

HEAD OF THE SARAS

Order N 12

October 17, 2016

Tbilisi

On Approving the Regulation on Substantial Terms of Professional Indemnity Insurance of Auditor/Audit Firm and Defining Insurance Amount

Pursuant to Article 17 of the *Law of Georgia on Accounting, Reporting and Auditing I order:*

Article 1

Approve the enclosed Regulation on Substantial Terms of Professional Indemnity Insurance of Auditor/Audit Firm and Defining Insurance Amount (Annex N 1)

Article 2

The present Order shall come into force upon publishing.

Yuri Dolidze

Head of the SARAS

Regulation on Substantial Terms of Professional Indemnity Insurance of Auditor/Audit Firm and Defining Insurance Amount

Article 1. General Provisions

1. The present Regulation shall define the substantial terms of auditor/audit firm's professional indemnity insurance and the insurance amount.
2. The present Regulation is designed for legal entities registered in Georgia, that are registered or are seeking registration in the public registry of auditors and audit firms, branch of foreign enterprise and natural persons;
3. For purposes of the present Order, the audit activity (service) (hereinafter the Auditing Service) shall be interpreted in accordance with Article 2 (f) of the *Law of Georgia on Accounting, Reporting and Auditing*.

Article 2. Substantial Terms of Insurance

1. The object of auditor's/ audit firm's professional indemnity insurance is the material damage inflicted to an entity as a result of rendering audit services provided for in the Law;
2. Auditor's/ audit firm's professional indemnity is insured by signing an insurance agreement between it (policy holder) and an insurer. The insurer can be:
 - a) Legal entity representing a joint stock company, which is established to perform insurance activity, and which obtained respective insurance license under the *Law of Georgia on Insurance*;
 - b) A branch (representative office) founded in Georgia by insurance and reinsurance organizations registered in member states of the Organization for Economic Co-operation and Development (OECD) and licensed by appropriate agencies, registered according to the procedures established by the legislation of Georgia for registration of branches (representative offices).
3. Insurance case for purposes of this order shall be submission of such a claim by an entity to an auditor/audit firm during the validity period of insurance policy the ground of which is the material damage occurred as a result of deliberate, negligent or/and accidental action of an auditor /audit firm during the insurance policy validity period (or retroactively) after its registration in the registry.
4. As a result of payment of insurance compensation based on an insurance case determined by a deliberate action of an auditor/audit firm, and thereafter the insurer shall be entitled to apply the right of regress against the policy holder.
5. Auditor/audit firm shall be entitled during the whole period of exercising its authority to have its professional indemnity insured. The validity period of insurance policy shall be at least one year. The retroactive period under the policy shall be defined at least 24 calendar months before the effective date of the policy. In order to pay insurance compensation for actions performed by auditors/audit firms in the course of rendering auditing service during retroactive period, it is essential that action representing the ground for an insurance case takes place within the retroactive period. In addition, it is essential that auditors/audit firms are first informed about entity's claim during the validity period of respective insurance policy.
6. In the event of deregistration of an auditor/audit firm, the insurer shall be liable to compensate material damage inflicted by an auditor /audit firm as a result of services rendered during the insurance policy validity period during the 12 months following deregistration, though within 12 months following the end of insurance period.
7. The total insurance amount of a professional indemnity insurance policy shall be determined by auditor/audit firm based on the revenues generated from auditing service during the previous year and is calculated based on the highest out of the values listed below:

- a) At least two-fold amount of the gross revenues generated during the previous year from auditing;
 - b) GEL 100,000
8. Limit for each insurance case shall constitute at least 10% of the total insurance amount.
9. Franchise (minimum not compensated amount by the insurer) for each insurance case shall equal at least 5% of the amount subject to compensation, though minimum:
- a) GEL 1,000 if policy holder is an individual and renders auditing service on an individual basis;
 - b) GEL 2,000 if a policy holder is a legal entity – audit firm.
10. Auditor/audit firm shall notify the SARAS about signing an agreement about insurance of professional indemnity or introducing amendments thereto or its termination (including increase or reduction of an insurance amount) within 5 working days following the date when such agreement is signed, terminated or amended.

Article 3. Transitional Provisions

Those auditors/audit firms that were rendering auditing services prior to effective date of this Order (prior June 25, 2016) and have professional indemnity insured for the purpose of registration in the registry shall introduce respective changes to insurance agreements signed prior to effective date of this Order with observance of the Regulation requirements approved under it.