

LAW OF GEORGIA
ON ACCOUNTING, REPORTING AND AUDIT

Chapter I - General Provisions

Article 1 - Scope of the Law

1. This Law determines the legal grounds for keeping accounts in Georgia in accordance with internationally recognised standards, for preparing and submitting financial statements, management statements and statements with regard to payments made to the State provided for by this Law, as well as for carrying out professional certification, audit activities (services), and quality assurance, the legal grounds for exercising state supervision over the above-mentioned fields, and for imposing liability.
2. The purpose of this Law is to promote financial transparency and economic growth through approximation to the requirements of the relevant European Union directives regulating the reporting and auditing of entities.
3. This Law shall not apply to budgetary organisations determined by the Budgetary Code of Georgia, except for the cases provided for by the legislation of Georgia.

Article 2 - Definitions of terms

1. For the purposes of this Law, the terms used herein shall have the following meanings:
 - a) accounting - a regulated and continuous system for collecting, registering, assessing and generalising information which reflects accounting events, is assessed in monetary units, and affects the activities and resources of an entity, including a system for appropriate reporting;
 - b) accountant – a natural person directly involved in accounting and/or preparing financial statements;
 - b¹) Accountant providing professional services – an accountant registered in the State Registry of Accountants and provides accounting services and/or prepares financial statements for the client;
 - b²) Accounting firm – a legal entity registered in Georgia or a branch in Georgia of a legal entity registered in another country, which is registered in the State Registry of Accounting Firms, and provides accounting services and/or prepares financial statements for the client;”;

- c) accounting documents – books of original entries and general ledgers evidencing accounting events;
- d) financial statement - financial information on the last reporting period in which the financial position, outcomes of activities, cash and capital flow, accounting policy and explanatory notes of an entity are demonstrated in a structured manner in accordance with the grounds for their proper presentation;
- e) entity - a legal entity under public and private law, except for the budgetary organisations determined by the Budgetary Code of Georgia, and the National Bank of Georgia; an entity shall also mean branches of foreign enterprises and individual entrepreneurs, if they meet the criteria for enterprises provided for by sub-paragraphs (t)-(v) of this paragraph, in terms of their revenue, assets used in economic activities, and the quantity of employees;
- f) audit activities (services) - the work conducted by an auditor/audit firm in accordance with relevant international standards which is aimed at:
- f.a) expressing an opinion of an auditor/audit firm on the truthfulness, fairness and completeness of financial statements (including special-purpose financial statements) on the basis of audit, and on preparing them in accordance with the grounds appropriate for their presentation, taking into consideration all essential aspects;
- f.b) drawing a conclusion from an auditor/ audit firm by reviewing financial statements;
- f.c) expressing a respective opinion or drawing a conclusion on the basis of other reasonable and/or limited assurance agreements;
- f.d) accomplishing other goals provided for by Article 14(2) of this Law;
- g) auditor - a certified accountant who is a member of a professional organisation of accountants and/or auditors, who is registered with the State Registry of Auditors/Audit Firms ('the Registry'), and who is entitled to carry out audit activities (services), including individually;
- h) audit (auditing) firm ('the Audit Firm') - a legal person registered in Georgia or a branch of a legal person in Georgia which is registered in a foreign country, which is registered with the Registry and carries out audit activities (services) through an engagement partner(s);
- i) Service for Accounting, Reporting and Auditing Supervision ('the Service') - a state sub-agency within the system of the Ministry of Finance of Georgia ('the Ministry');
- j) professional services - services, which are provided by an auditor/audit firm in the fields of accounting, auditing, taxation, financial management and/or any other similar field of business consultancy, which require accounting and related skills;
- k) certified accountant - a natural person who is certified by a professional organisation of accountants and/or auditors in accordance with the professional certification standards established by the Service, or who is recognised as a certified accountant on the basis of this Law, and who, after the certification, evidences his/her qualification in accordance with appropriate standards of continuing education;

l) engagement partner - an auditor who is appointed by an audit firm as a chief responsible person for conducting specific audit activities, or other audit activities (services), and who acts on behalf of the audit firm, or an auditor who signs an audit report or other documents drawn up as a result of conducting other audit activities (services);

m) audit report - a document issued by an auditor/audit firm, in which an auditor/audit firm expresses an opinion on whether a financial statement has been drawn up by taking into consideration all essential aspects, in accordance with the grounds for its appropriate presentation, or a document in which an auditor/audit firm refuses to express an opinion;

n) grounds for appropriate presentation - the grounds for preparing and presenting a financial statement, which are binding for an entity or are permitted in accordance with the legislation of Georgia, or international legislation;

o) assurance engagement - a transaction, as a result of whose implementation an auditor/audit firm, aiming at increasing the level of trust of a third party towards a subject under review, expresses an opinion on the compliance of the result of the assessment and/or measurement of the said subject with the relevant criteria;

p) Accounting, Reporting and Auditing Board ('the Board') - a body operating under the Service that reviews matters related to accounting, reporting and auditing, and makes relevant decisions;

q) professional organisation of accountants and/or auditors ('professional organisation') - a professional organisation of accountants and/or auditors registered as a non-entrepreneurial (non-commercial) legal person under the legislation of Georgia, which meets the requirements established by this Law;

r) body administering professional examinations - a legal person, and a branch of a legal person in Georgia which is registered in a foreign country, which, for the purposes of this Law, are both recognised by the Service as bodies administering the organisation of examinations for certified accountants for persons;

s) enterprise of the fourth category - an entity, whose indicators, at the end of the reporting period, meet at least two criteria out of those three that are given below:

s.a) the total value of assets does not exceed GEL 1 million;

s.b) the revenue does not exceed GEL 2 million;

s.c) the average number of persons employed during the reporting period does not exceed 10;

t) enterprise of the third category - an entity, which is not an enterprise of the fourth category and whose indicators, at the end of the reporting period, meet at least two criteria out of those three that are given below:

t.a) the total value of assets does not exceed GEL 10 million;

t.b) the revenue does not exceed GEL 20 million;

t.c) the average number of persons employed during the reporting period does not exceed 50;

u) enterprise of the second category - an entity, which is not an enterprise of the third or the fourth category, and whose indicators meet, at the end of the reporting period, at least two criteria out of those three that are given below:

- u.a) the total value of assets does not exceed GEL 50 million;
- u.b) the revenue does not exceed GEL 100 million;
- u.c) the average number of persons employed during the reporting period does not exceed 250;
- v) enterprise of the first category - an entity, whose indicators, at the end of the reporting period, meet at least two criteria out of those three that are given below:
 - v.a) the total value of assets exceeds GEL 50 million;
 - v.b) the revenue exceeds GEL 100 million;
 - v.c) the average number of persons employed during the reporting period exceeds 250;
- w) revenue - for the purposes of this Law, gross profit received by an entity as a result of main economic activities, from the sale of goods and/or providing services. Revenue shall not include sales discounts, indirect taxes, amounts received on behalf of a third party, and economic profit received in the form of dividends, interest or royalties as a result of the use of an entity's assets, except when the receipt of such profit is the result of the main economic activities of the entity;
- x) Public Interest Entity ('PIE') - a legal person, which is:
 - x.a) an accountable enterprise, whose securities are admitted to trading on a stock exchange in accordance with the Law of Georgia on Securities Market ;
 - x.b) a commercial bank, in accordance with the Organic Law of Georgia on the National Bank of Georgia;
 - x.b¹) microbank - in accordance with the Law of Georgia on the Activities of Microbanks;
 - x.c) a microfinance organisation, in accordance with the Law of Georgia on Microfinance Organisations;
 - x.d) an insurer, in accordance with the Law of Georgia on Insurance ;
 - x.e) a founder of a non-state pension scheme, in accordance with the Law of Georgia on the Provision of Non-state Pensions and Non-state Pensions Insurance ;
 - x.f) an investment fund, in accordance with the Law of Georgia on Collective Investment Undertakings ;
 - x.g) a non-bank deposit institution – a credit union, in accordance with the Law of Georgia on Non-bank Deposit Institutions - Credit Unions ;
 - x.h) a person defined as a PIE by the Service on the basis of the criteria approved by the Government of Georgia (except for the National Bank of Georgia);
- y) non-practitioner - a natural person who, for the period of at least three consecutive years before his/her appointment as the Head of the Service, or as a member of the Board, and during the period of his/her Board membership, has not

carried out audit activities (services), nor enjoyed voting rights in an audit firm, nor been employed as a member of the management body or supervisory board of an audit firm, nor otherwise been associated with an audit firm;

z) control - this term, with respect to relations between enterprises, shall be defined in accordance with the International Financial Reporting Standards;

z¹) parent enterprise - an entity that controls one or more subsidiary enterprises;

z²) subsidiary enterprise - an entity that is controlled by a parent enterprise, including by a subsidiary enterprise which represents a parent enterprise;

z³) group - a parent enterprise and all its subsidiary enterprises;

z⁴) Quality management system monitoring – assessment of the compliance of the procedures applied by an auditor/audit firm with international standards for auditing, review, other assurance and related services, and with the requirements established by this Law, the assessment of compliance with ethical rules, the quality and quantity of the resources used, the lawfulness of the remuneration received for performing audit activities (services), and the quality management system;

z⁵) Corporate Governance Code - a document that determines the rules for administering the management of an enterprise by its management bodies, for efficiency, remuneration, relations with and accountability before partners and shareholders, and that also regulates other matters related to corporate governance;

z⁶) regulatory body - national regulatory bodies operating in Georgia as defined by the Law of Georgia on National Regulatory Bodies;

z⁷) supervisory body - supervisory bodies defined by the Law of Georgia on the National Bank of Georgia, the Law of Georgia on Insurance, and the Law of Georgia on Collective Investment Undertakings;

z⁸) property administrator - a property administrator defined by the Law of Georgia on State Property;

2. For the purposes of this Law, except for paragraph (1) of this article, the terms used herein shall be defined in accordance with internationally recognised standards for financial statements, audit, other assurance agreements, related services and other audit services.

Law of Georgia No 1327 of 2 November 2017 – website, 13.11.2017

Law of Georgia No 1908 of 23 December 2017 – website, 11.1.2018

Chapter II - Accounting and Reporting

Article 3 - Legal grounds for accounting and reporting

1. Accounting and financial reporting shall be regulated by this Law and other normative acts of Georgia. Accounting and financial reporting shall comply with international accounting and financial reporting standards.

2. Accounting and financial reporting standards include:

a) International Financial Reporting Standards (IFRS);

b) International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs);

c) Financial reporting standards established for the enterprises of the fourth category;

d) Financial reporting standards established for non-entrepreneurial (non-commercial) legal entities.

3. International Financial Reporting Standards (IFRS) is a complete set of standards adopted and issued by the International Accounting Standards Board (IASB) or its successor in title, which include:

a) International Financial Reporting Standards;

b) International Accounting Standards;

c) Interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) or the Standard Interpretations Committee (SIC).

4. International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (IFRS for SMEs) are the International Financial Reporting Standards (IFRS for SMEs) for the enterprises of the second and third categories approved by the International Accounting Standards Board (IASB) or its successor in title.

5. The application of the international standards provided for by paragraphs (4) and (5) of this article shall be mandatory. The putting into effect of the said standards shall be ensured by the Service within six months after their renewal. An entity shall be entitled to use the effective (English) edition of the said standards.

6. Financial reporting standards for enterprises of the fourth category and for non-entrepreneurial (non-commercial) legal entities shall be established by the Service. The application of the said standards shall be mandatory. For the purpose of accounting and financial reporting, individual entrepreneurs, which are not entities provided for by Article 2 (1)(e) of this Law, shall be entitled to apply financial reporting standards established for enterprises of the fourth category in accordance with this paragraph.

7. For the purpose of applying accounting and financial reporting standards, entities shall be divided into size categories. Division of entities into size categories shall be regulated by this Law.

8. Entities are obliged to carry out accounting and financial reporting in the following manner:

a) PIEs and enterprises of the first category shall carry out accounting and financial reporting in accordance with the International Financial Reporting Standards (IFRS);

b) enterprises of the second and third categories shall carry out accounting and financial reporting in accordance with the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs). In addition, they shall be entitled to apply International Financial Reporting Standards (IFRS);

c) enterprises of the fourth category and non-entrepreneurial (non-commercial) legal entities shall carry out accounting and financial reporting in accordance with the standards established by the Service, except for the cases provided for by paragraph (9) of this article.

9. The obligation to prepare financial statements in accordance with accounting and financial reporting standards, which, in accordance with this Law, depends on the size category of an entity, shall not apply to entities with regard to which procedures for the use of other standards under this Law are envisaged by normative acts regulating the activities of such entities, unless the application of accounting standards that have lower category than those established for the entity of a relevant size category is required by such procedures.

10. Enterprises of the fourth category and non-entrepreneurial (non-commercial) legal entities shall be entitled to apply the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs), or the International Financial Reporting Standards (IFRS).

11. If an entity/group does not meet at least two criteria out of the three provided for by Article 2(1)(s)-(v) of this Law by the end of two consecutive reporting periods, the size category of the entity/group shall be changed and the requirements established for the relevant category shall be applied.

12. The period provided for by paragraph (11) of this article shall not apply to an entity/group, whose size category has increased by two or more categories in comparison to the previous reporting period.

13. If the size category of an entity has not changed in comparison to the previous reporting year, but the entity intends to apply other accounting and financial reporting standards, it shall be entitled to apply only those standards that are established for an entity with a higher size category.

14. For the determination of the size category of a group, the total value of assets, the revenue and the average number of persons employed during the reporting period of a parent company shall be applied, which shall be calculated through consolidation procedures, in accordance with financial reporting standards as provided for by Article 2(1)(s)-(v) of this Law.

15. The criteria of the size categories of enterprises determined by this Law, and the requirements established for such categories, shall apply to the consolidated financial statements for groups of the first, second and third categories. Furthermore, such criteria shall be assessed at the end of the reporting period of the parent company, taking into account the consolidated data.

16. A relevant supervisory body shall grant the status of a PIE to an entity subject to the supervision by the supervisory body.

17. Entities subject to supervision by a supervisory body (except for commercial banks, microbanks, non-bank depository institutions such as credit unions and microfinance organizations), shall not be deemed as PIEs if they meet the requirements established for enterprises of the fourth category, where a relevant supervisory body makes a decision on granting the status of a PIE to such entities. Taking into account the requirements of this paragraph, entities subject

to supervision by a supervisory body shall be deemed PIEs for at least three reporting periods after obtaining the status of a PIE.

18. Exceptions established for the size categories of enterprises shall not apply to PIEs, except as provided for by this Law.

Law of Georgia No 1327 of 2 November 2017 – website, 13.11.2017

Article 4 - Keeping accounts

1. An entity shall keep accounts in accordance with this Law, unless otherwise determined by the normative act regulating the relevant field.

2. An entity shall keep accounts on the basis of natural units of measurement, in a generalised manner, in monetary terms, which are reflected in a chronological, uninterrupted and documented manner.

3. An entity shall keep accounts through an employed accountant or an accountant providing professional services or through the services provided by an accounting firm or an audit firm.

4. An entity shall ensure that any accounting event carried out by the entity is completely reflected in the accounting records, and appropriate internal control is exercised over it.

5. In order to meet the requirements determined by this Law, and by taking into account the complexity of its activities and its organisational structure, an entity shall:

a) define its accounting policy;

b) develop a chart of accounts within the scope of procedures determined by the legislation of Georgia;

c) develop a mechanism and procedures for preparing and controlling the documents reflecting accounting events;

d) determine the terms and technology for processing accounting data;

e) develop the forms of financial statement and define procedures for preparing and presenting financial statements on the basis of the relevant financial reporting standards;

f) develop a set of business processes and procedures (internal control system) that will ensure the efficiency of its activities, the veracity of its financial statements, and their compliance with the legislation of Georgia.

6. An entity shall keep accounts and prepare financial statements in a physical form or through electronic information systems, on the basis of the relevant financial reporting standards.

7. An entity shall keep accounts on the basis of accounting documents. Accounting documents may be drawn up in a single copy or in multiple copies. Accounting documents are:

a) books of original entries, including an internal primary accounting document - a document confirming the internal transactions of an entity, as well as external primary accounting document - a document received from another party, or an original of the document submitted by an entity to another party;

b) books of secondary entries (accounting registers, journals and other documents).

8. Accounting events shall be recorded in the accounts on the basis of the accounting documents, in accordance with the double-entry principle. An accounting event shall immediately be recorded in the accounts upon its occurrence. It shall also be recorded in the relevant books of secondary entries and financial statements of the period to which the mentioned event belongs.

9. Accounting records (accounting entries) shall contain the following details:

a) the date of a transaction;

b) debit and credit accounts, indicating relevant amounts;

c) a short description of a transaction;

d) name and number (if any) of a primary accounting document/book of secondary entries;

e) data on the amount of a transaction;

10. (Deleted - 21.4.2017, No 640).

11. A primary accounting document is a document evidencing an accounting event, which shall be drawn up in a single copy or, where necessary, in multiple copies, and shall contain the following details, unless otherwise provided for by the legislation of Georgia:

a) name and number of a document;

b) the date of the drawing up of a document;

c) economic contents of a transaction;

d) name(s) of a person(s) participating in a transaction;

e) identification data and an address(s) of a person(s) participating in a transaction (where goods/services are provided, or in other necessary cases);

f) signatures confirming the completion of a transaction;

g) data on the amount and quantity of a transaction.

12. An entity shall ensure the control over the correctness of drawing up the primary accounting documents evidencing an accounting event in terms of its form (the completeness of the document, the correctness of its completion, the

existence of details, etc.), and in terms of its contents (the lawfulness of the accounting event, the logical and arithmetic accuracy of individual indicators, etc.). A document drawn up incorrectly in terms of its form or contents shall be returned to a person responsible for drawing up the document.

13. Accounting documents shall be drawn up, and amendments and additions thereto may be permitted in compliance with the legislation of Georgia and by observing relevant procedures and precautions developed by an entity, so that the credibility of such documents are not doubted.

14. Information provided in the books of original entries shall be recorded in the books of secondary entries in a chronological and systematised manner, in compliance with the general principles of accounting.

15. Accounting documents that evidence accounting events shall be signed both in written and electronic forms by a person(s) responsible for the management of an entity, an accountant or any other relevant person who is authorised by the internal policy of an entity.

16. An entity shall be liable for its internal control system and for preparing and presenting fair financial statements under procedures established by the legislation of Georgia.

17. Persons who are responsible for drawing up and signing documents shall be liable for the veracity of the data recorded in such documents, and for drawing up accounting documents in a timely and quality manner.

18. Financial statements and accounting documents, both in electronic and physical form, shall be kept with an entity for six years after the completion of the relevant accounting period, except in cases provided for by the legislation of Georgia.

Law of Georgia No 640 of 21 April 2017 - website, 10.5.2017

Article 5 - Financial statements and the basic principles for preparing and drawing up financial statements

1. An entity shall prepare a financial statement in accordance with this Law, unless otherwise determined by the normative act regulating the relevant field. Furthermore, financial statements of enterprises of the fourth category and non-entrepreneurial (non-commercial) legal entities shall be prepared only in accordance with the financial reporting standards established for such entities.

2. An entity shall prepare a financial statement at least once a year.

3. A financial statement drawn up by an entity shall be complete, accurate and fair. It shall reflect data on the financial position, the financial performance, the cash and capital flow, and explanatory notes, of an entity for the comparable period. Information provided in a financial statement shall comply with the fundamental qualitative characteristics defined by the International Financial Reporting Standards.

4. The procedures for drawing up and consolidating financial statements provided for by paragraph (1) of this article shall be determined by the financial reporting standards established for or chosen by an entity in accordance with Article 3 of this Law, except for the cases provided for by this Law.

5. An entity shall consistently apply the accounting policies and methodology determined in accordance with the financial reporting standards which are relevant to the entity, except when different accounting policies and methods reflect the financial position and activities of the entity in a fairer and more impartial manner. An entity may change its accounting policies and methodology only within the scope of the financial reporting standards chosen by the entity.

6. A PIE and an enterprise of the first category shall additionally submit the following information in the explanatory notes of the financial statement:

a) on the revenue of the entity, in accordance with the categories of its activities and geographical distribution of the markets, if there is a substantial difference between these categories and markets in terms of organising the sale of goods/services;

b) on the remuneration given to an auditor/audit firm for conducting an audit of the annual financial statement of an entity, and for providing other professional services for the entity.

7. An enterprise of the third category shall record information provided for by Article 7(6)(e) of this Law in the explanatory notes of the financial statement.

8. The name of an entity, registering authority, registration number, legal form and legal address, and information on the process of liquidation of the entity, if initiated, shall be recorded in the documents reflecting financial statements.

Article 6 - Requesting audit of financial statements

1. PIEs, enterprises of the first and the second categories, and groups of the first and the second categories shall ensure the conduct of audits of their financial statements/consolidated financial statements in accordance with the procedures provided for by Article 15 of this Law, unless otherwise determined by the normative acts regulating the relevant field.

2. The requirements for conducting audits of interim financial statements of enterprises subject to regulation/supervision of a regulatory/supervisory body, and/or for other assurance engagements, shall be established by the legislation regulating the relevant field.

3. Enterprises of the third and the fourth categories and non-entrepreneurial (non-commercial) legal persons shall be released from the obligation of conducting audits of financial statements, unless otherwise determined by the legislation of Georgia.

4. The requirement of paragraph (1) of this article shall also apply to entities that are subsidiary companies within a group.

Article 7 - Management report

1. PIEs and enterprises of the first and the second categories shall prepare a management report and present it to the Service. Procedures for preparing and presenting a management report shall be determined by the Service, taking into account the requirements of the relevant European Union directives.

2. A management report shall include:

- a) a review of activities
- b) a corporate governance report
- c) a non-financial statement.

3. The review of activities referred to in paragraph 2(a) of this article shall be prepared by PIEs and enterprises of the first and the second categories.

4. The corporate governance report referred to in paragraph 2(b) of this article shall be prepared by a person determined by Article 2(1)(x.a) of this Law.

5. The non-financial statement referred to in paragraph 2(c) of this article shall be prepared by a PIE that complies with the size category of an enterprise of the first category, and, in addition, has over 500 employees on average, within the reporting period.

6. The review of activities referred to in paragraph 2(a) of this article, taking into consideration the scale and complexity of the activities, shall reflect a complete analysis of the development, outcomes and condition of the activities of an entity, and the main risks and uncertainties the entity faces. In order to fully understand the activities of the entity, it shall additionally involve, where necessary, key financial and non-financial figures, non-financial indicators related to the activities of the entity, and related to employment and environmental protection matters, and it shall also involve additional explanatory notes on the amount recorded in the annual financial statement. The review of the activities shall also include:

- a) the development plan of an entity;
- b) a review of the research conducted by an entity and of the development of such research;
- c) information on the activities of the branches of an entity;
- d) a review of the credit, market, liquidity and cash flow risks and information on risk management mechanisms;
- e) information on the acquisition of its own shares, which shall include at least the following data:
 - e.a) the purpose for the acquisition of shares during the reporting period;
 - e.b) the number and nominal value of the shares acquired and sold during the reporting period, and in their absence, the book value and the percentage of the shares in the issued share capital;
 - e.c) the counter-performance carried out for the acquisition or sale of shares;
 - e.d) the number and nominal value of shares acquired and kept in ownership during the reporting period, and in their absence, the book value and the percentage of the shares in the issued share capital;

f) information on the goals and policies of an entity with respect to financial risk management.

7. The corporate governance report referred to in paragraph 2(b) of this article shall include, as a minimum:

a) the review of the Corporate Governance Code that is mandatory for an entity or is chosen by an entity voluntarily (if any), and the review of the corporate governance practice that exceeds the requirements defined by the legislation. In the case of the use of a Corporate Governance Code which is chosen by an entity voluntarily, the entity shall indicate the place where the Corporate Governance Code is published. If the corporate governance practice is indicated, an entity shall disclose the detailed information on the said practice;

b) facts about any deviation from the Corporate Governance Code that is mandatory for an entity or chosen by an entity voluntarily, or the failure to refer to the above mentioned code in the cases provided for by sub-paragraph (a) of this paragraph, and the analysis of the relevant reasons;

c) the review of the internal control and risk management systems with respect to the process of drawing up a financial statement;

d) the review of the rights of shareholders and of general meeting of shareholders, and the measures for exercising such rights;

e) the review of the composition and the functioning of the management body and the supervisory board of an entity;

f) the review of the diversification policy (on age, gender, qualification, etc.) of an entity (except for accountable enterprises that comply with the criteria of enterprises of the second and the third categories) applied to its management body and supervisory board, as well as the purpose of the policy, applied methods and the results achieved within the relevant period. In the case of the absence of the above-mentioned policy, the relevant reason therefor shall be stated in a corporate governance report;

g) in the case of a mandatory tender offer provided for by Article 151 of the Law of Georgia on Securities Market - the following data:

g.a) information on significant direct or indirect participation in the capital;

g.b) information on the holders of the securities granting the possibility of special control, and the description of such right;

g.c) information on the restriction on the exercise of the right to vote (in particular, restriction on the right to vote for the holders of a certain percentage of the securities or of votes);

g.d) rules for appointing or replacing the members of a management body, as well as information on changes in the regulation;

g.e) information on scopes of authority of the members of the management body.

8. The non-financial statement referred to in paragraph 2(c) of this article, shall include at least the necessary information to determine the effect of the development, outcomes and condition of the activities of an entity in respect of matters related to environmental, social, employment, human rights and corruption issues, and it shall also include:

a) a brief review of the business model of an entity;

b) a description of the policies applied by an entity with respect to the matters provided for by this paragraph, including information on the outcomes of complex procedures and policies implemented. If the subject does not apply such a policy, a clear and substantiated explanation therefor shall be included in the statement;

c) the analysis of the risks of the activities of an entity, which, if necessary, shall include (but shall not be limited to) the business relations of the entity, the possible negative impact of the goods and/or services in respect of the matters provided for by this paragraph and the risk management methods applied by the entity;

d) the main non-financial indicators of specific activities;

e) reference to amounts recorded in the financial statement, if necessary, and additional explanatory notes thereto.

9. An entity that is a subsidiary company shall not be obliged to file a non-financial statement provided for by paragraph 8 of this article if the relevant information is provided in the consolidated statement of the group.

10. PIEs and entities of the second category shall be obliged to submit a management report to an auditor/audit firm. An auditor/audit firm shall express an opinion on the compliance of its regulatory normative acts and on the compatibility of the financial statements of the same accounting period with paragraphs 6 and 7(c) and (g) of this article. In the process of auditing, an auditor/audit firm shall determine any essential inaccuracies by taking into consideration information received on an entity and shall refer to them where necessary. An auditor/audit firm shall examine whether the information provided for by paragraph 7(a), (b) and (d)-(f), and by paragraph 8, is included in the statement.

11. If the information provided for by this article is provided in a financial statement in accordance with the procedure defined by paragraph 9(2) of this Law, an entity shall be exempt from the obligation to record the above-mentioned information in a management report.

12. The requirements of this article shall apply to the categories of those groups that meet the criteria of the enterprises of the first and second categories.

13. A regulatory/supervisory body, in agreement with the Service, shall be entitled to impose restrictions on the requirement for publication of information provided for by this article, if the disclosure of such information poses a threat to the financial stability of a PIE or of the relevant field.

Article 8 - Reports on payments to the State

1. PIEs and enterprises of the first category, whose activities involve the use of subsoil (including oil and gas extraction) or timber harvesting in a natural forest, are obliged to prepare and submit a report on payments made to the State on an annual basis. The report shall reflect the payments made to the State in cash or in kind, in the form of

profit tax, licence and natural resources fees, regulation fees for the use of natural resources, royalties, dividends, bonuses determined by the Law of Georgia on Oil and Gas, rent and concession fees, if a one-off payment or total of payments exceeds GEL 100 000 during the reporting period.

2. Any amount paid to the State Budget of Georgia, payments made to an administrative body or an enterprise, in which the share participation of the State exceeds 50%, as well as payments made to the state, regional and local authorities of foreign countries shall be considered as payment made to the State.

3. The types of subsoil and uses thereof, as well as procedures for preparing, submitting and publishing a report on payments made to the State, shall be determined by an ordinance of the Government of Georgia.

Article 9 - Filing and publishing a statement

1. The Service shall ensure the creation and management of a website for the purpose of publishing the statements of entities and the consolidated statements of groups, as well as accessibility for the users of the website.

2. An entity (except for a non-entrepreneurial (non-commercial) legal entity) is obliged to submit a financial statement (including a consolidated statement), a management report (including a consolidated report), a report on payments to the State determined by this Law, and an audit report in the cases provided for by this Law immediately, but not later than 1 October of the year following the reporting period, to the Service under the procedures established by the Service.

3. The Service is obliged to issue the statements (including the consolidated statements) and audit reports submitted by the entities, except for statements of enterprises of the fourth category, within one month after their submittal. A person shall have a right to request a statement of an enterprise of the fourth category under the procedures established by the Service. The Service shall ensure the selective verification of the compliance of the statements submitted by entities with the requirements established by this Law and the normative acts adopted on the basis of this Law, and on the basis of a risk-based approach. The Service shall be entitled to request an entity to rectify identified defects in the cases provided for by this paragraph.

4. If the reporting period of an entity does not coincide with the calendar year, it is obliged to submit a statement to the Service upon its availability, but not later than nine months from the end of the reporting period.

5. PIEs are obliged to publish the statements (including the consolidated statements) provided for by paragraph (2) of this article, on its own website or in a print publication.

6. Entities shall be obliged to submit an interim financial statement to a regulatory/supervisory body in the cases provided for by the regulatory/supervisory body. The procedures for submitting an interim financial statement to a regulatory/supervisory body shall be determined by the legislation regulating the respective area.

7. Procedures for submitting a financial statement in a simplified manner by an enterprise of the third category shall be defined by the Service taking into consideration the requirements of relevant European Union directives.

Chapter III - Professional Organisations, Professional Certification, Continuing Education

Article 10 - Requirements for professional organisations

1. A professional organisation, for the purposes of this Law, shall be a professional organisation of accountants and/or auditors established in accordance with the legislation of Georgia that is registered as a non-entrepreneurial (non-commercial) legal person and meets the requirements established by this Law and the normative acts adopted on the basis of this Law.
2. Professional organisations shall have an internal policy, systems and procedures that ensure:
 - a) meeting requirements for professional certification and continuing education;
 - b) meeting the requirements of the Code of Ethics for Professional Accountants (IESBA Code) and the requirements of the quality management system by the members of professional organizations.
3. The Service shall be entitled to implement the monitoring of compliance of a professional organisation with this Law and the normative acts adopted on the basis of this Law.
4. The majority of the members of the management body of a professional organisation shall be auditors and/or certified accountants.
5. Professional organisations shall ensure the detection of any violation by its members of the requirements established by the professional organisation, and the imposition of disciplinary liability on them. Professional organisations, in agreement with the Service, shall establish procedures for the professional organisations to detect violations committed by member auditors, and to determine disciplinary liability.
6. Professional organisations shall manage their website, where a register for the accountants certified by its member auditors and the professional organisation, as well as an annual financial statement of the professional organisation and a report on its activities, shall be published.

Article 11 - Professional certification and continuing education

1. In order to recognise a person as a certified accountant and maintain his/her qualifications, the Service shall establish professional certification standards and continuing education standards, which comply with the requirements of European Union directives and International Education Standards (IES) established by the International Federation of Accountants (IFAC). Professional certification standards shall determine educational disciplines for professional certification, procedures for conducting examinations, passing subjects and exemption from examinations, the documentation to be submitted for certification, and the procedure for the issuance of certificates. Continuing education standards shall determine the continuing education programme and the procedures for its implementation.
2. The qualifications of a person shall be verified through professional certification. Professional certification shall be carried out by professional organisations, whose certification programmes and/or examination processes shall meet the standards established by the Service and are recognised in accordance with procedures for the recognition of

certification programmes and examination processes. Procedures for the recognition of certification programmes and examination processes shall be established by the Service.

3. The Service shall be entitled to recognise bodies administering professional examinations solely for the purpose of conducting examination processes. A professional organisation recognised with professional programmes only, shall be entitled to conduct professional certification on the basis of the examinations conducted by the bodies administering professional examinations. A professional organisation may be recognised as a body administering professional examinations in accordance with the procedure for recognising the certification programmes and examination processes determined by paragraph (2) of this article.

4. The Service shall ensure the maintaining of a register for recognised certification programmes, continuing education programmes and examination processes provided for by paragraphs (2) and (3) of this article.

5. The preparation of examination tests for professional certification shall be a part of the examination process. It shall be ensured by the bodies administering professional examinations.

6. For the purposes of admitting to and exempting a person from an examination in a qualification discipline, the Service shall recognise educational programmes or individual disciplines (subjects) of professional organisations and/or of persons carrying out educational activities intended for professional certification.

7. A person shall be granted a status of certified accountant as a result of professional certification. A professional organisation shall issue a certificate verifying such status.

7¹. The Service shall ensure the maintenance and publicity of the Registry of Certified Accountants in a manner established by the Service”

8. The status of certified accountant shall not grant a person the right to conduct audits until his/her registration with the Registry is completed.

9. The process of continuing education shall be ensured by professional organisations under procedures established by the Service. Professional organisations are obliged to monitor the continuing education of certified accountants and keep appropriate registration. If by a decision of a professional organisation, a person no longer meets the requirements for continuing education, the professional organisation is obliged to notify the Service of this fact within no later than five business days after making such decision.

10. Liability may be imposed on a professional organisation for violating procedures established in the field of professional certification and continuing education under the procedures provided for by this Law and the subordinate normative acts adopted on the basis of this Law.

Chapter IV - Registry, State Registry of Accountants providing professional services and State Registry of Accounting Firms

Article 12 - Maintaining the State Registry of Auditors/Audit Firms and access to information

1. The Service shall maintain the registry and ensure the publicity of and accessibility to information provided therein.
2. The Service shall use software and automated management tools for maintaining the registry. The registry shall be public.
3. The Service shall define the procedures for maintaining a website and a registry in an electronic form, its structure, its form, a list of information provided therein, and the procedures for identifying users.
4. The Service shall be entitled, on the basis of an electronic or a written request, to issue any document prepared and/or protected by the Service, in an electronic and/or physical form.
5. The procedure and conditions for viewing protected information and documents and for requesting their originals or copies shall be determined under procedures established by the Service.
6. The identification of an auditor/audit firm shall be ensured through an individual registration number of a person.
7. The registry shall include the following information on an auditor:
 - a) the name and surname, legal address, place of economic activity and the registration number;
 - b) the name, address, website address and registration number of an audit firm the auditor is employed by, or in which the auditor is a partner/shareholder, or is otherwise associated with;
 - c) information on his/her registration as an auditor in a foreign country, specifying the name of a registration body and the registration number (if any);
 - d) the professional organisation where the auditor is a member;
 - e) results of quality management system monitoring;
 - f) revenues received from auditing (non-employee) activities for the last three years;
 - g) insurance of professional liability, specifying the amount and the insurance company.
8. The registry shall contain the following information on an audit firm:
 - a) the legal form, name, address, website address, contact information and the registration number;
 - b) the name and surname and the registration number of an auditor/certified accountant, who is employed by the audit firm, or who is a partner/shareholder or a member of the management body of the audit firm, or is otherwise associated with the firm, as well as the number of employees of the audit firm;
 - c) results of quality management system monitoring;
 - d) the name and reporting period of the PIE, if any, to which it has provided and/or provides auditing services;

- e) the share participation of the partners/shareholders;
- f) insurance of professional liability, specifying the amount and the insurance company;
- g) revenues received from auditing activities for the last three years.

9. The Service shall receive the information provided for by paragraph 8(e) of this article from a legal entity under public law called the National Agency of Public Registry operating under the Ministry of Justice of Georgia.

10. The Service shall immediately publish through its website an administrative act imposing a sanction on an auditor/audit firm for the period of no less 5 years after its entry into force and after informing the entity on the imposition of a sanction, with reference to information (if any) on appealing the decision made by the parties.

11. In the cases provided for by paragraph (10) of this article, the Service shall be entitled not to make information public, if it poses a threat to the interests of the country and/or the interests of a third party. The Service shall ensure the assessment and analysis of information and make a decision regarding the expediency of its publication.

12. An extract from the Registry shall be prepared in the Georgian language.

Law of Georgia No 640 of 21 April 2017 - website, 10.5.2017

Article 13 - Registration procedures

1. A legal person registered in Georgia, a branch of a foreign enterprise and a natural person shall obtain the right to conduct audits in Georgia after being registered with the Registry. The grounds for the registration of an auditor/audit firm with the Registry or for the restoration of its registration shall be an application by a relevant person and the meeting of requirements established by this Law and the subordinate normative acts adopted on the basis of this Law. The Service shall assess the compliance of the application with the requirements established by this Law and the normative acts adopted on the basis of this Law within 10 business days.

2. Registration documents and information defined by the Service shall be attached to the application submitted to the Service. In each specific case, the Service shall be entitled to additionally request the submission of documents or information related to the registration procedure that are necessary to make a decision on the matter requested by the application.

3. A professional organisation is obliged to submit information/documents on a member where requested by the Service.

4. A natural person interested in the registration with the Registry shall meet the following requirements, he/she shall:

- a) be a certified accountant;
- b) have no less than three years of practical experience in conducting audits of financial statements under the supervision of an auditor, which shall be verified by the supervising auditor in a written form;

c) not have been convicted of financing terrorism and/or illicit income legalisation or other economic crime, or other serious or grave crimes;

d) be a member of a professional organisation;

e) not have violated the code of the International Ethics Standards Board for Accountants (IESBA code), which shall be confirmed by a professional organisation or an auditor provided for by sub-paragraph (b) of this paragraph.

5. A legal person interested in the registration with the Registry shall meet the following requirements:

a) audit services shall be carried out through at least one engagement partner;

b) an auditor(s) and/or an audit firm registered with the Registry, and/or a firm registered in member states of the Organisation for Economic Co-operation and Development (OECD), and/or in an audit register of EU member states, and/or a natural person(s) who is (are) a member(s) of organisations that are members of the International Federation of Accountants (IFAC) established in member states of the Organisation for Economic Co-operation and Development (OECD) or EU member states, shall own more than 50% of the voting shares in an audit firm;

c) auditors shall be the majority of the members of the management body. If the management body consists of two members, one of them shall be an auditor;

d) shall have professional liability insurance.

6. An auditor/audit firm shall be obliged to inform the Service and a professional organisation regarding changes in the information recorded in the Registry within no later than five business days after making the changes

6¹. The Service shall be entitled to request information / documentation from the person / auditor / audit firm in order to verify the accuracy of the information recorded in the Registry. In turn, the person / auditor / audit firm shall be obliged to provide the Service with the information / documentation provided for in this paragraph.

7. An auditor/audit firm that does not comply with the requirements for the registration with the Registry shall be subject to the annulment of the registration and shall lose the authority to conduct audits. The Service shall be responsible for the annulment of the registration in accordance with the procedures defined by the Service. In the case of the annulment of the registration, an auditor/audit firm shall not have the right to use the word 'auditor' and the words 'audit firm' in its name.

8. The Service shall be entitled to register with the Registry natural persons willing to conduct audits in Georgia, who are members of organisations that are members of the International Federation of Accountants (IFAC) established in member states of the Organisation for Economic Co-operation and Development (OECD) or EU member states, under procedures established by the Service, after passing qualification tests in the Law of Georgia, and on the basis of an appropriate application. The requirements and restrictions established by this Law, and the subordinate normative acts adopted on the basis of this Law, shall apply to natural persons registered with the Registry in accordance with this paragraph.

9. Except for the cases provided for by paragraph (8) of this article, the Service shall be entitled to determine a list of states that are true members of International Federation of Accountants (IFAC) and have the right to register with the Registry.

10. The Service shall be entitled to make a decision on the suspension of the registration procedure, if:

a) documents and/or information determined by this Law or the normative acts adopted on the basis of this Law, which are necessary for making a decision on the matter raised in the application, are not attached to the application and/or are incompletely submitted;

b) there are other grounds provided for by the legislation of Georgia.

11. If an applicant does not submit to the Service the documents or information provided for by this Law or the normative acts adopted on the basis of this Law, which are necessary for the registration of an auditor/audit firm, the Service, within 10 business days, shall specify a period of no more than 30 days for the applicant, during which he/she shall submit additional documents or information. The Service shall be entitled to extend the period only once, for no more than 15 days. The Service shall be entitled to make a decision on the termination of the registration procedure after the said period expires.

12. The Service shall make a decision on the resumption of the registration procedure if within the period of suspension of the registration procedure, a document or information is submitted, which confirms that the grounds for the suspension of the registration procedure no longer exist. If the registration procedure is resumed, the counting of the period for the registration procedure shall start anew.

Article 13¹. Maintaining the State Registry of Accountants Providing Professional Services and the State Registry of Accounting Firms, continuing education

1. The procedure for maintaining the State Registry of Accountants Providing Professional Services and the State Registry of Accounting Firms electronically, their structure and design, the list of information, the procedure for the identification of users and the procedure for the delegation of management shall be determined by the Service.

2. The continuing education requirements for an accountant providing professional services and for an accounting firm shall be determined by the Service in accordance with the rules it establishes.

3. A natural or legal person, who, within the scope of professional services, starts keeping accounts and/or preparing financial statements, shall be obliged to register in the relevant registry within one month of commencing the activity.

Chapter V - Audit Service and its Quality Assurance

Article 14 - Legal basis for conducting audit services

1. Audits in Georgia shall be conducted in compliance with the International Standards on Auditing (ISA). The International Standards on Auditing (ISA) are the international standards on auditing adopted by the International Auditing and Assurance Standards Board (IAASB) or its successor in title, which are included in the reference book of official international documents of the successor in title and assurance engagements.

2. When conducting other audit services (reviews, other assurance engagements and related services), except for conducting audits, an auditor/audit firm shall apply international standards for review and related services adopted by the International Auditing and Assurance Standards Board (IAASB) or its successor in title, as well as international standards for other assurance engagements.

3. The putting into effect of the international standards provided for by paragraphs (1) and (2) of this article shall be ensured by the Service within six months after their renewal. An auditor/audit firm shall be entitled to use the effective (English) version of these standards.

4. Additional requirements for the process and procedures of audits of the financial statements of a PIE shall be established by an order of the head of the Service, except for the case provided for by Article 15(3) of this Law.

5. An audit firm that has undergone the monitoring of its relevant quality management system shall have the authority to perform audits of the financial statements of a PIE in accordance with the procedures established by the Service.

6. An auditor / audit firm that provides audit services to a legal entity under public law, a municipal body and other persons, who are required by the relevant legislation to perform an audit of financial statements or an independent audit of their activities, shall be obliged to comply with the requirements established by this Law when providing audit services.

7. An audit firm that has undergone the monitoring of the relevant quality management system as provided for by paragraph (5) of this Article, and the procedures established by the Service, which are required for performing audits of the financial statements of PIEs, shall be authorized to provide audit services related to the fulfilment of the obligations determined by an agreement to which a property administrator is a party.

8. The requirements for the audit services provided for by paragraph (7) of this article shall be established by the Government of Georgia upon the recommendation of the Ministry of Economy and Sustainable Development of Georgia.

9. The Government of Georgia shall be entitled to establish additional or other requirements for audit firms conducting audit services provided for by paragraph (7) of this Article upon the recommendation of the Ministry of Economy and Sustainable Development of Georgia. The registration of relevant information on such requirements shall be ensured by the Service.

Article 15 - Procedures for conducting audits

1. Audits may be conducted under the procedures provided for by Article 6(1) of this Law, or on the initiative of an entity.

2. An engagement partner and/or a person authorised by an audit firm shall confirm an audit report by signature. The internal procedures of an audit firm shall ensure the identification of an engagement partner.

3. Audits of financial statements of PIEs, and enterprises/groups of the first and the second categories, shall be performed for each reporting period, unless otherwise determined by the legislation of Georgia. The Service, together with the relevant regulatory/supervisory body, shall establish additional requirements, apart from the requirements

established by this Law, for the process and procedures of audits of PIEs, based on the specificity of activities/fields that are subject to additional quality management system monitoring.

4. An auditor/audit firm shall preserve the documents which were prepared and applied during the audit process, and which exist in electronic and/or physical form, for six years after the end of the relevant reporting period.

5. Taking into consideration the requirements of the relevant International Standards on Auditing, an audit report shall not include assurance on the future viability of an entity and/or the effective implementation of activities of the management body of an entity.

6. An auditor/audit firm shall exercise professional scepticism. It shall recognise the possibility of committing a substantial offence (including fraud or an error) by an entity on the basis of implications and actions. In such case, the experience of an auditor/audit firm regarding the good faith of the management or the persons responsible for management shall not be taken into consideration. When providing audits, an auditor/audit firm shall pay special attention to the information on fair value, impairment of assets, reserves, provisions and future cash flows assessed by the management of the entity, which relate to whether an entity can continue activities.

Article 16 - Ethical rules and independence

1. When providing professional services, a certified accountant/auditor/audit firm shall be obliged to observe the Code of Ethics for Professional Accountants (IESBA Code) ('Code of Professional Ethics') established by the International Federation of Accountants (IFAC).

2. The putting into effect of the Code of Professional Ethics shall be ensured by the Service within six months after its renewal. A certified accountant/auditor/audit firm shall be entitled to use the effective (English) version of the Code.

3. An auditor/audit firm, as well as a natural person that may directly or indirectly affect the results of audit services, shall be independent from the entity to which he/she/it provides audit services. Furthermore, he/she/it shall not be involved in the decision-making process of the entity. This requirement shall apply during the financial reporting period and the period when audit services are provided.

4. The partners/shareholders of an audit firm, as well as the members of the management body and supervisory board of the audit firm and a related enterprise, shall not interfere with the process of rendering audit services in a way that poses a threat to its/their independence and impartiality.

5. When providing audit services, an auditor/audit firm shall take all necessary measures to ensure independence. An auditor/audit firm shall record information in written or electronic form, with regard to the risks that pose a threat to his/her/its independence, and with regard to the methods that are applied to reduce such risks.

6. Other professional services, except for audit services provided for an entity, may not determine or affect the fees for audit services. Audit service fees shall not be determined by any type of condition and/or circumstance.

7. An auditor/audit firm shall not have the right to receive from or give to an entity or its employees tangible and/or intangible gifts and/or benefits, the value of which may be perceived as the value that exceeds the margin which is

permitted for practical actions and particular transactions. When having relations with clients, an auditor/audit firm shall have an approved gift policy that complies with the Code of Professional Ethics.

8. An auditor/audit firm shall not have the right to provide audit services to an entity, if between an entity and the auditor/audit firm, persons within its system, and natural persons that may directly or indirectly affect the results of the audit services, there is danger of conflict of interests or use of threat caused by financial, personal, business, labour relations, and/or other current or future relations, on the basis of which an objective, informed and reasonable third party may conclude that the independence of the auditor/audit firm is under threat.

8¹ An auditor shall not have the right to act as a mediator if he/she is providing/has provided audit services to the mediation party in connection with the same case or another case substantially related thereto.

9. For the purpose of this article, financial relations shall be deemed relations where an auditor/audit firm and a person provided for by paragraph (8) of this article own the shares/stocks, other securities and financial instruments of an entity to which he/she/it provides audit services, or where an auditor/audit firm and a person provided for by paragraph (8) of this article can otherwise affect the financial results of the entity, except for the cases where there is essential indirect ownership of the shares/stocks, other securities and financial instruments of the entity through an investment fund. Financial relations shall also be deemed to be the ownership of the shares/stocks, other securities and financial instruments of another entity related to the entity, if the above mentioned may cause a conflict of interests.

10. The incompatibility of interests regarding matters related to accounting may not comprise grounds for terminating contractual relations with an auditor/audit firm by an entity. The reasons and grounds for terminating contractual relations between an auditor/audit firm and an entity shall be substantiated in a written form. 11. Within a year after the completion of audit services, and within two years in the case of PIEs, an auditor/engagement partner shall be prohibited from becoming:

- a) a significant member of the management body of an entity to which audit services were rendered;
- b) a member of the audit committee of an entity or a body with similar functions to which audit services were rendered;
- c) a member of the supervisory board of an entity to which audit services were rendered.

12. The requirements of paragraph (11) of this article shall apply to an employee of an auditor/audit firm, a partner/shareholder of an audit firm, and a natural person, whose activities are subject to the management/control of an auditor/audit firm, if they remain as auditors within a year after they complete the fulfilment of their audit functions.

13. In the case of the merger (joining, acquisition) of an entity with another entity during the reporting period, an auditor/audit firm shall assess the interests and relations of entities created as a result of the merger (joining, acquisition), which may pose a threat to the independence of the auditor/audit firm. The auditor/audit firm shall immediately, but no later than three months after the occurrence of the above- mentioned result, take all necessary measures to rectify any conflicts of interest or terminate relations that pose a threat to his/her/its independence.

14. Prior to starting or continuing audit services, an auditor/audit firm shall be obliged to assess, record in written or electronic form, and confirm information on:

- a) the fulfilment of the requirements of independence;

- b) the risks that pose a threat to its independence, and the measures taken to reduce such risks;
- c) the availability of qualified employees, time and resources, which are necessary to conduct audit services of proper quality;
- d) the registration of an engagement partner in the Registry, in the case of an audit firm.

15. An engagement for the audit of financial statements of PIEs may be concluded for no less than two years and no longer than 10 years. In the case of winning a public tender conducted upon a decision of the meeting of the partners/shareholders of a PIE, a 10-year period may be extended for an additional 10 years. After the expiry of the period defined by law, a repeated engagement with an audit firm may be concluded after the expiry of no less than a 4-year period. Where this rule is violated, the requirement to conduct audits shall be deemed unfulfilled. The audit firm shall ensure the internal rotation of engagement partners and key personnel in respect of each PIE that it serves, at least once in seven years.

16. The Service shall impose liability on an auditor/audit firm for the failure to meet the requirements of this article under the procedures established by this Law. In the case of the failure to meet the requirements of paragraphs (8), (11), (12) and (15) of this article when conducting an audit, the entity shall ensure the conduct of a repeated audit for the relevant reporting period, and the periods established for the entity by the legislation of Georgia, except for the cases provided for by paragraph (11) of this article, shall be deemed met. The periods for conducting a repeated audit shall be determined by the Service.

Article 17 - Professional liability insurance

An auditor/audit firm that carries out audit services on his/her/its behalf is obliged to insure its professional liability for no less than GEL 100 000 for the purpose of compensating for possible material damage caused by the failure of the entity to fulfil the requirements established by this Law. The procedures for professional liability insurance shall be established by the Service in agreement with the legal entity under a public law called Insurance State Supervision Service of Georgia.

Article 18 - Confidentiality of information

1. The information received by an auditor/audit firm during the course of providing professional services shall be confidential.
2. An auditor/audit firm is obliged to:
 - a) maintain confidentiality of information during and after providing professional services, regardless of the time passed and the type of activities changed;
 - b) not disclose confidential information on an entity, without the consent of the entity, except for the cases provided for by the legislation of Georgia.

3. If an auditor/audit firm is changed, a preceding auditor/audit firm shall be entitled to, with the consent of the client entity, give respective information to the following auditor/audit firm on the entity for which the preceding auditor/audit firm conducted audits.
4. This Article shall also apply to a person in charge of quality management system monitoring with respect to information received by him/her in fulfillment of their respective duties.

Article 19 - Quality assurance

1. An auditor/audit firm shall have its relevant quality management policy and procedures in accordance with the International Standards on Quality Management (ISQM).
2. International Standards on Quality Management (ISQM) represent standards and guidelines on the quality management systems of those entities that provide audit, review, and other assurance and related services, as adopted by the International Auditing and Assurance Standards Board (IAASB), or its successor.
3. The putting into effect of the standards provided for by paragraph (2) of this article shall be ensured by the Service within six months after their renewal. An auditor/audit firm shall be entitled to use the effective (English) version of these standards.
4. An auditor/audit firm shall be obliged to develop a manual for audit and other audit services and establish relevant policy and procedures for raising the qualifications of personnel, its development, supervision and assessment of activities. The above-mentioned manual shall determine the relevant policies and procedures for the activities of the auditor/audit firm.
5. An auditor/audit firm shall apply adequate systems and procedures to ensure his/her/its continuous and uninterrupted activities.
6. The Service shall determine the rules for monitoring quality management systems and define the procedures for assessing the preliminary results, rectifying identified violations and appealing the report on the monitoring of quality management systems.
7. The monitoring of the quality management system of an auditor/audit firm shall be conducted by the Service. The Service shall be entitled to conduct the monitoring of the quality management system on the basis of a risk-based approach. Furthermore, the Service shall be entitled to conduct the monitoring of the quality management system on the basis of a submitted application and/or appeal. The monitoring of the quality management system shall be relevant to the scale and complexity of the activities of an auditor/audit firm.
- 7¹. The Service shall be authorized to request information / documentation (in physical and / or electronic form) from a person / auditor / audit firm in order to perform quality management system monitoring effectively. The information / documentation provided for in this paragraph shall be determined in accordance with the rules established by the Service.

8. The Service shall review an application requesting the monitoring of the quality management system of an auditor/audit firm within 10 business days after the submittal of the application. The Service shall be obliged to start the monitoring of the quality management system no later than two weeks after making a decision to grant the request.

9. Except for the case provided for by paragraph (7) of this article, the monitoring of quality management systems shall be conducted at least once in six years for auditors/audit firms and at least once in three years for auditors/audit firms that perform audits for PIEs and enterprises of the first category.

10. An audit firm that intends to perform audits of the financial statements of a PIE and has undergone the monitoring of its quality management system, but has not performed the audit of the PIE, is obliged to apply to the Service to request the monitoring of the quality management system prior to signing a contract on providing audit services. The Service shall make a decision on monitoring the quality management system within five business days after receiving the application. The Service shall determine the form of application to be submitted to the Service.

11. The Service shall carry out the monitoring of the quality management system of an auditor/audit firm through a person who, for the continuous period of at least a year before the start of the activity, has not provided audit services, has not held voting rights in an audit firm, has not been employed as a member of the management body or supervisory board of an audit firm, or has been otherwise associated with an audit firm, and who is disinterested with regard to the results of the monitoring of the quality management system, and who meets the qualification requirements defined by the Service.

12. A person shall be prohibited from conducting the monitoring of the quality management system, if he/she has been a partner/shareholder, engagement partner, or an employee of an auditor/audit firm, or has been otherwise associated with the auditor/audit firm, whose quality management system is being monitored during three years after the completion of such relations.

13. When conducting the monitoring of quality management systems, the Service shall be entitled to engage experts in relevant fields and the assistance of personnel in the monitoring process.

14. The Service shall present the preliminary results within one month after receiving the complete information requested by the Service regarding the quality management system monitoring. The final results of the quality management system monitoring shall be reflected in the quality management system monitoring report prepared in accordance with the form established by the Service. The Service shall review the monitoring report and make a decision on establishing and/or granting relevant requirements and/or imposing liability on an auditor/audit firm and/or an engagement partner. The decision of the Service on the results of the quality management system monitoring of the auditor/audit firm may be appealed to the Board and to a court.

15. An auditor/audit firm, an engagement partner, and a certified accountant employed in an audit firm shall be entitled to participate, in person and/or through their representative, in reviewing their quality management system monitoring report, and to submit an explanation.

16. If the results of the quality management system monitoring are not satisfactory and an auditor/audit firm and/or an engagement partner fails to fulfill the recommendations provided by the Service within the time period defined by the Service, the Service shall be obliged to impose penalties on the auditor/audit firm, and/or the engagement partner for a specific audit report, under the procedures established by this Law.

17. An auditor shall assume liability for the violations revealed as a result of the quality management system monitoring of the auditor. An audit firm and/or a relevant engagement partner for a specific audit report shall assume liability for violations revealed as a result of the quality management system monitoring of the audit firm.

18. Regulatory/supervisory bodies are obliged to cooperate with the Service to ensure increased levels of credibility of audited financial statements submitted by entities.

19. In the case provided for by paragraph (16) of this article, the Service shall be entitled to give instructions to and receive explanations from an auditor/audit firm and an engagement partner for the purpose of rectifying identified violations and resolving related issues.

20. The results of the quality management system monitoring shall be public. The results shall be recorded in the Registry within 5 business days after making the relevant decision.

21. The Service shall publish a general report on the condition of audit quality on an annual basis.

Chapter VI - Organisation and Management of the Service.

Powers of the Board

Article 20 - Organisation and management of the Service

1. The Service is a state sub-agency operating within the system of the Ministry. It is liable before the Government of Georgia and the Minister of Finance of Georgia.

2. The organisation of the Service shall be determined by the statute of the Service which shall be approved by an order of the Minister of Finance of Georgia .

3. The Service shall ensure:

a) putting into effect the mandatory international standards and other norms provided for by the law in the Georgian language and defining the financial reporting standards for enterprises of the fourth category and the non-entrepreneurial (non-commercial) legal entities;

b) establishing the procedures for the preparation and submission of statements, drafting common policies and other legal acts in the field of accounting, reporting and auditing, granting the status of a PIE to an entity, establishing additional requirements and rules for the process and procedures of auditing the financial statements of PIEs, including together with the relevant regulatory/supervisory body;

c) defining relevant procedures and requirements for carrying out audit activities;

d) defining rules for the monitoring of quality management systems and defining the procedures for reviewing preliminary results, eliminating identified deficiencies and appealing reports on the quality management system monitoring;

e) conducting the monitoring of the quality management system of auditors/audit firms registered in the relevant Registry;

f) imposing liability for the offences provided for by this Law;

g) determining the requirements for professional certification education, examination processes and continuing education in accordance with the International Education Standards (IES) established by the International Federation of Accountants (IFAC), and the requirements of European Union directives, and approving appropriate standards;

h) reviewing and approving the standards, procedures and methodologies provided for by this Law;

i) establishing certification programmes, and determining the rules for recognising examination processes and continuing education programmes;

j) recognising certification programmes, examination processes and continuing education programmes in accordance with established standards;

k) conducting the monitoring of the compliance, with this Law and the procedures and standards defined by the Service, of professional organisations, bodies administering professional examinations, and other persons engaged in professional education activities provided for by this Law;

l) maintaining the Registry, recognized training and continuing education programs, specialized examination bodies, Registries of the certified accountants and the website for financial statements under the procedures established by the Service and in accordance with the requirements of the EU directives;

m) the compliance of the submitted financial statements with the requirements defined by this Law and their publicity;

n) establishing an investigation system, developing the procedures and methodologies for conducting investigations, initiating investigations regarding an auditor/audit firm on the basis of its own initiative and/or submitted applications and/or appeals;

o) preventing and identifying offences;

p) developing and approving methodological guidelines on matters related to accounting and reporting;

q) exercising other powers provided for by the legislation of Georgia regarding the matters falling under the scope of this Law.

4. For the development of the standards and procedures provided for by this Law, the Service, with the involvement of professional organisations, practitioners and other interested parties, shall establish working groups, whose activities shall be regulated under an individual administrative act of the head of the Service.

5. The Service shall be managed, coordinated and directed by the head of the Service. The head of the Service shall be appointed to office for a period of five years, and may be dismissed from office where there are grounds determined by law, by the Prime Minister of Georgia, upon the recommendation of the Minister of Finance of Georgia. The same person may be appointed to the office of the head of the Service for two consecutive terms only.

6. The powers of the head of the Service shall be determined by the legislation of Georgia and the statute of the Service.

7. The head of the Service shall be a public servant to whom the requirements for public servants determined by the legislation of Georgia shall apply, including the requirements regarding conflicts of interests.

8. The head of the Service shall be a non-practitioner and shall meet the following requirements:

a) he/she shall have a higher education in one of the following disciplines: accounting, auditing, economics, finance, banking;

b) shall have at least five years of work experience in a managerial position in the field of auditing;

c) shall not have been convicted of financing terrorism and/or illicit income legalisation or other economic crime, or other serious or grave crimes;

d) The head of the Service and the members of his/her family shall not have the right to own shares/equities and/or voting rights in an audit firm, where the supervision of the activities of the firm falls within the powers of the Service.

9. The head of the Service shall:

a) manage the Service, and be responsible for performing the duties imposed by the legislation of Georgia;

b) within the scope of its authority, make decisions regarding matters falling within the powers of the Service;

b¹) on the basis of the objectives of the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing, issue legal acts on matters within the competence of the Service;

c) submit to the Minister of Finance of Georgia for approval a draft statute of the Service, and the structure and cost estimate of the Service, procedures for the review of an appeal by the Board, and appropriate draft amendments to be made;

d) issue normative acts and orders within its competence;

e) appoint to and dismiss from positions public servants from the staff list of the Service, approve the Internal Regulations of the Service in order to regulate various legal relationships, and approve qualification requirements for employees of the Service;

f) submit a report on the activities of the Service to the Minister of Finance of Georgia, issue a report on the activities of the Service and publish information on future plans related to the activities of the Service on the website of the Service;

g) approve the procedures submitted by professional organisations for detecting offences committed by their member auditors and for determining their disciplinary liabilities, and perform other functions provided for by the statute of the Service and the legislation of Georgia.

10. The number of employees of the Service shall be determined by the Minister of Finance of Georgia upon the recommendation of the head of the Service, and a staff list of the Service shall be approved by the head of the Service.

11. The Service shall issue subordinate normative acts with regard to the standards, procedures, methodologies and other matters provided for by paragraph (3) of this article after reviewing the relevant recommendations of the Board.

Law of Georgia No 1327 of 2 November 2017 – website, 13.11.2017

Article 21 - The Board and its authority

1. The Board shall be a body operating under the Service that reviews matters related to accounting, reporting and auditing and makes relevant decisions. The composition of the Board shall be determined by this Law. On the basis of a decision of the Board, other employees of the Service and invited persons may be included in the composition of the Board. In this case, the persons represented in the Board shall not participate in the decision-making process of the Board. The powers and rules of procedure of the Board shall be defined by the statute of the Board, which shall be approved by an order of the Minister of Finance of Georgia.

2. The powers of the Board shall be to:

a) review draft subordinate normative acts defined by this Law, make professional and field assessments and submit relevant recommendations within 10 business days;

b) submit a proposal to the head of the Service on making amendments to subordinate normative acts;

c) provide consultation to the Minister of Finance of Georgia regarding the nomination of the candidacy of the head of the Service, and submit the position of the Board in the form of a recommendation;

d) review appeals against decisions made by the Service in the field of accounting, reporting and auditing and also based on the objectives of the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing;

e) carry out other activities provided for by this Law and the subordinate normative acts adopted on the basis of this Law.

3. The Board shall be composed of seven members. A member of the Board shall be a non-practitioner, competent in the fields of accounting and reporting, auditing, economics, finance, business management or law, and have at least seven years of work experience in the relevant field.

4. The Board shall be composed of a member from the Ministry, a member from the Board of the National Bank of Georgia, a member from the Ministry of Economy and Sustainable Development of Georgia, a member from the legal entity under public law called the Insurance State Supervision Service of Georgia, and a member from a professional organisation, a business association and academia.

5. Candidacies for membership of the Board as provided for by paragraph (4) of this article shall be nominated to the Minister of Finance of Georgia.

6. Three candidacies for membership of the Board shall be nominated from professional organisations, business associations and academia as provided for by paragraph (4) of this article. The Minister of Finance of Georgia shall select one candidate from a professional organisation, a business association and academia. The selection process of the members of the Board shall be independent and transparent.

7. The Minister of Finance of Georgia shall nominate candidacies for the membership of the Board provided for by paragraph (4) of this article to the Prime Minister of Georgia, who shall approve the candidacies within two weeks after their nomination.

8. The Chairperson of the Board shall manage the Board. In case of the absence of the Chairperson of the Board, his/her powers shall be exercised by a member of the Board by a decision of the Board.

9. Members of the Board shall not participate in the review or the resolution of a matter if there is a conflict of interests regarding the subject matter of the dispute. A person whose case is under consideration may challenge the relevant member of the Board, if this person has a vested interest in the matter in question.

10. The Board shall have no right to exercise its powers if the number of the members of the Board is less than four. In this case, the composition of the Board shall be filled not later than two months after the occurrence of this fact.

11. Candidates for membership of the Board/Members of the Board shall not have been convicted for financing terrorism and/or illicit income legalisation or other economic crime, or other serious or grave crimes.

12. A member of the Board and the members of his/her family shall not have the right to own the shares/equities and the voting rights in an audit firm where the supervision of the firm's activities falls within the powers of the Service.

13. The term of authority of the members of the Board shall be five years.

14. Members of the Board shall not receive remuneration for their activities.

Article 22 - Cooperation of the Service with international and local organisations

1. Taking into consideration the basic principles defined by this Law, the Service shall cooperate with international and local organisations for the purpose of the efficient implementation of the monitoring of accounting, reporting and auditing.

2. The purpose of cooperation with international organisations provided for by paragraph (1) of this article shall be to implement European Union directives and establish international standards of practice and methodology, and share relevant experience on the basis of contracts and agreements concluded with international organisations operating in the relevant area.

3. Cooperation with local organisations as provided for by paragraph (1) of this article includes the coordinated work of the Service with public institutions, including public institutions that regulate/supervise entities, which are required to conduct financial reporting and/or ensure the conduct of audits for their own financial statements in accordance with the legislation of Georgia.

4. The Service shall cooperate with the professional organisations and persons determined by Article 11 of this Law.

Article 22¹. Communication with the entity / person / auditor / audit firm

1. In exercising the powers defined by this Law, the Service is authorized to create, send, keep and issue any document and/or electronic document that may have legal consequences, in order to have communication with the entity / person / auditor / audit firm, as well as to use the electronic document management system.

2. The Service sends information / document to the entity / person / auditor / audit firm and / or delivers them in physical form and / or electronically. The form of sending the information / document is chosen by the Service.

3. In case of repeated submission of one document or in different forms, the date of its submission shall be considered to be the date of the first submission of this document to the entity / person / auditor / audit firm.

4. If the entity / person / auditor / audit firm does not receive the physically sent document, it shall be sent to the entity / person / auditor / audit firm again.

5. The information / document shall be sent to the entity / person / auditor / audit firm electronically via e-mail and / or the reporting website (www.reportal.ge). The information / document sent in electronic form shall be deemed to have been delivered as soon as the recipient gets acquainted with it.

6. The recipient confirms the receipt of the document sent by e-mail by electronic means.

7. The information / document sent via the reporting website (www.reportal.ge) shall be deemed to have been delivered as soon as the recipient gets acquainted with it, which is confirmed by the relevant technical means.

8. The procedure for correspondence between the Service and the entity / person / auditor / audit firm shall be determined by the Service.

Chapter VII - Liability and Dispute Resolution

Article 23 - Liability for violation of the requirements established by the legislation of Georgia

1. For violations of the requirements of this Law, the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing and the subordinate normative acts issued on the basis of these laws, the Service shall, simultaneously or separately, or in a sequential manner, depending on the seriousness of the violation and the potential risk, except for the cases provided for by this Law:

a) impose the following sanctions on an auditor/audit firm/engagement partner:

a.a) a written warning;

a.b) a public reprimand (to be recorded in the Registry);

a.c) a monetary fine;

a.d) in the case of an auditor/audit firm – cancellation of his/her registration;

a.e) prohibiting the auditor/audit firm/engagement partner from conducting audits and/or signing audit reports, and suspending the partners/shareholders of an audit firm from exercising their functions for a period not exceeding three years;

b) impose the following sanctions on a professional organisation;

b.a) a written warning;

b.b) a monetary fine;

b.c) deprivation of the right granted on the basis of Articles 11(2) and 11(3) of this Law;

c) impose the following sanctions on a body administering professional examination:

c.a) a written warning;

c.b) a monetary fine;

c.c) deprivation of the right granted on the basis of Articles 11(2) and 11(3) of this Law;

d) impose the following sanctions on PIEs and enterprises of the first, second, third and the fourth categories:

d.a) a written warning;

d.b) a monetary fine;

d.c) suspending a member of the management body of a PIE from exercising his/her functions provided for in this Law for a period not exceeding three years;

E) impose the following sanctions on a person:

e.a) a written warning;

e.b) a monetary fine

2. Sanctions to be imposed on an entity subject to regulation/supervision by a regulatory/supervisory body for violation of the requirements of this Law and the legal acts issued on the basis of this Law by a regulatory/supervisory body shall be determined by a relevant regulatory/supervisory body.

3. The sanctions imposed for the violation of the requirements of this Law and the subordinate normative acts issued on the basis of this Law shall not exempt an entity from the obligation to fulfil said requirements.

4. The sanctions applied under this article shall correspond to the seriousness of the violation and the potential risk.

5. The amount of the monetary fine imposed shall be deposited with the State Budget of Georgia under the procedures determined by the Budgetary Code of Georgia.

Article 24 - Liability of a person/auditor/audit firm/engagement partner

1. Violation of the requirements of this Law, the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing and the subordinate normative acts issued on the basis of these laws (except for the requirements stipulated by paragraphs 2-4 of this Article) by a person or an auditor/audit firm/engagement partner shall result in a written warning to the person or the auditor/audit firm/engagement partner or in imposition of a monetary fine of up to 5,000 GEL. In addition, in the case provided for in this paragraph, the Service shall be authorized to temporarily prohibit the auditor/audit firm/engagement partner from performing audit services and/or signing the audit report and carrying out audit activities for partners/shareholders of an audit firm for a maximum period of 3 years.
2. Violation of the requirements regarding audit services provided for by Chapter V of this Law (including the relevant international standards, procedures provided for by Article 16, requirements for quality management systems as defined by Article 19, and requirements for conducting the monitoring of the systems), shall result in the imposition of a fine on an auditor/audit firm and/or the relevant engagement partner, in the amount of GEL 500 to GEL 5000, and/or removal from the Registry.
3. Violation of the rules of the registration procedures provided for by Chapter IV of this Law shall result in the annulment of the registration of an auditor/audit firm, or the deprivation of the right of an auditor/audit firm to carry out activities, and/or the imposition of a fine on the entity up to the amount of GEL 1000.
4. Failure to fulfil the obligations related to professional liability insurance as provided for by Article 17 of this Law, shall result in a written warning to an auditor/audit firm. The Service shall be entitled to make a decision on the annulment of the registration of an auditor/audit firm in the case of the failure by the auditor/audit firm to comply with a written warning from the Service.

Article 25 - Liability for a professional organisation and a body administering professional examinations

1. Professional organisations and/or bodies conducting specialised examinations shall receive a written warning, if they refuse or intentionally evade cooperation with the Service. In the case of repeated actions, the Service shall be entitled to deprive the rights of professional organisations and/or bodies conducting specialised examinations granted to them under the rule of recognition provided for by Article 11 of this Law.
2. Violation of the requirements of Article 10 of this Law, as well as of the procedures for the conduct of professional certification and continuing education, shall result in the imposition of a fine on the professional organisation and/or the body administering professional examinations in the amount of GEL 500 to GEL 5000.

Article 26 - Liability of entities

1. Failure to fulfil the procedures for accounting, financial reporting and consolidation provided for by Article 3(8) of this Law, and the requirements of Article 7, Article 8, Article 9(2) and (4) and Article 16(11) and/or for avoiding audit shall result in the imposition of a fine on an entity:

- a) in the amount of GEL 500 for an enterprise of the fourth category;
- b) in the amount of GEL 1000 for an enterprise of the third category;
- c) in the amount of GEL 5000 for an enterprise of the second category;
- d) in the amount of GEL 10000 for an enterprise of the first category and a PIE.

2. The Service may apply a written warning instead of a monetary fine for an offence provided for by paragraph (1) of this article. In the case of a failure to comply with a written warning from the Service and/or a relevant requirement within one month after imposing liability, the fine imposed on an entity shall be doubled.

3. In the case of a failure to fulfil the requirement provided for by Article 6(1) of this Law, a fine shall be imposed on an entity in accordance with paragraph (1) of this article. The Service, not later than 10 business days after imposing liability on an entity, shall send a notice to the entity and prescribe an additional time frame for the submission of an audited financial statement. The time frame prescribed by the Service for an entity shall not be less than a month nor more than six months. The failure of an entity to submit an audited financial statement within the above-mentioned time frame shall result in a penalty of two times the imposed fine.

4. The Service shall study an entity on the basis of the risk management system. The Service shall make a decision on imposing liability on an entity on the basis of the analysis of the information kept in the risk management system and provided by the legal entity under public law called the Revenue Service.

Article 27 - Procedures for imposing liability and dispute resolution

1. The grounds for the commencement of the proceedings for an offence shall be the detection of an offence under this Law. In this case, an authorised person shall issue an individual administrative act based on the outcome of the above-mentioned proceedings.

2. If any offence provided for by Articles 24-26 of this Law is detected, the head of the Service or a person designated by the head of the Service shall issue an individual administrative act.

3. If an offence provided for by Article 23(2) of this Law is detected, an individual administrative act shall be issued by a relevant regulatory/supervisory body.

4. A dispute related to an individual administrative act of the head of the Service may be reviewed by the Board. The applicant shall have the right to apply to a court at any stage of the dispute.

5. Appealing the decision of the Service shall not suspend its validity.

6. The procedures for reviewing an appeal by the Board shall be approved by an order of the Minister of Finance.

7. The proceedings for an administrative offence provided for by this Law shall be carried out under the procedures established by the Administrative Offences Code of Georgia and the Service.

8. In case of voluntary non-compliance with the individual administrative-legal act on imposition of a monetary fine that was issued by the Service and has entered into force, the Service shall be authorized to enforce it on the basis of an enforcement order issued in the manner determined by the Service and in accordance with the Law of Georgia on Enforcement Proceedings.

Chapter VIII - Transitional and Final Provisions

Article 28 - Transitional provisions

1. The Minister of Finance of Georgia, not later than four months after the entry into force of this Law, shall:

- a) approve the statute of the Service and issue the subordinate normative acts related to the activities of the Service;
- b) approve the statute of the Board and nominate the candidacies for the membership of the board to the Prime Minister of Georgia for approval;
- c) ensure the compliance of the subordinate normative acts falling within the competence of the Ministry with this Law;
- d) ensure the implementation of measures necessary for the financing of the Service.

2. The Minister of Finance of Georgia, not later than two months after the entry into force of this Law, shall ensure the nomination of the candidacy for the head of the Service to the Prime Minister of Georgia.

3. The Prime Minister of Georgia shall ensure the appointment of the head of the Board to the position not later than two weeks after the nomination.

4. The Service shall ensure the maintenance of the Registry before 1 November 2015. Auditors/audit firms registered under the procedures established by the legislation of Georgia in force before the entry into force of this Law, before the abovementioned date, as well as unregistered auditors/audit firms operating under the procedures established by the legislation of Georgia in force before the entry into force of this Law, shall have a right to provide audit services without registration in the Registry defined by this Law. An organisation accredited in accordance with the Law of Georgia of 29 June 2012 on Accounting and financial Audit (Legislative Herald of Georgia (www.matsne.gov.ge), 13.7.2012, registration number: 260000000.05.001.016869) shall submit to the Service the mandatory and optional data related to the Registry.

5. The Service shall define the requirements for quality control systems and procedures for conducting the monitoring of the systems, before 1 January 2017.

6. The Service shall ensure putting into effect of the international standards provided for by Article 3(2)(a) and (b), Article 14(1) and (2), and Article 16(1) and Article 19(2) of this Law, before 31 December 2017.

7. Entities that have been conducting audits before the entry into force of this Law shall be entitled to submit an audited financial statement to the Service within the time frame defined by Article 9(2) of this Law. The Service shall ensure the maintenance of the website and publication of the statements submitted by entities under the established procedures, before 1 January 2018.

8. The Government of Georgia shall, before 1 July 2019, draw up a legal act on valuation activities, for the purpose of separating the auditing and valuation professions. Before the entry into force of the legal act:

a) a legal entity under public law - United National Accreditation Body - Accreditation Centre operating under the system of the Ministry of Economy and Sustainable Development of Georgia, shall carry out the accreditation and monitoring of a certification body of valuers in accordance with the rules and procedures adopted by the Accreditation Centre;

b) accredited certification bodies of valuers who are members of the International Valuation Standards Council (IVSC) shall ensure the accessibility of the Georgian version of the International Valuation Standards;

c) the right to provide valuation services shall be granted only to those entities, where valuers certified by an accredited certification body of valuers are employed. The right to carry out valuation and to sign a valuation report/opinion shall be granted to valuers certified by an accredited certification body of valuers;

d) the certification body of valuers accredited by the Accreditation Centre shall ensure the monitoring of education, the observance of ethical norms by and the quality of the activities of the certified valuers in accordance with the certification scheme.

9. An audit firm with the right to conduct statutory audit by the date of the entry into force of this Law, which is confirmed under the register of persons with the right to conduct a statutory audit of an organisation accredited in accordance with the Law of Georgia on Accounting and Financial Audit of 29 June 2012 (Legislative Herald of Georgia (www.matsne.gov.ge), 13.7.2012, registration code: 260000000.05.001.016869), or an audit firm that conducted a statutory audit from January 1 of 2013 before the entry into force of this Law, or conducted financial audits of a PIE before 1 November 2016, shall be entitled to apply to the Service not later than 30 November 2016 requesting the temporary authority to conduct audits of the PIE. The procedures for granting temporary authority shall be defined by the Service. The temporary authority granted by the Service shall be effective until the results of the monitoring of the quality control system are known. The grounds for granting the above authority shall be information provided in the registration application of an audit firm on the quality control system, other information/documentation submitted by the audit firm in accordance with the request of the Service and, where necessary, information provided by a regulatory/supervisory body to which audit reports were being submitted. The temporary authority to conduct audits of a PIE shall be granted before 31 December 2016 and shall be effective not later than 31 December 2017. The Service is obliged to complete the monitoring of the quality control system of an audit firm that holds the above authority, and that applied to the Service with a request to conduct the monitoring of the quality control system, and shall reflect the relevant results in the Registry before 1 January 2018. The temporary authority to conduct the audit of a PIE shall be cancelled, if a person with the above authority does not apply to the Service before 1 October 2017 with a request to conduct the monitoring of the quality control system. Furthermore, the authority to perform audit services before 1 January 2018 related to the verification of the fulfilment of obligations determined under an agreement to which a property administrator is a party, shall belong to audit firms, which are specified in the List of Persons Performing Audited Financial Statements and/or Issuing Expert and Audit Reports for Enterprises approved by the Ordinance No 360 of 5 September 2012 of the Government of Georgia on the Approval of the List of Persons

and State Enterprises Implementing Audited Financial Statements and/or Issuing Expert and Audit Reports for Enterprises, who shall be granted the temporary authority on the basis of this article. Furthermore, the authority to perform audit services related to the verification of the fulfilment of obligations determined under an agreement to which a property administrator is a party, shall be maintained for persons specified in the List of Persons Conducting Audited Financial Statements and/or Issuing Expert and Audit Reports for Enterprises approved by the above ordinance before the completion of the audit services under the agreement concluded by the date of the entry into force of this Law, and the authority to perform audit services provided for by an agreement concluded before 1 January 2017 after the entry into force of this Law, shall be maintained until 1 March 2017. Furthermore, audit firms provided for by this paragraph shall fulfil the obligations for PIEs undertaken under financial audit agreements concluded before 1 November 2016, with regard to a reporting period of 2016 or of previous periods.

10. The Service shall ensure the determination of the procedures for granting the temporary authority provided for by paragraph (9) of this article before 1 November 2016. Ordinance No 360 of 5 September 2012 of the Government of Georgia on the Approval of the List of Persons and State Enterprises Implementing Audited Financial Statements and/or Issuing Expert and Audit Reports for Enterprises shall be annulled from 1 January 2017.

11. Prior to the entry into force of the financial reporting standards provided for in Article 3(6) of this Law, enterprises of the fourth category shall be guided by the temporary standard established by Decree No 9 of the Accounting Standards Commission of the Parliament of Georgia of 5 April 2005 on the Approval of the Simplified (Temporary) Accounting Standards for Small Enterprises, and non-entrepreneurial (non-commercial) legal entities shall be guided by Decree No 10 of the Accounting Standards Commission of the Parliament of Georgia of 5 April 2005 on the Approval of the Temporary Accounting Standards for Non-entrepreneurial (Non-commercial) Legal Entities and the Structure of the Chart of Accounts. The Service shall establish the standards determined by this paragraph before 1 July 2018.

12. PIEs and entities of the first and second category shall fulfil the requirements of Article 9 of this Law for the reporting period ending on 31 December 2017 and the following periods, and if the reporting period of the entity does not coincide with the calendar year - for the reporting period that ends after 31 December 2017. Entities of the third category shall fulfil the requirements of Article 9 of this Law for the reporting period ending on 31 December 2018 and the following periods, and if the reporting period of the entity does not coincide with the calendar year - for the reporting period that ends after 31 December 2018 and the following periods. Entities of the fourth category shall fulfill the requirements of Article 9 of this Law for the reporting period ending on 31 December 2020 and the following periods, and if the reporting period of the entity does not coincide with the calendar year - for the reporting period that ends after 31 December 2020 and the following periods. Entities of the third and fourth categories shall be entitled to submit financial statements for the reporting period for which they are not required to do so under this Law. The exceptions provided for in this paragraph shall not apply to an entity that is subject to a statutory audit in accordance with the Law of Georgia on Accounting and Financial Audit of 29 June 2012 (Legislative Herald of Georgia (www.matsne.gov.ge), 13.07.2012, registration number: 260000000.05.001.016869).

13. A holder of the auditor qualification certificate issued by the Council on Audit Activity of the Parliament of Georgia, whose certificate is in force as of 1 January 2013, and a holder of the professional accountant qualification certificate issued by an accredited organisation by the date of the entry into force of this Law, shall be deemed certified accountants. The requirement determined by Article 13(4)(b) of this Law shall be deemed met by a person provided for by this paragraph, if he/she conducted audit services, before entry into force of this Law, independently, on behalf of an audit firm, or with the status of an auditor or an engagement partner, which shall be verified in written form.

14. A person who has been an engagement partner for at least 7 years prior to the entry into force of this Law and is not a certified accountant in accordance with this Law, shall be granted the status of a certified accountant on the basis of the documentation submitted to the Service certifying the provision of audit services by him/her. If the person referred to in this paragraph is interested in being registered in the Registry, he/she shall be deemed to have fulfilled the requirement laid down in Article 13(4)(b). The procedure for granting the status of a certified accountant for the purposes of this paragraph shall be determined by the Service.”

15. Before 1 September 2017, the Service shall ensure the monitoring of the quality control system only on the basis of an application of an auditor/ audit firm, and after 1 September 2017, under mandatory procedures.

16. Before the international standards provided for by paragraph (6) of this article are put into effect from 1 June 2016 by the Service, the following documents shall be applied, which are translated into the official language and issued by the member organisations of the International Federation of Accountants (IFAC):

a) International Financial Reporting Standards (IFRS);

b) International Financial Reporting Standards for Small and Medium-sized Enterprises (IFRS for SMEs);

c) Latest versions of the Code of Professional Ethics (IESBA Code) established by the International Standards on Auditing (ISA) and the International Federation of Accountants (IFAC);

d) international standards of review and related services, as well as international standards of other assurance engagements adopted and approved by the International Standard on Quality Control (ISQC) and the International Auditing and Assurance Standards Board (IAASB).

17. Normative acts approved by the decrees of the Panel of the Council on Audit Activity of the Parliament of Georgia and the Accounting Standards Commission of the Parliament of Georgia, as well as the normative acts applicable as of 1 January 2013 in the field of accounting and auditing shall be valid until the obligation of applying the respective standards and rules under this Law becomes effective. Relevant regulatory/supervisory body shall draw up/amend the chart of accounts approved by the decrees of the Accounting Standards Commission of the Parliament of Georgia and the procedures for their application for the fields subject to regulation/supervision by the regulatory/supervisory bodies, and the Service shall draw up/amend the chart of accounts for the fields that are not subject to regulation/supervision.

18. The Service shall be a legal successor of the Council on Audit Activity of the Parliament of Georgia.

19. In the cases provided for by Article 21(1) of this Law, not later than a month after the recruitment of the Council, two practitioners shall be invited to the Council before 1 January 2018, upon the recommendation of professional organisations and on the basis of the decision of the Council

20. The Government of Georgia shall ensure the compliance of the relevant legal acts with this Law before 1 January 2017.

21. In accordance with Article 21(6) of this Law, professional organisations shall be entitled to make a one-off nomination to the Ministry of two candidates for the membership of the Council for the initial recruitment of the Council, who do not meet the requirement of Article 2(1)(y) of this Law. In the case of electing a candidate as provided for by this paragraph as a member of the Council, the term of office of the above-mentioned member of the Council shall be a year.

22. A natural or legal person who keeps accounts and/or prepares financial statements, within the scope of professional services, shall be obliged to register in the relevant registry no later than 1 July 2023.

Law of Georgia No 1734 of 14 December 2017 - website, 25.12.2017

Article 29 - Normative acts declared as void after the entry into force of this Law

Upon the entry into force of this Law, the Law of Georgia on Accounting and Financial Audit of 29 June 2012 (Legislative Herald of Georgia (www.matsne.gov.ge), 13.7.2012, registration code: 260000000.05.001.016869) shall be declared void.

Article 30 - Entry into force of this Law

1. This Law, except for Article 5(6)(b), Article 7, Article 8, Article 13(5)(b) and Article 26(1) of this Law, shall enter into force upon its promulgation.
2. Article 5(6)(b), Article 7, Article 8, Article 13(5)(b) and Article 26(1)(c) and (d) of this Law, shall enter into force from 1 January 2018.
3. Article 26(1)(a) and (b) of this Law shall enter into force from 1 January 2019.
4. Article 28(16) of this Law shall apply to legal relations arising from 1 June 2016.

President of Georgia

Giorgi Margvelashvili

Kutaisi,

8 June 2016

No 5386-II b