
Project: Good Governance for Local Development, South Caucasus
PN: 19.2204.6-005.00
Activity: Root cause analysis of problems in the financial management on the local level as detected by the State Audit Office of Georgia
Period: 01.10.2021 – 15.12.2021

1. Information on the Programme

Good Governance for Local Development, South Caucasus (GGLD) is implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). GGLD is a regional technical assistance project (implemented in Armenia, Azerbaijan and Georgia) that aims at holistically strengthening good governance principles and partner capacities, particularly at the sub-national level.

Its overall objective reads as follows: Public institutions in the South Caucasus at the national and sub-national levels are better able to provide citizen-oriented services.

To achieve this goal, the project focusses on the following field of actions

1. Improving the legal and institutional framework for providing citizen-oriented public services;
2. Strengthening the capacities of key stakeholders to deliver citizen-oriented services and to finance them;
3. Introducing public participation mechanisms for the engagement of citizens in service delivery;
4. Strengthening the procedures, institutions and instruments of regional and local economic development;
5. Promoting exchange of experience and cross-border learning.

Moreover, the project specifically aims at insitutionalising gender equality. These terms of reference concern only the Georgian component of GGLD, which in addition to the already named fields of action aims at localising the 2030 Agenda in Georgia.

2. Background Information on the Activity

Georgia have ratified the Local Self-governance Charter of the Council of Europe. By doing so, they committed to strengthen local self-government, democracy and create all the legal and institutional framework conditions necessary for this.

Through the Caucasus Initiative, the German Government has made a significant contribution for strengthening democracy, local self-governance and the rule of law in the region.

In addition, since 2009, all the three countries have been part of the Eastern Partnership of the EU. The Eastern Partnership (EaP) envisages cooperation between the EU and its neighbouring countries in the Eastern region. Its goal is to support stability, democracy, rule of law and economic development in the countries that are part of the EaP. Several projects implemented as part of the EaP, proved to be very important for the modernization of public finance and local self-government, regional development, as well as approximation of the legal system to European standards in all three countries.

As a result, the countries have improved their public (state) and municipal services, however, they are still facing serious challenges. There are significant regional differences regarding the quality and accessibility of administrative and basic services, as well as public infrastructure. The lack of social and economic infrastructure in the region is particularly noticeable. Besides, legal, financial and administrative framework conditions for citizen-oriented services are still not fully compatible with the Agenda 2030, a document Georgia has committed itself to.

GGLD actively cooperates with the Ministry of Finance of Georgia (MoF) and the State Audit Office of Georgia (SAO). In recent years GIZ GGLD supported MoF and SAO with various projects in the decentralization process and in the reform of the Public Finance Management sector on the municipal level in Georgia.

Since the national audit cycle is a complex, interconnected system, good practices in one area may not yield expected impacts if other components of the audit cycle do not function well. Therefore, several parts of the Georgian audit cycle shall be displayed here.

The State Audit Office is the supreme audit institution in Georgia. The main objectives of the State Audit Office are to promote legal, efficient and effective spending of public funds and other assets of material value, as well as to contribute to the protection of the national wealth and the property of the autonomous republics and local self-government units, and to the improvement of public financial management. The State Audit Office of Georgia is conducting Financial, Performance and Compliance Audits to strengthen the accountability, transparency and integrity of government and public sector entities and to ensure proper spending of public resources. These audits are presented through various SAO reports. From 2017-2019, public financial management assessments using PEFA indicators (based on PEFA 2016 methodology) were conducted in various municipalities. To encourage

municipalities to implement the measures to eliminate the weaknesses identified by the assessments, on the basis of Government Decree # 2735 of December 30, 2019, the MoF and 39 municipalities signed a memoranda of understanding. One of the important indicators of the memoranda is that the municipalities should have strong internal audit units and an efficiently functioning internal Financial Management and Control system (indicator 2.3). The effectiveness of the Internal Audit and Financial Management and Control system (FMC) is not determined solely by resources and capacity levels. A range of other factors is of equal importance, including the SAO's ability and capacity to make reports and findings accessible and communicate them appropriately as well as cooperate with local self-governments (LSGs), citizens and the media. Likewise, crucial for the success of a functioning oversight system and accountability is that municipalities systematically discuss and implement **SAO's recommendations**.

Next to writing reports based on audit findings, the State Audit Office has developed an electronic monitoring system to monitor the implementation of SAO recommendations elaborated in the mentioned reports. This shall ensure a transparent and comprehensive coordination of the process, facilitating a timely and appropriate fulfilment of the recommendations. The system contains all the necessary information and documents related to the process of implementing recommendations. It includes audit reports, deficiencies identified within the audit and recommendations for improving them.

The SAO's reports display similar budgeting problems and complaints in various municipalities, such as **ineffective use of funds and a flawed determination of priorities**, irregularities in procurement, an opaque personnel policy, an incorrect planning and billing in construction projects, **as well as an insufficient internal audit process**. Hence, to prevent further misuse of public funds as well as ineffective planning and spending, municipalities need to fulfill the SAO's recommendations on improving prioritization and selection of projects. To improve the whole audit cycle in Georgia, the State Audit Office recommendations should be as efficient as possible and lead to positive impact. Therefore, both the SAO's cooperation with LSGs as well as well-functioning internal audit units of municipalities as well as Mayors who are aware of existing problems and causes of these problems are crucial.

3. Objective

The overall objective of this assignment is to contribute to the improvement of the audit cycle in Georgia by stocktaking and assessing **recurrent problems and findings of the SAO** reports at municipal level. The specific objective of this assignment is to identify and validate **repeating challenges** in municipalities documented in the SAO's and other important reports. This can for instance include inefficient priority-setting and spending. As well as to find answers to the questions why there are repeated errors and complaints and why the same or similar cases are occurring in different municipalities. In a next step, the root causes of these recurring problems shall be identified (such as lacking technical understanding and administration of internal accounting lack of political will or compliance, etc.). Based on the detected root causes recommendations to handle and solve the challenges shall be developed. In a nutshell, the objective is to find systematic problems of good local governance, their underlying root causes and what needs to change or to be, newly introduced to overcome these root causes, i.e. propose a range of actions to help address these challenges¹. In doing so, the difference between treating symptoms and curing the actual underlying problems shall be made clear.

4. Tasks and Deliverables

4.1. Step One: Define the Problem – What?

❖ Information gathering:

- Select a list of **representative municipalities** for clustering, i.e. urban, rural, big, small, remote etc.
- Assess all SAO reports that are available of the **last 5 years** for these municipalities
- Conduct interviews with several municipalities , i.e. mayors, local councilors, civil society organisations involved in PFM accountability, either based in the regions or in Tbilisi such as Transparency International etc. Municipalities should also be grouped into municipalities who are particularly successful or unsuccessful in the follow up of audit recommendations. These cases may serve as tangible examples and showcase the situation better.

¹ The analysis and recommendations shall then serve as a basis to discuss a strategy and action plan to address all detected problems and causes with all relevant stakeholders (which will be part of another assignment not envisaged under the present document).

- Conduct interviews with SAO auditors who audited the municipalities. What is their perception on the recurrent problems and follow up of audit recommendations?
- Meet the Internal Control Department for more specific information.
- ❖ Evaluation of information:
 - Cluster the recurrent audit findings and problems according to topics which belong together. What kind/types of problems are there according to SAO?
 - Further comparatively analyse
 - SAO reports Internal Audit Reports from various municipalities (including a comparison of the problems identified in SAO and IA reports);
 - PEFA assessments from various municipalities
 - Where existent, External Quality Assessments as well as technical assessment and evaluations by various experts (e.g. from EU, UNDP, World Bank, USAID, GIZ, etc.)
 - Describe the specific symptoms of what municipalities are struggling with in terms of budgeting (including planning, spending, internal review, external auditing)? Describe the actual problems. How long have the problems existed? What are the impacts of these problems/ how do they affect the municipalities? What proof do the reports submit to verify that the problems exists?
 - Provide conclusions which recurrent problems are typical for which kind of municipality, if that is the case. Or, if all municipalities have the same problems.
 - Identify how the municipalities follow-up on the SAO audit recommendations.

Step Two: Identify the Root Cause(s) – Why?

- ❖ Conduct an in-depth analysis of the situation in the reviewed municipalities. Analyze cause and effect of (repeated) problems and errors on basis of SAO reports and recommendations, PEFA assessments as well as IA reports from municipalities.
 - What are the reasons for:
 - appearance of the problems the SAO identified in the first place?
 - Why do these symptoms occur in various municipalities and why are they similar to each other?
 - why they are not followed up?

Step Three: Solution Approaches

- ❖ Elaborate a potential approach to solve the detected root causes and to systematically improve framework conditions, including
 - Recommendations on what processes, rules, regulations, roles & responsibilities have to be changed;
 - Overall needs to enhance compliance with audit recommendations and increase transparency by involving persons that are responsible for auditing on the local level, local councilors, MoF, MRDI, civil society etc.
 - Elaborate current obligations of municipalities to publish reports on compliance with audit standards; if not existent, potential recommendations to introduce such recommendations;
 - Develop ideas on how to improve the current practice of the municipal budget cycle so that problems will be overcome sustainably (and not occur again). This shall include all stages of the budgeting cycle: planning, setting the budget, implementation, monitoring and audit – special emphasis shall be put on the phase of internal and external auditing.

Please note that to pursue the goal of highest quality, an LSG should:

- Improve its overall financial management and decision-making processes to accomplish the goals and objectives the LSG is legally bound to;
- Ensure legality and regularity in line with transparency and accountability as well as economy, efficiency and effectiveness.

Please note that the purpose of this assignment is not to criticize the particular LSG, but rather to support municipalities by ascertaining whether or not the quality control procedures established by an IA Units are consistently and properly used and are effective to identify ways in which the budgeting process can be improved.

Step Four: Produce a mid-term and a Final Report:

- ❖ The mid-term report shall include drafts of Step 1-3
 - Including the root cause analysis and proposed solution approaches (step 1,2,3) as well as a review of the communication and discussion of the results with IA Units and Mayors (and possible amendments based on these discussions)

- ❖ The final report shall display of ALL above mentioned steps. It shall be prepared in such a way, that it can later be used during validation meetings with all relevant stakeholders (and that are intended to develop a joint strategy and action plan to sustainably address the detected problems and causes).

4.2 Submit a mid-term report containing the points mentioned under step four

- ❖ Submit the final report including the points mentioned under step four
- ❖ All reports shall be written in English. The final report shall be submitted in one document according to the structure and content defined above.

5. Schedule and Implementation Details

The assignment is planned to commence on 08.10.2021 and be completed by 10.12.2021. In total, up to 65 expert days are foreseen.

Deliverables		Expert days (up to)	Deadline
Task 1	Select a list of representative municipalities for clustering, i.e. urban, rural, big, small, remote	2	
	Assess all SAO reports of the last 5 years for these municipalities that are available	15	
	Conduct Interviews with several municipalities, SAO Auditors and IA Units and other relevant actors.	8	
Task 2	Evaluation of PEFA Assessments, EQA, IA Reports and etc. of the last 2 years	10	
	Analysis of data collected from interviews and conduct an in-depth analysis	10	
	Outline of current situation based on survey evaluation (= draft of interim report)	5	
Task 3	Elaborate a potential approach to solve the detected root causes	10	
	Prepare presentations and visualization of the main findings for GGLD and stakeholders. Elaborate recommendations how and with whom results should be shared for validation. Final version both reports shall be prepared in English language	5	
	The submitted electronic versions of all the tasks shall be sent to GGLD for comments before final submission (contact persons: Tamar Gureshidze). The final submission date is 10.12.2021		
Total		up to 65	

The Contractor is obliged to perform the assignment based on these ToR while ensuring close contact and cooperation with GIZ throughout the implementation of the assignment. The Contractor is further required to submit all the deliverables to GIZ. Approval from GIZ is mandatory at each stage before moving onto the next level.

6. Professional Requirements

- 6.1. Evidence of the organization's or physical persons capabilities and assignment-related experience in executing similar projects;
- 6.2. At least five years of experience in designing studies and analyses in the area of public financial management;
- 6.3. In-depth knowledge of INTOSAI standards; In- depth knowledge of PEFA tools;
- 6.4. General experience in writing reports and analyses;
- 6.5. Quality of the submitted workplan, including implementation schedule, with number of workdays per tasks;
- 6.6. Budget cost efficiency.

More detailed information on assessment criteria is provided in the annexed assessment grid.

7. Project Duration and payments.

Tentative contract period for the service: 08.10.2021 –10.12.2021.

Payments will be made gradual during the contract period.

8.Submission of Application.

Applications should be submitted in English.

The technical proposal shall contain the following information
(recommended structure of the proposal):

1. Title page

Name and registration number of organization; legal address, telephone number, e-mail address, director of organization -signature and stamp of a director.

2. Project name and implementation period (month/year-month/year)

2. 1. Project Description

2.2. Project goals and objectives and implementation methodology (shall be in compliance with the terms of reference of this tender);

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2.3 Activities defined by the project and implementation schedule

#	Activity	Sept	Oct	Nov.	Comment
1	X				<i>[Indicate if needed]</i>
2	Y				
3	Z				
...	...				

2.4 Persons involved in the project and their functions

Please, indicate the list and functions of persons, who will be involved in the implementation of the project and will be respectively indicated in the budget.

2.5 Annex

Respective Resumes (CV) of the staff involved in the implementation of the project should be attached to the application.

Applicants may attach any additional relevant information to the application

The financial offer shall contain the following information:

Budget in GEL (excl. VAT)

#	Category	Unit	Unit quantity	Unit price (GEL)	Total Price (GEL)	Definition
1	Fee²					
1.1		[Per man-day]				
1.2						
1.3						
	...					
	Total					
2	Other costs					
2.1						
2.2	...					
	Total					
	Grand total					

² indicated fees shall include income tax and pension fund costs.

Fee rate of experts assigned should cover all personnel costs, including ancillary personnel costs; backstopping, communication and reporting costs; and all overheads, profit, interest, risks, etc. (As indicated in the Article 10.2 General Terms of Contract/ Annex.4)