

EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER

Loan NO.2560-GEO

(Road corridor investment program – PROJECT 1)

Assurance report

For the Period Started at 01 January 2019 and Ended
22 February 2020

INDEPENDENT ASSURANCE REPORT

To the management of Eurasia Transport Corridor Investment Center:

Introduction

We have performed an independent reasonable assurance engagement to determine whether under the Loan Agreement with the Asian Development Bank (ADB) dated 29 October 2009 ("The Loan Agreement"), in all material respects, based on the criteria defined in Appendix 1 - Excerpt from Terms of Reference:

- a. The ADB funds have been used for the purposes for which the funds were provided as set out in the Loan Agreement # 2560-GEO between Georgia and Asian Development Bank dated 29 October 2009, for the period started at 01 January 2019 and ended 22 February 2020 (defined in the Appendix 2 of this report).
- b. The project has complied with the Imprest account procedures, e.i Imprest account presents fairly in all material respect receipts collected and payments made and supports Imprest Account liquidations and replenishments during the period for the period started at 01 January 2019 and ended 22 February 2020; and
- c. The project has complied with Statement of Expenditure procedures, e.i. that supporting documentation has been maintained to support claims to the ADB for replenishment of expenditures incurred and that the expenditures are eligible for financing under the Loan Agreement for the period started at 01 January 2019 and ended 22 February 2020.

Responsibilities for the Subject Matter

Management is responsible for preparing and maintaining of books and records on Imprest Account and Statement of Expenditure and for compliance with Imprest Account and Statement of Expenditure procedures through maintaining supporting documentation on replenishment and receipts collected and withdrawals and payments made from Imprest Account as well as claims to the ADB for reimbursement of expenditure incurred and that the expenditure is eligible for financing under the Loan Agreement for the period started at 01 January 2019 and ended 22 February 2020. Management is also responsible for compliance with Article III (paragraphs 3.01, 3.02, 3.03, 3.04 {a}, 3.04 {b}) and Schedule I and III of the Loan Agreement # 2560-GEO between Georgia and Asian Development Bank dated 29 October 2009 in terms of using the ADB funds. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the above information that is free from material misstatement, whether due to fraud or error.

Scope and Subject Matter Information

We have audited, in accordance with International Standards on Auditing, the special purpose project financial statements of the Road Corridor Investment Program – Project 1 (the "Project") financed under the Loan Agreement No. 2560-GEO dated 29 October 2009, implemented by the Eurasian Transport Corridor Investment Center, which comprise the Balance Sheet as at 22 February 2020 and the related Statement of Sources and Uses of Funds, Statement of Expenditures Withdrawal Schedule ("SOEs") and statement of Imprest Account Statement for the period started at 01 January 2019 and ended 22 February 2020 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements") and have expressed an unqualified opinion thereon dated 16 November 2020.

Our procedures primarily included obtaining 3rd party confirmations and other relevant supporting documentation to obtain reasonable assurance on the movement on imprest account.

Auditor's responsibility

Our responsibility is to express a conclusion on the subject matter discussed above based on our reasonable assurance engagement. We conducted our engagement in accordance with ISAE 3000 applicable to assurance engagements. This standard requires that we plan and perform our examination on the subject matter referred to above and perform other procedures as we consider necessary in the circumstances. We believe that our work provides a reasonable basis for our conclusion.

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Inherent limitations exist in assurance engagements, due to the selective testing of the information being examined. Therefore fraud, error or non-compliance may occur and not be detected. Non-financial data may be subject to more inherent limitations than financial data, given its nature and the methods used for determining or estimating such data. These inherent limitations may influence the evaluation of the subject matter against criteria as defined in the excerpt from Terms of Reference.

We believe that evidence we have obtained is sufficient and appropriate to provide basis of our assurance conclusion.

Conclusion

In our opinion, based on the work performed in this report and criteria defined in the Article III (paragraphs 3.01, 3.02, 3.03, 3.04 {a}, 3.04 {b}) and Schedule I and III of the Loan Agreement # 2560-GEO between Georgia and Asian Development Bank dated 29 October 2009 in terms of using the ADB funds:

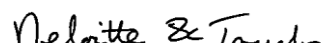
- a. The Project utilized, in all material respect, all proceeds of the loan withdrawn from ADB only for the purposes of the Project as agreed between ADB and Government of Georgia in accordance with the Loan Agreement.
- b. The Project has complied, in all material respect, with the Imprest account procedures as defined in Schedule III of the initial Loan agreement Loan No. 3524-GEO, i.e. Imprest account presents fairly in all material respect receipts collected and payments made and supports Imprest Account liquidations and replenishments during the period from 1 January 2019 to 22 February 2020 as detailed in Attachment 1 of this report.
- c. The Project has complied, in all material respect, with Statement of Expenditure procedures i.e. that supporting documentation has been maintained to support claims to the ADB for replenishment of expenditures incurred and that expenditures are eligible for financing under the Loan Agreement for the period started at 01 January 2019 and ended 22 February 2020.

Restriction on distribution and use

This report is prepared to assist the Project to comply with the requirements of Asian Development Bank. As a result, it may not be suitable for another purpose. Our report is intended solely for use by the management of the Project, the Government of Georgia in communicating with the Asian Development Bank and should not be distributed or used by anyone other than these specified parties.


Leighton Stuart

On behalf of Deloitte and Touche LLC


16 November 2020
Tbilisi, Georgia

Appendix 1

Excerpt from Terms of Reference

SCOPE OF SERVICES

The scope of works for works determined by the Clause 4² will remain the same as determined by the APPENDIX A – TERMS OF REFERENCE with additional clause The audit opinion should specifically confirm that the proceeds of ADB loan were used only for the purpose of the project.

Appendix A, Scope of services:

The additional engagement will be reasonable assurance engagement which will be undertaken in accordance with International Standard on Assurance Engagements (ISAE 3000), and will involve a positive form of expression of the practitioner's conclusion, in accordance with ISAE 3000, as to whether for the periods from 1 January 2019 to 22 February 2020 and from 1 January 2019 to 03 March 2020 for Loans #2560 and #2843-GEO, ADB Funds have been used only for the purposes for which the funds were provided as defined in the Article III (paragraphs 3.01, 3.02, 3.03, 3.04 {a}, 3.04 {b}) and Schedule I of the Loan Agreement dated 29 October 2009 (Loan Number 2560-GEO) and Article III (paragraphs 3.01, 3.02, 3.03, 3.04) of the Loan Agreement dated 18 April 2012 (Loan Number 2843-GEO);

Separate report will be issued based on the reasonable assurance engagement.

Appendix 2

Article III: Use of Proceeds of the Loan

Section 3.01.

The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02.

The Goods, Works, and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works, and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03.

Except as ADB may otherwise agree, all Goods, Works, and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04.

Withdrawals from the Loan Account in respect of Goods, Works, and consulting services shall be made only on account of expenditures relating to:

- (a) Goods which are produced in and supplied from and consulting services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works, and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Schedule 1: Description of the Project

1. The objective of the Investment Program is to develop a regional and national road transport network within the Borrower's territory. Upon implementation, the Investment Program will: (i) facilitate efficient regional road transport transit through Georgia, (ii) increase trade flows and competitiveness, (iii) lower transport costs, (iv) increase mobility and accessibility to markets, jobs, and social services, and (v) improve governance.

2. As part of the Investment Program, the Project aims to improve road infrastructure, road network management capacity, and road safety along the Project Road.

3. As further detailed in the PFR, the Project comprises the following main components:

- (i) construction of a new two-lane road of approximately 28 km in length bypassing Kobuleti, and expansion and improvement of approximately 6-km road section between Kobuleti and Batumi;
- (ii) capacity development of the Roads Department of MORDI;
- (iii) road safety enhancement; and
- (iv) project management support, including detailed design and supervision consultancy.

Schedule 3: Allocation and Withdrawal of Loan Proceeds

Disbursement Procedures

4. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

5.(a) Except as ADB may otherwise agree, the Borrower shall establish immediately after the Effective Date, an imprest account for the Treasury Service of the Ministry of Finance at the National Bank of Georgia. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. The currency of the imprest account shall be the Dollar. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible Project expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000.

Attachment 1

STATEMENT OF IMPREST ACCOUNT

Balance as at 01 January 2019	<u>110,237</u>
ADD	
ADB replenishment	<u>-</u>
DEDUCT	
Funds used for the Project expenditures	<u>110,237</u>
Balance as at 22 February 2020	<u><u>-</u></u>