

# Survey of Management Reports prepared by business entities for 2020



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The project „Environmental, Social and Governance (ESG) Activities in Georgia“ has been implementing in partnership with the International Finance Corporation (IFC) and with the support of the Swiss State Secretariat for Economic Affairs (SECO).

## Project goals:

- Awareness raising and skills development on environmental, social and governance issues through workshops, trainings round table meetings
- Conducting research on environmental, social and governance issues
- Consulting support for business entities on environmental, social and governance issues
- Collaborate with stakeholders in the process of adopting and modifying regulations and incentive policies to promote environmental, social and governance issues in Georgia

In the context of this project, Business consulting company PMO in the period of February-May 2022 conducted survey of management reports issued by business entities for 2020.



# Survey Objectives

- The purpose of the survey of management reports submitted by business entities was to reveal compliance with the Law on "Accounting, Reporting and Auditing" (LARA) and their qualitative assessment according to the recommendations developed by the Service for Accounting, Reporting and Audit Supervision (SARAS) and also international practices.
- The results of the survey will help business entities to observe trends and define shortcomings in order to make appropriate improvements in the process of preparing management reports in the future.
- The results of the survey will help the Service for Accounting, Reporting and Audit Supervision (SARAS) to identify needs in terms of improving the legislation, developing additional instructions and guidelines.



- the survey scope was assessment of management reports issued by business entities for the period of 2020.
- Criteria for assessment of management report components was based on LARA and Guideline developed for business entities by SARAS in 2018.
- Survey covered three (Full coverage) types of management report applied to business entities based on their category:

Type of Report	PIE	I Cat	II Cat	Trades on GSE	> 500 emp.
Review of Activities	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
CG reporting				<input checked="" type="checkbox"/>	
Nonfinancial reporting	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>



## Review of Activities

- PIEs
- PIEs (Category I, >500 employees)
- PIEs which traders in GSE
- I Category (or group)
- II Category (or group)

The number of such business entities was 973, from which a statistically valid pool - 272 business entities - were randomly selected and assessed. (95% CL/5% MoE)

## CG reporting

- Only PIEs which traders in GSE

The number of such business entities was 16. The management reports of all such business entities were assessed.

## Non-Financial reporting

- PIEs (Category I, >500 employees)

All PIEs (Category I, >500 employees). The number of such business entities was 21. The management reports of all such business entities were assessed.



# Assessment Criteria and limitations

## General Assessment Criteria

- If the report include all mandatory components
- This applies to all three types of reporting

## Criteria for Obligatory and recommended components

- To what extent does the information presented in the report cover all mandatory and recommendatory issues

## Limitations

- Commercial banks are not included in the survey due to their longer experience and practice in management reporting



# Review of activities - Criteria

**The weight of the components to be evaluated was determined individually, taking into account the importance and specificity of each component**

No.	Components	Min./Max.	Score
<b>Review of Activities</b>			
1	General information about the enterprise, analysis of the development, results and current state of the enterprise (development history)	From 0 to 3	0= unsatisfactory, 1=low, 2= average, 3 = good
2	Entity development plans	From 0 to 2	0= unsatisfactory, 1 = average, 2 = good
3	Information about the activities of the entity's branches	From 1 to 2	1 = average, 2 = good
4	An overview of the entity's research and development	From 0 to 3	0= unsatisfactory, 1=low, 2= average, 3 = good
5	Key financial and non-financial indicators and information about the entity's objectives and policies regarding financial risk management	From 0 to 3	0= unsatisfactory, 1=low, 2= average, 3 = good
6	Information on the purchase of own shares	From 0 to 2	0= unsatisfactory, 1 = average, 2 = good
7	Analysis of risks and uncertainties - a description of the entity's strategic, commercial, operational and financial risks and the possible effects of these risks	From 0 to 3	0= unsatisfactory, 1=low, 2= average, 3 = good
8	<b>Total maximum Score</b>	<b>18</b>	



# Review of activities - Criteria (Example)

1. General information about the enterprise, analysis of the development, results and current state of the enterprise (history of development)	Score
1) The description of the entity's activities is presented in such a way that the person interested in the report can obtain the necessary information about the entity and properly assess the circumstances under which the entity operates.	3
2) The main trends and factors that can influence the development, results or condition of the entity's activities are covered.	
3) The outcome of the development phases is presented in such a way that, if necessary, they can be compared with the previous period.	
Meets either of the two criteria	2
Meets any one of the criteria	1
Does not meet any criteria	0
2. Entity development plans	Score
1) Information about the expected development is presented in such a way that the person interested in the report will be able to get acquainted with the entity's action priorities and the resources that it uses to obtain results.	2
2) Includes a detailed analysis of trends and factors that may have a significant impact on the activity, development or condition of the entity.	
Meets any one of the criteria	1
Does not meet any criteria	0





Corporate governance		
1	Existence of Code of Corporate Governance/ Deviations from the Code of Corporate Governance	From 0 to 4 0= unsatisfactory, 1=low, 2= average, 3= good, 4 =excellent
2	Internal control and risk management systems related to the financial reporting process	From 0 to 2 0= unsatisfactory, 1 = average, 2 = good
3	Overview of the rights of shareholders, the general meeting of shareholders and the rules for their implementation	From 0 to 2 0= unsatisfactory, 1 = average, 2 = good
4	Overview of the composition and functioning of the management board and the supervisory board	From 0 to 2 0= unsatisfactory, 1 = average, 2 = good
5	Overview of the diversification policy applied to the management board and the supervisory board	From 0 to 2 0= unsatisfactory, 1 = average, 2 = good
6	Review of necessary information in case of mandatory tender offers	From 0 to 2 0= unsatisfactory, 1 = average, 2 = good
7	<b>Total maximum Score</b>	<b>14</b>



# Nonfinancial report - Criteria

## Non-financial reporting

1	Non-financial issues - environmental, social, employment and anti-corruption issues	From 0 to 3	0= unsatisfactory, 1=low, 2= average, 3 = good
2	Description of the entity's business model	From 0 to 4	0= unsatisfactory, 1=low, 2= average, 3= good, 4 =excellent
3	Risk analysis of the subject's activity (business relations, risk management methods)	From 0 to 3	0= unsatisfactory, 1=low, 2= average, 3 = good
4	Key non-financial indicators (including ecology, social responsibility, etc.)	From 0 to 3	0= unsatisfactory, 1=low, 2= average, 3 = good
5	Policies used	From 0 to 3	0= unsatisfactory, 1=low, 2= average, 3 = good
6	<b>Total maximum Score</b>	<b>16</b>	

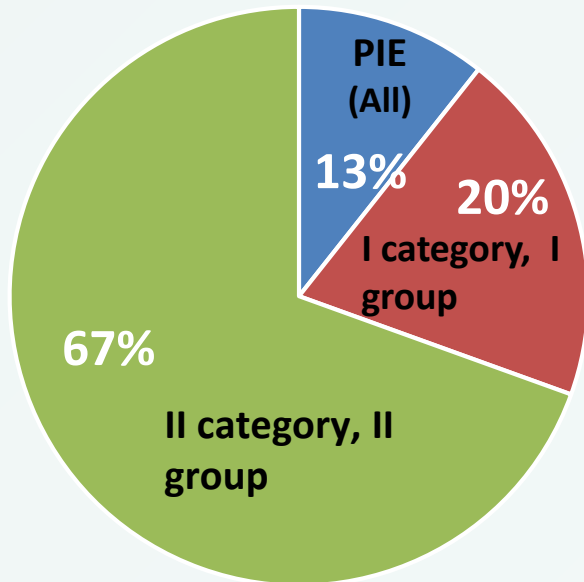


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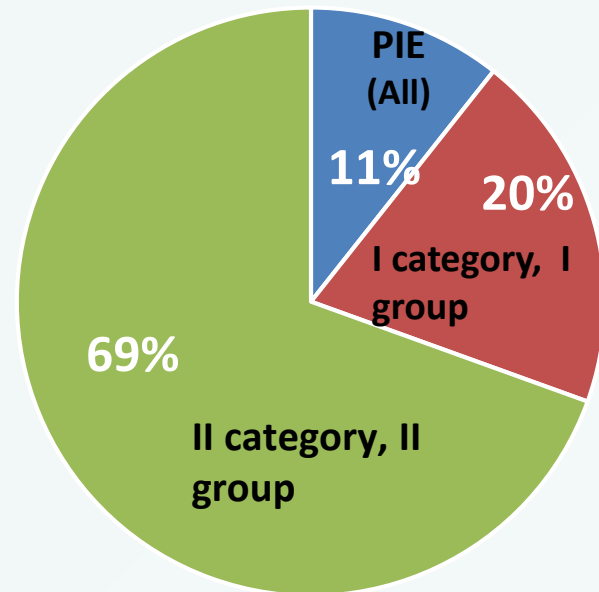
# Review of Activities



**973 annual financial and/or management reports to be submitted by 2020 by categories of business entities**



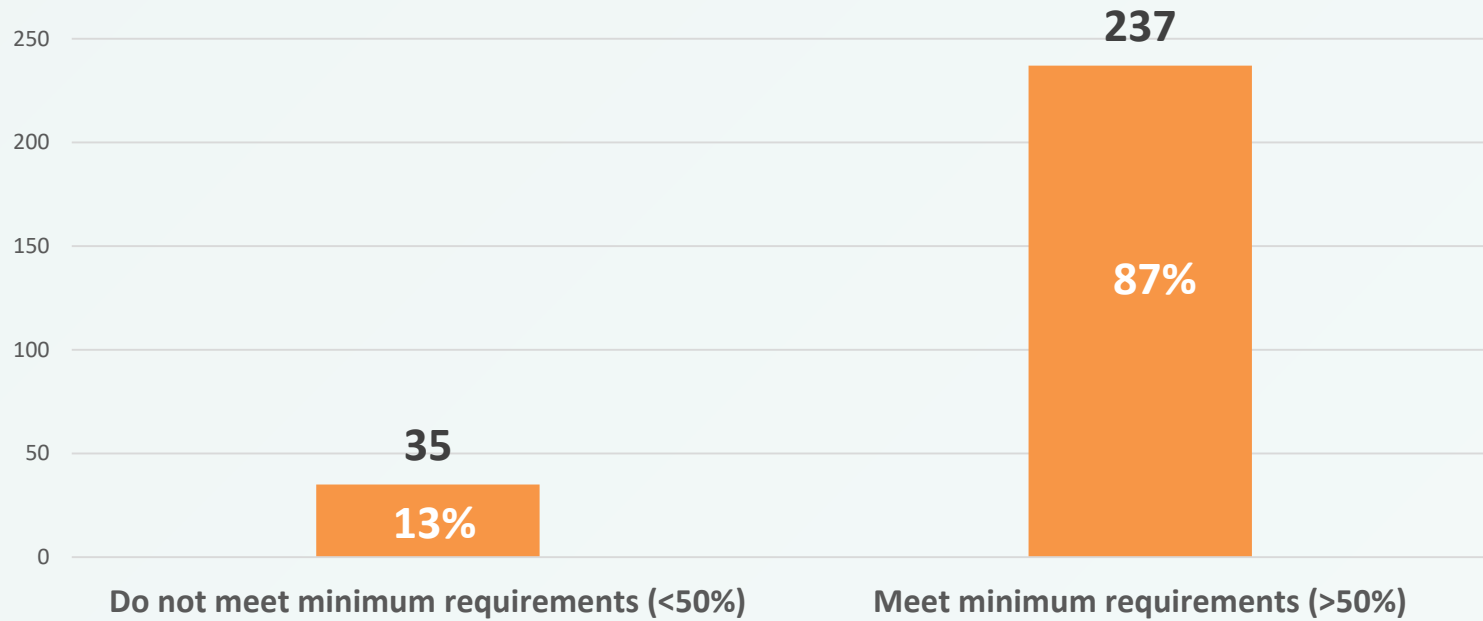
**Statistically valid pool - 272 annual financial and/or management reports by categories of business entities**





## Review of activities - Assessment

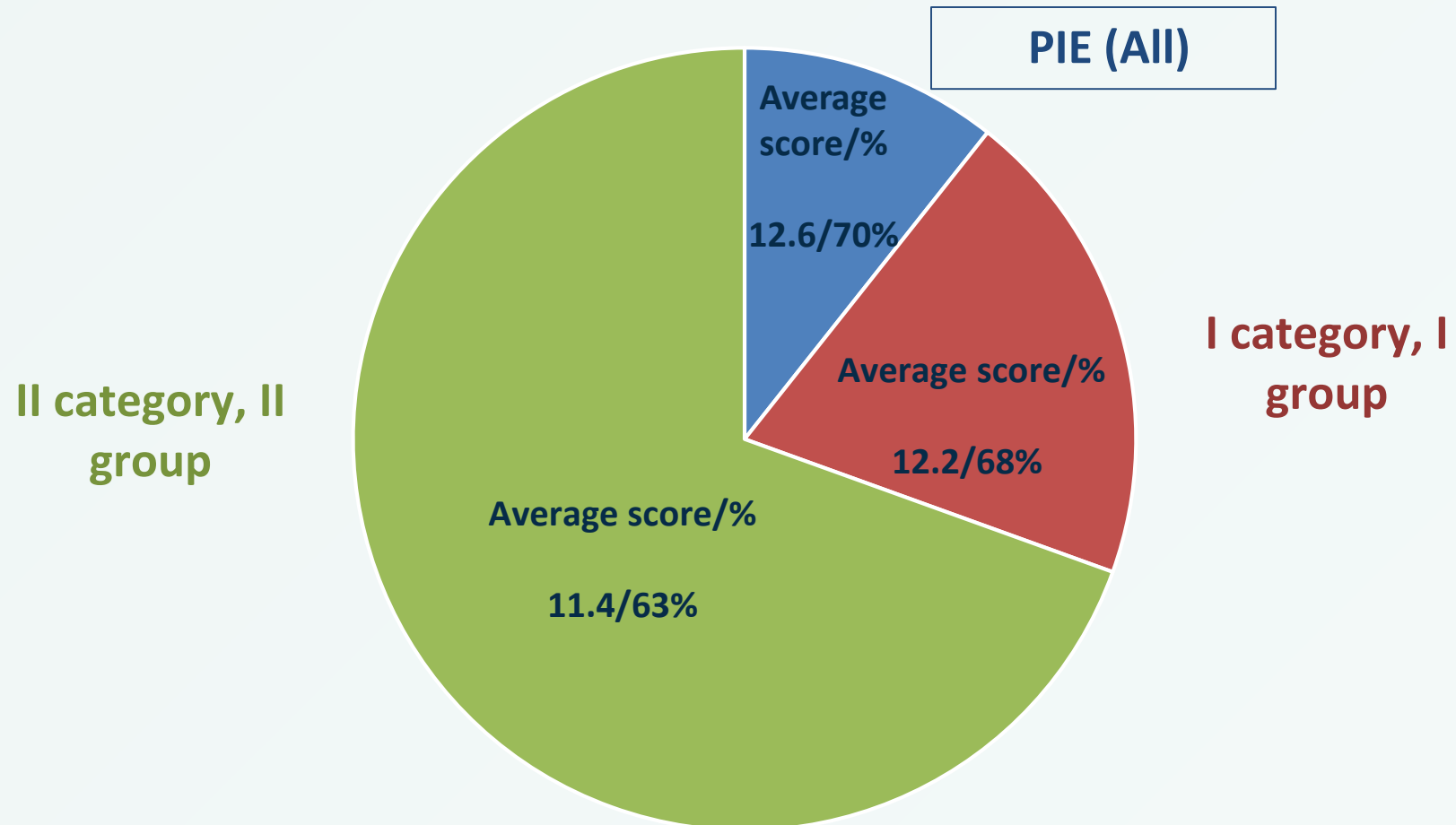
- **237** of the reports of assessed business entities meet the 50% threshold (assessment score > 50%)
- **35** of the reports of the assessed business entities do not meet the 50% threshold (assessment score < 50%)





## Review of activities - Assessment

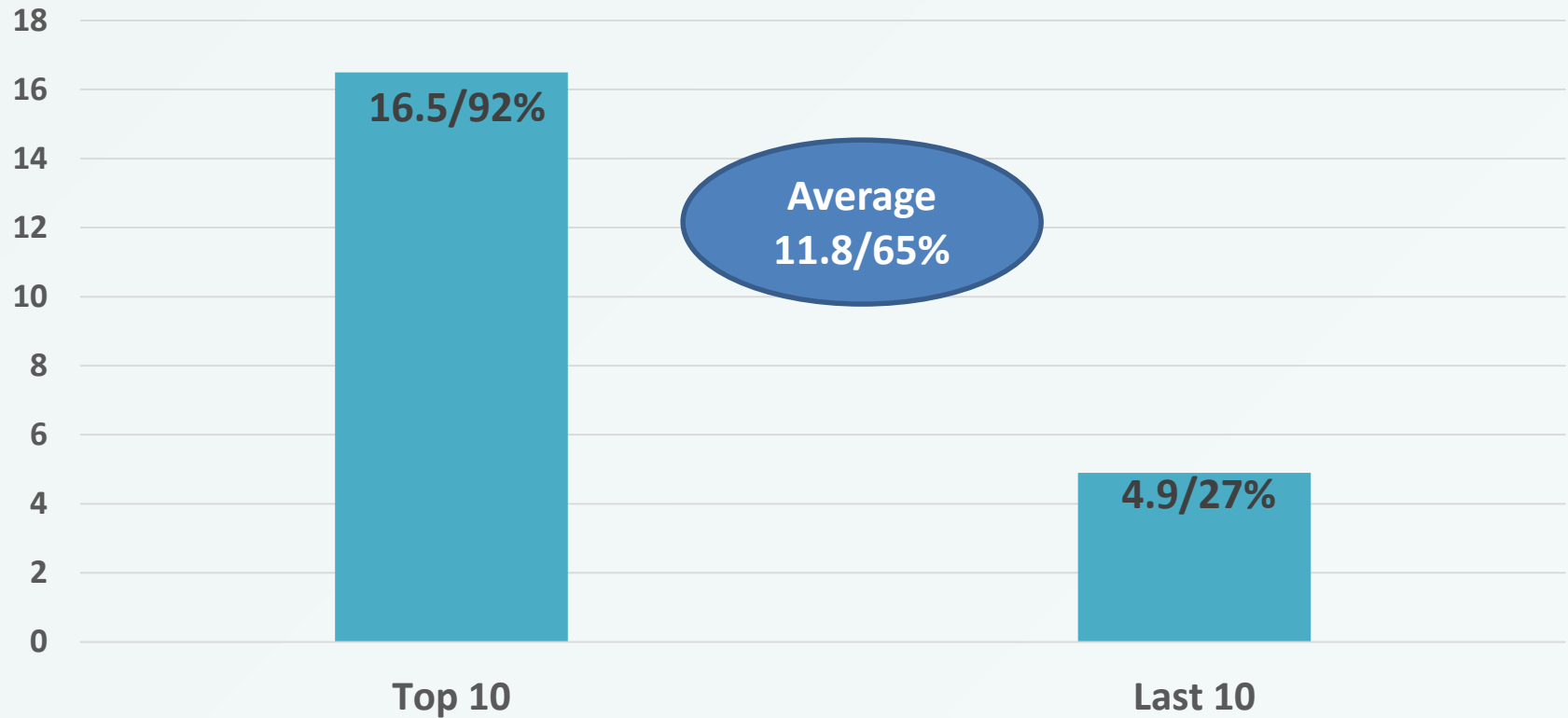
Average score and % of assessed reports by I, II and PIE category business entities





## Review of activities - Assessment

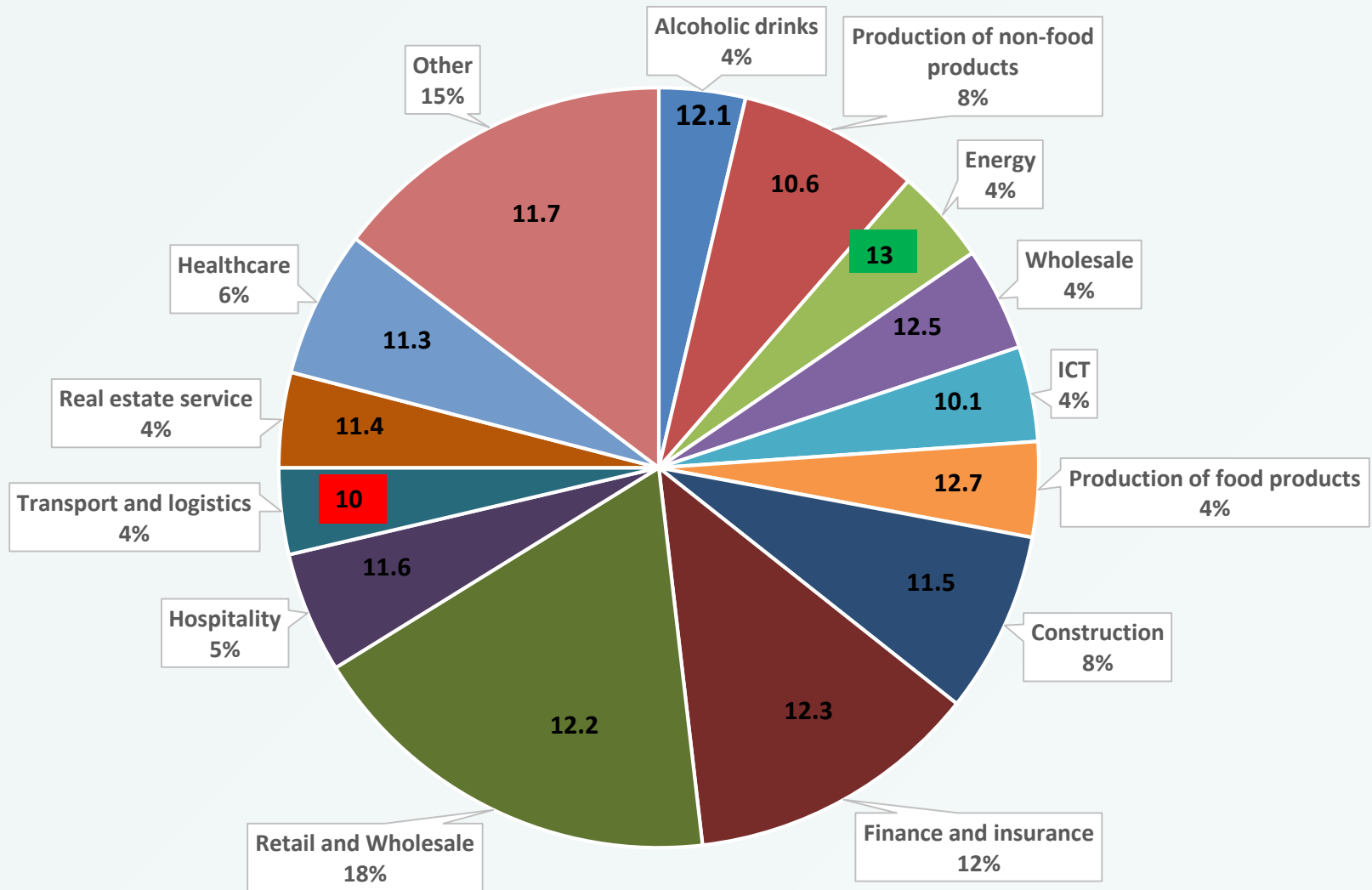
- Average score of the top 10 reports - **16.5 (92%)**
- Average score of the last 10 rated reports - **4.9 (27%)**
- Average score of all reports - **11.8 (65%)**





# Review of activities - Assessment

## Sectors and average scores



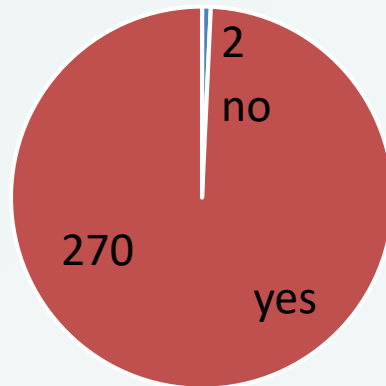




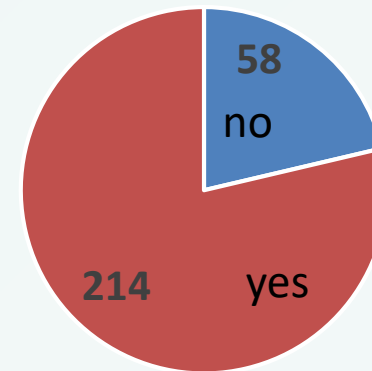
## Review of activities - Assessment

- Assessment of reports by components - satisfactory/ non-satisfactory
- A component was rated as unsatisfactory if it was given a score of 0

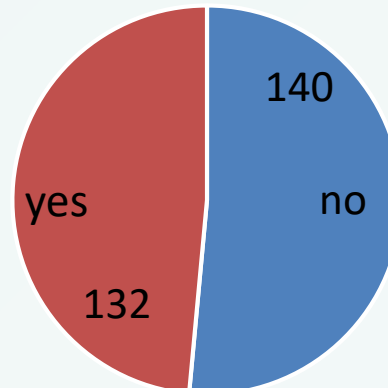
General information about entity



Entity development plans



Review of R&D

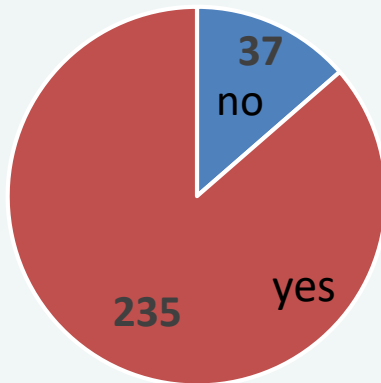




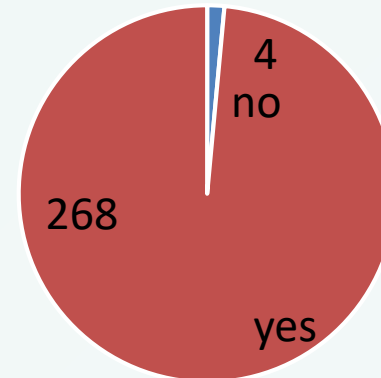
# Review of activities - Assessment

Assessment of reports by components satisfactory/ non-satisfactory

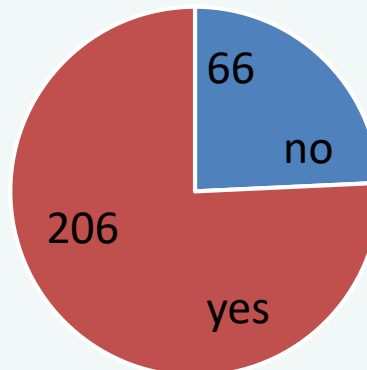
Basic financial and non-financial indicators



Information on the purchase of own shares

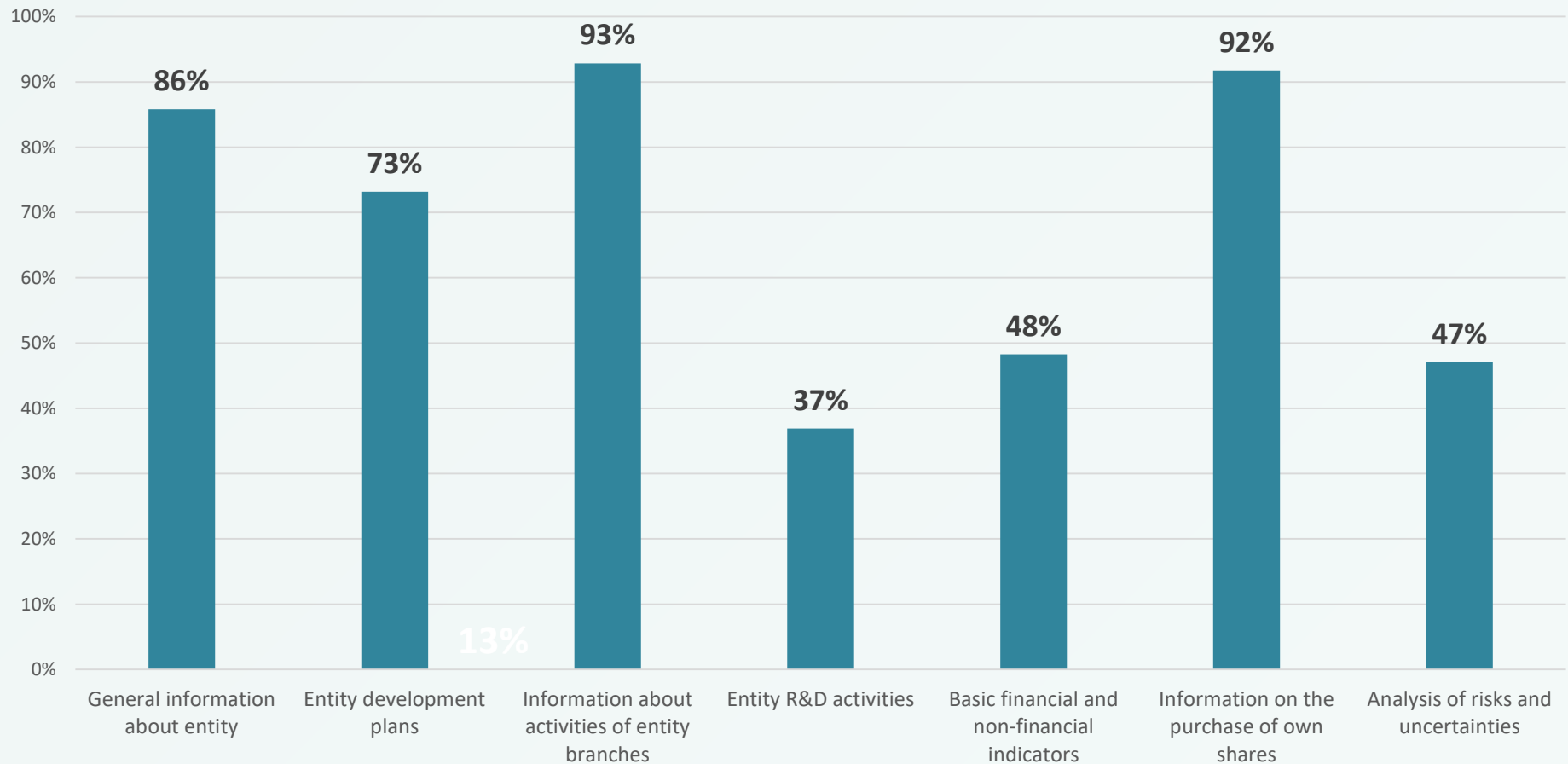


Analysis of risks and uncertainties





## Assessment of reports by components





## ❖ General

- In many cases, the guidelines and recommendations related to the effective, structured and substantive reporting of information outlined in the governance reporting manual developed by SARAS, are not taken into account.
- In some cases, the information presented is very general and does not allow reader to make assessment of particular components of the report.
- In some cases, the name and content of components of the report does not match.
- In some cases, the texts presented in components are faulty both in terms of content and grammar, which often makes it difficult for the reader to draw a conclusion on a particular issue.
- In most cases, the interdependence and connection between components (i.e. research and future plans) is not visible.



## ❖ General information about entity

- In some cases, general information about the enterprise is limited to the name of the company, date of entity inception, field of activity and address.
- In some cases, the description of the entities' activities is presented superficially, which makes it impossible for the reader to get the necessary information about the entity and to properly assess the circumstances.
- In most cases, the main trends and factors that can influence the development, results or condition of the entity's activities are not covered.
- In most cases, the results of the development are not presented in such a way that, if necessary, it is possible to compare them with the previous period.



## ❖ Entity development plans

- In most cases, entity development plans are not presented with sufficient detail of information about priorities and resources needed to achieve results.
- In most cases, the entity's development plans do not include a detailed analysis of trends and factors that may have a significant impact on the entity's activity, current condition, and development.
- In some cases, entity development plans do not include information about expected development at all.



## ❖ Entity R&D activities

- In most cases, the information presented in terms of research and development does not include the description of the relevant measures, the stages and the level of their development for the reporting period.
- In some cases, the review of research and development does not include a description of the entity's research and development activities that are related to the improvement of new or existing services or products. And in the absence of such notes, no corresponding information is disclosed.
- In some cases, research and development component contain irrelevant parts, such as marketing and promotional information.



## ❖ Basic financial and non-financial indicators

- In some cases, the main financial and non-financial indicators are not presented at all.
- In some cases, the presented indicators are not useful for evaluating the progress achieved in terms of the goals and plans of the entity.
- In most cases, non-financial indicators include information about employees, but do not cover environmental issues.
- In most cases, non-financial indicators do not include a description of the entity's policy regarding environmental protection issues.
- In case of the absence of non-financial indicators, there is no relevant justification that it is not necessary to disclose them for the understanding activity, condition and development of the entity.



## ❖ Analysis of risks and uncertainties

- In some cases only financial risks are described and strategic, commercial and operational risks are missing.
- In some cases, this component is not presented by business entities in the management reports, although a certain part of it (financial risks) is included in the part of financial reports.
- In most cases, the analysis of risks and uncertainties does not include the risk management objectives, policies and mechanisms for their treatment.
- In most cases, the risk assessment does not include an assessment of the probability of the risk and the possible effects. It also misses information about monitoring of risks and uncertainties by management.



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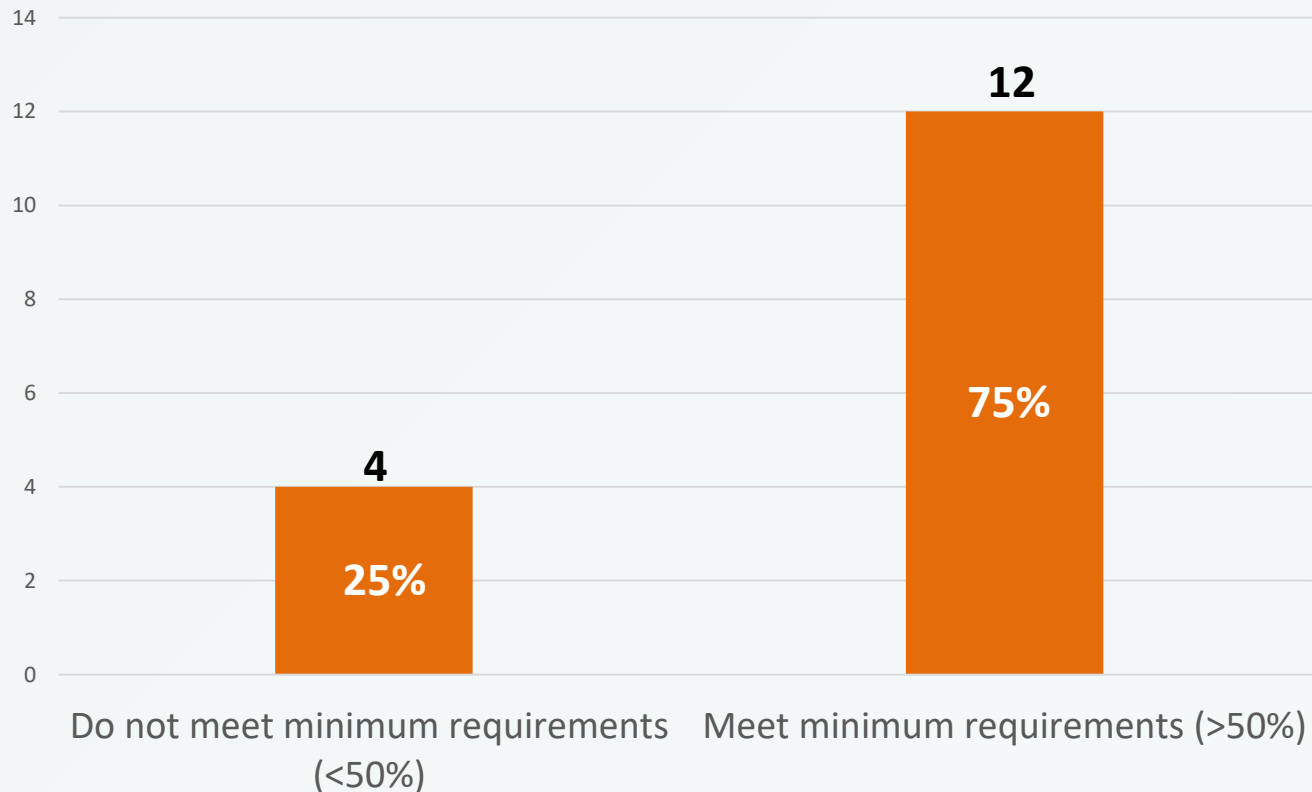
# CG reporting





# CG reporting – Assessment

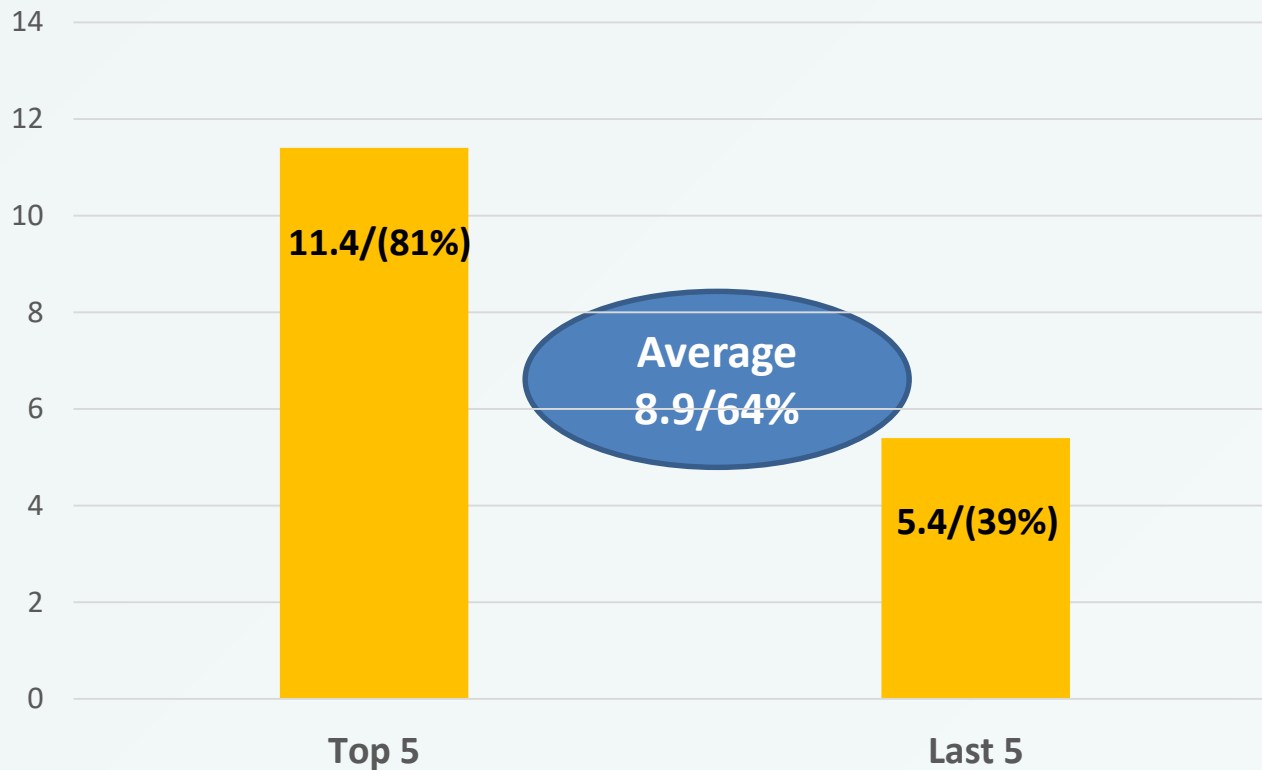
- **12** of the corporate governance reports of the evaluated business entities meet the minimum requirements (evaluation score > 50%)
- **4** of the corporate governance reports of the evaluated business entities do not meet the minimum requirements (evaluation score < 50%)



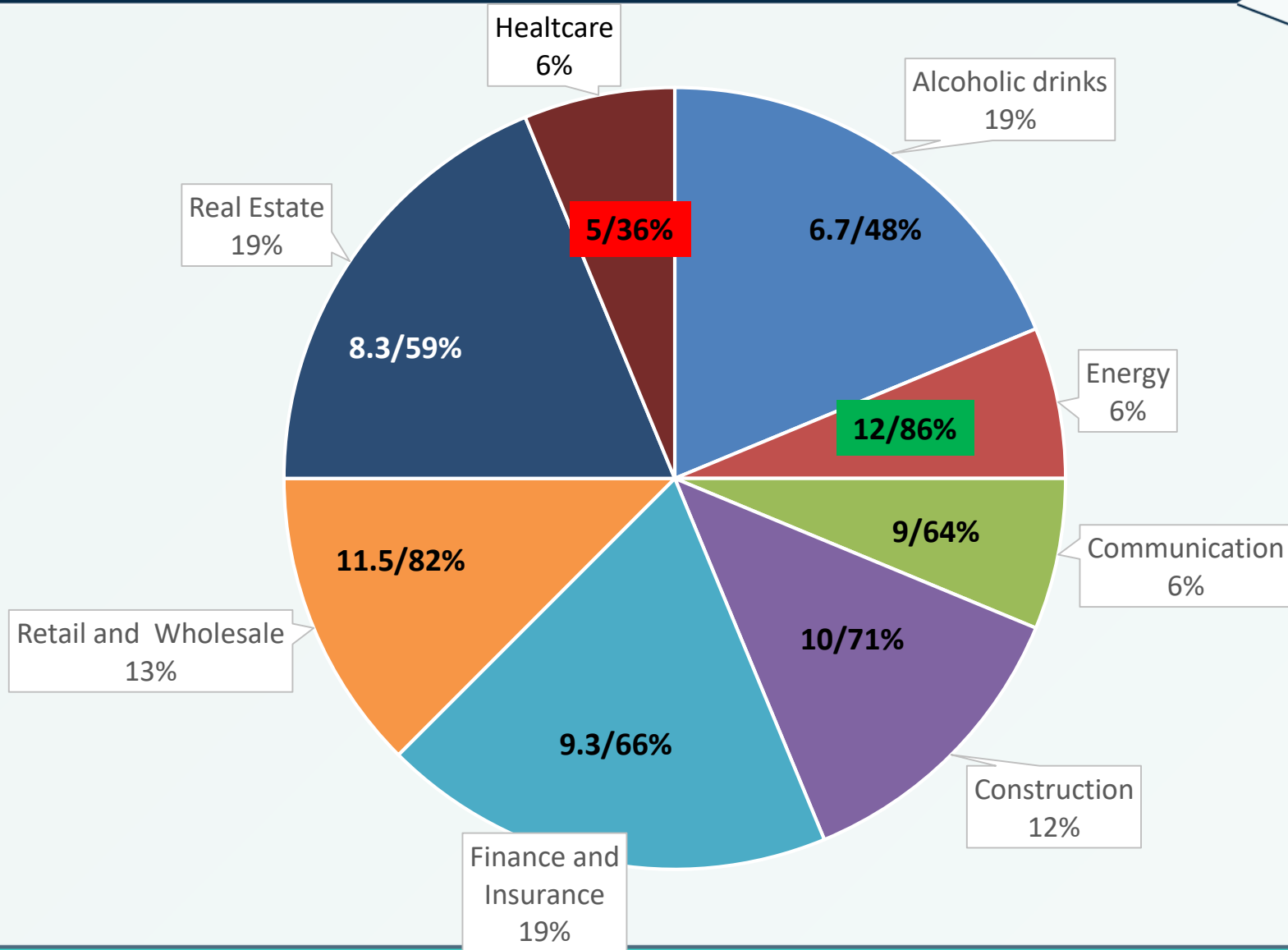


## CG reporting – Assessment

- The average score of the top 5 reports of the corporate governance was **11.4 (81%)**, the average score of the last 5 reports was **5.4 (39%)**.
- The average score of the corporate governance report of business entities was **8.9 (64%)**.

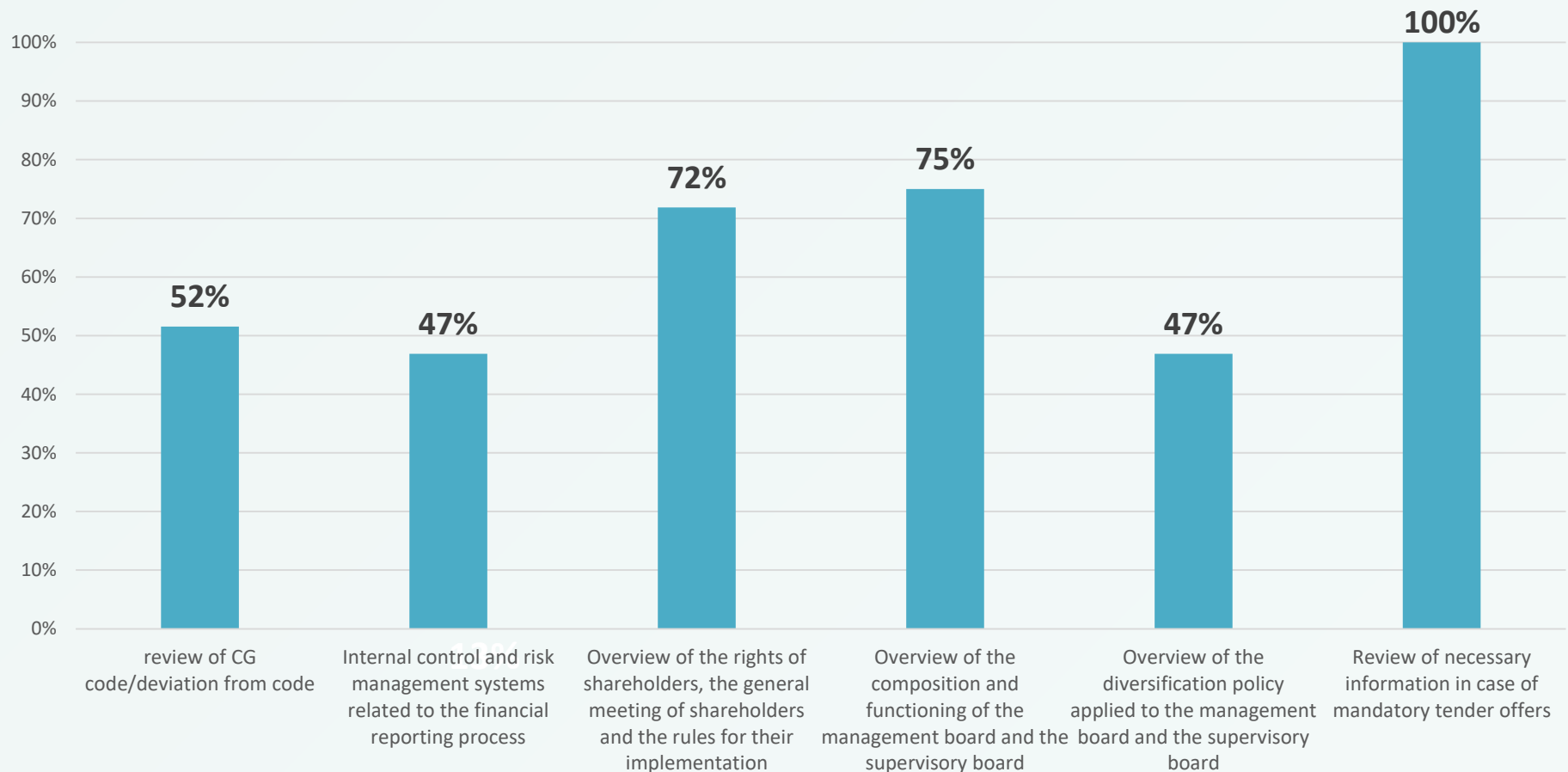


# CG reporting – Assessment (sectors)





## Assessment of corporate governance reports by components





## ❖ General

- In some cases, the instructions and recommendations given in the governance reporting manual developed by SARAS, related to the complete transmission of information about corporate governance, are not taken into account.
- In many cases, the entities do not explain which corporate governance code it uses. Also they do not name which corporate governance practice they rely on. Finally reports miss to indicate where this code is publicly available.
- In most cases, internal control and risk management systems related to the process of preparing financial statements are not presented. Also there is no information about appropriate policies established by the Supervisory Board to achieve control objectives.
- In most cases, there is no description of the systems and processes related to financial reporting.



## ❖ General (continued)

- In some cases, the composition and activities of the management and supervisory board (including independent directors), and their committees are not publicly available.
- In some cases, the criteria for determining the independence of independent directors, the number of board and committee meetings held, brief biographies of directors/board members and relevant procedures for evaluating the board's performance are not disclosed.
- In most cases, the reports do not include an overview of the diversification policy (age, gender, qualifications, etc.) applied to the management board and the supervisory board, and the results achieved in the relevant period. In case of the absence of the mentioned policy, there is no relevant justification that it is not necessary to disclose.





# 3

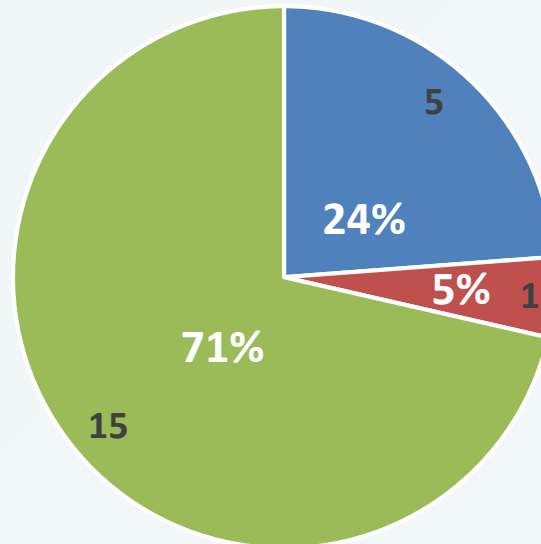
## Non-financial reporting





# Non-financial reporting - Assessment

- **15** non-financial reports of business entities meet the minimum requirements (evaluation score > 50%)
- **1** of the non-financial reports of business entities does not meet the minimum requirements (evaluation score < 50%)
- **5** The business entity has not submitted non-financial reports

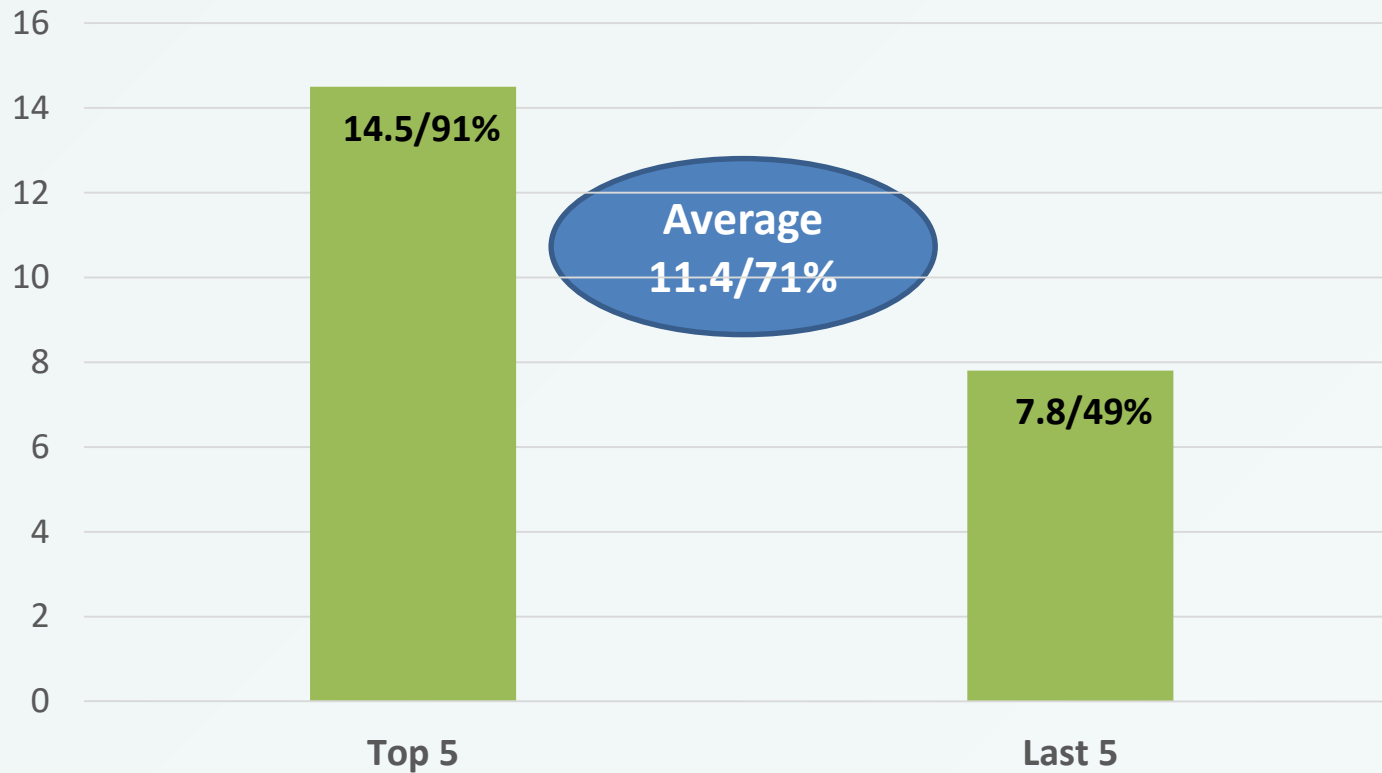


- 5 business entities did not disclose NF reports
- Do not meet minimum requirements (<50%)
- Meet minimum requirements (>50%)



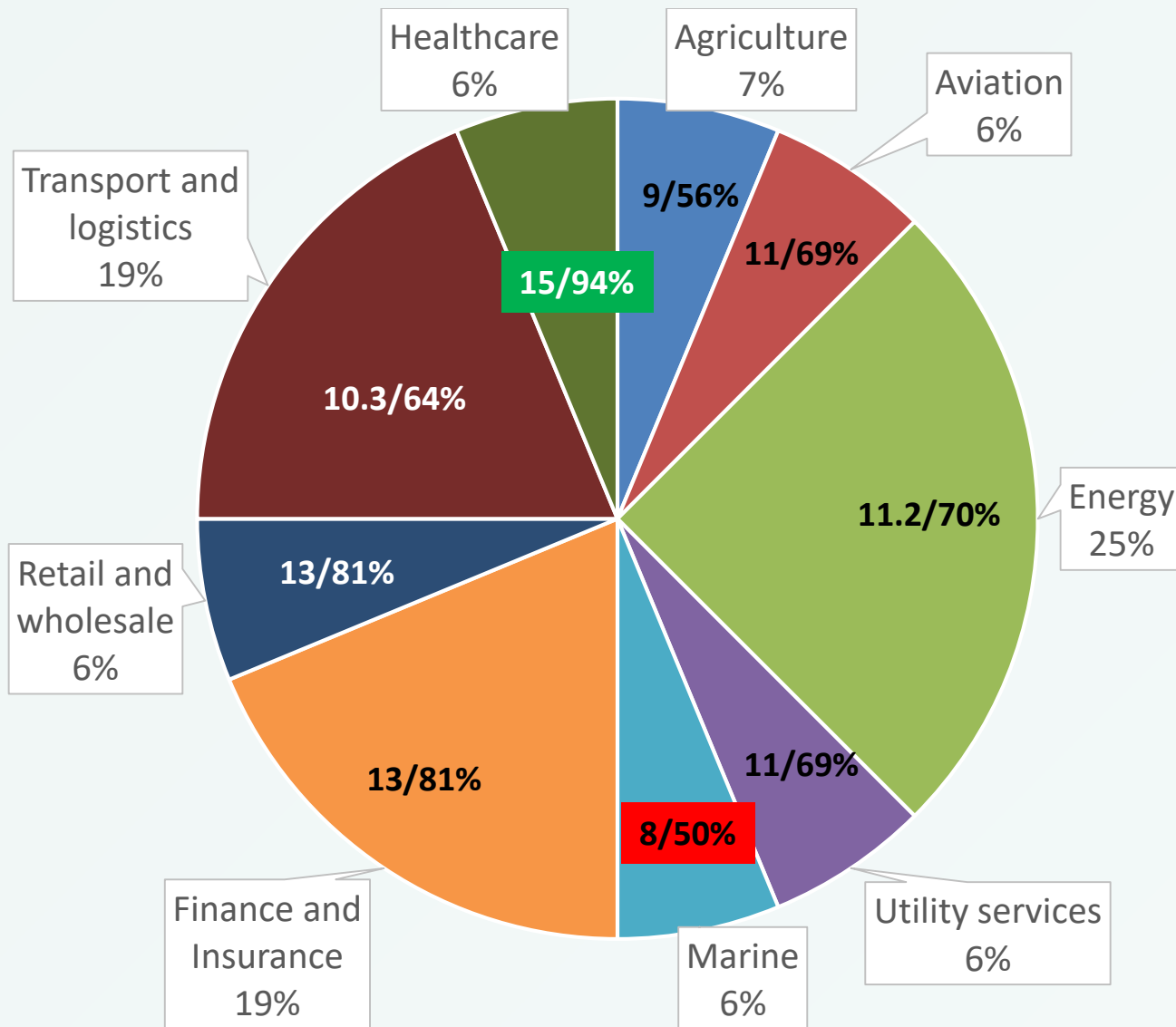
# Non-financial reporting - Assessment

- Average score of top 5 non-financial reports was **14.5 (91%)**
- Average score of last 5 non-financial reports was **7.8 (49%)**
- Average score of all non-financial reports was **11.4 (71%)**



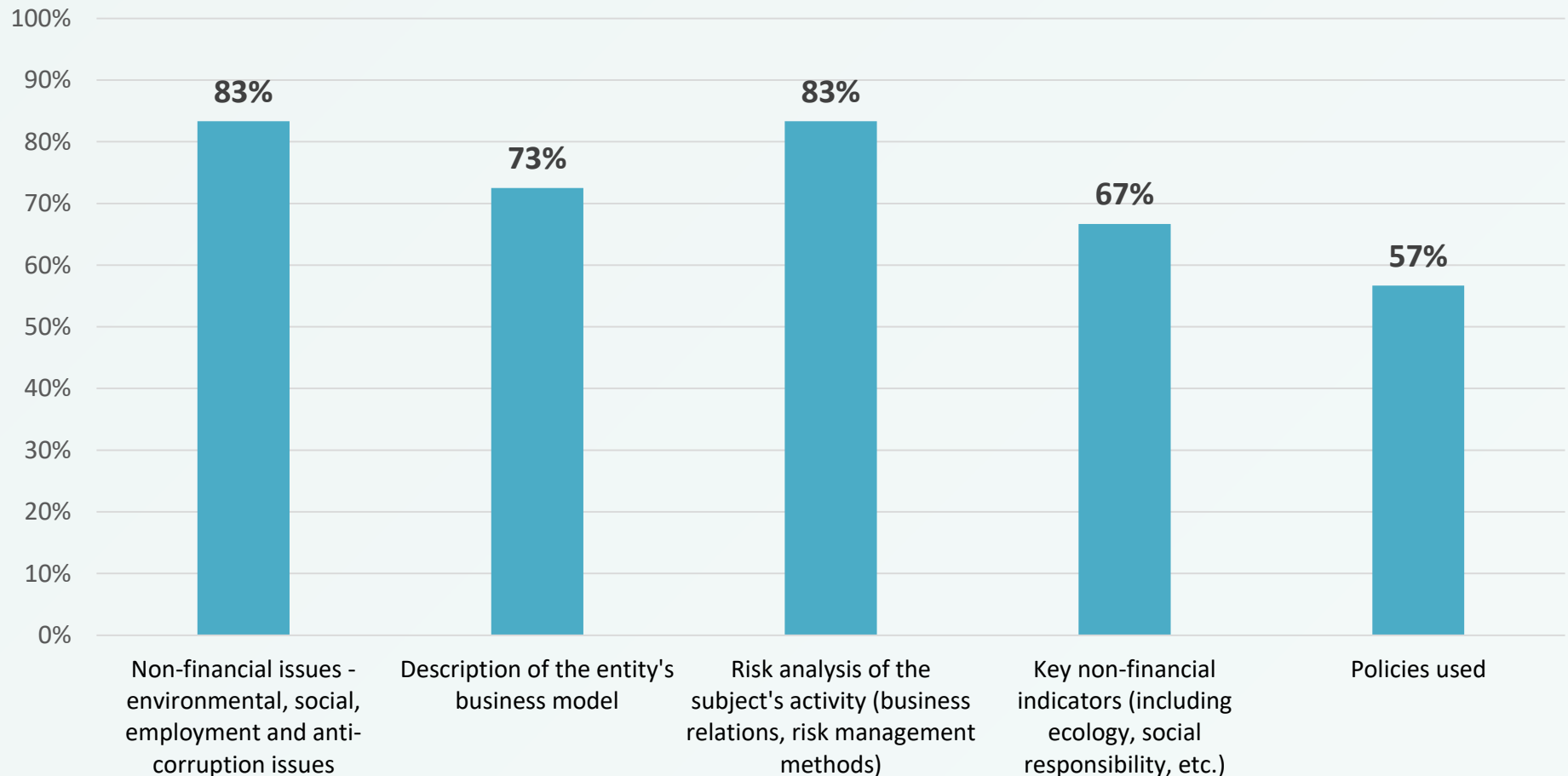


# Non-financial reporting – Assessment (sectors)





## Evaluation of non-financial reports by components





## ❖ General

- Several business entities have not submitted mandatory non-financial reports.
- In most cases, the presented non-financial reports include information on environmental protection, social, employment and human rights protection, but do not include anti-corruption policies and mechanisms.
- In some cases, the presented business models do not fully describe how the entity creates and maintains value in the long term perspective and in many cases the entity describes its business model and main trends without using key performance indicators.
- In most cases, information about the main risks, their management and mitigation is disclosed, but it is not explained how the main risks can affect their business model, operations, financial results, etc.



## ❖ General (continued)

- In some cases, entities do not consider it appropriate to disclose information on the current or possible future impact on the environment, when relevant due to their activities.
- In many cases, the entities disclose the analyze key performance indicators without considering the data collection process and structure. e.g. It does not explain why the main activity indicators increased or decreased in the reporting period and how these indicators can develop in the future.
- In many cases the non-financial reports do not include a description of the implemented policies related to non-financial issues (eg ESG). And if the entity does not have the mentioned policy, there is no clear and reasonable explanation about it.



## Questions from the Audience







# Thanks for your attention!



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*Driving Sustainable Investment*



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