

TERMS OF REFERENCE

FOR THE AUDIT OF THE LOG IN GEORGIA PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022 AND FOR THE YEARS ENDING
DECEMBER 31, 2023, 2024,2025

Introduction

1. The Government of Georgia has received financing from the World Bank for the implementation of Log-in Georgia Project. The proposed Project development objective is to increase access to affordable broadband internet, and to promote its use by individuals and enterprises, in targeted rural settlements. The Project consists of the following key components:

Component 1: Increasing access to broadband – this Component will help expand access to broadband internet in rural settlements across Georgia and improve the enabling environment for digital development.

Component 2: Promoting the use of broadband-enabled digital services – this Component will support the development of Georgia’s digital economy through a strengthened enabling environment, promoting digital use-cases of broadband, and addressing barriers to the participation of individuals in the digital economy.

Component 3: Project implementation support – this component will support the management and implementation of the Project and associated activities.

The Project will be implemented over a five-year period by the Open Net NNLE as the Project Implementing Entity (PIE), with the oversight and implementation of the Ministry of Economy and Sustainable Development of Georgia (MOESD)

Objective

2. The objective of the audit of the project financial statements is to enable the auditor to express a professional opinion on the project’s financial position as at the end of December 31, 2022 (including period from December 28, 2020 to December 31, 2022); and December 31 2023, 2024, 2025 and of the income and expenditure for the accounting period ending on that date. The project’s books of account provide the basis for preparation of the financial statements and are established to reflect the financial transactions in respect of the project.

Responsibility for preparation of financial statements

3. The project’s management is responsible for the preparation of financial statements, including the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, the safeguarding of the assets of the project, and adequate disclosure. As part of the audit process, the auditor will request from management written confirmation concerning representations made to us in connection with the audit.

Scope

4. The audit will be conducted in accordance with [International Standards on Auditing](#) . Those Standards require that the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and

disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

5. In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters, including special considerations for public sector entities:
 - (a) In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud, as required by [International Standard on Auditing 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements](#).
 - (b) When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements, as required by [International Standard on Auditing 250: Consideration of Laws and Regulations in an Audit of Financial Statements](#).
 - (c) The auditor should communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity, as required by [International Standard on Auditing 260: Communication with those Charged with Governance](#).
 - (d) The auditor should appropriately communicate to those charged with governance and to management any deficiencies in internal control that the auditor has identified in an audit of financial statements, as required by [International Standard on Auditing 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management](#).
 - (e) To reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level, as required by [International Standard on Auditing 330: The Auditor's Responses to Assessed Risks](#).
 - (f) When certain aspects of an entity's operations are performed by a third-party service provider, the auditor is expected to include an understanding and assessment of the internal control environment of the service provider during the audit process, as required by [International Standard on Auditing 402: Audit Considerations Relating to an Entity Using a Service Organization](#).
 - (g) As part of the audit process, the auditor is expected to obtain written representations from management and, where appropriate, those charged with governance, as required by [International Standard on Auditing 580: Written Representations](#).
 - (h) When the external auditor decides to use the work of an entity's internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, the determination shall be in accordance with [International Standard on Auditing 610: Using the Work of Internal Auditors](#).
 - (i) In determining whether to use the work of an auditor's expert or the extent to which the work of an auditor's expert is adequate for audit purposes, the determination shall be made in accordance with [International Standard on Auditing 620: Using the Work of an Auditor's Expert](#).

6. In evidencing compliance with agreed project financing arrangements, the auditor is expected to carry out tests to confirm that:
 - (a) All external funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant financing agreements include **Loan Agreement 9161-GE**.
 - (b) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided.
 - (c) Goods, works, and services financed have been procured in accordance with relevant financing agreements,¹ including specific provisions of the [World Bank Procurement Guidelines](#).²
 - (d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) or Interim Financial Report (IFR). The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account.

Project financial statements

7. The auditor should verify that the financial statements have been prepared in accordance with Cash Basis [International Public Sector Accounting Standards](#). The financial statements should include:
 - (a) A summary of funds received from the World Bank, other financiers and counterpart contributions from the borrower, all presented separately;
 - (b) A summary of expenditures paid, presented under project account headings and main categories of expenditures; and
 - (c) Additional disclosures in explanatory notes, including details of statements of expenditures (SOE) supporting Withdrawal Applications submitted during the period, a reconciliation of movements on the Designated Account, and a statement of fund balances
 - (d) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and
 - (e) Notes, comprising a summary of significant accounting policies and other explanatory notes.

Review of Statements of Expenditure and Interim Unaudited Financial Statements

8. The auditor is required to audit all SOE/IFR submitted to the World Bank in support of requests for periodic replenishment of the project designated account(s). Expenditures should be examined for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. The auditor should report any ineligible expenditures identified as having been included in withdrawal applications and reimbursed.

¹ Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. When such experts are involved, the auditor is expected to comply with provisions of [International Standard on Auditing 620: Using the Work of an Expert](#). Consideration of using of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance.

² See [Guidelines: Procurement Under IBRD Loans and IDA Credits, Revised July 2014](#) and [Guidelines: Selection and Employment of Consultants by World Bank Borrowers, Revised July 2014](#).

Review of designated accounts

9. During the audit of the project financial statements, the auditor is required to review the activities of the project's designated account(s). Activities to be examined will include deposits received, payments made, interest earned, and reconciliation of period-end balances.

Audit Reports

Audit opinion

10. The auditor will issue an audit opinion on the financial statements. The auditor's opinion shall be based on an evaluation of the conclusions drawn from the audit evidence obtained and shall be expressed clearly through a written report that also describes the basis for that opinion. The audit report shall be prepared in accordance with [International Standard on Auditing 700: Forming an Opinion and Reporting on Financial Statements](#).
11. A modified audit opinion shall be rendered in the financial statements when the auditor concludes, on the basis of the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Modified audit opinions shall be in accordance with [International Standard on Auditing 705: Modifications to the Opinion in the Independent Auditor's Report](#).
12. The auditor will include emphasis of matter paragraphs or other matter paragraphs in the audit opinion where the auditor, having formed an opinion on the financial statements, seeks to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report. The paragraphs will refer to either a matter that, although appropriately presented or disclosed in the financial statements, is of such importance that it is fundamental to users' understanding of the financial statements; or as appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report. This form of opinion will be presented in accordance with [International Standard on Auditing 706: Emphasis of Matter Paragraphs or Other Matter Paragraphs in the Independent Auditor's Report](#).

Other audit reports

13. In addition to the audit opinion, the auditor will also, either in the audit report or in the report to management:
 - (a) provide comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
 - (b) identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
 - (c) report on instances of noncompliance with the terms of the financial agreement(s);
 - (d) quantify and report expenditures that are considered to be ineligible and either paid out of the designated account(s) or claimed from the World Bank;
 - (e) communicate matters that have come to attention during the audit that might have a significant impact on the implementation of the project;
 - (f) draw to the borrower's attention any other matters that the auditor considers pertinent; and
 - (g) responses from management, including implemented and proposed remedial actions.

14. The auditor's opinion on the financial statements and management letter should be received by the Bank no later than [*three to six*] months after the end of [*the audit reference date*].

General

15. The auditor is entitled to unlimited access to all information and explanations considered necessary to facilitate the audit, including legal documents, project preparation and supervision reports, reports of reviews and investigations, correspondences, and credit account information.

The auditor may also seek written confirmation of amounts disbursed and outstanding in the Bank records.
16. The auditor is encouraged to meet and discuss audit-related matters, including input to the audit plan, with the World Bank project task team.
17. It is highly desirable that the auditor reviews the Bank's financial reporting and auditing requirements contained in Operational Policies [OP 10.00 Investment Project Financing](#); [Bank Policy: Program for Results Financing](#); [OP 8.60 Development Policy Lending](#). The auditor should also be familiar with the Bank's [Disbursement Guidelines and Handbook \(2006\)](#) and *Financial Monitoring Reports for World Bank-Financed Projects: Guidelines for Borrowers, November 30, 2001*; and [World Bank Procurement Guidelines](#).