

EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER

Loan NO.3524-GEO
(Secondary Road improvement project)

Assurance report
For the Year Ended 31 December 2021

INDEPENDENT ASSURANCE REPORT

To the management of Eurasia Transport Corridor Investment Center:

Introduction

We have performed an independent reasonable assurance engagement whether under the Loan Agreement with the Asian Development Bank (ADB) No. 3524-GEO dated 19 June 2017 (“The Loan Agreement”), in all material respects, based on the criteria defined in Appendix 1 - Excerpt from Terms of Reference, the ADB funds have been used for the purposes for which the funds were provided as set out in Article III (paragraphs 3.01, 3.02, 3.03, 3.04) of the Loan Agreement for the year ended 31 December 2021 (defined in the Appendix 2 of this report).

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 Article III (paragraphs 3.01, 3.02, 3.03, 3.04) of the Loan Agreement, for the year ended 31 December 2021 (defined in the Appendix 2 of this report).
- b. The project has complied 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 year ended 31 December 2021;

Management’s Responsibilities for the Subject Matter

Management is responsible for preparing and maintaining of books and records on Statement of Expenditure and for compliance with Statement of Expenditure procedures through maintaining supporting documentation on claims to the Asian Development Bank for reimbursement of expenditure incurred and that the expenditure is eligible for financing under the Loan Agreement for the year ended 31 December 2021. Management is also responsible for compliance with Article III (paragraphs 3.01, 3.02, 3.03, 3.04) of the Loan Agreement 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.

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Scope and Subject Matter Information

We have audited, in accordance with International Standards on Auditing, the special purpose project financial statements of the Secondary road improvement project (the “Project”) financed under the Loan Agreement No. 3524-GEO dated 19 June 2017, implemented by the Eurasian Transport Corridor Investment Center, which comprise the Balance Sheet as at 31 December 2021 and the related Statement of Sources and Uses of Funds, Statement of Expenditure Withdrawal Schedule and statement of Imprest Account Statement for the year ended 31 December 2021 and have expressed an unqualified opinion thereon dated 28 June 2022. The audit was not directed towards detecting non-compliance with the Article III discussed above.

Our procedures in this engagement primarily included obtaining third party confirmations and other relevant supporting documentation to obtain reasonable assurance on the movement on imprest account

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 (Revised) 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.

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.

Conclusion

In our opinion, based on the work performed in this report and criteria defined in Appendix 1 - Excerpt from Terms of Reference:

- a. The Project utilised, 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 year ended 31 December 2021 as detailed in Attachment 1 of this report.

Restriction on distribution and use

This report is intended solely for use by the management of the Project in communicating to the Ministry of Regional Development and Infrastructure of Georgia, and the Asian Development Bank information about the Project's compliance with Article III (paragraphs 3.01, 3.02, 3.03, 3.04) of the Loan Agreement for the year ended 31 December 2021. This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than those mentioned above in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties.



Srбуhi Hakobyan

On behalf of Deloitte and Touche LLC



28 June 2022

Tbilisi, Georgia

Appendix 1

Excerpt from Terms of Reference

Appendix A – TERMS OF REFERENCE, section XIV states following:

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 (reasonable assurance) of the practitioner's conclusion as to whether ADB, AIIB and EBRD 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, 3.05) and Schedule I of the Loan Agreement dated 5 October 2018 (Loan Number 3715-GEO), the Article III (paragraphs 3.01, 3.02, 3.03, 3.04) Schedule I of the Loan Agreement dated 12 June 2017 (Loan Number 3520-GEO), Article III (paragraph 3.02) and Schedule 1 of the Loan Agreement dated 17 June 2017 (Loan 8328-000021-1-GEO), Article III (paragraphs 3.01, 3.02, 3.03, 3.04) and Schedule 1 of the Loan Agreement dated 19 June 2017 (Loan 3524-GEO), Article III (paragraphs 3.01, 3.02, 3.03, 3.04, 3.05) and Schedule 1 of the Loan Agreement dated 27 August 2019 (Loan 3803-GEO) and Article III (paragraphs 3.01, 3.02, 3.03, 3.04, 3.05) and Schedule 1 of the Loan Agreement dated 27 November 2019 (Loan 3803-GEO).

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

Appendix 2

Article III of Loan Agreement #3524, dated 19 June 2017: 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 proceeds of the Loan shall be allocated and withdrawn 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, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04.

The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 28 February 2022 or such other date as may from time to time be agreed between the Borrower and ADB.

Schedule 1: Description of the Project

1. The objectives of the Project are increased mobility and accessibility of the residents of the Kharagauli municipality and tourists.
2. The Project shall comprise rehabilitation of approximately 50 km road between Dzirula and Chumateleti to two-lane all-weather standard, including short access roads to the Borjomi-Kharagauli National Park and to Kharagauli and other railway stations.
3. The Project shall include the provision of Consulting Services for construction supervision and Project management support.

Schedule 3 of Loan Agreement #3524, dated 19 June 2017

Basis for Withdrawal from the Loan Account

Except as ADB may otherwise agree, the proceeds of the Loan shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Interest and Commitment Charges

The amount allocated to Category "Interest and Commitment Charges" is for financing interest and commitment charges on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charges.

Reallocation

Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedure

Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Retroactive Financing

Withdrawals from the Loan Account may be made to finance eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with Works and Consulting Services, subject to a maximum amount equivalent to 20% of the Loan amount.

Attachment 1

STATEMENT OF IMPREST ACCOUNT

| | |
|---|----------------------|
| Balance as at 31 December 2020 | 24,970 |
| ADD | |
| ADB replenishment | - |
| DEDUCT | |
| Funds used for the Project expenditures | - |
| Balance as at 31 December 2021 | <u>24,970</u> |

There was no SOE type of expenditure for the year ended 31 December 2021