

MINISTER OF FINANCE OF GEORGIA

DECREE No 223

September 14, 2016

Tbilisi

On Approving the Regulation of the Service for Accounting, Reporting and Auditing Supervision (SARAS)

Pursuant to Article 20 (2) and Article 28 (1a) of *the Law of Georgia on Accounting, Reporting and Auditing*, I decree:

Article 1

Approve the Regulation of the Service for Accounting, Reporting and Auditing Supervision.

Article 2

The present Decree shall come into force upon its promulgation.

Giorgi Tabuashvili
Acting Minister

Regulation of the Service for Accounting, Reporting and Auditing Supervision (SARAS)

Article 1. General Provisions

1. The Service for Accounting, Reporting and Auditing Supervision (hereinafter the SARAS) shall be a subordinated agency under the Ministry of Finance of Georgia, which ensures state supervision of accounting, reporting and auditing in accordance with the Georgian legislation.
2. The SARAS in its activities shall be guided by the Constitution, international treaties and agreements of Georgia, EU directives regulating accounting, reporting and auditing, *the Law of Georgia on Accounting, Reporting and Auditing* (hereinafter the Law), the other legislative and normative acts and the present Regulation.
3. The SARAS, when fulfilling its functions, shall act on behalf of the state.
4. The SARAS shall be reporting to the Government of Georgia and the Minister of Finance;
5. The SARAS shall perform its activities on the basis of rule-of-law, personal dignity, respect, justice and publicity principles. It shall not be entitled to disclose any information kept in SARAS on an entity, auditor, audit firm, professional organization and specialized examination body, which is protected under the legislation and normative acts of Georgia.
6. The SARAS is funded from the state budget.
7. The SARAS has its account at the Treasury and its expenditure.
8. The SARAS has its seal and logo.
9. Legal address of the SARAS is: 1 Merab Aleksidze street, Tbilisi 0193.

Article 2. The SARAS Functions

1. Main functions of the SARAS are:

- a) introduction of mandatory international standards and the other norms in Georgian language according to the Law, and setting financial reporting standards for the fourth category enterprises and non-entrepreneurial (non-profit) legal entities ;
- b) defining the rules for preparation and filing financial statements, developing common policy, rules and the other normative acts in the areas of accounting, reporting and auditing, as well as defining additional requirements and rules for public interest entities (hereinafter the PIEs), inter alia, in cooperation with the respective supervisory / regulatory body.
- c) defining respective rules and requirements for auditing ;
- d) development of professional liability insurance regulations in agreement with the Insurance State Supervision Service of Georgia, a legal entity of the public law, for the purpose of ensuring professional liability of auditors/ audit firms ;
- e) defining rules for quality control system monitoring, setting procedures for reviewing preliminary results, eliminating identified deficiencies and challenging quality control system monitoring report ;
- f) monitoring quality control system of Auditors/ Audit Firms registered in the auditors' registry ;
- g) imposing responsibility for offences defined under this Law ;
- h) defining requirements for professional certification, examination procedures and continuous education in accordance with International Education Standards (IES) set by the International Federation of Accountants (IFAC) and EU Directives, and, approving respective standards ;
- i) review and approval of standards, rules and methodology provided for in the Law ;
- j) introduction of certification programs, setting rules for recognition of examination process and continuous education programs ;
- k) recognition of certification programs, examination process and continuous education programs in accordance with the set standards ;
- l) exercising compliance monitoring of professional organizations, specialized examination body and the other persons engaged in professional educational activities with this Law and regulations and standards established by the Service ;
- m) maintaining the registry of auditors / audit firms, registries of recognized training and continuous education programs, specialized examination bodies, persons in charge of quality control system monitoring and the webpage of financial statements in accordance with its rules and requirements of EU Directive ;
- n) development of procedure in accordance with the Law, for requesting by interested persons the financial statements submitted to SARAS by the fourth category enterprises ;
- o) development of investigation system, its rules and methodology and commencement of investigation with respect to Auditor/ Audit Firm for the

- purpose of detecting offence based on the SARAS initiative or/ and submitted application or/ and claim ;
- p) prevention and detection of offences within its competence ;
 - q) risk-based random verification of compliance of financial statements filed by entities with requirements set under the Law and normative acts adopted on its basis and ensuring publicity of submitted financial statements ;
 - r) review of entities on the basis of risk management system ;
 - s) development and approval of methodology guidelines on accounting and reporting matters ;
 - t) defining the list of states, whose full members of IFAC will have the right to get enlisted in the registry ;
 - u) providing explanations with respect to application of standards and rules developed by the SARAS ;
 - v) coordinating relations with the Board and the Ministry with respect to assigning the PIE status to an entity based on the SARAS initiative, or /and request submitted to the Ministry by the National Regulatory Body (hereinafter the Regulatory Body) acting in Georgia and defined under *the Law of Georgia on National Regulatory Bodies* ;
 - w) exercising the other powers in the field subject to regulation under the Law.
2. The SARAS shall issue normative acts with respect to standards, rules, methodology and the other matters provided in Paragraph 1 of this Article, after reviewing respective recommendation of the Board ;
 3. The SARAS shall cooperate with international and local organizations, auditors/ audit firms, professional bodies, specialized examination bodies for the purpose of exercising accounting, reporting and auditing supervision effectively.
 4. The Service, for the purpose of developing standards and rules set under this Law, shall be entitled to establish working groups with participation of professional organizations, practitioners and the other stakeholders.

Article 3. Head of the SARAS

1. The Service is governed and coordinated by the Head. Based on the nomination of the Minister of Finance, the Head shall be appointed for the period of 5 years and dismissed, if respective grounds exist, by the Prime Minister of Georgia. One and the same person can be appointed to this position only twice in succession.
2. The Head shall be non-practitioner and meet the following criteria:
 - a) to have higher education with specialization in one of such fields as law, economics, finance, banking ;
 - b) to possess at least 5-year experience of working at managerial position in the audit field ;
 - c) not to be convicted of terrorism financing or/ and illicit income legalization or the other economic, heavy or aggravated crimes ;
3. The Head shall:

- a) govern the Service ; he/ she shall be responsible for fulfilling duties assigned under the Georgian legislation ;
- b) make decisions, within its competence ;
- c) submit to the Minister of Finance of Georgia for approval the draft regulation, structure and expenditure of the SARAS, as well as the claim reviewing procedure and drafts on introducing amendments thereto ;
- d) issue normative and individual administrative - legal acts/ orders within its competence ;
- e) upon revealing an offence provided for in the Law, issue an administrative – legal act or make decision on issuance of the administrative – legal act by the other person ;
- f) appoint and dismiss public servants of the SARAS to/ from the position ;
- g) submit the number of the SARAS staff to the Minister of Finance of Georgia, approve the internal by-law of the SARAS and its staffing schedule ;
- h) submit to the Minister of Finance of Georgia for approval the SARAS logo, approve the seals and letterheads to be used within the SARAS ;
- i) approve qualification requirements for the SARAS staff ;
- j) submit the report on activities of the Service to the Minister of Finance, publish the report on its activities and information on its plans at the SARAS webpage ;
- k) coordinate rules to be introduced by professional organizations for revealing offences committed by their members and imposing disciplinary responsibility;
- l) perform the other functions provided for in the present Regulation and the Georgian legislation.

4. In the event of the head’s absence, his/ her functions shall be fulfilled by one of the department heads as assigned by the SARAS head.

Article 4. The SARAS Structure

1. The SARAS shall fulfill the assigned duties over the whole territory of Georgia and function under the single centralized procedure.
2. Structural subdivisions of the SARAS shall be:
 - a) Office ;
 - b) Department for Auditing and Professional Education Supervision ;
 - c) Department for Accounting and Reporting Supervision.
3. For the purpose of reviewing accounting, reporting and auditing related issues and making respective decisions, the Accounting, Reporting and Auditing Board (hereinafter the Board) shall be established at the SARAS.
4. The Board composition shall be defined under the Law.
5. Powers of the Board, the claim reviewing and operation procedures shall be defined under the Decree of the Minister of Finance.

Article 5. The SARAS Office

Main functions of the SARAS Office shall be:

- a) Organizing record – keeping within the SARAS, including archiving and secret record – keeping, searching documents kept in the archive and ensuring issuance of copies upon request, registering and controlling the SARAS letterheads and seals ;
- b) Ensuring human resources management, providing administrative support, organizing and holding contests to occupy vacant positions, ensuring professional development of public servants and interns/ trainees ;
- c) Conducting financial – economic, logistical and accounting activities ; ;
- d) Exercising supervision and control over the SARAS logistics ;
- e) Ensuring operation of the SARAS hotline. Responding to incoming calls and applications, checking compliance of the personnel behavior with goals of the institution and planning respective measures for detecting non-compliance, providing information to the respective department on detected weaknesses and investigating their reasons ;
- f) Organizing Board meetings, reviewing incoming letters and applications, drafting opinions/ proposals in response, processing correspondence addressed to the Head of SARAS, describing documents subject to signing and controlling their timely and adequate preparation ;
- g) Conducting procedures related to fulfillment of functions to be performed by the structural units of the SARAS ;
- h) Making public information available ;
- i) Implementing instructions, tasks and the other functions assigned by the Head of SARAS within the scope set under the effective legislation.

Article 6. Department for Auditing and Professional Education Supervision

Main functions of the Department for Auditing and Professional Education Supervision shall be:

- a) Management of the registry of auditors/ audit firms ;
- b) Ensuring data collection related to the management of the registry (including relations with the third parties) ;
- c) Providing information to the Head of SARAS on offences identified in the course of data registration and registration proceedings for the purpose of their prevention or planning measures for their elimination ;
- d) Preparation of business processes and rules for management of the registry ;
- e) Cooperation within its competence with auditors/ audit firms, professional organizations, specialized examination bodies, regulatory/ supervision bodies, government agencies, international organizations and international experts ;
- f) Monitoring quality control system within the timeframe defined under the Law, planning/ defining procedures related to quality control system monitoring, inter alia, with consideration of additional requirements for auditing PIE financial statements and auditing services provided for in Article 14 (7) of the Law.
- g) Review of applications on request to perform quality control system monitoring and ensure preparation of the response on Head's behalf either on satisfaction of request or rejecting it ;

- h) Management and detection of potential risks related to activities of an auditor/ audit firm, professional organization and specialized examination bodies ;
- i) Preparation of the report on quality control system monitoring, submission of the draft report on preliminary and final monitoring findings to the Head and participation in review of the preliminary results, development of proposals on elimination of revealed deficiencies for the Head ;
- j) Formation of the investigation system, development of rules and methodology for conducting investigation, initiation of investigation with respect to an auditor/ audit firm based on SARAS initiative or/ and submitted application or/ and claim ;
- k) Defining procedures related to granting the authority to pursue auditing ;
- l) Ensuring processes (inter alia through the third parties) related to introduction of International Auditing Standards (ISA), international standards on review, related services and the other assurance engagements adopted by the International Auditing and Assurance Standards Board (IAASB), or its successor ;
- m) Ensuring processes (inter alia through the third parties) related to introduction of IESBA Code set by the International Federation of Accountants (IFAC) ;
- n) Development of proposals on rules for detecting offences committed by auditors and imposing disciplinary responsibility, prepared by professional organizations and submitted to SARAS ;
- o) Ensuring processes (inter alia through the third parties) related to introduction of International Standards on Quality Control (ISQC) adopted by the International Auditing and Assurance Standards Board (IAASB) or its successor ;
- p) Definition of requirements for professional certified education, examination process and continuous education and development of respective standards and rules in accordance with International Education Standards (IES) set by International Federation of Accountants (IFAC) and EU Directives ;
- q) Drafting respective documents for ensuring professional certification (including for passing qualification test in Georgian law by individuals, members of IFAC from OECD and EU member states) ;
- r) Monitoring over compliance of professional organizations, specialized examination body and the other entities, engaged in professional education, defined under the Law, with the legislation and regulations and standards set by the SARAS ;
- s) Provision of information to the Head of the Service on fulfillment of requirements by professional organizations, specialized examination body and the other entities engaged in professional education defined under the Law, and offences identified in professional certification and continuous education, for the purpose of planning measures for their prevention or elimination;
- t) Implementing respective procedures for defining the recognition procedure for certification programs, examination process and continuous education ;
- u) Management of registries for recognized education programs and continuous education programs and specialized examination bodies and ensuring collection of related data (including relations with the third parties) ;
- v) Drafting, within its competence, normative and individual administrative – legal acts of the SARAS Head, ensuring procedures required for adoption of draft normative acts on introduction of amendments to the respective legal acts ;

- w) Preparation of legal opinions on draft legal acts prepared by the other structural units of SARAS and the Board ;
- x) Coordination of relations with professional organizations, auditors/ audit firms, regulatory/ supervisory bodies and the other government agencies ;
- y) Ensuring representation of the SARAS in the court within its competence in accordance with the procedure set under the Law ;
- z) Responding to claims related to fulfillment of the department functions and cooperation with the Board, inter alia, for presenting respective information to the Board session ;
- aa) Implementing instructions, tasks and the other functions assigned by the Head of SARAS within the scope set under the effective legislation.

Article 7. Department for Accounting and Reporting Supervision

Main functions of the Accounting and Reporting Supervision Department shall be:

- a) Preparation of business processes and rules related to webpage for financial statements, management report and statement on payments to the government, their management and ensuring publicity ;
- b) Provision of information to the Head of the Service on offences identified in the course of preparation, filing and publishing statements by entities for the purpose of planning measures for their prevention or elimination ;
- c) drafting procedure for requesting the financial statements submitted to SARAS by the fourth category enterprises by interested persons;
- d) Cooperation with respective agencies/ bodies to create a single reporting system ;
- e) Development of risk – based methodology for monitoring compliance of filed statements with requirements of the Law and cooperation with entities and the other regulatory/ supervisory bodies for the purpose of eliminating the identified weaknesses ;
- f) Ensuring processes (inter alia through the third parties) related to introduction of full standards adopted and published by the International Accounting Standards Board (IASB) or its successor body, including International Financial reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations (adopted by International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC)) and International Financial Reporting Standards for Small and Medium-sized Businesses (IFRS for SMEs) ;
- g) Development of simplified reporting rules for the third category enterprises (based on requirements of IFRS for SMEs and EU directives) and submission to the Head of SARAS ;
- h) Development of financial reporting standards for the enterprises of the fourth category ;
- i) Development of a financial reporting standard for the non – entrepreneurial (non-profit) legal entities;
- j) Development of a draft regulation for preparation and filing management report;

- k) Development of a draft regulation for preparation, filing and publishing the statement on payments to government;
- l) Providing explanations on use of reporting standards and rules developed by SARAS;
- m) Drafting, within its competence, normative and individual administrative – legal acts of the SARAS Head, ensuring procedures required for adoption of draft normative acts on introduction of amendments to the respective legal acts ;
- n) Preparation of legal opinions on draft legal acts prepared by the other structural units of SARAS and the Board ;
- o) Coordination of relations with professional organizations, auditors/ audit firms, regulatory/ supervisory bodies and the other government agencies ;
- p) Ensuring representation of the SARAS in the court within its competence in accordance with the procedure set under the Law ;
- q) Responding to claims related to fulfillment of the department functions and cooperation with the Board, inter alia, for presenting respective information to the Board session ;
- r) Implementation of instructions, tasks and the other functions assigned by the SARAS Head within the scope of the effective legislation, for the purpose of fulfilling its functions and objectives.