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Transport Reform and
Rehabilitation Center



Secondary and Local Roads,
Second Secondary and Local Roads,
First East-West Highway Improvement,
Second East-West Highway Improvement,
Third East-West Highway Improvement,
Fourth East-West Highway Improvement and
Kakheti Regional Roads Improvement projects

Management Letter

For the year ended 31 December 2013

June 2014



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To the Management of Transport Reform and Rehabilitation Center
12, Al Kazbegi Ave 0160 Tbilisi, Georgia
23 June 2014

Dear Sirs,

In planning and performing our audit of the special purpose project financial statements of the Secondary and Local Roads Project, Second Secondary and Local Roads Project, First East-West Highway Improvement Project, Second East-West Highway Improvement Project, Third East-West Highway Improvement Project, Fourth East-West Highway Improvement Project and Kakheti Regional Roads Improvement Project (the "Projects") for the year ended 31 December, 2013 [on which we have issued our reports dated 23 June 2014], in accordance with International Standards on Auditing ("ISA"), we considered internal control over financial reporting as a basis for designing audit procedures that are appropriate to express our opinion on the special purpose project financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies. However, in connection with our audit, we have identified, and included certain matters involving the internal control over financial reporting that we consider to be deficiencies under standards established by the International Auditing and Assurance Standards Board and we wish to bring your attention.

Management's response to our comments in the report have not been subjected to auditing procedures and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

The matters raised in this letter are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all deficiencies that exist or all improvements that could be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented.

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This letter is intended solely for the information of, and use by, the management of the Project, Government of Georgia, International Bank for Reconstruction and Development and International Development Association and is not intended to be, and should not be, used by anyone other than these specified parties. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

We will be pleased to discuss these comments with you and, if desired, to assist you in implementing any of the suggestions.

We would like to thank management of the Project for their help and cooperation during the audit.

Yours truly,



23 June 2014
Tbilisi, Georgia

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1. Risk Assessment and Internal Control

1.1 Deficiency – Tenders documentations

Observation	<p>In the course of our audit we have identified that the TRRC does not retain the documentation for the tender announcements, instead the documentation is kept by the Road Department of Georgia.</p>
Risks	<p>Not keeping tender documentation may lead to deterioration of controls over expenses. As the selection of contractors through tender is a requirement of the donor organization, weak control over the documentation may lead to lack of evidence on compliance with donor requirement.</p>
Recommendation	<p>We recommend the management to retain copies of tender documentation, especially the "no objections" received from World Bank.</p>
Management response	<p>Based on project implementation agreement (signed between Roads Department and TRRC), which is integral part of the Development Credit/Loan Agreements, our responsibilities are focused and limited on financial management of the projects but not for procurement and other aspects of project implementation. On the other hand, current limit of office space does not allow us to keep all tender documentation for the nine projects of World Bank in the office.</p>

2. Definitions of deficiency and significant deficiency

The definitions of a deficiency and a significant deficiency that are established in ISA 265 "Communicating deficiencies in internal control to those charged with governance and management", are as following:

Deficiency in internal control exists when:

- (i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
- (ii) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

Significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

3. Appendix A

INTERNAL CONTROLS: MANAGEMENT'S RESPONSIBILITIES, GOALS AND LIMITATIONS

The following notes relating to the goals and inherent limitations of the internal control system as well as the management's responsibilities for this system are based on the International Standards on Auditing of the International Federation of Accountants.

Management's responsibilities

The management is responsible for the organization and maintenance of the internal control structure. In order to insure the fulfillment of these responsibilities management's forecast and assumptions are required for evaluating the anticipated benefits and relevant costs for carrying out the internal control methodology and procedures.

Goals

The purpose of the structure of the internal controls over the financial statements is to provide the management with sufficient rather than absolute assurance that the assets are protected from losses due to unauthorized usage or replacement and that operations are performed based on the management's approval and are duly recognized, which makes it feasible to prepare the financial statements in accordance with the generally accepted accounting principles.

Limitations

Since no internal control structure is free of limitations certain errors or violations may take place and not be identified. Also when projecting any evaluation or structure onto the future periods there is a risk that the procedures may be inadequate due to the change in conditions or due to the decrease in the efficiency of the design and application of these methodologies and procedures.

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