
	• "All work carried out should be subject to review as a means of contributing to quality and promoting learning and personnel development", and the review process should be documented;	
	• "Auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met (…).";	
	• "Where difficult or contentious matters arise, SAIs should ensure that appropriate resources (such as technical experts) are used to deal with such matters";	
	• "...any differences of opinions within the SAI are clearly documented and resolved before a report is issued";	
	• "SAIs should recognize the importance of engagement quality control reviews for their work and [where carried out] matters raised should be satisfactorily resolved before a report is issued";	
	• "Procedures are in place for authorizing reports to be issued".	
Overall score SAI 12		**4**

SAI-13: Performance audit process

The indicator looks at how performance audits are carried out in practice, and is preferably based on a sample of performance audits carried out in the last fiscal year. SAI-13 separates the planning phase, the implementation phase and the reporting phase and, thus, the following dimensions are assessed.

  i.   Planning Performance Audits;
  ii.   Implementing Performance Audits;
  iii. Evaluating Audit Evidence, Concluding and Reporting in Performance Audits.

The assessment of this indicator was undertaken based upon a sample of five performance audits from a total of thirty audits conducted in 2020-2021. The selection of the sample ensured that five different audit departments.

  1. Human Resource Management in the Public Sector – Performance Audit Department;[14]
  2. Forest fires emergency management – Defence, Public Order and Security Audit Department;
  3. Supporting in studying abroad – Social Sector Audit Department;
  4. Providing legal assistance to citizens – General State Services Audit Department;
  5. Measures taken by the state to ensure food safety – Economic Activities Audit Department.

Dimension i: Planning Performance Audits

The SAO has carried out an independent assessment (e.g. quality assurance review, peer or independent review, iCAT subject to independent quality assurance) in the last five years. In 2020, an EU technical assistance project carried out an interim SAI-PMF assessment. The assessment was presented to the SAO management, but it was not published and it noted that not all criteria were yet met.

The SAI-PMF team has carried out its own review. Based on the available audit documentation

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[14] Only the first audit wasn't conducted through the AMS system; however, the filled mandatory working documents was uploaded in the AMS later after the audit.

of the sample of five PA-files, Table 18 has been compiled. The table indicates for each applicable criterion whether the audit file demonstrates evidence that the criterion is met (✓), not met (X) or not applicable (n/a).

Table 18 Observation of compliance with standards in the performance audit planning process across five audit files

SAI PMF criteria	Audit files					Assessment
	1	2	3	4	5	
a) Audit-specific, substantive [on the subject matter] and methodological knowledge [is] acquired before the audit is launched ("pre-study").	✓	✓	✓	✓	✓	Met
b) Auditors should (…) analys[e] potential [audit] topics and conduct research to identify risks and problems.	✓	✓	✓	✓	✓	Met
c) Auditors should consider materiality at all stages of the audit process. Thought should be given not only to financial but also to social and political aspects of the subject matter, with the aim of delivering as much added value as possible.	✓	✓	✓	✓	✓	Met
d) Auditors should set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness.	✓	✓	✓	✓	✓	Met
e) [The] audit objectives can be framed as an overall audit question which can be broken down into more precise sub-questions.	✓	✓	✓	✓	✓	Met
f) Auditors should choose a result-, problem- or system- oriented approach, or a combination thereof, to facilitate the soundness of audit design."	✓	✓	✓	✓	✓	Met
g) Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.	✓	✓	✓	✓	✓	Met
h) The criteria should be discussed with the audited entities, but it is ultimately the auditor's responsibility to select suitable criteria.	✓	✓	✓	✓	✓	Met
i) When planning the audit, the auditor should design the audit procedures to be used for gathering sufficient appropriate audit evidence.	✓	✓	✓	✓	✓	Met
j) When planning an audit, auditors should assess the risk of fraud.	✓	✓	✓	✓	✓	Met
k) Auditors should plan the audit in a manner that contributes to a high-quality audit that will be carried out in an economical, efficient, effective and timely manner and in accordance with the principles of good project management.	X	✓	✓	✓	✓	Met
l) Auditors should evaluate whether and in what areas external expertise is required, and make the necessary arrangements."	n/a	n/a	n/a	n/a	n/a	n/a
m) The SAI has established a system to ensure that, at the audit engagement level, its auditors [and any contractors] comply with the following ethical requirements: integrity, independence and objectivity, competence, professional behaviour and confidentiality.	✓	✓	✓	✓	✓	Met

Table 18 shows that all of twelve criteria were met in the audit files and one criterion was not applicable. In one PA audit, criterion 'k' was considered not met as audit team staff turnover due to COVID-19 pandemic was not well-considered.

Dimension ii: Implementing Performance Audits

Based on the available audit documentation of the sample of five PA-files, Table 19 has been compiled. The table indicates for each applicable criterion whether the audit file demonstrates evidence that the criterion is met (✓), not met (X) or not applicable (n/a).

Table 19 Observation of compliance with standards in the performance audit implementation process across three audit fil

SAI PMF criteria	Audit files					Assessment
	1	2	3	4	5	
a) Auditors should obtain sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and [when appropriate] issue recommendations.	✓	✓	✓	✓	✓	Met
b) The auditor should evaluate the evidence with a view to obtaining audit findings."	✓	✓	✓	✓	✓	Met
c) Auditors should "combin[e] and compar[e] data from different sources (…)	✓	✓	✓	✓	✓	Met
d) Based on the findings, the auditor should exercise professional judgement to reach a conclusion [which] provide[s] answers to the audit questions."	✓	✓	✓	✓	✓	Met
e) The audit evidence "(…) should be placed in context, and all relevant arguments, pros and cons and different perspectives should be considered before conclusions can be drawn, reformulating the audit objective(s) and questions as needed."	X	✓	✓	X	✓	Not met
f) Performance auditing involves a series of analytical processes that evolve gradually through mutual interaction (…)	✓	✓	✓	✓	✓	Met
g) A high standard of professional behaviour should be maintained throughout the audit process (…)." (E.g. auditors should work systematically, with due care and objectivity.)	✓	✓	✓	✓	✓	Met
h) Auditors should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users. (I.e. identify such risks, as well as mitigating measures, in the planning documents and actively follow up on them during the implementation of the audit.	X	✓	✓	X	X	Not met
i) Auditors should consider materiality at all stages of the audit process. Thought should be given not only to financial but also to social and political aspects of the subject matter, with the aim of delivering as much added value as possible.	X	✓	✓	✓	✓	Met
j) Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process (…)." (Including notifying the audited entity of the key aspects of the audit, including the audit objective, audit questions and subject matter.	✓	✓	✓	✓	✓	Met
k) Auditors should document the audit (…). Information should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations."	✓	✓	✓	✓	✓	Met

Table 19 shows that the quality of the audit files was largely similar to during the previous assessment and that nine out of eleven criteria were met in all audit files.

Not met criterion 'e' in two audits where the difference in conclusion formulation can be tracked only in draft audit reports.

Not met criterion 'h' in three audits. Mainly, risk assessment was conducted through working meetings with the Head of the Audit Department. Thus, meeting minutes have not been drafted.

Not met criterion 'i' only in one audit. The audit department has not considered materiality in the implementation stage of the audit process. The SAO has the working document of calculation and revision of the materiality. Some of the audit departments consider materiality and update

the document, and upload it in the AMS. However, the process of the consideration of materiality in the implementation stage requires improvement.

Dimension iii: Reporting of Performance Audits

Based on the available audit documentation of the sample of five PA-files, Table 20 has been compiled. The table indicates for each applicable criterion whether the audit file demonstrates evidence that the criterion is met (✓), not met (X) or not applicable (n/a).

Table 20 Observation of compliance with standards in the performance audit planning process across three audit files

SAI PMF criteria		Audit files					Assessment
		1	2	3	4	5	
a)	In a performance audit, the auditors report their findings on the economy and efficiency [of the use of resources] and the effectiveness with which objectives are met. (It should be noted that reports may vary in scope and nature. They may for example assess whether resources have been used in a sound manner, and/or comment on the impact of policies and programmes.	✓	✓	✓	✓	✓	Met
b)	Auditors should strive to provide audit reports which are comprehensive (…)." (I.e. include all the information needed to address the audit objective and audit questions, while being sufficiently detailed to provide an understanding of the subject matter and the findings and conclusions.	✓	✓	✓	✓	✓	Met
c)	Auditors should strive to provide audit reports which are (…), convincing (…). I.e. that are logically structured and present a clear relationship between the audit objective, criteria, findings, conclusions and recommendations	✓	✓	✓	✓	✓	Met
d)	Auditors should strive to provide audit reports which are (…) reader-friendly (…)."See also I.e. are as clear and concise as the subject matter permits and phrased in unambiguous language	✓	✓	✓	✓	✓	Met
e)	Auditors should strive to provide audit reports which are (…) balanced". I.e. impartial in content and tone. All evidence needs to be presented in an unbiased manner.	✓	✓	✓	✓	✓	Met
f)	Auditors should consider materiality in all stages of the audit process." I.e. manage the risk of producing inappropriate or low-impact audit findings or reports.	X	X	X	X	X	Not Met
g)	The report should include information about the (…) [audit] criteria [and their sources]".	✓	✓	✓	✓	✓	Met
h)	The report should include conclusions in response to the audit objective and questions (…) clearly answer the audit questions or explain why this was not possible.	✓	✓	✓	✓	✓	Met
i)	If relevant and allowed by the SAI's mandate, auditors should seek to provide constructive recommendations that are likely to contribute significantly to addressing the weaknesses or problems identified by the audit."	✓	✓	✓	✓	✓	Met
j)	SAIs should declare which standards they apply when conducting audits, and this declaration should be accessible to users of the SAI's report." The reference to audit standards may be included in the audit report or communicated by the SAI in a more general form covering a defined range of engagements.	X	X	X	X	X	Not met
k)	Audited entities should be given an opportunity to comment on the audit findings, conclusions and recommendations before the SAI issues its audit report."	✓	✓	✓	✓	✓	Met
l)	Any disagreements [with the audited entity] should be analysed and factual errors corrected. The examination of feedback should be recorded in working papers so that changes to the draft audit report, or reasons for not making changes, are documented	X	✓	✓	n/a	✓	Met

Table 20 shows that the quality of the audit files was largely similar to during the previous assessment and that ten out of twelve criteria are met. Based on the sampled audits findings and recommendations are evidenced-based and professional judgement is used in practice by the audit teams. Compared to the 2017 SAI-PMF the user-friendliness and visualisation of PA are significantly improved, reports are easy to read and interpret.

Not met criterion 'f' in all audits. The audit departments have not considered materiality in the reporting stage of the audit process.

Not met criterion 'j' in all audits. The SAO does not reference to audit standards in its PA Reports (ISSAI 3000), which is sent to the Auditee, the Parliament, and is published. However, the SAO declares which standard is applied to its FA and CA reports. It is noteworthy that the SAO makes reference to audit standards in the audit letter, which is sent to the auditee before audit process. Thus, the main stakeholders/users of the SAI report are auditee and the Parliament, criterion requirement is not considered to be met.

Not met criterion 'l' only in one audit. The audit team does not use working documents to record the changes of the draft audit report.

Rating

Based on the above, the performance of the SAO is rated as follows:

Dimension	Findings/Justification	Score
(i) Planning performance audits	• All of twelve criteria are met (see Table 4)	3
(ii) Implementing performance audits	• Nine of eleven criteria are met (see Table 5)	3
(iii) Evaluating audit evidence, concluding and reporting	• Ten out of twelve criteria are met (see table 6)	3
Overall score SAI 13		**3**

SAI-14: Performance audit results

This indicator assesses outputs of the performance audit function in the SAO. The outputs of the performance audit are assessed using three dimensions:

  i. Timely Submission of Performance Audit Results
 ii. Timely Publication of Performance Audit Results
iii. SAI Follow-up on Implementation of Performance Audit Observations and Recommendations

Dimension i: Timely Submission of Performance Audit Results

In Georgia, there is no legally defined time frame for submission PA reports. So, the timely submission is calculated as the time between the approval of the report and the submission to the auditee and the Parliament. Once the audit report is certified it is submitted to the auditee on the same day. As for the Parliament, according to the legislation the SAO has 20 days grace period before submission to the Parliament.

SAI PMF criteria	Audit files					Assessment
	1	2	3	4	5	
Score = 4: All performance audit reports are submitted to the appropriate						

authority (the Legislature, the auditee and/or the relevant ministry) within 15 days of completion of the audit (or within the legally defined or agreed time frame, if such exists). ISSAI 10:5, ISSAI 20:8, SAI PMF Task Team					
Score = 3: All performance audit reports are submitted to the appropriate authority (the Legislature, the auditee and/or the relevant ministry) within 30 days of completion of the audit (or within the legally defined or agreed time frame, if such exists). ISSAI 10:5, ISSAI 20:8, SAI PMF Task Team					
Score = 2: For at least 75% of performance audits, the report is submitted to the appropriate authority (the Legislature, the auditee and/or the relevant ministry) within 45 days of completion of the audit (or within the legally defined or agreed time frame, if such exists). ISSAI 10:5, ISSAI 20:8, SAI PMF Task Team	✓	✓	✓	✓	
Score = 1: For at least 50% of performance audits, the report is submitted to the appropriate authority (the Legislature, the auditee and/or the relevant ministry) within 60 days of completion of the audit (or within the legally defined or agreed time frame, if such exists). ISSAI 10:5, ISSAI 20:8, SAI PMF Task Team					
Score = 0: For less than 50% of performance audits, the report is submitted to the appropriate authority (the Legislature, the auditee and/or the relevant ministry) within 60 days of completion of the audit (or within the legally defined or agreed time frame, if such exists). ISSAI 10:5, ISSAI 20:8, SAI PMF Task Team	✓				

Out of the 17 PA issued in 2021, 13 were submitted to the Parliament within 15 days, 2 within 30 days and 2 within 45 days. This performance is an improvement compared to the 2017 SAI-PMF assessment. Overall, 75% of PA are issued and submitted to the Parliament within a term of 45 days.

Dimension ii: Timely Publication of Performance Audit Reports

This dimension focuses on the time gap between the date that the SAO is allowed to publish the audit report and the date that the SAO actually publishes the report. According to the PA Manual, the report is considered public following its submission to the Parliament. There is no legal provision for the SAO that would prohibit it to publish the PA report after its approval by the Head of the Audit Department. However, the SAO applies a period of 20 days for the auditee to appeal against the report, and afterwards sends it to the Parliament and publish in the SAO webpage the same day.

All 17 PA issued in 2021 were published within an average 15 days after it's permitted to publish. This performance is slight improvement compared to the 2017 SAI-PMF assessment.

Dimension iii: SAI Follow-up on Implementation of *Performance Audit Observations and Recommendations*

The SAO applies the same procedure for follow-up on the implementation of PA recommendations as it does for FA and CA using a system of sending follow-up letters twice a year to auditees requesting status updates. Responses are typically received as these are required by Law, although the quality of responses varies and some responses do not address the status of the recommendations. The SAO in 2021 developed and introduced the Audit Recommendations Implementation Monitoring System "ARIS". The SAO monitors the status of each recommendation included through this database, including details on the implementation of each recommendation along with supportive evidence, whether the audited entity has adequately addressed the problems. If a recommendation is not implemented, the auditee is expected to give a justification.

Two audits out of sampled five, audit #4 and #5, are registered in the ARIS web platform. The system simplified the recommendation monitoring process, and improved the involvement of

stakeholders, like the auditee, the Parliament Finance and Budget Committee.

The Parliament has an access to the Audit Recommendation Implementation System and to all documents, materials, action plans and statuses of the recommendations. This gives the Parliament possibility to get follow-up information on the recommendation in continuous mode and monitor the process.

While monitoring the implementation of recommendations, the SAO evaluated the significance and materiality of the problems, challenges in the implementation process and based on this decision of new follow-up audit is initiated. The follow-up audit includes information about the corrective actions auditee has taken and its impact. One audit out of five sampled audits, audit #5, was a follow-up audit. The SAO selects follow up audits based upon a number of factors including societal importance; potential impact; Parliamentary interest; poor response to follow-up letters etc.

In addition, the SAO annually produces a separate Summary Report on implementation of recommendations. The summary report provides comprehensive analysis, statistics, common trends, systemic issues and root cause analysis on the implementation of FA, CA and PA recommendation. The report also includes detailed follow-up information on the particular recommendations. The report is submitted to the Parliament and published.

Rating

Based on the above, the performance of the SAO is rated as follows:

Dimension	Findings/Justification	Score
(i) Timely Submission of Performance Audit Results	For at least 75% of performance audits, the report is submitted to the appropriate authority (the Legislature, the auditee and/or the relevant ministry) within 45 days of completion of the audit (or within the legally defined or agreed time frame, if such exists).	2
(ii) Timely Publication of Performance Audit Results	Unless prohibited by legislation, the SAI publishes all its performance audit reports within 15 days after it is permitted to publish them.	4
(iii) SAI Follow-up on Implementation of Performance Audit Observations and Recommendations	All criteria are met: • "Auditors should follow up previous audit findings and recommendations wherever appropriate."; • "Follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period of time."; • If possible, the follow-up reports include "(…) the conclusions and impacts of all relevant corrective action; • The SAI's "follow-up procedures allow for the audited entity to provide information on corrective measures taken or why corrective actions were not taken."; • "Follow-up should be reported appropriately in order to provide feedback to the legislature (…)"; • "Follow-up results may be reported individually or as a consolidated report, which may in turn include an	4

	analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas."; • The SAI has established a practice for evaluating materiality and the importance of the identified problems in order to determine if a follow-up requires a new additional audit.	
Overall score SAI 14		**3**

SAI-15: Compliance audit foundations

This indicator assesses the SAO's approach to compliance auditing in terms of its overall standards and guidance for compliance auditing, as well as how matters of audit team management and skills and quality control are implemented at the audit engagement level.

For the assessment of SAI 15, three dimensions are considered:
  i.   Compliance Audit Standards and Policies;
  ii. Compliance Audit Team Management and Skills;
  iii. Quality Control in Compliance Audit.

Dimension i: Compliance Audit Standards and Policies

The SAO adopted a new Compliance Audit Manual (CAM) in 2018 to guide its CA practice. This Manual replaced the Regularity Audit Manual introduced in 2010 with the support of the Swedish National Audit Office. The new Manual is based on the Financial and Compliance Audit Manual developed by The European Court of Auditors which was considered to be user friendly and process-driven while at the same time comprehensive and technically sound.

The Compliance Audit Manual is comprehensive. The Manual also reflects the key elements of an ISSAI risk-based approach to compliance audit. It makes ample reference to the International Standards on Auditing (ISAs) and ISSAIs 400 and 4000.

This Manual was underpinned by a new suite of Electronic Working Papers that were closely linked to the Manual and built into the MK Insight audit management system. As the Manual and working papers were developed by a working group supported by the EU Technical Assistance Project, the materials fully comply with ISSAIs. Table 21 shows the results of a comparison between manual and the standards.

Table 21 Reflection of ISSAI 400 in the SAO's audit manual and supporting working papers

Detailed ISSAI on compliance audit	Yes/no	Presence in the SAO's Financial Audit Manual and WPs
a) The elements relevant to compliance auditing (...) should be identified by the auditor before commencing the audit."	Y	Compliance Audit Manual (Sections 1.11.1 and 1.2) explains how to identify criteria/subject matter and level of assurance respectively. WP Understanding the Entity covers applicable criteria and subject matter. Overall Audit Strategy also details
b) Auditors should consider audit risk throughout the audit process.	Y	Compliance Audit Manual (Section 2.3.1) covers audit risk and link to reasonable assurance. Working paper 'Summary of Risks and Planned Audit Evidence' addresses and feeds into the 'Overall Audit Strategy' working paper
c) Auditors should consider materiality throughout the audit process.	Y	Compliance Audit Manual (Section 2.2.1-2.2.6) cover all aspects of materiality. Working paper 'Materiality' addresses including qualitative materiality and need for professional judgment
d) Auditors should prepare sufficient audit documentation.	Y	Financial Audit Manual (Section 1.9) covers nature, timing and extent of documentation. Also working papers in MK Insight

			require minimum level of documentation for completion of the file.
e)	Auditors should establish good communication throughout the audit process	Y	Compliance Audit Manual contains multiple sections from planning, execution to reporting on communication with Those charged with governance (incl. Sections 2.1, 2.3.1, 2.3.10, 3.5, 3.7.2, 3.8, 4.3) Also Audit Letter and Overall Audit Strategy details timing and matters needing communication
f)	Auditors should identify the subject matter and suitable criteria."	Y	Compliance Audit Manual (Sections 1.11.1) explains how to identify criteria/subject matter. WP Understanding the Entity covers applicable criteria and subject matter. Overall Audit Strategy also details
g)	Auditors should determine the audit scope."	Y	Compliance Audit Manual (Sections 1.11.1) explains how to identify scope of audit. Overall Audit Strategy also details
h)	Auditors should understand the audited entity in light of the authorities governing it."	Y	Compliance Audit Manual (Sections 1.1, 1.7, 1.11.1) explains how to identify authorities effecting the audited organisation. WP Understanding the Entity covers authorities
i)	Auditors should understand the control environment and the relevant internal controls	Y	Compliance Audit Manual (Sections 2.3.1-2.3.5). Working paper 'Understanding the Entity', 'Control Activities', provide guidance.
j)	Auditors should perform a risk assessment to determine the nature, timing and extent of audit procedures.	Y	Compliance Audit Manual (Sections 2.3.1 - 2.3.8) cover risks of non-compliance, including inherent and control risks. Working papers on 'Understanding the Entity' and 'Preliminary Analytics' identify and assess risks and are linked to 'Summary of Risks & Planned Audit Evidence' for responses to risks
k)	Auditors should consider the risk of fraud	Y	Compliance Audit Manual (multiple sections) emphasises the importance of considering whether non-compliances could be the result of fraud. Fraud Risk Assessment work paper focused exclusively on identifying and assessing risks of fraudulent nature
l)	Auditors should [plan the audit by] develop[ing] an audit strategy and an audit plan	Y	Compliance Audit Manual (Sections 2.3.10 and 2.6.1 respectively). Working papers 'Overall Audit Strategy' and 'Audit Plan' guide audit teams and establish necessary content. Also technical trainings on methodology including producing Overall Audit Strategy and Audit Plans and the concepts underpinning documents
m)	Auditors should gather sufficient and appropriate audit evidence to cover the scope of the audit	Y	Compliance Audit Manual (Chapter 3 - Fieldwork) details the performance of audit procedures to gather sufficient appropriate audit evidence. Audit Plan working paper requires designing of detailed procedures, multiple testing procedures working papers
n)	Auditors should evaluate whether sufficient and appropriate audit evidence is obtained and form relevant conclusions	Y	Compliance Audit Manual (Sections 3.8 and Chapter 4 - Reporting) deal with compilation of audit matters and impact on audit conclusions. Working Papers 'Summary of Audit Matters' considers sufficiency and appropriateness, and 'Reporting' assesses level of assurance.
o)	Auditors should prepare a written report based on the principles of completeness, objectivity, timeliness and a contradictory process	Y	Compliance Audit Manual (Chapter 4 - Reporting) covers forms of reporting. Working paper 'Reporting' prompts whether report prepared based on the principles of completeness, objectivity, timeliness, accuracy and contradiction. Model audit report templates included in MK Insight
p)	The SAI has also adopted policies on determining materiality through professional judgment [based] on the auditor's interpretation of the users' needs (…) in terms of value, (…) the inherent characteristics [nature] of an item [and] the context in which it occurs.	Y	Compliance Audit Manual (Section 2.2.1-2.2.9) cover all aspects of materiality. Working paper 'Materiality' addresses including qualitative materiality and use of professional judgment

q)	The SAI has also adopted policies on requirements for audit documentation	Y	Compliance Audit Manual (Section 1.9) covers nature, timing and extent of documentation. Also Completion Checklist establishes the minimal documentation requirements and content of audit file
r)	The SAI has also adopted policies on determining the nature, timing and extent of audit procedures to be performed	Y	Compliance Audit Manual (Sections 2.6 and 3.2) deal with development of Audit Plan and it's sufficiency, and adequacy of procedures. Working Paper 'Summary of Risks and Planned Audit Evidence' and 'WP Summary of Audit Matters' consider sufficiency to support conclusions

Dimension ii: Compliance Audit Team Management and Skills

Dimension ii assesses whether the SAO supports the implementation of its compliance audit standards by policies in (-) the domain of the composition of the engagement team and (-) in providing the auditors of the engagement teams with materials that facilitate the implementation of the standards.

With regard to the first issue, the assessment is similar to the financial audit. The SAO has adopted job descriptions including the required knowledge, skills and expertise for each level of compliance auditors. There is a clear link between the matters identified by the AQAD during the cold reviews and compliance audit training provided through the Public Audit Institute. This training is delivered systematically and at the end of the course there is a certification exam. The SAO also provides on-job trainings to the less experience auditors and interns. The SAO also manages the composition of the audit teams in such a way that engagement teams combine auditors with sufficient qualifications, knowledge of the entity and experience with the audit standards with auditors with less experience to support mentoring process. The SAO has never felt the need to hire external experts. The system of promotion in the SAO is largely merit-based (see SAI-20) and a system of quality control with clear reporting lines during the audit process is established (see dimension iii).

The system that is established by the SAO includes a number of elements to ensure that compliance auditors have a knowledge of auditing including an understanding of the applicable auditing standards and government organizations, programs and functions.

As noted in the previous section a detailed set of working papers were developed to support the Compliance Audit Manual in 2018 as part of the MK Insight system. Previously there were no compliance audit working papers used by the SAO – only the standardised working papers supporting the Regularity Audit Manual that were heavily focused towards FA.

The CA suite of working papers are set out in Table 23:

Table 22 Working papers contained in the SAO's Financial Audit Methodology

Audit Stage	Working Paper
Pre-Engagement	Audit Team Competency Matrix
	Ethical/Independence considerations
	Budgeted vs. Actual hours
	Audit Letter
Strategic Planning	Understanding the Entity and its Environment
	Audit Scope, Subject Matter, Criteria and Identification of sub-areas
	Understanding the Entity's Internal Controls
	Fraud Risk Assessment
	Preliminary Analytics
	Materiality
	Overall Audit Strategy

Detailed Planning	Control Activities
	Summary of Risks and Planned Audit Evidence
	Audit Plan
Fieldwork	Substantive Analytical Procedures - Guidance
	Substantive Analytical Procedures - Results
	Evaluating the Work of Management's/Auditor's Experts
	Summary of Audit Matters
Completion and Reporting	Revision to Materiality
	Overall Conclusion Analytics
	Reporting
	Completion Checklist

Table 24 gives an overview of the various elements included in the guidance to support the compliance audit teams:

Table 23 Observations on compliance audit guidance in the SAO

SAI-PMF criteria for guidance material	Guidance in the SAO Compliance Audit Manual and working papers
h) identifying applicable authorities based on "formal criteria, such as authorizing legislation, regulations issued under governing legislation and other relevant laws, regulations and agreements, including budgetary laws (regularity)" and "where formal criteria are absent or there are obvious gaps in legislation... general principles of sound public sector financial management and conduct of public sector officials (propriety)" ISSAI 400:32	Compliance Audit Manual (Section 1.11.1) explains how to identify criteria and types of authorities. WP Understanding the Entity covers applicable criteria and authorities Overall Audit Strategy also details
i) identifying suitable criteria as a basis for evaluating audit evidence, developing audit findings and concluding	Compliance Audit Manual (Section 1.11.1) explains how to identify criteria and types of authorities. WP Understanding the Entity covers applicable criteria and authorities. Overall Audit Strategy also details. Summary of Audit Matters collates audit findings for forming conclusions in Overall Conclusion Analytics working paper
j) determining the elements relevant to the level of assurance to be provided (I.e. reasonable or limited assurance)	Compliance Audit Manual establishes and differentiates the two types of compliance audits and the impact of the assurance on the form of reporting
k) considering "three different dimensions of audit risk: inherent risk, control risk and detection risk"	Compliance Audit Manual covers the three risks (Section 2.3). Working paper 'Understanding the Entity' identifies risks as does 'Preliminary Analytics'. Working paper 'Summary of Risks and Planned Audit Procedures' determines responses
l) understanding "the control environment and the relevant internal controls" and assessing "the risk that the internal controls may not prevent or detect material instances of non-compliance".	Compliance Audit Manual (Section 1.11.1) explains how to identify criteria and types of authorities. WP Understanding the Entity covers applicable criteria and authorities Overall Audit Strategy also details
m) including "fraud risk factors in the risk assessment" and exercising "due professional care and caution" if coming across instances of non-compliance which may be indicative of fraud	Compliance Audit Manual (Section 4.3), Appendix on auditors' responsibilities in regard to fraud. Fraud Risk Assessment work paper focused exclusively on identifying and assessing risks of fraudulent nature
n) determining "the nature, timing and extent of audit procedures to be performed" ISSAI 400:54 "in light of the criteria, scope and characteristics of the audited entity" and "the identification of risks and their impact on the audit procedures"	Compliance Audit Manual (Sections 2.3.10 and 2.6.1 respectively). Working papers 'Overall Audit Strategy' and 'Audit Plan' guide audit teams and establish necessary content. Also technical trainings on methodology including producing Overall Audit Strategy and Audit Plans and the concepts

SAI-PMF criteria for guidance material	Guidance in the SAO Compliance Audit Manual and working papers
	underpinning documents
o) developing "an audit strategy and an audit plan"	Compliance Audit Manual (Sections 2.3.10 and 2.6.1 respectively). Working papers 'Overall Audit Strategy' and 'Audit Plan' guide audit teams and establish necessary content. Also technical trainings on methodology including producing Overall Audit Strategy and Audit Plans and the concepts underpinning documents
p) gathering "sufficient appropriate audit evidence to provide the basis for the conclusion or opinion" covering the quantity of evidence, its relevance and reliability and how "the reliability of evidence is influenced by its source and nature, and is dependent on the individual circumstances under which the evidence is obtained" and the need for "a variety of evidence gathering procedures of both quantitative and qualitative nature."	Compliance Audit Manual (Chapter 3 - Fieldwork) details the performance of audit procedures to gather sufficient appropriate audit evidence. Audit Plan working paper requires designing of detailed procedures, multiple testing procedures working papers
q) preparing a written report in an appropriate form, so "the report should be complete, accurate, objective, convincing, and as clear and concise as the subject matter permits"	Compliance Audit Manual (Chapter 4 - Reporting) covers reporting as per ISSAI 4000. Working paper 'Reporting' includes limited/reasonable assurance options and additional disclosures. Example audit reports and templates included in MK Insight

Dimension iii: Quality Control in Compliance Audit

The last dimension of SAI-15 is concerned with the quality control procedures at the engagement level. These procedures should provide reasonable assurance that the audit has complied with professional standards, applicable legal and regulatory requirements, and that the auditor's report is appropriate in the circumstances.

The state of play in the SAO with regard to quality control in compliance audit is similar to the situation in financial audit. Therefore, it is referred to under SAI 9 (dim iii) in Section 3.3.2. Compliance Audit Manual has section on Quality Control (Section 1.10), including the need for additional review if the audit is determined to be high risk. Quality Control Review procedures are conducted on a significant proportion of audit files by auditors from other departments (peer reviews) to the engagement team, and overseen by QA function.

From the sampled compliance audit files three of them were conducted as "high risk" audits and were assigned quality control reviewers. Comments and findings provided by QC reviewers were quite detailed on each stage (planning, execution, completion) of the CA.

The new mechanism in MKI ensures that issues and failures highlighted by the QC review have been resolved before the report is issued. But similarly to FA, differences of opinions in CA still are not clearly documented in some of audit files.

Rating

Based on the above, the performance of the SAO is rated as follows:

Dimension	Findings/Justification	Score
(i) Compliance Audit Standards and policies	All criteria are reflected in the SAO compliance audit manual.	4 (Criteria (b), (c), (n) and (o) and at least twelve of the other criteria above are in

			place)
(ii)	Compliance Audit Team Management and Skills	Except criterion 'b', all other applicable criteria are met (criterion ''f' is not applicable as the SAO does not hire external expertise) Criterion 'b' is not met: • An increased number of SAO staff are professionally qualified, including ACCA. Team Leaders require certain qualifications or years of experience and have understanding of legal and regulatory requirements. Scope remains for further training in compliance audit as relatively new audit type for SAO and confusion between financial and compliance audit objectives noted for some auditors.	3 (Criteria (a), (e), (o) and at least nine of the other criteria above are in place)
(iii)	Quality Control in Compliance Audit	Except criterion 'd', all other criteria' are met: • The dedicated QC working paper is consistently used within the SAO so that all work carried out is subject to review as a means of contributing to quality. • The SAO implemented quality control procedures during the audit, CAM has section on QC, including the need for additional review if the audit is determined to be a high risk aimed at ensuring that the audit complies with the applicable standards. • The SAO does ensure that appropriate resources (such as technical experts) are used to deal with difficult or contentious matters. • The SAO does fully recognize the importance of engagement quality control reviews for their work. • Procedures are in place for authorizing reports to be issued. Criterion 'd' is not met. • Any differences of opinions within the SAI are not clearly documented, also it's not visible how it's resolved before a report is issued.	3 (At least five of the criteria are in place)
Overall score SAI 15			**3**

SAI-16: Compliance audit process

Indicator 16 looks at how compliance audits are carried out in practice based on a sample of files of compliance audits that were carried out in the last fiscal year. The actual compliance audit practices are assessed for the planning phase, the implementation phase and the reporting phase as the following dimensions are distinguished.

 i. Planning Compliance Audits;
 ii. Implementing Compliance Audits;
 iii. Evaluating Audit Evidence, Concluding and Reporting in Compliance Audits.

Section 1.4 includes the details on the selected sample of compliance audits on which basis the dimensions are assessed.

Dimension i: Planning Compliance Audits

The SAO has not carried out an independent assessment (e.g. quality assurance review, peer

or independent review, or iCAT subject to independent quality assurance) since the last SAI-PMF assessment in 2017. Therefore, the SAI-PMF team has carried out its own review. Based on the available audit documentation of the sample of five CA-files, Table 24 has been compiled. The table indicates for each applicable criterion whether the audit file demonstrates evidence that the criterion is met (✓), not met (X) or not applicable (n/a).

Table 24 Observation of compliance with standards in the compliance audit planning process across selected audit files

SAI PMF criteria	Selected audit files							Assessment
	1	2	3	4	5	I	II	
a) The elements relevant to compliance auditing... should be identified by the auditor before conducting a compliance audit." (I.e. identify the applicable authorities covering regularity and, if necessary, propriety, requirements; the subject matter; intended users of the report; and level of assurance to be provided, whether reasonable or limited)	✓	✓	✓	✓	✓			Met
b) Auditors should consider audit risk throughout the audit process." (I.e. the auditor should consider three different dimensions of audit risk: inherent risk, control risk and detection risk) and "Auditors should perform a risk assessment to identify risks of non-compliance."	✓	✓	✓	✓	X	✓	✓	Met
c) Auditors should consider materiality throughout the audit process (I.e. including consideration of materiality by value, nature and context)	✓	✓	✓	✓	✓			Met
d) Auditors should maintain effective communication throughout the audit process" and "communication of the criteria determined for the audit is essential	✓	✓	✓	✓	✓			Met
e) Auditors should identify the subject matter and suitable criteria" based on applicable authorities, as a basis for evaluating audit evidence.	✓	✓	✓	✓	✓			Met
f) Auditors should determine the audit scope (...) [as] a clear statement of the focus, extent and boundary in terms of the subject matter being in compliance with the criteria	✓	✓	✓	✓	✓			Met
g) Auditors should understand the audited entity in light of the authorities [governing it].	✓	✓	✓	✓	✓			Met
h) Auditors should understand the control environment and the relevant internal controls	✓	✓	✓	✓	✓			Met
i) Auditors should consider the risk of fraud by including fraud risk factors in their risk assessments	✓	✓	X	✓	X	✓	✓	Met
j) Auditors should [plan the audit by] develop[ing] an audit strategy and an audit plan (...) both the audit strategy and audit plan should be documented in writing.	✓	✓	✓	✓	✓			Met
k) at the audit engagement level, auditors [and any contractors] comply with the following ethical requirements: integrity, independence and objectivity, competence, professional behaviour and confidentiality.	✓	✓	✓	✓	✓			Met

Table 24 shows that out of eleven criteria, all (2017: four) criteria were observed which is a significant improvement. Fraud risk assessment templates became mandatory and is the part of the MK Insight. All audit engagements documented in MK Insight has considered the risk of fraud. As two selected engagements were started in 2018-2019 their results were not considered for the criteria i).

Dimension ii: Implementing Compliance Audits

Based on the available audit documentation of the sample of three CA-files, Table 25 has been

compiled. The table indicates for each applicable criterion whether the audit file demonstrates evidence that the criterion is met (✓), not met (X) or not applicable (n/a).

Table 25 Observation of compliance with standards in compliance audit implementation across selected audit files

| SAI-PMF criteria | Audit file | | | | | | | Assessment |
	1	2	3	4	5	I	II	
a) The auditor has "determine[d] the nature, timing and extent of audit procedures to be performed" in light of the criteria and scope of the audit, characteristics of the audited entity and results of the risk assessment "for the purpose of obtaining sufficient and appropriate audit evidence. If relevant, the SAI's approach to calculating minimum planned sample sizes in response to materiality, risk assessments, and assurance level, has been applied.	✓	✓	✓	✓	X	✓	✓	Met
b) If the auditor comes across instances of non-compliance which may be indicative of fraud, he or she should exercise due professional care and caution so as not to interfere with potential future legal proceedings or investigations" and should follow the SAIs procedures for handling indications of fraud.	✓	✓	✓	✓	✓			Met
c) Where external experts are used, "auditors should evaluate whether the expert have the necessary competence, capabilities and objectivity and determine whether the work of the expert is adequate for the purpose of the audit." ISSAI 400:45	n.a.	n.a.	n/a	n/a	n/a			Not relevant
d) The auditor should gather sufficient appropriate audit evidence to provide the basis for the conclusion or opinion... [including] a variety of evidence gathering procedures of both quantitative and qualitative nature [and] the auditor often needs to combine and compare evidence from different sources	✓	✓	✓	✓	X	✓	✓	Met
e) All planned audit procedures were performed, or where some planned audit procedures which were not performed, there is an appropriate explanation retained on the audit file and this has been approved by those responsible for the audit.	✓	✓	✓	✓	X	X	X	Not Met

Table 25 shows that out of five criteria, three (2017: one) criteria were met and one not relevant. The separate CA manual, comprehensive working documents and using MKI resulted in the improved performance compared to the 2017 SAI-PMF.

Dimension iii: Evaluating Audit Evidence, Concluding and Reporting in Compliance Audits.

Based on the available audit documentation of the sample of three CA-files, Table 27 has been compiled. The table indicates for each applicable criterion whether the audit file demonstrates evidence that the criterion is met (✓), not met (X) or not relevant (n/a).

Table 26 Compliance with standards in evaluating audit evidence and reporting in three selected files

SAI-PMF criteria	Audit file							Assessment
	1	2	3	4	5	I	II	
a) Documentation should be in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the following: the relationship between the subject matter, the criteria, the scope of the audit, the risk assessment, the audit strategy and audit plan and the nature, timing and extent and the results of procedures performed; the audit evidence obtained to support the auditor's conclusion, opinion or report; and to record reasoning on all significant matters that required the exercise of professional judgment and related conclusions.	✓	✓	✓	✓	X	✓	✓	Met
b) The SAI's requirements for audit documentation have been followed, to ensure "the auditor should prepare relevant audit documentation before the audit report or the auditor's report is issued, and the documentation should be retained for an appropriate period of time	X	X	X	X	X			Not met
c) Auditors should evaluate whether sufficient and appropriate audit evidence is obtained and form relevant conclusions... so as to reduce audit risk to an acceptably low level... the evaluation further includes considerations of materiality... [and] the assurance level of the audit	✓	✓	✓	✓	✓			Met
d) Auditors should maintain effective communication throughout the audit process", and during the audit "instances of material non-compliance should be communicated to the appropriate level of management or those charged with governance.	✓	✓	✓	✓	✓			Met
e) The SAI's findings are subject to procedures of comment and the recommendations [or observations] to discussions and responses from the audited entity	✓	✓	✓	✓	✓			Met
f) Auditors should prepare a report based on the principles of completeness, objectivity, timeliness and a contradictory process	✓	✓	✓	✓	✓			Met
g) The compliance audit report itself includes the required elements.	✓	✓	✓	✓	✓			Met
h) The report should be; easy to understand and free from vagueness and ambiguity; be complete; include only information which is supported by sufficient and appropriate audit evidence; ensure that findings are put into perspective and context; and be objective and fair	✓	✓	✓	✓	✓			Met
i) Any audit observations and recommendations are written clearly and concisely, and are directed to those responsible for ensuring they are implemented.	✓	✓	✓	✓	✓			Met
j) Where an opinion is provided the auditor should state whether it is unmodified or modified on the basis of an evaluation of materiality and pervasiveness	n.a.	n.a.	n.a.	n.a.	n.a.			Not relevant

Table 27 shows that out of ten criteria, eight (2017: six) criteria were observed and one not relevant. Based on the sampled audit files audit findings and recommendations are evidenced-based and professional judgement is used by the engagement teams. Compared to the 2017

SAI-PMF the user-friendliness of CA are significantly improved, reports are easy to read and interpret.

Rating

Based on the above, the performance of the SAO on SAI 16 is rated as follows:

Dimension	Findings/Justification	Score
(i) Planning compliance audits	All criteria were met.	3 (Criteria (b), (h) and at least six of the other above criteria are in place.)
(ii) Implementing compliance audits	Except for criteria 'e', all criteria are in place. Criteria 'e' is not met: • In some cases, not all planned audit procedures were performed.	3 (Criteria (a) and at least one of the other above criteria are in place, but not criterion 'd')
(iii) Evaluating audit evidence, concluding and reporting	Except for criteria 'b', all criteria are in place (criteria j is not relevant). Criterion 'b' is not met: • The SAI's requirements for audit documentation were followed.	3 (Criteria (e) and (f) and at least six of the above criteria are in place)
Overall score SAI 16		**3**

SAI-17: Compliance audit results

This indicator assesses outputs of the compliance audit function in the SAO. The outputs of the compliance audit are assessed using three dimensions:

i. Timely Submission of Compliance Audit Results;
ii. Timely Publication of Compliance Audit Results;
iii. SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations.

Dimension i: Timely Submission of Compliance Audit Results

In Georgia, there is no legally defined time frame for submission CA reports. So, the timely submission is calculated as the time between the period covered by the compliance audit report and the date of submission to the audited entity Best practice would be submission in less than six months from the end of the period audited.

Out of 32 compliance audit reports issued in 2021 only 9 were certified and issued within 12 months after the audited period. This performance is below the performance observed in the 2017 SAI-PMF assessment. The reason may be the Covid and elections in municipalities in 2021.

Dimension ii: Timely Publication of Compliance Audit Results

The previous dimension assesses the submission of the audit results to the audited entity and other authorities. Dimension ii focuses on the time gap between the date that the SAO is allowed to publish the Audit Report and the date that the SAO actually publishes the Report.

The SAO is entitled to publish the Audit Report as soon as the Report is certified. After certification, the Report is shared with the auditee and the SAO applies a period of 20 working days for the auditee to appeal against the Report. If there is no appeal against the Report, the

Report is published via the website of the SAO within the five days per the Decree of SAO dated 7 February 2018. This Decree was activated in 2019. From the 32 audit reports issued in 2021, each of them was published within the 5 days after the 20-day grace period following certification. The date of publication in 2021 was similar to the date of submission to Parliament. This is an improvement with the previous SAI-PMF assessment.[15]

Dimension iii: SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations.

In the previous SAI-PMF assessment financial and compliance audits were combined in regularity audit and so state of play in the SAO with regard to the follow up for recommendations by the SAO for compliance was identical to the situation in financial audit. However in 2018 separate financial and compliance audit methodologies were established and implemented, decoupling the two forms of audit. While this development has led to improvements in the targeting and quality of compliance audits, it has also led to an improvement of the mechanisms in following up of compliance audit recommendations. In 2020, the SAO updated the guidance "Elaboration of Recommendations and Monitoring of Implementation".

Since the last quarter of 2021, the SAO installed an electronic system for monitoring and follow up of recommendations. The database is accessible from the official web page of SAO. See for more details SAI-11, Dimension iii. This technological solution and new guidance mentioned above according to which annual follow up is required is major development for follow-up on implementations of CA observations and recommendations.

The Parliament has an access to the Audit Recommendation Implementation System and to all documents, materials, action plans and statuses of the recommendations. This gives the Parliament possibility to get follow-up information on the recommendation in continuous mode and monitor the process.

The SAO monitors the status of each recommendation, including details on the implementation of each recommendation along with supportive evidence, whether the audited entity has adequately addressed the problems. If a recommendation is not implemented, the auditee is expected to give a justification.

While monitoring the implementation of recommendations, the SAO evaluated the significance and materiality of the problems, challenges in the implementation process and based on this decision of new follow-up audit is initiated. The follow-up audit includes information about the corrective actions auditee has taken and its impact.

In addition, the SAO annually produces a separate Summary Report on implementation of recommendations. The summary report provides comprehensive analysis, statistics, common trends, systemic issues and root cause analysis on the implementation of FA, CA and PA recommendation. The report also includes detailed follow-up information on the particular recommendations. The report is submitted to the Parliament and published.

Rating

Based on the above, the performance of the SAO on SAI 17 is rated as follows:

Dimension	Findings/Justification	Score

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[15] In the 2017 SAI PMF assessment, erroneously, the rate '4' was given. The actual performance in 2017 was '2'.

(i)	Timely Submission of Compliance Audit Results	For at least 20% of compliance audits, the audit opinion and/or report is submitted to the audited entity or other appropriate authority within the established legal time frame (or where no timeframe is defined, within 12 months from the end of the period to which the audit relates).	1
(ii)	Timely Publication of Compliance Audit Results	For all audit reports and/or opinions where the SAI has the right and obligation to publish, the report and/or opinion is made available to the public through appropriate means within 15 days after the SAI is permitted to publish.	4
(iii)	SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations	All criteria have been met: • The SAO has an internal follow-up system to ensure that the audited entities properly address their observations and recommendations; • The follow-up focuses on whether the audited entity has adequately addressed the matters raised in previous audits; • The SAOs' follow-up procedure allow for the audited entity to provide information on corrective measures taken or why corrective actions were not taken. • The SAO submits its follow-up report to the Legislature; • The SAO publishes the results of its follow up audit activities; • The SAO applies materiality to decide on the need for follow up investigations.	4
Overall score SAI 17			**3**

3.4 Domain D: Financial Management, Assets and Support Services

A SAI should manage its operations economically, efficiently, effectively and in accordance with laws and regulations (ISSAI 20:6). This means a SAI should have an appropriate organisational management and support structure that will give effect to good governance processes and support sound internal control and management practices (ISSAI 12, principle 9). This equally applies to the SAI's support services, including management of its finances and its material assets.

Domain D consists of one indicator that covers the main dimensions and criteria that need to be in place. Table 27 provides an overview of the scores. Section 4.4.1 provides further details.

Table 27 Overview of assessment scores in domain D

Domain D. Financial Management, Assets and Support Services		Year	Dimensions				Overall score
Indicator	Name		i	ii	iii	iv	
SAI-21	Financial Management, Assets and Support Services	2017	3	2	3		3
		2021	3	4	4		4

SAI-21: Financial Management, Assets and Support Services

Indicator 21 measures whether the management of financial resources by the SAO follows a system characterized by internal control, transparency and documentation of costs and demonstration of own accountability. The SAO also needs to demonstrate effective planning and use of its assets, including physical infrastructure such as regional offices, assets such as vehicles, archiving facilities and office equipment, as well as IT hardware and software, which enable employees to communicate, access information and document their work.

The indicator on Financial Management, Assets and Support Services is separated in three dimensions:

i.   Financial Management;
ii. Planning and Effective Use of Assets and Infrastructure;
iii. Administrative Support Services.

Dimension i: Financial Management

Compliance with the criteria under this dimension remains the same what is described in the recent SAI PMF report of 2017.

In relation to financial management, assets and support services, the SAO operates within a strong, well-defined structure. As noted earlier in this report, the financial/internal control processes and procedures used by the SAO are the same as those used by the Government as a whole. Responsibilities for budget preparation and budget execution are well understood within the SAO.

The SAO is obliged to follow the general guidance issued by the Ministry of Finance on the management of public funds but it is not clear how this is translated into formal internal guidance. Authority to incur and approve expenditure rests with the AG. A scheme of delegation to members of the Presidium for major procurement decisions is in place but many day-to-day transactions (e.g. travel and subsistence claims) are authorised personally by the AG. These approval processes operate within the overall framework of the budget approved by Parliament.

The Head of Finance and his staff are very experienced and have a good understanding of the requirements in budgeting and accounting. The timetables, deadlines and procedures established are strictly followed in accordance with legislation and corresponding instructions. The applicable financial management information system for the SAO is the Treasury system managed by the MoF. However, this is purely a financial system which is lacking performance or other management information required by the SAI 21 assessment criterion.

The SAO started from 2021 to a have a time recording system, but the cost of individual projects and audits are not separately identifiable.

The SAO prepares the quarterly and annual financial statements which are reported to the Ministry of Finance. The Annual Performance Report includes the SAO financial statements and is reported to Parliament and published. As an improvement to the 2017 SAI PMF assessment, SAO's annual financial statements are now subject to external independent audit performed by one of the big four audit firms selected by the Budget and Finance Committee of the parliament. The SAO's financial statement all these years (2018, 2019, 2020 and 2021) received unmodified audit opinion.

As the Table 28 below shows, the SAO has not largely deviated from its appropriated amount during the last three fiscal years:

Table 28 SAO's budget execution ratios of the last three years (in 000 GEL)

	2019	**2020**	**2021**
Appropriations	16,170	15,455	16,811
Actual Expenditure	15,925	13,547	15,533
Actual Expenditure in %	98.5%	87.6.%	92.4%

Dimension ii: Planning and Effective Use of Assets and Infrastructure

SAO adjusted its regional presence to the decision of moving Georgian Parliament back to Tbilisi. The SAO significantly reduced the number of its staff in Kutaisi office responsible for auditing local governments and 80% of staff moved to Tbilisi office. The SAO's previous office building has been transferred to GoG. The remaining staff in Kutaisi are now located the Kutaisi municipal city hall building.

On a positive side it should be noted that the SAO in 2019 was engaged in ITSA and ITASA assessments to review the adequacy of its IT infrastructure and identify proposals for improvements. The EU funded project also provided various technical assistance to improve the SAO's IT system.

In October 2021, the SAO reviewed the adequacy of its IT infrastructure (computers, software and IT network). This was followed by an Information Technology long term development plan in December 2021. In December 2021, also a short term Information Security 2022 action plan was adopted.

These developments demonstrate the implementation of the SAO leadership's long-term strategy for the SAO's physical infrastructure.

Dimension iii: Administrative Support Services

The SAO has an adequate administrative support system in place. It is common practice that the new SAO management team, which is newly appointed every 5 years, reviews the administrative support services at the beginning of their tenure.

The administrative support services are partly carried out by the Administration and partly by the Finance and Logistics Department.

The archiving functions is part of the responsibility of the Administration covers the archiving function and follows established legislation and instructions. In recent years, the document flow system and the inventory procedures have become fully electronic. The corresponding electronic Information Asset Management Policy was developed by the ISB. The non-electronic archived documents are stored in a secure place.

The Rules of Procedures of the SAO (section 6.11) assigns the Finance and Logistics Departments of the SAO with the responsibility to i) keep the inventory all types of assets of the SAO, ii) organize and supervise capital maintenance and reconstruction works. The staff have long-term experience in asset and contract management.

The Finance and Logistics Department also incorporates the IT unit which is responsible for managing IT support, but faces challenges. To address weaknesses identified in the previous SAI PMF assessment under this dimension, the SAO created a separate IT Administration department which is now responsible for SAO's audit management Software MK Insight.

Rating

Based on the above, the performance of the SAO on SAI 21 is rated as follows:

Dimension	Findings/Justification	Score
(i) Financial Management	All criteria except for 'f', and 'g' have been met: To ensure effective management of its financial resources, the SAO has: • Clearly assigned responsibilities for major financial management activities. • A system of delegation of authority to commit/incur and approve expenditure on behalf of the SAO. • Financial manuals and/or regulations in place and make them available to all staff. • Ensured staff tasked with budgeting and accounting have the appropriate skills set, experience, and resources to do the job. • A clear timetables and procedures governing the budgeting process. • Managed its actual expenditure - so that in no more than one out of the last three years has the SAO's actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of the expenditure in the latest approved budget. • The SAO annually prepares a financial statement/financial report following a relevant and appropriate financial reporting framework. • The SAO has received an unmodified or unqualified audit opinion on its last audited/reviewed financial statements. Criteria 'f and 'g' are not met: • The SAO does not have a functioning Management Information System, which includes financial and performance information. • The SAO does not have a functioning staff cost recording system.	3 (At least eight of the criteria are in place but not all)
(ii) Planning and Effective Use of Assets and Infrastructure	All criteria are met: • The SAO has developed a long-term strategy or plan for its physical infrastructure needs, and a shorter-term plan for its IT needs, based on current and anticipated future staffing levels. • Where relevant, the SAO has reviewed the size, staffing and locations of its accommodation in relation to the location of its audit clients within the past 5 years, and proposals for improvement have been addressed. • The SAO has reviewed the adequacy of its IT infrastructure (computers, software and IT network) within the past 3 years, and proposals for improvement have been addressed. • The SAO reports on any inadequacies relating to its assets and infrastructure in its annual report or similar when relevant matters arise.	4 (All of the criteria are in place)

	• The SAO has secured access to appropriate archiving facilities, which enable all relevant records to be stored securely over several years and accessed when needed.	
(iii) Administrative Support Services	All criteria are met: • The SAI should have appropriate administrative support to function and maintain its assets and infrastructure effectively: • Responsibility for internal IT support is clearly assigned and the staff tasked with this have the appropriate skills set and resources to do the job. • Responsibility for file management and archiving is clearly assigned and the staff tasked with this have the appropriate skills set and resources to do the job. • Responsibility for management of all major categories of assets and infrastructure is clearly assigned and the staff tasked with this have the appropriate skills set and resources to do the job. • All administrative support functions have been reviewed within the past 5 years and proposals for improvement were addressed.	4 (All of the criteria are in place)
Total score SAI 21		**4**

3.5 Domain E: Human Resources and Training

The Lima Declaration (ISSAI 1) recognizes that an effective SAI is dependent on its capacity to recruit, retain, and effectively deploy highly skilled, hard-working and motivated staff. It is the responsibility of the SAI's management to ensure that a SAI has the right staff at the right time and that it can deploy them effectively.

ISSAI 40 also acknowledges the contribution of sound human resource management in achieving service excellence and quality. ISSAI 40 emphasises that SAIs should have human resource policies and procedures that adequately deal with qualifications and ethics. ISSAI 100 emphasizes, for all audits, "the needs for recruiting personnel with suitable qualifications, developing and training employees [and that] auditors should maintain professional competence through continuing professional development." (ISSAI 100:39).

To ensure that staff remain adequately skilled, while developing professionally and being up to date on standards and audit methods, the SAI needs to approach the area of professional development in a strategic manner, and develop policies and practices for implementation of its strategic choices. Domain E looks at the SAI's performance in management and development of its human resources.

Table provides an overview of the scores of the SAO in Domain 'E'. Section 4.5.1 and 4.5.2 provide further details.

Table 29 Overview of assessment scores in domain E

Domain E. Human Resources and Training		Year	Dimensions				Overall score
Indicator	Name		i	ii	iii	iv	
SAI-22	Human Resource Management	2017	3	2	2	2	2
		2021	4	4	4	4	4

SAI-23	Professional Development and Training	2017	2	2	2	2	**2**
		2021	4	4	4	4	**4**

SAI-22: Human Resource Management

This indicator assesses the elements of the SAI's Human Resource Management. According to ISSAI 40 "the SAI's human resource policies and procedures should include [among other things]: recruitment, professional development, appraisal and promotion." (ISSAI 40: 10).

In some systems SAI staff are part of the government pool of employees and therefore not recruited directly by the SAI. While there may be advantages to this solution, the SAI having to acquire staff from the government pool may affect its independence. This should then be reflected in SAI-1.

The indicator is separated in four dimensions:

 i.   Human Resources Function;
 ii. Human Resources Strategy;
 iii. Human Resources Recruitment;
 iv. Remuneration, Promotion and Staff Welfare.

Dimension i: Human Resources Function

The Human Resource Unit is the responsible for the development and maintenance of the HR Strategy and policies within the SAO. The Unit has 5-6 staff covering the full range of HR functions at a policy level. The Unit is also responsible for HR administration. Other HR activities, such as recruitment and training are implemented in cooperation with other departments of the SAO.

A new and positive development is the introduction by the SAO of a staff performance appraisal system which is performed twice a year as an interim and final assessment. The system serves as a comprehensive staff evaluation based on which the SAO leadership applies merit-based promotion policy.

The HR Unit is currently guided by the SAO's HR Strategy for the period 2020-2022 (see dimension ii for more details). The HR Unit has developed a Competency Framework which is laid down in the AG Order 41/37 "concerning the Approval of Additional Qualification Requirements for the Candidates Applying for the Vacant Positions of Individual Officials at the State Audit Office" (March 2015). The requirements for specific positions are laid down in Job Descriptions and the general Competency Framework. This is to ensure that all officers know what is required to apply for a specific job and to recruit the appropriate person. Registration of Professional Development Reports and other personnel files (e.g. signed code of ethics) is supported by an e-HRM system.

Dimension ii: Human Resources Strategy

Compliance with the criteria under this dimension observed a significant improvements compared to the SAI PMF report of 2017.

The SAO updated its HR Strategy for 2020-2022 which is aligned with the corporate strategy. SAO further improved the Competency Framework to make the requirements for different staff grade more specific and transparent. The updated HR strategy contains performance indicators, baseline information and targets, related to performance rates such as turnover, vacancies etc.; a reference to the staff retention and remuneration as one of the important issues for the SAO management; considerations about the number and type of staff required over the planning

period; performance appraisal procedure; professional development of the staff etc. The information included in the strategy is policy oriented designed to develop or improve existing policy documents and guides. The HR strategy is clearly communicated to all staff through intranet and corporate email.

As part of HR strategy, the SAO managed to secure it autonomy for staff remuneration defined by the law on "Remuneration in Public Service". According to the Section 1 of the law the SAO's professional staff is excluded from the regulation of the law. Within the legal and budgetary constrain, the SAO has increased the staff remuneration by 10% during 2018-2019 and additionally by 10-13% from January 2022.

Budget increase is not reflected in the HR strategy, the SAO's long-term budget as the budget should be approved by parliament annually.

Compared to the 2017 the SAO annually monitors progress in implementing HR strategy. These are documented as a background information of updated HR strategy.

Dimension iii: Human Resources Recruitment

Compliance with the criteria under this dimension observed significant improvements compared to the 2017 SAI PMF report.

Recruitment procedures are based on the Civil Service Law supplemented by more specific SAO requirements in the AG Order 41/37 (11.03.15) concerning the Approval of Additional Qualification Requirements for the Candidates Applying for the Vacant Positions of Individual Officials at the State Audit Office.

Compared to the previous assessment recruitment decisions are based on the organisational needs which opens upon a vacancy, required competency and skills, turnover rate or increasing the number of staff. To maintain a stable supply of young professionals the SAO launched internship program and regularly invites dozen of interns which, based on merit, continue their career as public auditors.

The SAO strongly focuses on the gender diversity during the recruitment. As a result, it has one of the best balanced numbers of male and female staff (47% and 53% respectively) across the public sector.

In HR decision-making, regarding procedural issues, the SAO consults with the Public Service Bureau. The Bureau evaluates the practice of the SAO's recruitment process and provides recommendations to further improve the practice.

In compliance with the Civil Service Law, the recruitment processes are made public as the pertinent information is included in the published vacancy notices. It is mandatory to advertise all vacancies on the website of Civil Service Bureau through which the candidate can apply for an SAO vacancy.

Recruitment decisions are made by the AG but follow the advice of the Recruitment Panels who oversee the recruitment exercises and consist of staff from across the SAO.

Recruitment decisions are based on an analysis of organisational needs. The analysis is written down and in such detail that it would cover matters such as expected staff turnover. Compared to the 2017 recruitment decisions also considers the alternative option to utilise external consultancy services.

Dimension iv: Remuneration, Promotion and Staff Welfare

Since the 2017 SAI PMF assessment, the SAO established staff performance appraisal system which is comprehensively assessing employees' performance against the job description. The

evaluation is conducted twice a year based on 6 and 12 month performance.

It also elaborated policies that serve staff welfare. They are consolidated in one welfare policy document and is part of HR Strategy, it touches upon various issues to ensure high staff motivation and loyalty. Most importantly, the SAO leadership constantly seeks for staff opinion though anonymous surveys with respect to leadership philosophy and organizational policies to act upon the feedback and improve.

Salaries are defined as part of the staff list. Promotions and bonuses are decided by the AG based on a written justification on past performance by the Head of Department. Decisions on remuneration, bonuses and promotion are currently based upon established processes to appraise individual performance of the SAO staff.

The SAO has developed various initiatives that aim to enhance the employee's welfare including sport activities and social activities. An employee satisfaction survey is carried out at least once every two years including questions regarding the working environment, communication between staff and internal procedures. The SAO leadership acts on the findings as appropriate.

Rating

Based on the above, the performance of the SAO on SAI 21 is rated as follows:

Dimension	Findings/Justification	Score
(i) Human Resources Function	All criteria have been met: • The SAO's HR function is well resourced and headed by experienced HR specialists with the appropriate skills. • The SAO's HR function is responsible for developing and maintaining the Department's HR Strategy and policies. • The SAO has established and uses a Competency Framework. • The SAO's HR function provides guidance and consultation on HR matters; • The SAO does maintains a performance evaluation appraisal system. • The SAO pays attention to personal development needs; • The SAO maintains personnel files for all its officers and officials.	4 All criteria have been met
(ii) Human Resources Strategy	All criteria have been met: • The SAO's HR Strategy is aligned with the Strategic Plan/objectives of the SAO; • The HR Strategy covers retention, and remuneration; • The HR Strategy has indicators, baselines and targets (for turnover, vacancies); • The achievement of the targets in the strategy is monitored annually; • The HR Strategy is disseminated to all staff; • The HR Strategy is reviewed and continuously updated at a minimum once every five years.	4 (At least five of the criteria are in place)

	• The HR Strategy contains considerations about the number and type of staff required over the planning period.	
(iii) Human Resources Recruitment	All criteria have been met. • The SAO has written procedures in place for recruitment including specifying the minimum qualification requirements; • The SAO's recruitment processes are made public; • The SAO recruitment processes promote diversity;16 • In recent recruitments, the decision-making process involved more than one person; • Current overall recruitment plans are based on analysis adequately addressing needs, considering matters such e.g. as vacancies, overall required competencies and skills levels, staff turnover; • Advertisements for positions during the last year included a description of the skills and experience required and were made public. • The SAO uses consultancy services to supplement its internal human resources by outside expertise as needed.	4 All criteria have been met
(iv) Remuneration, Promotion and Staff Welfare	All criteria have been met: • There are established routines to ensure individual performance appraisal at least once a year. • The last performance appraisal assessed the employee's performance against the Job Description or performance agreement made the previous year. • The last remuneration practices and awarding of bonuses were in accordance with the established procedures; • The promotions procedure takes into account an assessment of performance and potential to perform at the higher level. • The promotions awarded during the past year, or the last two promotions, followed the established procedures. • The SAI has a functioning staff welfare policy. • Employees have had the opportunity to express their views on the work environment to management within the last year. • The management has addressed issues arising from views expressed on the work environment.	4 All criteria have been met
Overall score SAI 22		**4**

SAI-23: Professional Development and Training

According to ISSAI 40, SAIs should strive for service excellence and quality. As a part of its

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[16] Recruitment procedures are strictly established by law and the SAO has no control over the legislative requirements.

quality management "an SAI should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient resources (personnel) with the competence, capabilities and commitment to ethical principles necessary to carry out its work in accordance with relevant standards. ISSAI 12 states that SAIs should promote Continuing Professional Development that contributes to individual, team and organisational excellence.

This indicator assesses how the SAO as an organisation is able to promote and ensure Professional Development to improve and maintain the competency of its staff. The indicator is separated in four dimensions:

    i.   Plans and Processes for Professional Development and Training;
    ii.   Financial Audit Professional Development and Training;
    iii.   Performance Audit Professional Development and Training;
    iv.   Compliance Audit Professional Development and Training.

Dimension i: Plans and Processes for Professional Development and Training

The Human Resource Management Strategy (2020-2022) contains a section on training including the following objectives:

- Training Rules;
- Training Needs Assessment (with every employee once per year);
- Training Programme for new staff;
- Diversified optional trainings based on the needs of SAO and its employees;
- Optional training especially regarding these topics: language (English), writing clearly, IT-topics, budget law and procurement law ;
- Voluntary trainings for the development of management skills.

The training content includes some aspects of personal skills, such as report writing and IT skill and performance management. The PAI monitors the results of professional development and training of staff.

The training approach is to motivate staff so in taking responsibility to improve the quality of their work and developing their career and they themselves apply for the various trainings offered by the PAI. The HR framework adopted by the SAO lays out the rules and procedures for promotion and how to meet the expectations necessary for senior management positions. The requirements for each position are assessed in a Job Description which in detail contains the requirements regarding education, knowledge and experience as well as skills and competencies.

Since 2020, an Annual Training Plan is prepared by the SAO. The training programme is annually updated and covers all SAO employees. Some trainings are mandatory, some of them are optional and depend upon the motivation of the SAO staff. Through the development plan, prepared during the annual appraisal, all professional staff are incentivized to participate in the voluntary training program. There is a top down plan for talent development and training.

Delivery of the training is performed by the PAI which is organised as an agency or LEPL under the SAO. The PAI is staffed by the most experienced auditors from SAO and its training offer covers financial, compliance and performance audit.

The SAO developed forms to monitor and evaluate the results of professional development and training of staff.

Dimension ii, iii and iv: Professional Development and Training for financial audit / Performance Audit Professional Development and Training / Compliance Audit

The SAO has assigned lead persons responsible for the professional development with sufficient and appropriate experience and authority for professional development of financial, compliance

and performance audits.

Since 2020, for each audit domain, there are Professional Development Mandatory Programs. These are specific plans for the professional development of the audit staff including attention to internal training on the SAI's relevant audit standards and procedures, (-) learning on the job and supervision / mentoring schemes; (-) professional or academic training / membership of relevant professional or academic bodies; (-) Continuous Professional Development.

Training in financial, compliance and performance audit is carried out by the Public Audit Institute and the training is aligned with the Competency Framework and individual development plan.

Rating

Based on the above, the performance of the SAO on SAI 16 is rated as follows:

Dimension	Findings/Justification	Score
(i) Plans and Processes for Professional Development and Training	All criteria have been met: • The SAO has developed and implemented an approach/plan for professional development and training; • The SAO's learning strategy is aligned with the Human Resource Strategy and linked to the goals/objectives stated in the Strategic Development Plan; • The SAO has established routines or practice for selection of staff to participate in training which are based on considerations of the competence needed; • All professional employees (leaders, managers, auditors, control personnel etc.) have a development plan based on an annual appraisal." • The SAO has systematic plan for talent development; • The SAO training approach applies to both audit and non-audit staff; • There are mechanisms in place to monitor and evaluate the result of professional development and training of staff.	4 All criteria are met
(ii) Financial Audit Professional Development and Training	All criteria have been met: • The responsibility for professional development of financial audit is clearly assigned to persons with sufficient and appropriate experience and authority in the SAO; • The SAO has competency requirements for different staff grades in financial auditing. • The SAO has an offer for professional development in financial auditing based on the competency requirements for different staff grades via the PAI and informed by a needs assessment. • The SAO does have a plan for professional development and training in financial auditing covering (-) Internal training on the SAI's relevant audit standards and procedures; (-)	4 All criteria are met

		Learning on the job and supervision / mentoring schemes; (-) Professional or academic training / membership of relevant professional or academic bodies; and (-) Continual professional development.	
(iii) Performance Audit Professional Development and Training		All criteria have been met. See justification for dimension ii	4 All criteria are met
(iv) Compliance Audit Professional Development and Training		All criteria have been met. See justification for dimension ii	4 All criteria are met
Overall score SAI 23			**4**

3.6 Domain F: Communication and Stakeholder Management

As per ISSAI 12, one of the SAI's main objectives is to demonstrate its relevance to stakeholders. Therefore, SAIs should communicate with stakeholders to ensure understanding of the SAI's audit work and results. This should be done in a manner that increases stakeholders' knowledge and understanding of the role and responsibilities of the SAI as an independent auditor of the public sector (ISSAI 12:6). Domain F captures the efforts of SAIs in communicating to its stakeholders. The stakeholders include:[17]

- The Legislature: especially the legislative committee responsible for approving the budget, and/or for oversight of government functions and public finances (see dimension ii);
- The Executive: government organisations/executive bodies/agencies, including the Ministry of Finance;
- Audited entities;
- The Judiciary and/or prosecuting and investigating agencies;
- The media;
- Citizens/general public;
- Special interest groups, including Civil Society Organisations and development partners;
- Academics;
- Professional and standard setting bodies (e.g. Professional Accountancy Bodies).

Domain F consists of two indicators. The following table provides an overview of the scores of the SAO in Domain 'F'. Section 3.6.1 and 3.6.2 provide further details.

Table 30 Overview of assessment scores in domain B

Domain F. Communication and Stakeholder Management		Year	Dimensions				Overall score
Indicator	Name		i	ii	iii	iv	
SAI-24	Communications with the Legislative, the Executive and the Judiciary	2017	2	4	2	2	2
		2021	4	4	4	4	4
SAI-25	Communication with the Media, Citizens and Civil Society Organisations	2017	3	4			3
		2021	4	4			4

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[17] INTOSAI Guideline "Communicating and Promoting the Value and Benefits of SAIs.

SAI-24 Communications with the Legislative, the Executive and the Judiciary

SAI-24 assesses the communication practices that the SAI has established with institutional stakeholders. The SAI should take the initiative to communicate about its work and its mandate in a way that does not compromise its independence from these parties. Established good practices will allow the SAI to do so while reducing any risk. It will enable these stakeholders to see SAI reports as relevant input to their work, and the SAI to be more responsive to emerging risks and changing environment.

The indicator is separated in four dimensions:

i.   Communications Strategy;
ii.   Good Practices regarding communication with the Legislature;
iii. Good practices regarding communication with the Executive;
iv.   Good practices regarding communication with the Judiciary, Prosecuting and Investigating Agencies.

Dimension i: Communications Strategy

In November 2020, the existing Communication Strategy was updated and covered the 2020-2022 period in line with the SAO Strategy Development Plan.

The SAO has identified three objectives of the Communication Strategy for communications and/or stakeholder engagement: (1) Increase stakeholders' awareness of the mission, vision, and core values. Raise the trust in the SAO reports, raise the reputation and awareness of the institution. (2) Increase the availability and visibility of the findings and recommendations in specific audit reports, especially for decision-makers, and key stakeholders. (3) Increase the motivation of decision-makers and key stakeholders to address systematic shortcomings in public financial management (PFM).

In the 2018-2022 Strategic Plan, the SAO identified four key stakeholders with whom the SAO communicates to achieve its organizational objectives: the Parliament, the Government, Media and Civil Society, and International Partners and Donors. The communication strategy focuses on these four stakeholders and has identified the following objectives to communicate with stakeholders.

- Enhance communication with Parliament by increasing the number of audit reports reviewed by the Finance and Budget Committee through its SAO audit working group.
- Enhance good governance and effective public finance management.
- Raise the awareness of the government agencies about the role and mandate of the SAO and encourage them to implement the audit recommendations.
- Raise citizen and stakeholders' involvement and awareness of the SAO mandate, role, strategic objectives, audit reports, and performance.

The major improvement compared to the previous assessment, is that in the communication strategy the SAO identified key messages to communicate to the stakeholders:

- We follow international standards endorsed by INTOSAI;
- We are concerned with implementation, we are NOT deciding on policies;
- Although the focus is on performance delivered to date the SAO's outlook is forward looking and constructive;
- We are an open, learning organization striving continually to improve its professional performance and lead by example;
- Reports are based solely on substantiated evidence and proven performance;
- We apply objective and balanced assessment criteria stipulated in the Georgian law;
- Recommendations are systemic and practical focused on enhancing accountability and improving future service delivery;

- Developing case studies of the SAO's impact and how they have brought about real beneficial change and improvement - underlining that audit is a positive and constructive process;
- Highlighting the SAO's own governance and performance record as an example and good practice, for example budget monitor, website, citizen engagement.

The SAO identified appropriate tools to communicate the key messages to stakeholders. Detailed information on external communication tools is discussed in Chapters 2.2.1, 3.3.1, 4.3.1, and 5.3.1 of the Communication Strategy 2020-2022.

The SAO monitors the implementation of the communication strategy quarterly and annually by developing and providing monitoring reports to the SAO management.

The SAO periodically assesses the effectiveness of its communication with stakeholders.

- Auditees – The SAO sends assessment questionnaires to the auditees after the audit to receive feedback about the audit process. In 2021, the questionnaire was sent only to two auditees.
- Parliament - The SAO permanently monitors social media and TV to assess the frequency and context of mentioning the SAO by the MPs.
- The SAO sends an assessment questionnaire to the selected media representatives to receive feedback about the SAO products. The SAO also conducts quarterly reports on its social media work (Facebook) and website analysis.

Dimension ii: Good Practices regarding Communication with the Legislature

Within the SAO, the goals, channels, and products for communicating with the Parliament are defined in the Communication Strategy. The SAO's communication with Parliament is defined in Chapter VII of the SAO Law. Furthermore, the Deputy AG is appointed as 'Parliamentary Secretary' responsible for communication with the Parliament by an AG Decree.

The Budget and Finance Committee of the Parliament is the key counterpart of the SAO. Through its Audit Working Group, it scrutinizes the audit reports and carries out hearings with the auditees. Furthermore, the SAO actively cooperates with the thematic Committees and participates in the audit report hearing if it is requested by the Committees.

The SAO submits all of its Audit Reports to the Parliament, including the three statutory reports for the SAO Annual Performance, the State Budget Execution, and the opinion on State Budget Draft Law. The Parliament also appeals to the SAO for its opinion on the Draft Laws.

The SAO conducted periodic roundtable meeting with the Parliament covering the role of the SAO, introducing its main products and recommendation implementation process. The SAO prepares a brief brochure about the State Budget Execution, which included all the systemic problems identified in the CBER; the user-friendly brochure is developed to enable the MPs to better comprehend the otherwise complex information contained in the Report.

The SAO seeks feedback from the Parliament about the quality and relevance of its audit reports through the roundtable meetings, the parliamentary hearings and personal interaction between the SAO leadership and Members of Parliament.

Dimension iii: Good practices regarding communication with the Executive

Within the SAO, the goals, channels and products for communicating with the Executive are defined in the Communication Strategy.

The SAO provides generic information (audit standards, methodology, objectives, criteria, findings, conclusions, recommendations) to auditees at kick-off, regular and exit meetings. Furthermore, the Audit Engagement Letter is sent to the auditee before the audit, and it stipulates

the responsibilities of the SAO and the auditee. In addition, SAO management conducts periodic meetings with senior members executive to discuss issues of concern to both the SAI and the Executive, including common findings, trends and root causes the SAI has identified through analysis of its audit reports. The SAO also participates in the Steering Groups created by the Executive for Public Financial Management Reform, the Anti-corruption council, public administration reform council, open government partnership etc.

The major improvement compared to the 2017 SAI PMF is developing feedback mechanism from the audit entities. The SAO uses questionnaire to seek feedback from the auditees about the audit process, the audit team communication and the quality and relevance of audit reports.

Dimension iv: Good practices regarding communication with the Judiciary, Prosecuting and Investigating Agencies.

Within the SAO, the goals, channels, and products for communicating with the Judiciary, Prosecuting and Investigating Agencies are defined in the Article 24[1] of the SAO Law.

In 2021, the SAO Management met with the Prosecutor's Office of Georgia to discuss the handling and accountability of the forwarded cases with the signs of a crime. Following the meeting, the Prosecutor's Office has been started reporting information in its Annual Performance Report on conducting the investigation of the cases with the signs of crime in the Audit Reports. Furthermore, the SAO has the system of follow-up on cases that were transferred to the Prosecutor's Office of Georgia, and reported it in the SAO Annual Performance Report. Particularly, in 2021, the investigation has been started on seventeen cases from the forwarded eighteen with the signs of crime; in 2020, on twenty-four cases from twenty-eight with the signs of crime; and in 2019, on thirty-one cases from thirty-four with the signs of crime.

Rating

Based on the above, the performance of the SAO is rated as follows:

Dimension	Findings/Justification	Score
(i) Communications strategy	All criteria are met: • The SAO has adopted a Communication Strategy; • The Strategy identifies the key stakeholders with whom the SAO needs to communicate; • The SAO has identified the key messages that it wishes to communicate. • The Strategy identifies appropriate tools and approaches for external communication. • The SAO monitors periodically the implementation of the Communications Strategy. • The Communications Strategy is aligned with the Strategic Plan of the SAO. • The SAO assesses periodically whether stakeholders believe the SAO is communicating effectively.	4 (All criteria are met)
(ii) Good Practices Regarding Communication with the Legislature	All criteria are met: Regarding communication with the Parliament, the SAO: • reports its findings annually; • analyses its individual audit reports to identify themes, common findings, trends, root causes and audit	4 (all criteria are met)

		recommendations, and discuss these with key stakeholders. • raises the awareness of the Parliament on the role and mandate of the SAO; • develops professional relationships with the Parliament to help them better understand the audit reports and conclusions, and take appropriate action; • provides the Parliament with professional knowledge in the form of expert opinions, including comments on draft laws and other financial regulations. • provides the Parliament with timely access to information related to the work of the SAO in connection with parliamentary hearings; • seeks feedback from the Legislature about the quality and relevance of its Audit Reports.	
(iii) Good practices Regarding communication with the Executive	All criteria are met: • The SAO is not involved (and is not perceived to be involved) in any manner in the management of the MDA's and other public bodies that the SAO audits. • The SAO provides generic information to auditees on what to expect during an audit. • The SAO does invite senior members of the Executive periodically to meetings to discuss issues of concern; • The SAO does seek feedback from the audited entities about the quality and relevance of audit reports and the audit process.	4 (all criteria are met)
(iv) Good practices Regarding communication with the Judiciary, prosecuting and investigating agencies	All criteria are met: • The SAO has policies and procedures in place for how to communicate with the Judiciary. • The SAO does not carry out awareness raising activities with the Judiciary and/or prosecuting and investigating agencies on the SAO's role, mandate and work. • The SAO does not communicate with the Judiciary and/or prosecuting and investigating agencies about the role of the SAO in relation to investigations and legal proceedings that are initiated on the basis of the SAO's audit findings. • The SAO does have a system in place for follow-up on cases that the SAI has transferred to the Judiciary and/or prosecuting and investigating agencies. • The SAO does not have policies and procedures for audit documentation that are designed to ensure compliance with applicable rules of evidence.	4 (all criteria are met)
Overall score SAI 24		**4**

SAI-25 Communication with the Media, Citizens and Civil Society Organisations

It is necessary that the SAI is perceived as a credible source of independent and objective insight by public. Only then it will have the stature to support beneficial change in the public sector (ISSAI 12:7). This indicator assesses the practices of the SAI in reaching out to society and informing

the public about its role, work and results. The indicator assesses two dimensions:

    i.   Good Practices Regarding Communication with the Media;
    ii.   Good Practices Regarding Communication with Citizens and Civil Society Organisations.

Dimension i: Good Practices Regarding Communication with the Media

The SAO's Public Relations (PR) Unit manages the external communication of the SAO. The Unit actively uses an updated website[18], performance audit blog[19], budget monitor platform[20] and social media - SAO Facebook[21] and YouTube channel[22], for external communication. During the assessment period, the SAI held press conferences to publicise its Annual Report[23] and, where relevant, other major reports, including performance audit reports[24]. For every audit the SAO issues press releases, what is uploaded on the webpage.[25]

During an assessment period the SAO approaches the appropriate media to disseminate audit reports. On the other hand, the media is subscribed to SAO's webpage, blog, budget monitor platform and to social media.

The SAI has a system in place to monitor the media's coverage of the SAI and topics addressed by the SAI's audits. See dimension 'i' of SAI-24.

The SAO's PR Unit is a media contact point and handling requests from the media. However, designated individuals who are authorized by the AG to speak with the media on audit reports are department heads due to the audit themes.

Dimension ii: Good Practices Regarding Communication with Citizens and Civil Society Organisations

Regarding communication with citizens and civil society organisations, the SAO makes public their mandate through its SAO Strategic Development Plan and Communication Strategy, and through the SAO webpage. To help citizens to understand the main audit findings, the published audit reports include executive summaries.

The SAO has established contacts with selected civil society organisations (CSO) who are subscribed to SAO's webpage, blog, budget monitor platform and social media. CSOs from their perspective share the audit findings with the citizens.

The SAO stimulates the access to the information to the public audits though its above mentioned tools and, as a result, the SAO's webpage has more than 500K users and has more than 63K downloads. The Budget Monitor has more than 55K followers.

The SAO provides opportunities for citizens to provide input in its work and has mechanisms in place to receive information about government programmes through online channels. To provide input and share the information, citizens use Budget Monitor "Plan with Us" module[26], SAO's official e-mail and social media. The SAO analyses information received from the citizens. It's noteworthy that the SAO has taken into accounts 44% of citizens' appeals in its 2020 and 2021 Annual Audit Plans.

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[18] https://sao.ge/ka/

[19] https://blog.sao.ge/

[20] https://budgetmonitor.ge/ka

[21] https://www.facebook.com/www.sao.ge

[22] https://www.youtube.com/user/saogeorgia/featured

[23] https://youtu.be/GEBYDUyHIYE

[24] https://youtu.be/ztHn5ufhy1A

[25] https://sao.ge/en/performance-audit-of-infection202011031136en.html

[26] https://budgetmonitor.ge/ka/citizen

The SAO participates in the debates on improvements in the public sector through the Steering Groups created by the Executive for Public Financial Management Reform or the Anti-corruption council. The SAO sought feedback from the CSOs and members of the public on the accessibility of its reports and summaries, as described in the dimension 'i' of SAI-24, and used this feedback to improve them in the future.

Rating

Based on the above, the performance of the SAO is rated as follows:

Dimension	Findings/Justification	Score
(i) Good Practices Regarding Communication with the Media	All criteria are met: • The SAO holds press conferences to launch its annual report and, where relevant, other major reports including performance audit reports. • The SAO issued press releases with major reports; • The SAO has procedures in place for handling requests from the media and has a media contact point. • The SAO approached appropriate media to disseminate Audit Reports; • The SAO has a system in place to monitor the media's coverage of the SAI and topics addressed by the SAI's audits. • SAO has designated one or more individual(s) who are authorized to and tasked with speaking with the media on behalf of the SAO.	4 (all criteria are met)
(ii) Good Practices Regarding Communication with Citizens and Civil Society Organisations	All criteria are met: • The SAO made their mandate public; • Summaries of audit reports are written; • Contacts with relevant civil society organisations are established; • Access by citizens to information on public audit and the SAO, beyond audit reports, is stimulated; • Citizens are provided opportunities to provide input to and/or participate in the SAI's work; • Online media (institutional website, email newsletters, social media) are used; • SAO contributes to the debate on improvements in the public sector. • SAO seeks feedback from civil society organisations and/or members of the public on the accessibility of its reports and summaries, and used this feedback to improve them in the future.	4 (all criteria are met)
Overall score SAI-25		**4**

4 Capacity and Organisational Development Process

4.1 Description of recent and on-going reforms

Strategic Development Plan

In line with the overarching reform process in Georgia and the reforms in the public finance management sector that are guided by the Association Agreement with the European Union, the SAO strives to implement reforms inside the institution and to further develop its capacities.

The SAO has adopted its own Strategic Development Plan in order to set the goals necessary for further improvement of the institution. The current Strategic Development Plan covers the period from 2018 to 2022.

There are five central goals outlined in the Strategy:

1. Strengthening independence and mandate;
2. Improvement of public financial management as a result of high quality audit work;
3. Strengthening engagement of the main stakeholders;
4. Strengthening internal governance for more efficiency;
5. Professional development of employees.

The Strategic plan includes a results framework with KPIs in the domain of each strategic objective. The strategy is accompanied with the implementation matrix which identifies and prioritises the projects that need to be undertaken to achieve the goals and objectives of the strategic plan. The plan specifies baseline and target indicators across the years covered by the strategy (2018-2022). The Strategic Plan is translated into an Annual Action Plans that are monitored quarterly and the results are reflected in the periodic monitoring reports.

In 2019, the SAO joined the IDI's SPMR initiative, working towards a mid-term update of the 2018-2022 strategic plan. The joint work resulted in a revised strategic framework and updated strategic plan in line with the SPMR methodology and handbook, which captured existing challenges and selected priorities. Under the initiative the SAO updated its operational planning, monitoring and implementation practice while introducing a new template for the operational plan and crafted new process for performance monitoring.

Progress on the achievement of the goals is reported in the Annual Performance Report of the SAO and is presented to the Parliament of Georgia. The Report contains a number of KPI's that focus on outputs specifically in relation to audits undertaken and completed (e.g. budget coverage through audit, share of performance audit, rate of implementation of recommendations, etc.). To measure the impact of its audit work the report includes the summary of the monetary value of the deviations revealed during the audit which might include the estimated potential savings and/or efficiency gains of government activities.

Currently the SAO started to work on the new strategic development plan for 2023-2027. The results of SAI PMF assessment would be used as a baseline for the new strategy.

Monitoring of Audit Recommendations

In addition, the SAO created an effective electronic monitoring system (www.aris.sao.ge) for the implementation of audit recommendations in order to ensure a transparent and comprehensive coordination of the process, which will facilitate timely and appropriate fulfilment of the

recommendations. The system transfers the process of recommendations monitoring into the electronic space. It includes both audit reports and deficiencies identified within the audit and recommendations for improving them. Access to the system enables the top management of the auditees and Parliament to monitor and respond to audit recommendations in real time when necessary.

Also, the SAO is actively engaged in international cooperation projects aimed at improvement of the organisation (see Section 4.1.3).

External support

The SAO aims to deepen bilateral and multilateral relations with other SAIs and international donor organizations. The SAO hence actively continues its cooperation with international partners in the framework of various projects and programs.

- In 2018-2022, number of capacity development projects have been implemented with the support of donor organizations GIZ, EU, WB, USAID in terms of institutional strengthening of the SAO;

- Bilateral and multilateral cooperation has continued with over ten Supreme Audit Institutions, including the United States, the Netherlands, Germany, Finland, Poland, Latvia, Ukraine, Turkey and India;

- Up to 100 meetings and trainings have been convened within the framework of international and regional bodies of INTOSAI, EUROSAI, and ASOSAI that increased qualification of the auditors.

Four main programs and projects are supporting institutional development and capacity building within the SAO.

1. EU and the World Bank Project Economic Governance and Fiscal Accountability (EGFA) Strengthened Independence and Capacity of External Audit with Technical Assistance

This project builds on the successful past engagement of the World Bank and the European Union (EU) in supporting Georgia's public financial management reforms aligning with the EU's fiscal and budgetary standards. Funded by a 2.2 million EUR Trust Fund from the EU supporting implementation of reforms aimed at strengthening fiscal governance framework and the capacity for external audit, since 2020 this engagement builds the SAO capacity to conduct revenue audits, audit of Government consolidated accounts prepared in accordance with IPSAS and subnational governments audits, by reviewing existing audit manuals, auditor trainings, and pilot audits.

2. EU4 Security, Accountability and Fight against Crime in Georgia (SAFE)

The programme falls under the EU-wide strategic framework to support Security Sector Reform (SSR) which aims to strengthen oversight from the side of the Public Defender's Office, the State Inspector Service, the Parliament and the SAO over law enforcement bodies, by supporting the development of accountable security institutions in line with European best practices. This includes strengthening capacities of the SAO with regard to its oversight functions through improvement of internal structures and procedures, strengthening effective operations, as well as coordination with respective bodies. Within the SAO, the project aims is to build capacity of defence, public order and security audit related activities, and to support IT security for strengthened information systems and cybersecurity.

Four component aims to a) provide international expertise regarding sector specific issues and approaches on audits in law enforcement agencies (LEAs); b) support SAO with a software

upgrade to improve oversight and deliver higher impact through audits; c) organise joint study visits of representatives from SAO and LEAs to share experience and practices with relevant counterparts of EU Member States; and d) support SAO in upgrading the audit recommendations implementation system.

3. USAID Government to Government Program (G2G)

Under the USAID Government to Government Program (G2G), in collaboration with the US Government Accountability Office (GAO) and its Center for Audit Excellence since 2020 impact assessment project has been implemented at the SAOG by which the practice of evaluating the impact of audit findings has been introduced; trainings for auditors have been conducted by GAO expert, pilot performance audits with the involvement of GAO has been conducted; and experiences sharing in ethics and integrity has commenced.

4. General Court of Audit the Kingdom of Saudi Arabia Saudi Fund for Improved SAI Performance - Saudi FSIP) (2021-2022)

The SAO being awarded a grant of $ 100,000 under the grant proposal by the Saudi Fund for Improved SAI Performance (Saudi FSIP) established by the General Court of Audit of the Kingdom of Saudi Arabia has purchased personal computer laptops and IT program (Virtual Desktop Infrastructure – VDI) for centralizing and optimizing the existing IT systems, as well as its security management process. This assistance supported continuity of SAO remote operations following challenges emanating from COVID-19 and significantly increased data security.

4.2   Use of SAI Results by External Providers of Financial Support

In 2018-2021, the SAO has been screened by the World Bank and USAID. The results were positive as the SAO has fully met the donor requirements for quality SAO has become approve as an auditor and listed in the eligible group of auditors for projects funded by the USAID and the World Bank in the region. To date, the SAO has conducted audits of the four projects[27]. One project is still in process of auditing planned to be finalized by the end of 2022.

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[27] Performance audit of World Bank Project – „Secondary Road Asset Management Project" (SRAMP) and Financial audit of USAID Project "Reduction of Domestic Violence" conducted by LEPL − State Fund for Protection and Assistance of (Statutory) Victims of Human Trafficking.

Annex 1 Indicator summary 2022

Indicator	Name	Dimensions				Overall score
		i	ii	iii	iv	
Domain A Independence and legal framework						
SAI-1	Independence of the SAI	3	4	4	2	3
SAI-2	Mandate of the SAI	1	2	4		2
Domain B Internal governance and ethics						
SAI-3	Strategic Planning Cycle	4	4	4	3	4
SAI-4	Organisational Control Environment	4	3	4	4	4
SAI-5	Outsourced Audits	Not applicable				
SAI-6	Leadership & Internal Communication	4	4			4
SAI-7	Overall Audit Planning	4	3			3
Domain C Audit quality and reporting						
SAI-8	Audit coverage	0	4	2	n.a.	2
SAI-9	Financial audit foundations	4	3	3		3
SAI-10	Financial audit process	3	3	3		3
SAI-11	Financial audit results	3	4	4		4
SAI-12	Performance audit foundations	4	3	4		4
SAI-13	Performance audit process	3	3	3		3
SAI-14	Performance audit results	2	4	4		3
SAI-15	Compliance audit foundations	4	3	3		3
SAI-16	Compliance audit process	3	3	3		3
SAI-17	Compliance audit results	1	4	4		3
SAI-18	Jurisdictional control standards & QM	Not applicable				
SAI-19	Jurisdictional control process	Not applicable				
SAI-20	Jurisdictional control results	Not applicable				
Domain D Financial Management, Assets and Support Services						
SAI-21	Financial Management, Assets and Support	3	4	4		4
Domain E Human Resources and Training						
SAI-22	Human Resource Management	4	4	4	4	4
SAI-23	Professional Development and Training	4	4	4	4	4
Domain F Communication and Stakeholder Management						
SAI-24	Communications with the Legislative, the Executive and the Judiciary	4	4	4	4	4
SAI-25	Communication with Media, Citizens & CSOs	4	4			4

Annex 2 Overview of changes in performance in the period 2017-2022

INDICATOR	Score		PERFORMANCE CHANGE - DESCRIPTION
	2022	2017	
DOMAIN A. INDEPENDENCE AND LEGAL FRAMEWORK			
SAI-1 Independence of the SAI	**3**	*3*	In the period 2017-2022, the legal framework was improved the Law on Remuneration in Public Institutions, adopted on December 22, 2017, in which it was established that the AG has the authority to determine the salaries of the employees independently. Furthermore, from 2018 the SAO Law was granted the status of an organic law which gives it prevalence in case of disputes with lower level legislation. In addition, the SAO has also been granted the right to appeal directly to the Constitutional Court of Georgia. Remaining weaknesses relate to the lack of constitutional protection of the AG and the length of his tenure which could potentially affect his position to act and decide independently.
(i) Appropriate and effective constitutional framework	3	*3*	
(ii) Financial independence / autonomy	4	*4*	
(iii) Organizational independence / autonomy	4	*3*	
(iv) Independence of the Head of SAI	2	*2*	
SAI-2 Mandate of the SAI	**2**	*2*	A main limitation on the mandate is the lack of sufficient clarity on the SAO's mandate related to revenue audit and the need to request separate permission from the Court by the SAO in order to access information on tax revenues for its audit purposes. In 2022, the SAO has initiated a pilot audit of revenues in agreement with the MoF, but the law has not been clarified/amended in this respect.
(i) Sufficiently broad mandate	1	*1*	
(ii) Access to information	2	*2*	
(iii) Right and obligation to report	4	*3*	
DOMAIN B. INTERNAL GOVERNANCE AND ETHICS			
SAI-3 Strategic Planning Cycle	**4**	*3*	The strategic planning cycle is firmly established in a separate Strategic Planning Unit and includes a medium term plan, annual operational plans, performance indicators and monitoring mechanisms. There is still room for improvement in the measurement of impact and satisfaction of stakeholders.
(i) Content of the strategic plan	4	*3*	
(ii) Content of the Annual Plan/Operational Plan	4	*4*	

(iii) Organizational Planning Process	4	*4*	
(iv) Monitoring and Performance Reporting	3	*3*	
SAI-4 Organizational Control Environment	4	*1*	The SAO has established a good control on the main organisational risks. In the period 2017-2022, the SAO has implemented a number of tools to guide and control ethical conduct and ensure integrity across the SAO.
(i) Internal Control Environment – Ethics, Integrity and Organizational Structure	4	*0*	The SAO also intensified its focus on quality as reflected by the implementation of a system of hot-reviews by experienced auditors of departments ('peers') that were not
(ii) System of Internal Control	3	*1*	part of the audit engagement and the adoption of a new Quality Assurance Policy and
(iii) Quality Control System	4	*2*	Manual which implementation is supported by increased capacity of the Audit Quality
(iv) Quality Assurance System	4	*2*	Assurance Department.
SAI-6 Leadership and Internal Communication	4	*3*	A clear leadership structure that consists of the AG and three deputy AGs exists. The leadership team has initiated and supported reforms to strengthen the SAO's performance in the last five years.
(i) Leadership	4	*2*	Improvements since 2017 were observed in the (internal) communication of the
(ii) Internal Communication	4	*4*	decisions made by the management and the tone at the top regarding the importance of integrity, ethics and quality.
SAI-7 Overall Audit Planning	3	*2*	The SAO applies a sophisticated risk based annual audit planning methodology to guide the preparation of the overall annual audit plan which, generally, is applied in practice. Improvements in audit planning since 2017 reflect the link between the audit
(i) Overall Audit Planning Process	4	*3*	plan and the human resource capacity. This has resulted in a lower number of audits, but better planning and higher quality.
(ii) Overall Audit Plan Content	3	*1*	A remaining shortcoming is that the overall audit plan does not demonstrate that the SAO is discharging its audit mandate over a relevant timeframe as scheduled in its plan and does not include a summary and explanation of any differences between the SAO's mandate and the Audit Plan.
DOMAIN C. AUDIT QUALITY AND REPORTING			
SAI-8 Audit Coverage	2	*2*	FA: The SAO certifies the financial statements of all central government entities. Through the entity financial audits, the SAO covers 90% of central government expenditure. Although this a high coverage, the SAO does not carry out a financial
(i) Financial Audit Coverage	0	*1*	audit of the CBER which is the only required legislative task of the SAO.

(ii) Coverage, Selection and Objective of Performance Audit	4	*3*	PA: The SAO has established a functioning PA practice that has published 30 performance audits in the last two fiscal year (2020, 2021).
(iii) Coverage, Selection and Objective of Compliance Audit	2	*2*	CA: Compliance of all central government entities is conducted as part of the financial audit. For other entities, it is done as an entity level where the entities are selected on the basis of a risk assessment. Increasingly, the SAO has carried out thematic CAs government-wide including topics as vehicle management and public procurement.
SAI-9 FA Standards and QM	**3**	*3*	In the period 2017-2022, the SAO has adopted new standards and guidance for financial audit that are in full compliance with ISSAI 200.
(i) FA Standards and Policies	4	*4*	
(ii) FA Team Management and Skills	3	*3*	
(iii) Quality Control in FA	3	*2*	
SAI-10 FA Process	**3**	*1*	In the period 2017-2022, the SAO has steadily improved the application of the standards in actual audit files. The improvement of the audit practice has been supported by the improvement of the audit management software that is now consistently being used, and the strengthening of the quality control procedures.
(i) Planning FA	3	*1*	
(ii) Implementing FA	3	*1*	
(iii) Concluding and Reporting in FA	3	*2*	
SAI-11 FA Results	**4**	*3*	The SAO shows a relative strong performance in reporting and publication of its FA reports. FA reports are completed within a reasonable time period after the audit started and publication is prompt.
(i) Timely Submission of FA Results	3	*3*	
(ii) Timely Publication of FA Results	4	*4*	
(iii) Follow-up on FA Recommendations	4	*2*	
SAI-12 PA Standards and QM	**4**	*3*	The SAO has adopted a PA manual and guidance that is consistent with ISSAI 300. The PA practice could further benefit by specialised training on research design and research methods and recruitment of staff with a PhD qualification.
(i) PA Standards and Policies	4	*4*	
(ii) PA Team Management and Skills	3	*3*	
(iii) Quality Control in PA	4	*2*	
SAI-13 Performance Audit Process	**3**	*3*	It conducts PA largely in line with these standards using a specialised PA department and sectoral audit departments.
(i) Planning PA	3	*3*	
(ii) Implementing PA	3	*3*	
(iii) Reporting in PA	3	*3*	
SAI-14 Performance Audit Results	**3**	*2*	The SAO shows a relative strong performance in reporting and publication of its PA

(i) Timely Submission of PA Reports	2	0	reports. PA reports are completed within a reasonable time period after the audit started and publication is prompt.
(ii) Timely Publication of PA Reports	4	3	
(iii) Follow-up on Implementation of PA Observations and Recommendations	4	3	
SAI-15 CA Standards and QM	**3**	**2**	In the period 2017-2022, the SAO has adopted a dedicated CA manual that covers all ISSAI 400 principles
(i) CA Standards and Policies	4	2	
(ii) CA Team Management and Skills	3	3	
(iii) Quality Control in CA	3	1	
SAI-16 CA Process	**3**	**1**	The SAO has steadily improved the application of the CA standards in actual audit files during this period. The improvement of the CA practice has been supported, like the FA practice, by the improvement of the audit management software that is now consistently being used, and the strengthening of the quality control procedures.
(i) Planning CA	3	0	
(ii) Implementing CA	3	1	
(iii) Concluding and Reporting in CA	3	2	
SAI-17 CA Results	**3**	**2**	Performance in reporting and publication of CA reports is not timely. Out of 32 compliance audit reports issued in 2021, only 9 were certified and issued within 12 months after the audited period. Covid and municipal elections affected this result negatively.
(i) Timely Submission of CA Results	1	3	
(ii) Timely Publication of CA Results	4	2	
(iii) Follow-up on Implementation of CA Observations and Recommendations	4	2	
DOMAIN D. FINANCIAL MANAGEMENT, ASSETS AND SUPPORT SERVICES			
SAI-21 Financial Management, Assets and Support Services	**4**	**3**	Except for the lack of a staff cost recording system, the SAO possesses adequate resources in terms of administrative support and physical infrastructure. In the period 2017-2021, it adopted medium term plan for its IT needs and manages them adequately.
(i) Financial Management	3	3	
(ii) Planning and Effective Use of Assets and Infrastructure	4	2	

(iii) Administrative Support Services	4	*3*	
DOMAIN E. HUMAN RESOURCES AND TRAINING			
SAI-22 Human Resource Management	**4**	*2*	The SAO has a functioning Human Resources (HR) Department covering the main HR functions guided by a HR strategy, a competency framework and adequate job descriptions. In the period 2017-2022, the SAO has further professionalised its HR function by implementing a comprehensive performance appraisal system that guides remuneration, promotions and training needs. As part of that strategic aim to retain well-performing staff, the SAO leadership increased staff remuneration by 10% during 2018-2019 and additionally by 10-13% from January 2022. This measure was possible as the SAO managed to secure autonomy for staff remuneration defined by the law on "Remuneration in Public Service" (see SAI-1). The SAO also elaborated various internal regulations that serve staff welfare to ensure high staff motivation and loyalty. Finally, the SAO leadership introduced an anonymous staff opinion survey with respect to leadership philosophy and organizational policies.
(i) Human Resources Function	4	*3*	
(ii) Human Resources Strategy	4	*2*	
(iii) Human Resources Recruitment	4	*2*	
(iv) Remuneration, Promotion and Staff Welfare	4	*2*	
SAI-23 Professional Development & Training	**4**	*2*	The SAO addresses the need for further professional development by the Public Audit Institute which is organized as a Legal Entity of Public Law (LEPL) under the SAO. Based on an annual training needs assessment, the PAI updates its training offer to which all SAO staff can subscribe. The SAO manages professional development pro-actively by having a systematic training plan for each staff member that is aligned with the organisational needs. In the period 2017-2022, the SAO has established clear responsibilities for the methodological development (including training) for each of the three audit types (FA, CA and PA).
(i) Processes for Professional Dev. and Training	4	*2*	
(ii) FA Professional Development. and Training	4	*2*	
(iii) PA Professional Development and Training	4	*2*	
(iv) CA Professional Development and Training	4	*2*	
DOMAIN F. COMMUNICATION AND STAKEHOLDER MANAGEMENT			
SAI-24 Communication with the Legislature, Executive and Judiciary	**4**	*2*	The SAO has adopted a communication strategy and has established operational practices to communicate with the Legislative, the Executive and the Judicial branches of the government. Initiated by the SAO and supported by international donors, the communication with Parliament has improved in recent years. Parliament has created a working group under the Budget and Finance Committee that scrutinizes the audit reports. Consequently, the number of audit reports that are discussed has increased up to 22
(i) Communications Strategy	4	*2*	
(ii) Communication with the Legislature	4	*3*	

(iii) Communication with the Executive	4	2	in 2021 and the implementation rate of the SAO recommendations by the executive has increased from 43% (2017) to 60%.
(iv) Communication with the Judiciary, Prosecuting and Investigating Agencies	4	2	
SAI-25 Communication with the Media, Citizens and Civil Society Organizations	**4**	**3**	The SAO demonstrates good practices in communicating with the media, citizens and civil society organisations. It has established a Public Relations (PR) Department that issues press releases, organises press conferences and acts as media contact point. In addition, department heads are authorized by the AG to speak with the media on specific audit reports.
(i) Good Practice Regarding Communication with the Media	4	3	
(ii) Good Practice Regarding Communication with Citizens and Civil Society Organizations	4	4	

Annex 3 Documents used

Document Title	Source
Annual Performance Report of the State Audit Office of Georgia 2020	Official web-page of the SAO http://sao.ge/
Budgetary Code of Georgia	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
Code of Ethics of the State Audit Office of Georgia	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
Constitution of Georgia	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
European Commission: Association Implementation Report on Georgia	European Union External Action Web-Page https://eeas.europa.eu
Law Of Georgia on Accounting and Financial Audit	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
Law of Georgia on Public Service	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
Law of Georgia on Public Internal Financial Control	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
Organic Law of Georgia on the State Audit Office of Georgia	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
Law of Georgia on the Structure, Authority and Rules of Activity of the Government of Georgia	Law of Georgia on the Structure, Authority and Rules of Activity of the Government of Georgia
Monitoring Guidelines on Drafting and Implementation of Recommendations	SAO
Order No 14/37 of February 1, 2013 of the Auditor General of the State Audit Office Concerning the Approval of Regulation of the State Audit Office	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
Order No 02307/21 of the Auditor General of the State Audit Office; April 5, 2017	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
Organic Law of Georgia Local Self-government Code	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
Performance Audit Manual	SAO
Quality Control Policy	SAO
Compliance Audit Manual	SAO
Rules of Procedure of the Parliament of Georgia	LEPL Legislative Herald of Georgia https://matsne.gov.ge/en
Strategic Development Plan of the State Audit Office of Georgia 2018-2022	SAO
United Nations Development Programme 2020 Human Development Report	United Nations Development Programme http://hdr.undp.org

Annex 4 Audits carried out by the SAO in 2020 and 2021

Financial audits

No	Audit name	Date of Audit approval
1	Financial Audit of the project "The Reduction of family Violence in Georgia", implemented by the State Fund of LEPL Agency For State Care And Assistance For the (Statutory) Victims of Human Trafficking	25-02-2020
2	Ministry of Education, Science, Culture and Sports of Georgia	25-12-2020
3	State Security Service of Georgia	19-10-2020
4	Ministry of Internal Affairs of Georgia	29-12-2020
5	Ministry of Justice of Georgia	10-11-2020
6	Ministry of Environmental Protection and Agriculture of Georgia	06-11-2020
7	Ministry of Regional Development and Infrastructure of Georgia	19-10-2020
8	Consolidated Financial Statements of Budget Organizations Defined by the Unified Republican Budget of the Autonomous Republic of Abkhazia	20-10-2020
9	Consolidated Financial Statements of Budget Organizations Defined by the Republican Budget of the Autonomous Republic of Adjara	04-11-2020
10	2019 year's budget report of Tbilisi Municipality	11-02-2021
11	Ministry of IDPs from the occupied territories, Labour, Health and Social Affairs of Georgia	25-01-2021
12	Ministry of Defence of Georgia	01-02-2021
13	Consolidated Financial Statements of Budget Organizations Defined by the Republican Budget of the Autonomous Republic of Adjara	19-10-2021
14	Consolidated Financial Statements of Budget Organizations Defined by the Unified Republican Budget of the Autonomous Republic of Abkhazia	19-10-2021
15	Ministry of Education, Science, Culture and Sports of Georgia	19-12-2021
16	Ministry of Defence of Georgia	30-12-2021
17	Ministry of Internal Affairs of Georgia	20-12-2021
18	Ministry of Justice of Georgia	02-11-2021
19	Ministry of Regional Development and Infrastructure of Georgia	15-11-2021
20	Ministry of Economy and Sustainable Development of Georgia	03-11-2021
21	Ministry of Environmental Protection and Agriculture of Georgia	28-10-2021

Compliance audits

No	Audit name	Date of Audit approval
1	Compliance Audit of NNLE - Georgia national rugby union for 2014-2018	28-01-2020

		Years
2	Compliance Audit of LEPL - United Water Supply Company of Georgia	27-05-2020
3	Compliance Audit of Common Court Asset Management and Public Procurement	16-03-2020
4	Compliance Audit of accumulating and spending of funds and management of material assets by Ltd - "Autotransservice"	13-01-2020
5	Compliance Audit of expenditure of funds and management of material assets by Ltd DP Family Medicine Centre -"Tskhumi" and Ltd "Family Medicine Centre - Bichvinta	09-01-2020
6	Compliance Audit of spending budget funds and management of material assets by Office of the Minister of Confidence-Building and Reconciliation of the Autonomous Republic of Abkhazia	09-01-2020
7	Compliance Audit on the issuing construction permissions and state supervision of construction by Batumi City Hall	26-02-2020
8	Compliance Audit on the formation of authorised capital and financial-economic activity within the share-owned enterprises of Autonomous Republic of Adjara and Batumi Municipality	20-01-2020
9	Compliance Audit of NNLE - Georgian Chess Federation	03-11-2020
10	Compliance Audit of LEPL - Levan Samkharauli National Forensics Bureau	21-10-2020
11	Compliance Audit of the State program for the provision of medicines for the treatment of chronic diseases	31-08-2020
12	Compliance Audit of Academician Nikoloz Kipshidze Central University Clinic	06-08-2020
13	Compliance Audit on spending budget funds, allocated for the priority of "Infrastructure and Municipal communal service development" in Batumi Municipality	02-11-2020
14	Compliance Audit on spending the budget funds, allocated for the priority of "Culture, Youth Promotion and Sports" in Batumi Municipality	02-11-2020
15	Compliance Audit of Vani Municipality for 2018-2019 Years	31-12-2020
16	Compliance Audit of Khulo Municipality for 2018-2019 Years	21-12-2020
17	Compliance Audit of Shuakhevi Municipality for 2018-2019 Years	11-12-2020
18	Compliance Audit of Keda Municipality for 2018-2019 Years	04-12-2020
19	Compliance Audit of Akhalkalaki Municipality for 2018-2019 Years	25-12-2020
20	Compliance Audit of Gardabani Municipality for 2018-2019 Years	25-12-2020
21	Compliance Audit of Zestaponi Municipality for 2018-2019 Years	25-12-2020
22	Compliance Audit of Martvili Municipality for 2018-2019 Years	23-12-2020
23	Compliance Audit on using a state real estate by the legislative and executive bodies and institutions of the Autonomous Republic of Abkhazia	30-12-2020
24	Compliance Audit on accumulating and spending of funds and use of material assets by Ldt - "Zugdidi Polyclinic of Compulsory Displaced Persons from Abkhazia"	08-06-2020
25	Compliance Audit on Contract Management	08-06-2020

26	Compliance Audit on the inventory process in Public Sector	15-12-2020
27	Compliance Audit of budget Expenditures for the Program of "Ensuring Repair and Rehabilitation Works in IDP Settlements", within Ministry of Internally Displaced Persons and refugees from Abkhazia	26-11-2021
28	Compliance Audit of Kobulety Municipality for 2018-2020 Years	29-12-2021
29	Compliance Audit of Khelvachauri Municipality for 2018-2020 Years	21-12-2021
30	Compliance Audit of the State procurement, carried out by the Ministries of the Autonomous Republic of Adjara	28-12-2021
31	Compliance Audit of the representative and executive bodies of Batumi Municipality for 2019-2020	21-12-2021
32	Compliance Audit of LEPL - Batumi Shota Rustaveli State University for 2018-2019 years	01-12-2021
33	Compliance Audit of Samtredia Municipality for 2018-2020 Years	31-12-2021
34	Compliance Audit of Senaki Municipality for 2018-2020 Years	30-12-2021
35	Compliance Audit of Zugdidi Municipality for 2018-2020 Years	09-12-2021
36	Compliance Audit of Georgian National Museum	23-12-2021
37	Compliance Audit on Systemic Issues of Public Procurement Management	09-12-2021
38	Compliance Audit on the spending of budget funds allocated for the programs of the Ministry of Health and Social Affairs of the Autonomous Republic of Abkhazia	26-02-2021
39	Compliance Audit on the spending of budget funds allocated for the programs of the Ministry of Education and Culture of the Autonomous Republic of Abkhazia	22-01-2021
40	Compliance Audit of Tetritskaro Municipality for 2018-2019 Years	02-02-2021
41	Compliance Audit of kvareli Municipality for 2018-2019 Years	28-01-2021
42	Compliance Audit of khashuri Municipality for 2018-2019 Years	28-01-2021
43	Compliance Audit of Telavi Municipality for 2018-2019 Years	27-01-2021
44	Compliance Audit of Dmanisi Municipality for 2018-2019 Years	25-01-2021
45	Compliance Audit of Kazgebi Municipality for 2018-2019 Years	08-02-2021
46	Compliance Audit of Adigeni Municipality for 2018-2019 Years	05-02-2021
47	Compliance Audit of Ninotsminda Municipality for 2018-2019 Years	03-02-2021
48	Compliance Audit of Akhaltsikhe Municipality for 2018-2019 Years	02-02-2021
49	Compliance Audit of Kareli Municipality for 2018-2019 Years	02-02-2021
50	Compliance Audit of Borjomi Municipality for 2018-2019 Years	27-01-2021
51	Compliance Audit of NNLE - Tbilisi Development Fund for 2018-2019 years	19-05-2021
52	Compliance Audit of Dedoplistskaro Municipality for 2018-2019 Years	11-02-2021
53	Compliance Audit of Gurjaani Municipality for 2018-2019 Years	26-01-2021
54	Compliance Audit on the financing of the executive bodies of Tbilisi Municipality	14-04-2021
55	Compliance Audit of Ltd Mountain Resorts Development Company	23-03-2021

56	Compliance Audit of transfer of state property in exchange for an investment obligation by LEPL - National Property Agency	21-05-2021
57	Compliance Audit of NNLE - Georgian National Wrestling Federation	27-05-2021
58	Compliance Audit of grant award process and fulfilment of contract terms by LEPL - Shota Rustaveli Georgian National Science Foundation	18-01-2021

Performance audits

No	Audit name	Date of Audit approval
1	Performance Audit on ensuring a safety educational environment	22-01-2020
2	Performance Audit of sport infrastructure management	10-02-2020
3	Follow-up Performance Audit of the public debt management	21-02-2020
4	Performance Audit on promoting competition development	07-02-2020
5	Performance Audit of ensuring the protection of personal data	10-02-2020
6	Performance Audit on Road maintenance and rehabilitation, implemented by the Department of Roads of Georgia	28-02-2020
7	Performance Audit on management (Prevention, preparedness) of flood emergency	25-05-2020
8	Supporting measures for people with disabilities	06-05-2020
9	Management of the Process of Tbilisi City Development	24-01-2020
10	Performance Audit on the Developing Anti-Corruption Environment in the Country	11-02-2020
11	Performance Audit of the state pension administration information system	29-04-2020
12	Follow-up Performance Audit of the government debt management information systems	29-05-2020
13	Prevention and treatment of tuberculosis	31-12-2020
14	Promoting the development of tourism in the Autonomous Republic of Adjara	04-02-2021
15	Management of NNLE -,,Preschool Educational organizations" founded by municipalities of Tbilisi, Poti, Kutaisi and Rustavi	08-04-2021
16	Secondary Roads Asset Management Project (SRAMP)	23-03-2021
17	Follow-up Performance Audit of vocational education system	26-03-2021
18	Human Resource Management in the public sector	27-05-2021
19	Forest fires emergency management (prevention, preparedness)	01-02-2021
20	Follow up Audit of Commercial and Social Management of Timber	20-04-2021
21	State grant management	28-05-2021
22	Professional development of teachers	05-03-2021
23	Supporting in studying abroad	09-02-2021
24	Performance Audit on management of NNLE's, founded by municipalities	22-11-2021

25	Secondary Roads Asset Management Project (SRAMP)	28-09-2021
26	Strengthening connections with the Georgian Diaspora	31-12-2021
27	Providing legal assistance to citizens	19-10-2021
28	Management of IT projects in the public sector	13-09-2021
29	Measures taken by the state to ensure food safety (Follow-up audit)	08-12-2021
30	Access to the services, provided by the state health programs	29-11-2021