**Georgian Law**

**On State Internal Audit and Inspection**

Chapter I

General Provisions

Article 1. Purpose and Scope of the Law

1. This Law provides regulation of the order, of implementation of state internal control, internal audit and inspection, its principles, audit standards and methodology, organization, authorities, independence guarantees and issues significant for development of the state internal control and internal audit system, its formation and implementation.

2. In the institutions the state internal control and internal audit is performed in accordance with the Constitution of Georgia, internal agreements and conventions, this Law and other legislative acts and by-laws.

Article 2. Definition of the terms Used in the Law

a) Subject of the internal audit – structural subdivision (unit) of the institution specified in Article 4 of this Law, or the unit, subordinated to the institution, authorized to implement internal audit in accordance with the requirements of this Law;

b) Internal audit – examination performed by the subject of internal audit, covering productivity of institution functioning and management procedures, their legal, technical and functional shortcomings, prevention of the expected violations and/or abuse and/or identification and analysis of the respective risk factors, as well as study and analysis of legality, purposefulness, reasonability, effectiveness and efficiency of spending, usage, management and protection of the funds, other material values, intangible assets, as well as review of book-keeping and financial statements, for the purpose of verification of their compliance with the effective standards;

c) Object of internal audit – person, body, organization, institution, structural subdivision (unit) of the institution and/or unit subordinated to the institution, where internal audit is performed;

d) Thematic audit – study of specific themes (Issues) of the activities (including financial and economic activities) of the object of internal audit, in accordance with audit program items;

e) Field audit – performing of the complex or thematic audit on the site of activities of the audit object;

f) Complex audit – Thorough study of the activities (including financial and economic activities) of the internal audit object, according to the audit program items;

g) Operational audit – study of productivity, economy and effectiveness of the internal audit object functioning and management procedures;

h) Financial audit – examination of internal audit object accounting and accountability, for the purpose of verification of compliance with the effective standards;

i) Compliance audit – study and analysis of lawfulness and reasonability of spending, use, management and protection of the state assets, other material values, state intangible assets by the object of internal audit;

j) Effectiveness audit – Analysis and evaluation of reasonability, economy and effectiveness of development of the state programs, use of the investment, financial, human, material and other resources, as well as activities and decisions in the management sphere;

k) Office audit – performing of the complex or thematic audit within the internal audit subject, on the basis of materials received from the object of audit;

l) Internal auditor – Employee of the internal audit subject, performing internal audit, in accordance with the rules, established by this Law;

m) National Center of State Internal Control (hereinafter referred to as Center) – legal entity of public law, subordinated to the Ministry of Finance, providing development, functional improvement and coordination of the bodies implementing internal control and internal audit in the governmental sector;

**(**m) Council for consideration of the issues related to the internal audit (hereinafter referred to as the Council) – council under the Government of Georgia, providing development and coordination of the activities of bodies performing internal control and internal audit in the governmental sector; (26.10.2010. #3756, to commence operation immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

n) Financial management and control – complex system of internal control, for which the head of the institution is responsible and which, together with the risk management system, ensures proper, economic, effective and efficient spending of the budget assets, for implementation of the institution’s objectives;

o) Preliminary control measures – measures implemented within the authorities granted to the internal audit subject by the head of institution for decision-making, with respect of spending of the budget assets, undertaking obligations, implementation of the procurement operations, execution of the agreements, making payments;

p) Code of ethics of the internal auditors – guidelines applicable to the internal auditors and covering the rules of their behavior;

q) Internal audit task – written task issued by the head of the institution, providing legal basis for commencement of the internal audit;

r) Internal audit report – report prepared by the internal audit subject, in result of performing of the internal audit, stating the findings of the internal audit, including facts revealed in the internal audit process, their analysis, and recommendations developed on their basis, as well as argumentation of the internal audit object;

s) Audit program – internal audit plan, approved by the head of the internal audit subject, on the basis of internal audit task, stating subject of the internal audit, sphere of activities, objectives, duration, resources distribution, for implementation of this task, internal audit approach and methods, scopes and type of the internal audit;

t) Risk management system – system of measures intended for timely identification, classification and systematization of the existing and possible risks of the institution, identifying respective measures, for the purpose of their mitigation / elimination and prevention;

u) Managerial accountability – obligation of the head of budget institution, to undertake financial and management responsibility, as well as the responsibility for implementation of specific program or project and be responsible to the authorizing person;

v) Subject matter of the audit – direction of the activities of the internal audit object specified in the internal audit task and audit program, to be subjected to the internal audit;

w) Audit standards – criteria or benchmarks against which the internal audit results are evaluated and which, with the minimal guidelines, assist the internal auditor in identification of the audit stages and extensiveness of the audit procedures, which should be performed for achievement of the internal audit goals;

x) Internal control – system of mechanisms of managerial, financial and other control, including organizational structure, methods, procedures and internal audit, formulated to assist the institution to perform its activities lawfully, economically, effectively and efficiently;

y) Inspection – examination measure performed for the purpose if prevention and/or identification of the abuse and/or actions incompliant with the purposes of the institution;

z) Risk management – process of risks identification, determination and evaluation and development of the relevant strategy for its management, providing reasoned guarantee that no any substantial threat endangers achievement of the institution’s goals.

Article 3. Accountability and Independence of the Internal Audit Subject

1. Internal audit subject, within the authorities, provided by this Law, acts in coordination with the Center and is accountable to the head of the institution.

**(**1. Internal audit subject, within the authorities, provided by this Law, acts in coordination with the Council and is accountable to the head of the institution.(26.10.2010. #3756, to commence operation immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

2. Subject of internal audit, is independent in his activities and shall comply with the law only. No intervention in his activities or demand of the reports, related to his activities shall be allowable, unless directly provided by the Georgian legislation.

Article 4. Establishment of the Internal Audit Subjects within the Specific Institutions

1. Subjects of internal audit shall be established in the following institutions:

a) Ministries of Georgia;

b) Ministries of the Autonomous Republics of Adjaria and Abkhazia;

c) Within the legal entities of public law, funded from the budget, list of which shall be identified by the government of Georgia;

d) Executive bodies of local self-government – municipal administrations, on the basis of the decision of local councils.

2. Subjects of internal audit may be established also within the Chamber of Control of Georgia, legal entities of private law (50 per cent or more shares of which are owned by the state, in the event of consent from the latter) and other budget organizations, on the basis of their own decision.

Article 5. Main Goals of the Activities of Internal Audit Subject and Principles of Implementation of the Internal Audit

1. Main goals of the activities on internal audit subject include improvement of the institution’s activities through systematic, complex study of the issues and evaluation of risk management, control and managerial processes, as well as improvement of the finance management, support to lawfulness, reasonability and improved effectiveness spending and use of the assets and other material values, elimination and prevention of the legal, technical and functional shortcomings in institution functioning and management procedures and their productivity.

2. Internal audit shall be performed in accordance with the audit standards, complying with the code of ethics of the internal auditors and the following principles:

a) Independence;

b) Objectivity;

c) Professionalism;

d) Publicity;

e) Transparency;

f) Lawfulness.

Chapter II

Scope of Actions of the Internal Audit Subject and its Organization

Article 6. Authorities of the Internal audit subject

1. Authorities of the internal audit subject extend over the institution and/or structural subdivision (unit) of the institution and/or unit subordinated to the institution.

2. Goals of the activities of internal audit subject include:

a) Identification and evaluation of the institution risks;

b) Evaluation of adequacy and effectiveness of the financial management and control system;

c) Control over compliance with the requirements of Georgian legislation by the bodies of the institution system;

d) Development of recommendations for the purpose of improvement of productivity, effectiveness, efficiency and economy of the institution functioning and management procedures;

e) Prevention of the expected violations or abuse in the activities of the institution and/or its structural subdivision (unit) and/or its subordinated unit, and or revealing and analysis of the relevant risk factors;

f) Identification of the reasons causing or furthering of the law infringements or abuses from the side of the staff members of institution and/or its structural subdivision (unit) and/or its subordinated unit;

g) Implementation of the preliminary control measures by the head of institution, within the authorities provided by the law;

h) Control over strict compliance with the requirements of Georgian legislation by the bodies of the institution system;

i) Internal control over compliance with the discipline and law requirements, revealing of the facts of violation of the constitutional rights and lawful interests of the citizens, abuse and other unlawful actions by the institution staff members, study of the applications and complaints, related to such facts and relevant response;

j) Implementation of the internal inspection of the abuse by the institution staff members, preparation of the reports on the findings and submission to the head of the institution;

k) Providing of the relevant recommendations to the heads of the institutions, for the purposes of identification of the reasons contributing to the facts of violation of Georgian legislation by the institution staff members and their prevention, elimination of the weaknesses revealed in the activities of the institution system bodies and their reasons;

l) Identification of the facts of conflicts of interests of the institution staff members and implementation of the control and supervision over compliance with the ethic rules by the staff members;

m) Securing publicity and transparency of the institution activities, promotion and support of formation of the public control mechanisms, gaining of public support in the sphere of observance of he laws;

n) Other activities regarding specific nature of the institution activities, which do not contradict to Georgian legislation, goals of this Law an the principles of independence of the internal audit.

3. Subject of internal audit is authorized, in agreement with the head of institution and the head of the Center, to publish internal audit conclusion and/or report in the official gazette.

**(**3. Subject of internal audit is authorized, in agreement with the head of institution and the head of the Center, to publish internal audit conclusion and/or report in the official gazette. (26.10.2010. #3756, to commence operation immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

4. Head of the institution shall be responsible for introduction and functioning of the adequate and effective financial management and control system, as well as risks management system.

5. The object of study and analysis by the subject of internal audit, within its competence, may be all processes and spheres of activity of the institution system.

6. Staff of the internal audit object shall collaborate with the internal auditor, in implementation of its activities and ensure availability of all information and documents and/or implementation of all actions related to the issues within their competence.

7. In the sphere of the state finance control, the subjects of internal audit cooperate with the Chamber of Control of Georgia and for this purpose, within the sphere of their competence, coordinate relations with the objects of audit, specified by Georgian Law on Georgian Chamber of Control and provide information, upon request from the Chamber of Control

Article 7. Internal Audit Order, Stages of Internal Audit

1. Internal audit shall be performed in accordance with the requirements of this Law and order on internal audit issued by the head of internal audit subject, in accordance with this Law.

2. Goal and scope of the internal audit order shall be determined by the head of internal audit subject, in agreement with the head of the institution, .

3. Internal audit shall consist of the following stages:

a) Audit planning;

b) Audit implementation;

c) Reporting;

d) Follow-up activities, for the purpose of implementation of the offered recommendations and monitoring.

4. Internal audit to be implemented on the basis of internal audit order may be of the following types:

a) Thematic audit;

b) Compliance audit;

c) Operational audit;

d) Effectiveness audit;

e) Financial audit;

f) Office audit.

**(**4. Internal audit to be implemented on the basis of internal audit order may be of the following types:

a) Compliance audit;

b) Operational audit;

c) Effectiveness audit;

d) Financial audit. (26.10.2010. # 3756 to be effective immediately upon liquidation of the legal entity of public law, National Center of State Internal Control**)**

41. Internal audit shall be implemented via field audit or office audit method. (26.10.2010. # 3756 to be effective immediately upon liquidation of the legal entity of public law, National Center of State Internal Control**).**

42. Based on the internal audit goals, internal audit shall be implemented in the form of thematic or complex audit. (26.10.2010. # 3756 to be effective immediately upon liquidation of the legal entity of public law, National Center of State Internal Control**).**

5. Head of the institution shall ensure independence of the internal auditors in audit planning, implementation and reporting process and shall not impose on the head of the internal audit subject or internal auditors fulfillment of the other functions or activities, with the exception of the activities, related to internal audit, risks management and inspection.

Article 71. Term of Implementation of the Internal Audit and Inspection(26.10.2010. # 3756 to be effective immediately upon liquidation of the legal entity of public law, National Center of State Internal Control**)**

Term of internal audit and inspection, as a rule, shall not exceed 90 dalendar days. Head of the institution may extend this term, once, for no more than 30 calendar days.

Article 8. Internal Audit Report

1. In result of implementation of internal audit, in accordance with the legislation, regulating internal audit and ley requirements of international standards, the internal audir report shall be prepared.

2. Internal audit report shall contain unbiased evaluation of the information, documentation and other evidences on specific processes, systems, other issues within the internal audit by the internal auditor.

Chapter III

Managerial Accountability

Article 9. Substance of Managerial Accountability

1. Head of the specific institution provided for in Article 4 of this Law, in management of the institution, shall follow the principles of lawful, economic, effective and efficient management of the state assets.

2. In the event of management of the specific program or project by more than one institution and/or structural subdivision (unit) thereof, and/or subordinated unit thereof, the heads shall agree upon the scopes of activities and responsibilities of each of them in written.

Article 10. Scopes of Managerial Accountability

1. Heads of the institutions specified in Article 4 hereof, within their competencies, shall:

a) Identify and evaluate the risk;

b) In accordance with Georgian legislation, identify and manage the resources required for achievement of the goals and objectives of the institution;

c) Promote improvement of the qualification of the institution staff members;

d) Contribute to formation of the effective system for data protection and management;

e) Develop proposals for the purpose of formation of the optimal organizational structure;

f) For the purpose of making, implementation and control of the decisions, delegates the authorities and personifies the responsible persons;

g) Ensures complete, true, accurate and timely accounting;

h) Supports implementation of the internal audit;

i) Ensures monitoring of the financial management and control system;

j) Implements measures for the purpose of introduction of the anti-corruption procedures;

k) Executes other authorities provided by Georgian legislation.

2. Heads of the institutions specified in Article 4 of this Law shall comply with the methodological instructions issued by the Ministry of Finance of Georgia, in relation with the Section 1 of this Article, with respect of the managerial responsibility.

Article 11. Delegation of Authorities

Heads of the institutions specified in Article 4 of this Law may delegate their authorities provided for by this Law to their subordinated authorized officers.

Article 12. Responsibilities of the Managers

1. Non-fulfillment or improper fulfillment of the obligations provided for by this Law, by the person authorized to make relevant decisions, shall provide basis for imposing responsibility in accordance with Georgian legislation.

2. Delegation of the authorities as specified in Article 11 hereof shall not release the manager from the responsibility for execution of the delegated authorities.

3. Within the scopes of the requirements of this Law, the head of the institution shall be responsible for providing adequate resources to the internal audit subject and its permanent functioning.

4. Head of the institution shall ensure independence of the internal auditors in planning of internal audit, its implementation and reporting. He/she shall not impose on the head of internal audit and internal auditors the other functions, except for those, provided for by this law and bylaws, issued on the basis thereof.

5. Head of the institution shall ensure that the internal auditor was not punished, dismissed or moved to the other position, by the reason of recommendations, internal audit conclusion or report, issued by him/her within the scopes of the law.

6. Head of the institution shall ensure that at least one officer of the internal audit subject had access to the secret information and documentation.

Chapter IV

Rights and Obligations of the Internal Auditor

Article 13. Rights of Internal Auditor

1. Internal auditor, within the scopes of internal audit and risks assessment, shall have unlimited access to all activities and documentation of the bodies of institution system, with the exception of restrictions provided for by Georgian legislation.

2. Internal auditor shall be entitled, in relation with the subject matter of audit, in the process of internal audit and/or risk assessment, receive all required information and documents, irrespective o their format (electronic versions etc.), demand from the audit object, submission of the documents in the state language, make copies of the documents, etc., with the exception of the restrictions provided for by Georgian legislation.

3. Head of the institution and the staff thereof shall, within the scopes of their competences, provide proper assistance to the internal auditor, in the process of internal audit and/or risks management.

4. Head of the internal audit subject shall be entitled, in accordance with the rules, established by Georgian legislation, identify the type of audit required for implementation of each internal audit task, as well as the scopes of activities, frequency of implementation and number of internal auditors.

Article 14. Obligations of the Internal Auditor

Internal auditor shall:

a) Comply with the audit standards, code of ethics of the internal auditors, legislation, regulating internal audit, methodology of internal audit approved by the Center;

**(**a) Comply with the audit standards, code of ethics of the internal auditors, legislation, regulating internal audit, methodology of internal audit approved by the Center; (26.10.2010. #3756, to commence operation immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

b) Immediately, after commencement of internal audit, submit to the internal audit object the relevant administrative act on implementation of the internal audit, the program and list of the rights and obligations;

c) Ensure confidentiality of the state, institutional, commercial and personal secret information in accordance with the rules established by Georgian legislation and do not disclose information, which became known to him/her in the process of his/her activities or in relation therewith, with the exception of cases, where it is the consequence of the goals of examination and/or is provided for by the applicable legislation;

d) Do not make public the results of internal audit, before preparation of the internal audit report.

Article 15. Head of the Internal Audit Subject

1. Head of the internal audit subject manages activities of the internal audit subject, in accordance with this Law, other legislative acts and bylaws of Georgia.

2. Head of internal audit subject:

a) Prepares and submits for agreement the strategic and annual plans of internal audit activities to the Center.

(a) Prepares and submits for agreement the strategic and annual plans of internal audit activities to the head on institution. (26.10.2010. #3756, to commence operation immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

b) Coordinates activities of the internal auditors, distributes their functions, regarding their knowledge and qualifications;

c) Submits to the head of institution the plan of internal audit order for agreement;

d) Monitors implementation of the internal audit annual plan and application of the internal audit methodology within the internal audit subject subordinated to him/her;

e) Evaluates changes made to the financial management and control system, as well as structure and functions of the institution;

f) Bears responsibility for providing internal auditors to the audit subject, including their appointment and dismissal;

g) Monitors implementation of the internal audit annual plan and internal audit methodology;

h) Provides accumulation of the documents on risk analysis, internal audit plans, all audit reports and all other activities, listed in this Law and bylaws, issued on the basis hereof;

i) Collaborates with the Center and provides to its staff all relevant documentation; **to be omitted** (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

j) Fulfills requirements related to quality assurance stated by the Center; **to be omitted** (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

Article 16. Limitation of the Activities of Internal Auditor

Internal auditor is not entitled to perform any functions other than those, related to risk management and internal audit.

Chapter V

Financial Management and Control

Article 17. Development of Financial Management and Control System

1. General rules of financial management and control shall be stated by the Minister of Finance of Georgia.

2. Each institution, in accordance with the international standards and in agreement with the Center, regarding existing situation and specific nature of its activities, shall develop its own system of financial management and control.

3. Center shall submit to the Minister of Finance of Georgia, the instruction on the rules and procedures of formation of the financial management and control system.

**(**2. Each institution, in accordance with the international standards and Georgian legislation, regarding existing situation and specific nature of its activities, shall develop its own system of financial management and control. (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.

3. Council shall submit to the government of Georgia, the instruction on the rules and procedures of formation of the financial management and control system. (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

Article 18. Purpose of Financial Management and Control

1. Financial management and control is implemented by the specific institutions, for proper fulfillment of the following objectives:

a) Compliance of the financial operations with Georgian legislation, regulating rules, internal policies, international agreements and conventions;

b) Submission of complete financial information in a timely manner;

c) Economic, effective and efficient spending of the budget assets;

d) Protection of the assets and other resources from damages, which could be caused by improper management, unreasonable spending and ineffective and non-economic use, as well as unlawful, unreasonable spending.

2. Financial management and control shall be implemented in all structural subdivisions (units) of the institution and units subordinated thereto.

Article 19. Components of Financial Management and Control

1. Financial management and control are based on the international standards of internal control and shall comprise of the following interrelated components:

a) Control environment;

b) Risk management;

c) Control measures;

d) Information and communication;

e) Heads of the institutions specified in Article 4 of this Law shall provide development of the financial management and control components, their formation and functioning, taking into consideration the specific nature of the institution’s activities.

3. The Center issues methodological instructions, regarding components of financial management and control. **To be omitted**(26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

Article 20. Control Environment

Control environment specified in Article 19 of this Law includes:

a) Personal, professional and ethical values of the staff;

b) Method of management and administration;

c) Identification of the missions and goals of the activities of structural subdivisions (units) of the institution;

d) Organizational structure, hierarchy of responsibilities and authorities, rights and obligations, as well as accountability levels;

e) Policies and practices of management of written procedures, as well as the labor resources;

f) Competences of the public servants;

g) Human resources management.

Article 21. Risk Management

1. Risk management is the process of identification, control and monitoring of the possible events and situations, which negatively impact achievement of the goals of the institution and/or its structural subdivisions (units) or its subordinated units and implies implementation of the required measures for the purpose of risk reduction.

2. Risk management specified in Section 1 of this Article shall be provided by the heads of the institutions, in accordance with the risk management strategies, approved anually.

Article 22. Control measures

1. Control measures shall be formulated for the purpose of risk reduction to the optimal level.

2. Control measures shall correspond to the activities of the structural subdivision (unit) of the institution, they shall be timely and costs of their implementation shall not exceed expected benefits.

3. Control measures shall include:

a) Procedures of authorization;

b) Distribution of the obligations so that one and the same person was not responsible for both, execution of the authorities and control;

c) Introduction if the dual signature system, preventing undertaking of the obligations and payment without signature of the respective structural subdivision (unit) or other authorized person of the institution;

d) Availability of the assets and information;

e) Preliminary and follow-up control to be implemented by the internal auditor;

f) Introduction of the procedures of complete, accurate and regular recording of the financial operations;

g) Evaluation of effectiveness and efficiency of specific financial operations;

h) Procedural supervision;

i) Introduction of the effective management of labor resources.

Article 23. Information and Communication

1. Information about institution;s activities, within the scopes, specified by Georgian legislation, shall be adequate, accurate and available, to ensure effective communication at all hierarchy levels of the institution.

2. In the institutions specified by Article 4 of this Law the relevant information system shall be established, allowing all staff members to receive clear, accurate instructions and directives, on their functions and responsibilities, for the purpose of financial management and control.

Article 24. System Monitoring and Evaluation

1. Head of the institution shall be responsible for monitoring and evaluation of the financial management and control system, for the purpose of its adequacy, functioning and timely updating.

2. Monitoring and evaluation specified in Section 1 of this Article shall be implemented through permanent monitoring, self-evaluation and internal audit.

Article 25. Submission of the Reports on Financial Management and Control

1. Head of the structural subdivision (unit) of the institution or unit subordinated thereto shall me responsible for submission to the Center of the annual reports on development and introduction of the financial management and control system, before end of January of the year following the year of the respective report.

2. Contents and form of submission of the report specified in Section 1 of this Article shall be approved by the Minister of Finance of Georgia, based on the Center’s nomination.

(Article 25. Submission of the Reports on Financial Management and Control (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.

Head of the structural subdivision (unit) of the institution or unit subordinated thereto shall me responsible for submission to the Council of the annual reports on development and introduction of the financial management and control system, before end of January of the year following the year of the respective report.**)**

Chapter VI

Planning of Internal Audit, its Results and Reporting

Article 26 Planning of Internal Audit

1. For each task of internal audit the internal audit plan is developed, specifying the sphere of actions, objectives, duration and resource distribution, as well as internal audit methods, type and scopes.

2. Results of internal audit shall be submitted to the head of institution, for consideration and to the head of internal audit object.

Article 27. Internal Audit Plan

1. Types of internal audit plan include:

a) Internal audit strategical plan;

b) Internal audit annual plan.

2. Planning of internal audit is provided on the basis of risk assessment and its results shall be stated in the internal audit strategic plan.

3. Strategic plan of internal audit shall be developed by the head of internal audit subject, in agreement with the head of institution. Strategic plan of internal audit is based on the goals of the institution, covers 3-year period and determines directions of strategic development in the internal audit sphere.

4. Internal audit strategic plan, agreed with the Center, shall be agreed upon with the head of institution. **To be omitted** (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

5. Annual plan of internal audit shall be based on the strategic plan of internal audit and contains specific internal audit tasks. Annual plan of internal audit shall be developed by the head of the internal audit subject, in agreement with the head of the institution and the Center.

(5. Annual plan of internal audit shall be based on the strategic plan of internal audit and contains specific internal audit tasks. Annual plan of internal audit shall be developed by the head of the internal audit subject, in agreement with the head of the institution. (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

6. If internal audit task is related to the inter-departmental program or project, annual plan of internal audit shall be coordinated with the annual plan of internal audit of the institution participating in such program or project.

7. Upon the proposal of the head of the internal audit subject, any amendments to the strategic and annual plans of internal audit shall be made on the basis of risk assessment and shall be approved by the head of institution, in agreement with the Center.

(7. Upon the proposal of the head of the internal audit subject, any amendments to the strategic and annual plans of internal audit shall be made on the basis of risk assessment and shall be approved by the head of institution. (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

Article 28. Internal Audit Report

1. In result of internal audit the internal audit report shall be prepared, containing the summary, objectives of internal audit tasks and scopes, revealed facts, internal audit conclusions and developed recommendations, as well as written considerations of the internal audit object.

2. Head of internal audit object shall be responsible for fulfillment of the recommendations stated in the internal audit report and development of the action plan, which shall be submitted to the head of internal audit subject.

Article 29. Annual Report of Internal Audit

1. Head of internal audit subject shall prepare annual report of internal audit, stating:

a) Reasons of non-fulfillment of the internal audit plan by the internal audit subject (if any);

b) Information about implemented internal audit;

c) Key conclusions and recommendations on the system of financial management and control of the institution;

d) Activities implemented by the internal audit object for fulfillment of the recommendations issued by the internal audit subject and information about recommendations, which were not implemented;

e) Proposals on development of internal audit;

f) Any restrictions of the activities of internal auditor, in the course of internal audit.

2. Annual report of internal audit shall be submitted to the head of the institution and the Center.

**(**2. Annual report of internal audit shall be submitted to the head of the institution and the Council. (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

Chapter VII

Coordination and Harmonization of Internal Audit

Article 30. The Center

1. The Center shall be responsible for coordination and harmonization of the internal audit, as well as for financial management and control. The Center is accountable to the Minister of finance of Georgia.

2. The Center is responsible for:

a) Updating of the strategy and methodology of internal audit of the state sector;

b) For development of the practical guidelines and instructions for the purpose of development of the charters of internal audit subjects;

c) Development of the code of ethics of internal auditors;

d) Development of the relevant standard and methodology in the sphere of state internal control and internal audit;

e) Supporting and coordination of the international relations with the international audit organizations of the internal audit sphere, bodies of internal audit of the state sector of the foreign countries;

f) For permanent monitoring of compliance with the internal regulations issued on the institutions specified in Article 4 hereof, in the sphere of internal audit;

g) Periodical education / practical seminars and trainings for the staff of respective institutions in the sphere of internal audit;

h) Development of the instructions for internal audit subjects, including minimal human resources for staffing of the internal audit subject, their qualification requirements, regulations on conflict interests of the internal auditors, quality assurance of internal audit and stating of the internal audit reporting requirements;

i) Evaluation and monitoring of the financial control and management system, compliance with the internal audit regulating legislation, internal audit standards and methodology and guidelines.

3. Sphere of the Center’s activities and its key directions shall be regulated by the charter of the Center approved by the resolution of the government of Georgia.

**(**Article 30. The Council (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control)

1. The Council shall provide coordination and harmonization of the internal audit, as well as for financial management and control, through the Secretariat, provided for by this Article.. The Council shall be accountable to the government of Georgia.

2. The Council shall provide:

a) Updating of the strategy and methodology of internal audit of the state sector;

b) Development of the practical guidelines and instructions for the purpose of development of the charters of internal audit subjects;

c) Improvement of the code of ethics of internal auditors;

d) Improvement of the relevant standard and methodology in the sphere of state internal control and internal audit;

e) Supporting and coordination of the international relations with the international audit organizations of the internal audit sphere, bodies of internal audit of the state sector of the foreign countries;

e) Evaluation and monitoring of the financial control and management system, compliance with the internal audit regulating legislation, internal audit standards and methodology and guidelines.

3. Composition of the Council, sphere of its activities and its key directions, its functions, rules of decision-making and other issues related to its activities shall be regulated by the charter of the Council approved by the resolution of the government of Georgia.

4. Within the Council the Secretariat shall be established. Secretariat of the Council shall be composed of the officers of the Ministry of Finance of Georgia, and upon decision by the Minister of Finance of Georgia – other persons as well. Composition of the Secretariat of Council shall be approved by the individual administrative legal act of the Minister of finance of Georgia. Rights and obligations of the Council Secretariat and other issues related to its activities shall be stated by the resolution of the government of Georgia. (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.**)**

Article 31. Control of the Center’s Activities **to be omitted**(26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.

1. Minister of Finance of Georgia shall provide regular control of the Center’s activities.

2. Minister of Finance of Georgia shall provide coordination of the Center’s activities and support professional re-training of the head and auditors of the internal audit subject of the state sector, as well as organize arrangement of regular meetings and discussions, on the general issues of internal audit strategy, methodology and implementation of internal audit in the state sector.

Chapter VIII

Transition and Final Provisions

Article 32 Transition provisions

1. Government of Georgia shall, within 4 months term, approve the internal audit standards and methodology, code of ethics and guidelines for the internal auditors.

2. National Center of State Internal Control shall, within 4 months term from the date of effectiveness of this Law, issue methodological instructions, regarding financial management and control components, provided for by this Law. **To be omitted (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.)**

3. By May 1st 2010, the Council for Consideration of the Issues related to State Internal Financial Control and Internal Audit – Harmonization Center and the National Center of Internal State Control shall be established, in the form of legal entity of public law. **To be omitted (26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control.)**

31. Government of Georgia shall ensure establishment of the Council for Consideration of the Issues Related to Internal Audit and approval of its charter, immediately, upon liquidation of the legal entity of public law – National Center of State Internal Control. (26.10.2010. #3956)

4. Heads of the institutions specified in Section1 of Article 4 of this Law, within 4 months term, from the date of effectiveness of this Law, shall ensure establishment of the internal audit subjects, within the institutions subordinated to them, with the exception of the institutions specified in Section 5 of this Article.

5. Ministry of Justice of Georgia, Ministry of Defense of Georgia, Ministry of Internal Affairs of Georgia, Ministry of Legal Assistance and Probation and institutions specified in Sections “c” and “d” of Section 1 of Article 4 of this Law shall ensure establishment of the internal audit subjects before 2013. *(6.07.2010. #3375)*

6. Legal entity of public law, specified in Subsection “c” of Section 1 of Article 4 of this Law, before establishment of the internal audit subject, shall be entitled to apply to the internal audit subject, within the state control body, which will ensure, in agreement with the head of institution and Center, implementation of the internal audit within this legal entity of public law.

**(**6. Legal entity of public law, specified in Subsection “c” of Section 1 of Article 4 of this Law, before establishment of the internal audit subject, shall be entitled to apply to the internal audit subject, within the state control body, which will ensure, in agreement with the head of institution and Council, implementation of the internal audit within this legal entity of public law.(26.10.2010. #3756, to be effective immediately, upon liquidation of the legal entity of public law, National Center of State Internal Control**)**

7. Audit of effectiveness specified in Subsection “j” of Article 2 of this Law shall commence from January 1st 2012.

Article 33. Final Provision

This Law shall enter into force immediately, upon its publication.

President of Georgia Mikheil Saakashvili

Tbilisi

March 26th 2010

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