

SERVICE FOR ACCOUNTING, REPORTING AND AUDITING SUPERVISION OF THE MINISTRY OF FINANCE OF GEORGIA

2023 - 2026
STRATEGY

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ABOUT THE DOCUMENT

This document describes the strategic goals of the Service for Accounting, Reporting and Auditing Supervision (hereinafter – the Service) for 2023-2026. It has been prepared with the support of the World Bank and the European Union's Joint Financial Inclusion and Accountability Project. This is the first document of its kind to be published by the Service. It is planned to establish the practice of regularly updating and publishing the said document.

The main purpose of publishing this document is to increase the transparency and accountability of the Service. By clearly articulating and publishing its strategy, the Service will ensure that the public is aware of its objectives and relevant actions, which will facilitate effective communication between the Service and all stakeholders and further deepen confidence in the reform.

The 2023-2026 strategic plan of the Service has been reviewed by the Accounting, Reporting and Auditing Board of the Service, which includes all key parties interested in the reform, including the Ministry of Finance of Georgia, the Ministry of Economy and Sustainable Development of Georgia, the National Bank of Georgia, LEPL – Insurance State Supervision Service of Georgia, the professional society, business associations and academic circles. The Service welcomes feedback from individual members of the profession, regulated entities, other regulators and government agencies in order to consider all valuable and interesting perspectives.

The Service for Accounting, Reporting and Auditing Supervision is a state sub-agency of the Ministry of Finance of Georgia, whose activities are 100% financed from the state budget.

MISSION:

Enhance transparency, quality and reliability of financial and management information for making effective economic decisions through implementation of international standards.

VISION:

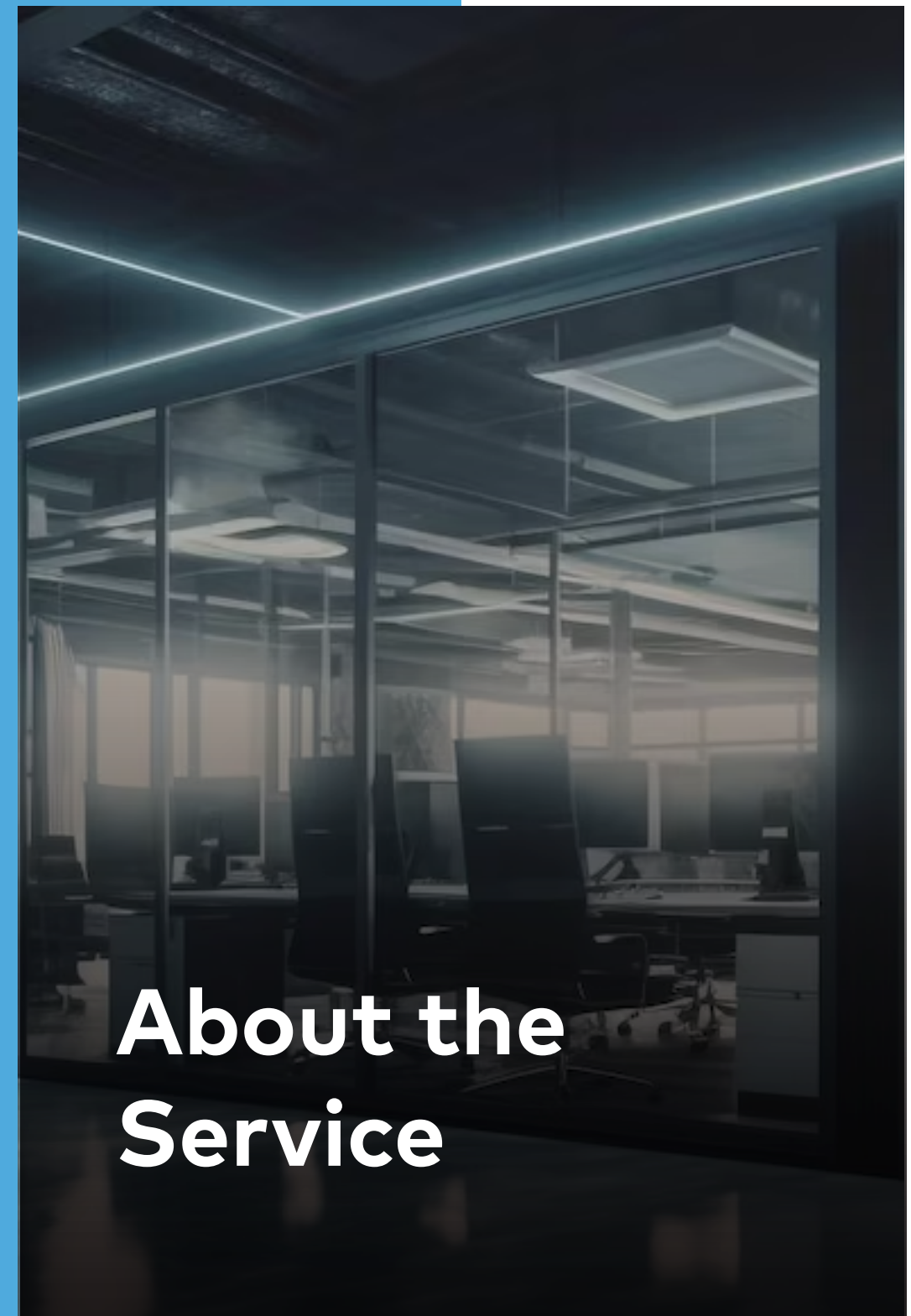
Transparent environment is a precondition for country's development

VALUES:

- be trustworthy, objective and unbiased
- be attentive to needs of the stakeholders and be quick in response
- support learning and quality development
- research and establish best oversight practices
- be open to cooperation to achieve common goals

MAIN ACTIVITIES

The main activity of the Service includes the management of the reporting portal (reportal.ge), checking, with a risk-based approach, the compliance of the submitted statements/reports with the standards and the legislation¹, maintaining registries of auditors and audit firms, monitoring the quality management system of auditors/audit firms, maintaining the registries of certification programs, continuing education programs and examination processes, the supervision of professional education, the management of the registries of certified accountants and accountants providing professional services, the supervision in the direction of combating money laundering and the financing of terrorism, proper administration of all supervisory areas defined by law.



About the Service

¹Order No. N-6 of 21 May 2019 of the Head of the Service for Accounting, Reporting and Auditing Supervision on the Approval of the Rules for User Registration on the Reporting Website, Submission of Reports by Entities and the Publication of the Information Submitted.

The following table shows the main actual and planned indicators of the activities of the Service by areas of supervision:

ACCOUNTING AND REPORTING SUPERVISION

Categories of enterprises	Number of active enterprises (2022)	Submission/ Publication rate (2022)	Submission/ Publication rate (target 2026)	Percentage of statements/reports checked for compliance with the law and the regulation (2022)	Percentage of statements/reports with a "deficient" status after being checked for compliance with the law and the regulation (2022)	Percentage of statements/reports reviewed for compliance with the IFRS standards (2022)	Percentage of statements/reports reviewed for compliance with the IFRS standards (2026)
PIE	135	96%	100%	100%	24%	4%	10%
I Category	134	92%	97%	100%	25%		
II Category	652	93%	97%	100%	24%		
III Category	4,787	95%	96%	- 80%	14%	-	5%
IV Category	91,906	77%	85%	98% Automatic check	1%		-

AUDITING SUPERVISION

Quality management system monitoring

	Number of firms in the registry at the end of 2022	Number of monitorings 2017-2022	Market coverage rate at the end of 2022	Target coverage rate by the end of 2026
PIE firms	14	36	100%	100%
Active non-PIE firms/individual auditors	195	113	58%	89%
Not active non-PIE firms/individual auditors	155	76	49%	100%

MONITORING RESULTS:

	I Category	II Category	III Category	IV Category	V Category	VI Category	Without Category
Number of firms/auditors by the end of 2022	4	10	15	33	52	3	76

CHECKING (INVESTIGATING) THE COMPLIANCE WITH THE REQUIREMENTS OF THE LEGISLATION (STARTING FROM 2023):

	2023	2024	2025	2026
Number of investigations conducted	3	3	3	3

RECOGNITION OF CERTIFICATION PROGRAMS, CONTINUING EDUCATION PROGRAMS AND EXAMINATION PROCESSES

	At the end of 2022	Target number for the end of 2026
Recognition of certification programs	2	6
Recognition of examination processes	1	1
Recognition of continuing education programs	15	27

There are currently 2 professional organisations operating in the country. Each of them submits 1 professional certification programme to the Service for recognition every 3 years. According to this principle, 2 certification programmes were recognised in 2020. Similarly, it is planned to recognise 2-2 programmes in 2023 and 2026.

MONITORING THE COMPLIANCE OF PROFESSIONAL ORGANIZATIONS WITH LEGISLATION

	2020	2024-2026
Monitoring the compliance of the professional organization with the requirements of the legislation	2 monitorings were conducted	2 monitorings will be conducted

ANTI-MONEY LAUNDERING SUPERVISION

	Number of obliged entities at the end of 2022	Number of remote and/or on-site inspections 2023-2026*	Average annual rate of remote and/or on-site inspections*	Market coverage rate by the end of 2026
Accountants providing professional services	500**	235	3%	10%
Accounting firms	1200**			
Certified accountants	335			
Auditors	58			
Audit firms	269			

* Inspections are planned to start from 2024.

** The data presented are based on the information provided by the Revenue Service.

A person is seen from the side, working at a wooden desk. They are using a laptop that displays a website with various news articles and images. To the left of the laptop is a small wooden box. In front of the laptop are several papers, one of which has a bar chart. The background is a plain, light-colored wall.

STRATEGIC GOAL 1

**PROMOTING CAPITAL MARKET DEVELOPMENT AND THE
IMPROVEMENT OF THE ACCESS TO FINANCES**

TASK 1.1

PROTECTING THE INTERESTS OF INVESTORS AND OTHER STAKEHOLDERS BY PROMOTING THE TRANSPARENCY, QUALITY, TIMELINESS AND RELIABILITY OF CORPORATE REPORTING

The Service believes that the availability of transparent, high quality, timely and reliable corporate information in a single, centralized space increases the confidence and security of investors, creditors and other interested parties, thereby contributing to the development of the capital market and improving access to finances for enterprises.

TRANSPARENCY OF CORPORATE REPORTING

Within the framework of the reporting and auditing reform, which has been underway since 2016 on the basis of the Association Agreement with the European Union, a number of enterprises operating in Georgia are required to submit/publish corporate reports on the reporting portal (www.reportal.ge). In particular, PIEs and I category enterprises/groups are required to submit/publish audited financial statements and management reports prepared in accordance with the IFRS standards, II category enterprises/groups are required to submit/publish audited financial statements and management reports prepared in accordance with the IFRS for SMEs standards, III category enterprises/groups are required to submit unaudited financial statements prepared in accordance with the IFRS for SMEs standards, and IV category enterprises are required to submit/publish financial statements prepared in accordance with simplified reporting standard created by the Service. Enterprises/groups are authorized to submit/publish reports according to the requirements of higher categories.

In 2022, the rate of submission of statements/reports for PIEs, I, II, III category enterprises was 94%, and taking into account IV category enterprises - the rate was 78%. In total, 2021 statements/reports were submitted by up to 77 thousand enterprises. By 2026, through a series of measures, it is expected to increase the submission rate to 95% for PIEs, I, II, III category enterprises, and by taking into account the enterprises of the IV category - up to 85%. In order to achieve this growth, it is very important that representatives of enterprises and all other parties involved in the reform have a good understanding of the long-term benefits of this process and of the reform in general. In order to raise public awareness in this direction, the Service will continue to actively organize targeted events and identify and share interesting international experiences.

REVIEW THE COMPLETENESS OF THE STATEMENTS/REPORTS AND THEIR COMPLIANCE WITH THE LAW

Despite the fast pace of reform and the high submission rate, the quality, reliability, timeliness and frequency of submission by enterprises still remain a challenge, according to key stakeholders.

In order to ensure the completeness of the submitted statements/reports and their compliance with the law, the Service reviews selected statements/reports using a risk-based approach to determine their compliance with the law. The process involves reviewing the selected statements/reports individually for completeness, including their compliance with the requirements relating to the application of relevant standards, the submission of management reports, and auditing and other requirements. It should be noted that the review of the statements/reports submitted by PIEs, I and II category enterprises/groups is complete, the review of the statements/reports submitted by III category enterprises/groups is selective, and the basic check of the statements/reports submitted by IV category enterprises is carried out during the submission process, automatically by the system, with pre-defined controls.

The table below summarizes the percentage of submitted statements/reports that were given a status "deficient":

	2020	2021
PIE	26%	24%
I Category	27%	25%
II Category	26%	24%
III Category	22%	14%
IV Category	2%	1%

A reduction in the percentage of statements/reports with a "deficient" status is a healthy process that indicates an improvement in the quality of compliance of the submitted statements/reports with the law and regulation. In addition to reviewing submitted statements/reports, the Service will continue to actively engage in targeted meetings with company representatives to facilitate their compliance with legal requirements. In addition, the Service regularly publishes instructional videos on the reporting portal and on social networks (including its own YouTube channel) detailing the legal requirements, including in relation to the preparation/submission of statements/reports.

REVIEW OF COMPLIANCE OF STATEMENTS/REPORTS WITH THE REPORTING STANDARDS

In order to promote the growth of the quality and reliability of the submitted statements/reports, starting from 2020, the Service, on the basis of a risk-based approach, selects statements/reports and reviews them for their compliance with the financial reporting standards. It should be noted here that, according to the law, the enterprise itself is responsible for the preparation and submission of quality financial statements. The service provides the enterprise with a written list and description of discrepancies found during the review, which must be taken into account in the financial statements of the current or next year, according to the instructions. In order to increase transparency and simplify the above process for enterprises, the Service publishes annually the review priorities for the following year, describing the criteria by which the Service will select the statements/reports submitted and published by enterprises for review, and the process the enterprises must follow to correct the identified deficiencies.

The Service reviewed a total of 93 statements/reports in 2020-2022. Every year, the Service reviews 4% of the total population of PIEs, I and II category enterprises, while the reports/statements of the third and fourth category enterprises' are not reviewed. By 2026, the Service plans to gradually increase the annual rate from 4% to 10% and for the third category enterprises to 5%. In order to share the experience gained in this process, the Service publishes an annual document describing the main non-conformities identified as a result of the review. The publication of this information helps to improve the quality of the compliance of the submitted statements/reports with the standards.

TIMELINESS AND FREQUENCY OF SUBMISSION OF SUBMITTED/PUBLISHED STATEMENTS/REPORTS

The law requires entities to submit statements/reports as soon as they are available, immediately, but no later than 9 months after the end of the reporting period. Currently, the majority of enterprises submit their reports at the end of the term defined by the law.

SUBMISSION DYNAMICS FOR THE 2021 REPORTING PERIOD



SUBMISSION DYNAMICS FOR THE 2020 REPORTING PERIOD



The timeliness of statements/reports is extremely important for the development of the capital market and for improving access to finances. This is particularly true for financial institutions in the loan approval/disbursement process, where the age of the information used should not exceed 6 months. In order to make published statements/reports more useful to their users, the Service plans to encourage early reporting as well as the voluntary submission of semi-annual statements/reports through a number of measures.

STATUTORY AUDIT AND SUPERVISION OF AUDITORS

Within the scope of its powers as defined by law, the Service ensures the maintenance of the registry of auditors/audit firms, the implementation of international auditing standards, the monitoring of the quality management system of auditors/audit firms. It also investigates audit firms and imposes sanctions in case of non-compliances.

By law, PIEs, I and II category enterprises are required to attach the auditor's report to their financial statements. An independent audit ensures the reliability of reporting and acts as a trustworthy link between information producers and information users.

Audits in Georgia are conducted in accordance with international auditing standards, and only auditors registered in the relevant Registry of the Service have the right to conduct audits.

REGISTRY OF AUDITORS AND AUDIT FIRMS

Since 2016, the Service has been maintaining a unified state registry of auditors and audit firms authorized to perform audit activities in Georgia. By the end of 2022, 264 audit firms and 439 auditors (including 102 individual auditors) were registered in the registry. The registry contains information on revenues, number of employees, results of quality monitoring, professional insurance, certification, ownership, which helps interested parties to select reliable and qualified professionals or to establish selection criteria.

It should be noted that since 2018, the Service has been a member of the International Forum of Independent Audit Regulators (IFIAR), which allows it to carry out monitoring in accordance with international practice. By the end of 2022, as a result of the quality control system monitoring (since 2023 - quality management system monitoring), the Service identified 14 audit firms authorized to audit PIEs, representing 77% of the audit services market. The monitoring also identified 15 audit firms of the third category, which are also highly trusted by the public and are authorized to carry out audits of all categories of enterprises, except PIEs, without any restrictions. These firms account for 8% of the audit services market.

On average, PIE-authorized audit firms are monitored once every 3 years, while other audit firms are monitored on average once every 6 years. Over the last 6 years, the Service has conducted 225 monitorings. In total, 193 firms have been monitored. As a result, the current distribution of the qualitative categories is as follows: there are 4 audit firms in the first category, 10 firms - in the second category, 15 firms - in the third category, 33 firms - in the fourth category, and 52 audit firms - in the fifth category. The sixth qualitative category, i.e. cancellation of registration, affected 3 audit firms. In the case of 76 audit firms, the quality assessment could not be carried out due to an insufficient number of audit engagements, resulting in the status "without category" for these firms.

By the end of 2022, monitoring covered 100% of PIE firms, 58% of active non-PIE firms, and 49% of not-active non-PIE firms. By the end of 2026, the plan is to cover 100% of PIE firms, 89% of active non-PIE firms, and 100% of not-active non-PIE firms.

Taking into account the results of the monitoring, in order to promote the quality of statutory audits, the Service plans, in the medium term, to introduce the practice of disclosing the current audit quality indicators for a given stage of market development by audit firms authorized to perform PIE audits, as well as to promote quality-based competition. In addition, the Service plans to promote the process of remediation of identified deficiencies in the quality management system of PIE and non-PIE (third category) authorized audit firms in order to further improve audit quality.

In addition, it is worth noting that professional organizations have a positive impact on the professional skills of accountants and auditors around the world and on the quality of services. Their recognised mission is to serve the public interest, strengthen the accounting/auditing profession and contribute to the strengthening of the economy. The strategic goal of the Service is to support professional organizations in developing a sustainable system of governance. The Service is considering delegating to the professional organizations the authority to conduct monitoring of the firms authorized to carry out non-statutory audits.

IMPLEMENTATION OF AUDITING AND FINANCIAL REPORTING STANDARDS

Since its establishment, the Service has been translating and implementing International Financial Reporting Standards (IFRS and IFRS for SMEs standards) and International Standards on Auditing (ISAs) in accordance with its legal obligations. In order to perform this function effectively and to ensure quality, the Service has established a working group (Expert Committee) for the promotion and evaluation of the translation of International Financial Reporting Standards (IFRS), as well as a working group (Expert Committee) for the quality assessment of the translation of International Standards on Auditing and Code of Ethics, which play an important role in the process of translating the standards and establishing financial terms. The refinement of financial terms is an ongoing process in which the committee members are actively involved and final decisions on terms are taken through electronic/software voting. As part of this process, the Service is simultaneously building a terminology database, which helps simplify the translation process and ensures accurate and consistent use of terminology, thereby improving the overall quality of the translation.

With funding from donor organisations and with the involvement of international experts, the Service developed the Financial Reporting Standard and self-study guide for IV category enterprises in 2018 and updated it in 2022. The standard is in line with the requirements of European directives and takes into account international best practice. In order to support enterprises and facilitate the process of implementing the standard, a working group on the interpretation of the said standard was established by the order of the Head of the Service, which participates in answering questions about the standard, in solving the challenges identified in the implementation process and in the need for amendments. According to the Service, it is important that the financial reporting standard of the fourth category enterprises is dynamic and responds to the changing needs of enterprises and reporting users and international practice, although its changes should not be frequent.

It should be noted that the disclosure of corporate information, in particular the implementation of the corporate sustainability reporting standard, will be mandatory in the European Union from 2023. As part of the dynamic approximation process, the Service plans to take appropriate steps in this direction, which will be discussed in detail in Task 2 of Strategic Goal 3.

To facilitate the standard implementation process, the Service regularly organises events on relevant topics for both enterprises and their auditors, and considers this a priority for the future.

The IFRS Foundation plans to update the IFRS for SMEs standard by 2025. In order to facilitate the implementation process of the updated standard, the Service plans to update the relevant training/guidance material and actively organise thematic meetings with enterprises and auditors.

TASK 1.2

INCREASING ACCESS TO CORPORATE INFORMATION

Timely and quality processing of the statements/reports submitted to the Service and published on [reportal.ge](https://rms.reportal.ge/) is very important, not only for the Service, but also for all interested parties in the process of making informed economic decisions. The timely provision by the Service of corporate information/information base in a convenient format to the interested parties (including potential investors/creditors) is a crucial prerequisite for them to make effective and correct economic decisions, which contributes to the development of the capital market in the country and increase of access to finances.

FORMAT AND AVAILABILITY OF STATEMENTS/REPORTS SUBMITTED TO THE SERVICE

Enterprises submit their statements/reports electronically via the reporting portal (<https://rms.reportal.ge/>) PIEs, I, II and III category enterprises/groups submit the statements/reports in PDF format and in addition the main components of the statement/report are submitted digitally in the standard forms developed by the Service, according to the relevant category and standard. In addition, the auditor electronically confirms the compliance of the audited statements/reports submitted by PIEs, I, II category enterprises/groups. The submission of financial statements of IV category enterprises is done in a fully digital format based on the digital forms of financial statements as defined by the standard.

The statements/reports submitted by enterprises are published on the reporting portal ([Reportal.ge](https://rms.reportal.ge/)) and are available to any interested person. An exception to this is the statements/reports of IV category enterprises, to which the interested persons is granted access in accordance with the requirements of the law if the enterprise gives its consent.

In addition, the Service processes the information submitted digitally by the entities for interested parties in an appropriate format and makes it available to institutional users or researchers for further processing. These include commercial banks, supervisory and administrative bodies, investment companies, credit rating agencies, consulting and analytical firms, representatives of the academic sector, and others. The Service has already shared these bases with more than 120 interested persons.

The Service plans to deepen cooperation with interested parties, in particular the banking sector and credit information bureaus, so that they can effectively process and use financial information to promote the growth of access to finances.

COMPLETE DIGITALIZATION OF STATEMENTS/REPORTS | XBRL STANDARD

In order to improve the quality of the statements/reports submitted to the Service and to simplify their processing/exchange, it is very important to fully digitize the statements/reports and to introduce a digital reporting standard in the country. To this end, on the initiative of the Service and with the financial support of the STAREP program of the World Bank's Eastern Partnership, a feasibility study on the implementation of the digital reporting standard (the so-called XBRL standard) was carried out, the results of which showed that the implementation of this standard and the digitalization of statements/reports will contribute to increasing the quality of reporting and will significantly simplify its processing by interested parties, including potential investors. Therefore, in the coming years, we plan to raise the awareness among companies in this direction and start the process of introducing the mentioned standard.

The introduction of this standard will improve the quality and reliability of public information and promote cooperation with other agencies through the "single window principle".

SINGLE WINDOW PRINCIPLE

The Service is involved in the optimization of administrative processes and successfully cooperates with a number of agencies through the so-called single window principle. This means that information submitted by enterprises in one structure is passed on to other agencies within the limits of the law and in compliance with confidentiality requirements. The single window principle makes it easier for enterprises to submit information to different agencies and avoids duplication of information, which ultimately ensures the efficiency of the administrative process and reduces the burden on the private sector related to the submission of information.

In order to promote this principle, it is important to prepare the so-called "Country Reporting Map" of the statements/reports to be submitted by the private sector, i.e. to record and compile in one document the information/reports to be submitted by the private sector and the information on the relevant responsible agencies throughout Georgia. This map will identify duplication in the submission process and highlight opportunities for process optimization.

As part of this principle, we successfully cooperate with various agencies, including regulators, "Enterprise Georgia", the Revenue Service, the Public Registry and other state agencies, with which public information is shared electronically. The Service is open and continues to work in this direction with interested parties.



STRATEGIC GOAL 2

INCREASING CONFIDENCE IN THE PROFESSION

TASK 2.1

PROMOTION OF COMPLIANCE WITH INTERNATIONAL STANDARDS AND SELF-DEVELOPMENT

The audit profession plays an extremely important role in the process of attracting investments and developing the economy, as it is the assurance provided by the auditor that makes the financial statements reliable and attractive for investment. For investors to be confident about investing in enterprises, they need to have an appropriate level of confidence in the audit services provided in the country.

We believe that the main basis for gaining/increasing confidence is the quality of the service provided - the higher the quality of the service, the higher the confidence in it. This is the main objective of the regulation of the profession - to promote the quality of the services provided by the profession and, as a result, to increase the public confidence in those services.

Based on the results of the audit quality monitoring, it can be seen that despite the availability of international standards regulating professional activities (International Standards on Auditing, Code of Ethics, Quality Management Standard) and the trainings provided by professional organizations, increasing professional competence and continuous development in the field of auditing still remains the main challenge, which naturally has a negative impact on confidence in the profession. On this basis, the Service plans to take steps to further improve the quality of audit services.

UPDATING THE EXISTING QUALITY EVALUATION SYSTEM

In the medium term, on the basis of legislative changes, the Service plans to modify the existing evaluation system, which, six years after the start of the reform, has achieved its main objective - to calibrate most of the participants in the audit services market according to the main range of quality levels and to set the main direction of qualitative correction. The new, simplified evaluation system will, on the one hand, contribute to the complete elimination of inappropriate audit quality practices, and on the other hand, it will provide an additional impetus for healthy competition among firms with high level of quality.

Under the new evaluation system, the first and second quality categories will be merged into one group "authorized to audit PIEs". The purpose of this merging is to increase confidence in relatively small but high quality firms (currently II category firms), as past monitorings have shown that the second category firms have the quality of activity to meet the requirements of the PIE audit. It should be noted, however, that the minimum quality requirements for obtaining/maintaining the authority to audit PIEs will be increased, which will only ensure increased confidence in the future under conditions of improved quality.

Under the new evaluation system, the 3rd and 4th quality categories will also be merged into the group "authorized to carry out statutory audits" (except PIEs). In this group, too, the quality requirements will be increased and the minimum quality requirement to obtain/maintain this category status will be the same as for the current third category.

The current 5th quality category will be defined as "authorized to carry out non-statutory audits", which implies a complete restriction of access to audits of PIEs, I and II category enterprises and groups. Firms in this group will be given a reasonable period of time to improve their quality - they will have to demonstrate a specific action plan and motivation for doing so, otherwise the registration of such firms/auditors will be cancelled.

Similarly, firms with no audit engagements and with the "without category" status, (based on relevant legislative changes) will be given a reasonable period of time to make quality disclosures. If they fail to do so, they will be transferred to the non-statutory category and deleted from the registry if no progress is made.

MAINTENANCE OF A RESPONSE (INVESTIGATION) SYSTEM TO COMPLAINTS RECEIVED BY THE SERVICE CONCERNING THE AUDIT QUALITY

In addition to the monitoring of the quality management system, an important lever for quality improvement is the conduct of investigations of auditors/audit firms, which serves to determine the compliance of auditors/audit firms with the legislation regulating the field and to control the verification of the correctness of the information in the registry. Through investigations, the Service aims to detect violations of the law, to maintain a response (investigation) system (to protect the rights of third parties) to complaints received by the Service regarding the quality of the audit and to prevent risks/violations of the law. In order to carry out an effective investigation, the Service may also carry out an on-site inspection of a person on the basis of a court order, which is a more effective means of proceeding and detecting violations.

FURTHER DEVELOPMENT OF AN EFFECTIVE SANCTIONING/ENFORCEMENT SYSTEM

The legislation of Georgia in the field of audit is based on the relevant laws, directives and regulations of the European Union. The minimum standard established by the Directive is the authority of the state to impose sanctions, the effective application of the norm within the said authority and the publication of imposed sanctions. The administrative liability in the field of audit for violation of the requirements established by the legislation of Georgia is defined by the law, and based on its comparison with the Directives, we can say that the minimum standards in relation to sanctions, which the Directive defines for the EU Member States, have already been implemented at the legislative level of Georgia. In Georgia, the state (supervisory body) has the function of imposing liability for violations in the field of audit. With regard to the requirement to the field, regarding the effective application of the norm within the scope of its authority, the Service has initiated the processes for the further development of an effective sanctioning/enforcement system.

PROMOTING INTEREST IN THE PROFESSION

In addition to the measures listed above, the Service also plans to take steps to improve the quality of audit services and thereby increase confidence in the profession, such as: initiating a new national educational standard for higher education institutions, recognizing (as a result of the cooperation with the Center for Educational Quality Enhancement) the subjects implemented in accordance with the educational standard established by universities in order to obtain credits in the professional certification process; promoting the growth of the professional education level of small audit firms and beginning auditors in cooperation with donor organizations by conducting relevant trainings and seminars by international experts; ensuring compliance with new international quality management standards by optimizing the monitoring process.

The Service actively participates in the council of the Center for Educational Quality Enhancement in order to define the industry characteristics in the field of accounting and auditing, which in turn defines the minimum requirements necessary for the accreditation of accounting and auditing programs. The educational course created in accordance with these characteristics will allow students to have the subjects studied at universities recognized as part of their professional certification. Work is also underway to amend the legislation to include auditing in the list of regulated professions, which will make the requirements of the current professional certification standard mandatory for universities. The employment prospects of students will improve accordingly. We believe that these initiatives will help to increase the interest of the younger generation in the accounting and auditing profession.

TASK 2.2

ENSURING THE INVOLVEMENT OF THE PROFESSION IN THE FIGHT AGAINST MONEY LAUNDERING

For the purposes of the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing, since 2019, the Service has been defined as the supervisory body for the obliged entities. As of 2023, the obliged entities are certified accountants, accountants providing professional services, accounting firms, auditors and audit firms. Accountants providing professional services and accounting firms, in accordance with international standards, have been defined as obliged entities accountable to the Service in 2022.

In order to facilitate the fight against money laundering and terrorism financing and the elimination of predicate crimes, as well as for the reputational and financial well-being of the sector, it is important to strengthen the oversight of the sector, which is manifested in the identification of accountants providing professional services and accounting firms, in raising the awareness among obliged entities, and in ensuring risk-based oversight by the Service.

ESTABLISHING A LEGAL FRAMEWORK THAT MEETS INTERNATIONAL STANDARDS

The purpose of the Service is to facilitate the fulfilment of the tasks imposed by the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing in order to create an effective legal mechanism for the detection and prevention of money laundering and terrorism financing. To this end, a complete legal framework will be developed in line with the recommendations of the Financial Action Task Force (FATF) and the Euro Directives. It is also important to provide appropriate guidance to the obliged entities to ensure better compliance with legal requirements.

Within the legal framework, the Service will consider issues such as the maintenance of registries of obliged entities, their continuing education, AML/CFT risk analysis, compliance control system, understanding of the customer's ownership and control structure, identification/verification of a beneficial owner by the obliged entities and remote/on-site inspections.

It is therefore important for the Service to create a legal framework by issuing legal acts, recommendations and guidelines that are in line with the recommendations of the Financial Action Task Force (FATF) and the requirements of the European Directives.

REGISTRIES OF OBLIGED ENTITIES SUBJECT TO THE OBLIGATION TO COMBAT MONEY LAUNDERING

In order to promote awareness and effective supervision in the direction of prevention of money laundering and terrorism financing, the Service ensures the identification of obliged entities, which is manifested in the maintenance of registries of accountants providing professional services and accounting firms, together with the existing registries of certified accountants, auditors and audit firms.

Registries of auditors and audit firms have been established since 2016. Since 2020, a unified registry of certified accountants has been created and published on the website of the Service. This ensures that certified accountants and auditors/audit firms are informed, through their continuing education, including in the area of money laundering.

In 2023, the state registries of accountants providing professional services and accounting firms were created, which allows for the continuous identification and registration of obliged entities subject to supervision. The purpose of the registries is, on the one hand, to raise the awareness of obliged entities and their compliance with the law and international recommendations and, on the other hand, to ensure proper risk-based supervision by the Service through effective legal mechanisms.

The service ensures, as necessary, that the level of awareness of obliged entities is raised by conducting awareness-raising activities/events, as well as by establishing requirements for and promoting the possibility of receiving continuing education.

ENSURING THE COMPLIANCE WITH LEGAL NORMS BY OBLIGED ENTITIES

Against the background of the legal framework established in accordance with international standards and the increased awareness of obliged entities, the Service aims to implement supervision with a risk-based approach, which will be ensured by remote and/or on-site inspections in accordance with the legislation.

Taking into account the resources of the Service, within the framework of risk-based supervision, it is planned to carry out remote and on-site inspections of approximately 10% of the population of the obliged entities by 2026.

In order to carry out the above-mentioned tasks effectively, the Service is committed to improving the skills/qualifications of its staff and keeping them up to date with innovations in the field.

For the purpose of supervising the prevention of money laundering and terrorism financing, the Service actively supports the process of digitalization and carries out relevant activities within its competence to ensure this.

A blurred background image of a business meeting. Several people are gathered around a table, looking at documents and a laptop. A hand in the foreground holds a green pen, pointing towards the documents. A white mug is visible on the table. The overall scene is professional and collaborative.

STRATEGIC GOAL 3

GRADUAL AND DYNAMIC APPROXIMATION TO THE EU
LEGISLATION

TASK 3.1

TRANSPOSITION OF EU REGULATIONS IN THE GEORGIAN LEGISLATION AND GRADUAL APPROXIMATION

Following the partial entry into force of the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part, in September 2014, the legislative activity in the field of accounting and auditing required the realisation of the realities related to the process of legal approximation, as well as the consideration and integration of individual details in the legislative activity.

Since the Association Agreement clarified the two main principles of approximation of the Georgian legislation with the EU legislation - gradual approximation and dynamic approximation - both principles were an action plan for the Service from the initial stage of the reform (since 2016) in order to introduce the EU standards of the accounting and auditing sphere into the legislation of Georgia and to carry out a number of effective reforms. Therefore, the current edition of the law regulating this field also mentions that the promotion of financial transparency and economic growth should be done by approximating to the requirements of the relevant EU directives regulating the accounting and auditing processes.

If we compare the legislation in the field of accounting and auditing as of 2023 with the EU regulatory directives and regulations in the same field, we can safely say that the country has made progress in all the main directions of strengthening the field. However, since every reform in the country requires the revision of legal norms as a result of the analysis of practice, and taking into account that the Directive is a document setting minimum standards and gives the country the opportunity to adopt higher standards in accordance with the objectives of the Directive, the Service's agenda is to constantly analyze and implement necessary changes to the legal acts being in force in the country.

In order to analyze the legal acts and identify possible inconsistencies with the regulatory acts of the European Union, the Service has implemented a number of projects, in particular, the Twinning Project funded by the European Union - Enhancing Accounting and Audit Quality in Georgia - which aimed to support the Service for Accounting, Reporting and Auditing Supervision in increasing financial transparency in Georgia and facilitating the adoption of effective economic decisions. The partners of the project were: the Centre of International and European Economic Law, founded in 1978, which has successfully implemented dozens of twinning projects since 1998, and the Hellenic Accounting and Auditing Standards Oversight Board (HAASOB). As part of this international cooperation, a thorough analysis of the shortcomings of the national legislation was carried out, a list of changes to be made to the legislation was drawn up, and a Regulatory Impact Assessment (RIA) was prepared, which helped the Service to form future visions.

The meeting of the EU-Georgia Association Agreement Sub-committee, held in July 2022, is evidence of this. The reform of accounting, reporting and auditing was generally considered successful by the representatives of the European Commission, and the obligations assumed under the Association Agreement - fulfilled in all key aspects. At the same time, however, based on the requirement of the dynamic approximation, the Georgian side will have the obligation to incorporate new emerging European directives and regulations into the Georgian legislation.

As the new European perspective requires Georgia to fully transpose EU legislation, the Service, in cooperation with the private and public sector, has already started to analyze the recommendations presented in the analytical report prepared by the European Union. This process will help the Service to ensure the development of the integration processes of the Service with the European structures operating in the field of accounting and auditing, the approximation and harmonization of legal systems, and the conformity of legislation in the field of accounting and auditing with the principles recognized by the European Union.

At the current stage, for the purpose of gradual approximation, with the help of cooperation with relevant European structures and experts, it was considered appropriate to separate several issues and prepare relevant legislative changes in an accelerated timeframe so as not to jeopardize the implementation of the accounting and auditing reform in Georgia:

At the initial stage, it is planned to implement Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("on specific requirements regarding statutory audit of public-interest entities ") into the legislation of Georgia. In order to implement the aforementioned objective, the Service has already initiated the relevant processes to implement legislative changes, namely the Service has developed draft laws "On Amendments to the Law of Georgia on Accounting, Reporting and Auditing" and "On Amendments to the Law of Georgia on Entrepreneurs". The amendments resulting from Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 concern such important issues as the introduction of the obligation to submit a transparency report for audit firms, as well as the issue of prohibition of providing non-audit services by audit firms, which directly poses a threat to the independence of persons providing services to Public Interest Entities.

The Service aims to carry out ongoing public consultations with interested parties, including professional circles and educational institutions.

TASK 3.2

DYNAMIC APPROXIMATION

According to the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part, ratified in 2014, a dynamic approximation of the legislation should be implemented. In the framework of the European perspective given to Georgia, the process of dynamic approximation has become more important. In order for Georgia to comply with the legal requirements of the European Union (EU acquis) for the purposes of presentation and publication of financial and non-financial statements/reports, it is important to harmonize the local legislation with the amendments made in the Directives 2013/34/EU and 2006/43/EC.

COUNTRY-BY-COUNTRY (CBC) REPORTING REQUIREMENT

An amendment to Directive 2013/34/EU, which was adopted on 24 November 2021, concerns the obligation to disclose income tax information. This requirement applies to enterprises whose turnover in the last two reporting periods, within the framework of consolidated reporting, amounts to 750 million euros or more. They shall disclose income tax information in their financial statements.

The Service plans to initiate changes and incorporate relevant requirements into legislation, as well as to raise awareness among stakeholders, accountable enterprises, on the issues of preparation and submission of reports related to income tax. It should also be noted that the Service has initiated a twinning project with the European Union, within the framework of which the Service will share European best practices on the preparation and submission of income tax reports.

CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD) REQUIREMENT

From 5 January 2023, the Corporate Sustainability Reporting Directive (CSRD) came into force, replacing the previously existing Non-Financial Reporting Directive. The new requirements affect a wider range of enterprises. It should also be noted that international organizations, the European Union Financial Reporting Advisory Group (EFRAG) and the IFRS Foundation are preparing sustainability reporting standards for endorsement. For the purposes of corporate sustainability reporting requirements, changes have also been made to the regulatory acts of the European Union regulating the auditing sphere ((EU) No 537/2014, Directive 2006/43/EC).

In response to the expected significant changes, the Service has already initiated cooperation in 2021 by signing a memorandum with state supervisory/regulatory bodies and the non-governmental sector, with the aim of jointly planning and implementing actions related to the introduction of corporate sustainability reporting requirements.

In addition, the Service is cooperating with the International Finance Corporation (IFC) and a draft cooperation agreement has been developed, which aims to provide the Service with IFC consultations on corporate sustainability reporting issues, staff capacity building and other support activities. It is also planned to identify European best practice through the Twinning project.

In order to meet the challenges of the above-mentioned task, the Service, in coordination and cooperation with other agencies, international organizations and interested parties, plans to prepare and initiate legislative changes regarding the introduction of corporate sustainability reporting requirements, to select, translate and implement the international standards of corporate sustainability reporting with the involvement of international experts; as well as to raise the awareness among interested parties and accountable enterprises, and to ensure the provision of continuing education and relevant training for professional circles.



STRATEGIC GOAL 4

ENSURING ORGANIZATIONAL SUSTAINABILITY

TASK 4.1

IMPROVING THE INTERNAL ORGANIZATIONAL STRUCTURE OF THE SERVICE

The timing of implementation is always important in the approximation of legislation. In the field of auditing, it was necessary to have a solid, well-structured and well-functioning state mechanism for the timely and accurate fulfilment of the obligations set out in the Association Agreement - therefore, it was decided to define the necessary reform processes aimed at accelerating the introduction of regulations and directives regulating the field, because, according to Annex XXVIII of the Association Agreement, Georgia was required to implement the provisions of the Directive 2006/43/EC (in relation to accountable enterprises) within 3 years of the entry into force of the Agreement, which meant that legislative changes in this direction had to be implemented by 2017. The Law of Georgia on Accounting, Reporting and Auditing was adopted on time in June 2016. This laid the foundation for the establishment of the Service as an independent body in the form of a sub-agency of the Ministry of Finance of Georgia.

The independence of the supervisory body of the field means that it is permanently separated from both the business and the profession. Best supervisory practices, both in the EU and worldwide, place high demands on the independence and sustainability of the supervisory structure. In order to strengthen and maintain its structure, the Service, as a supervisory body, continuously promotes cooperation and declares its willingness to use a number of platforms for dialogue with other international organisations interested in the quality of accounting and reporting. The requirement for independence and sustainability is the primary goal for the Service on the way to European integration.

The Service has one Head and comprises four Departments, one of which, the Staff Office, also serves the Accounting, Reporting and Auditing Board (see Task 5). The activities of the Service are financed entirely from the state budget on the basis of the principles of program budgeting.

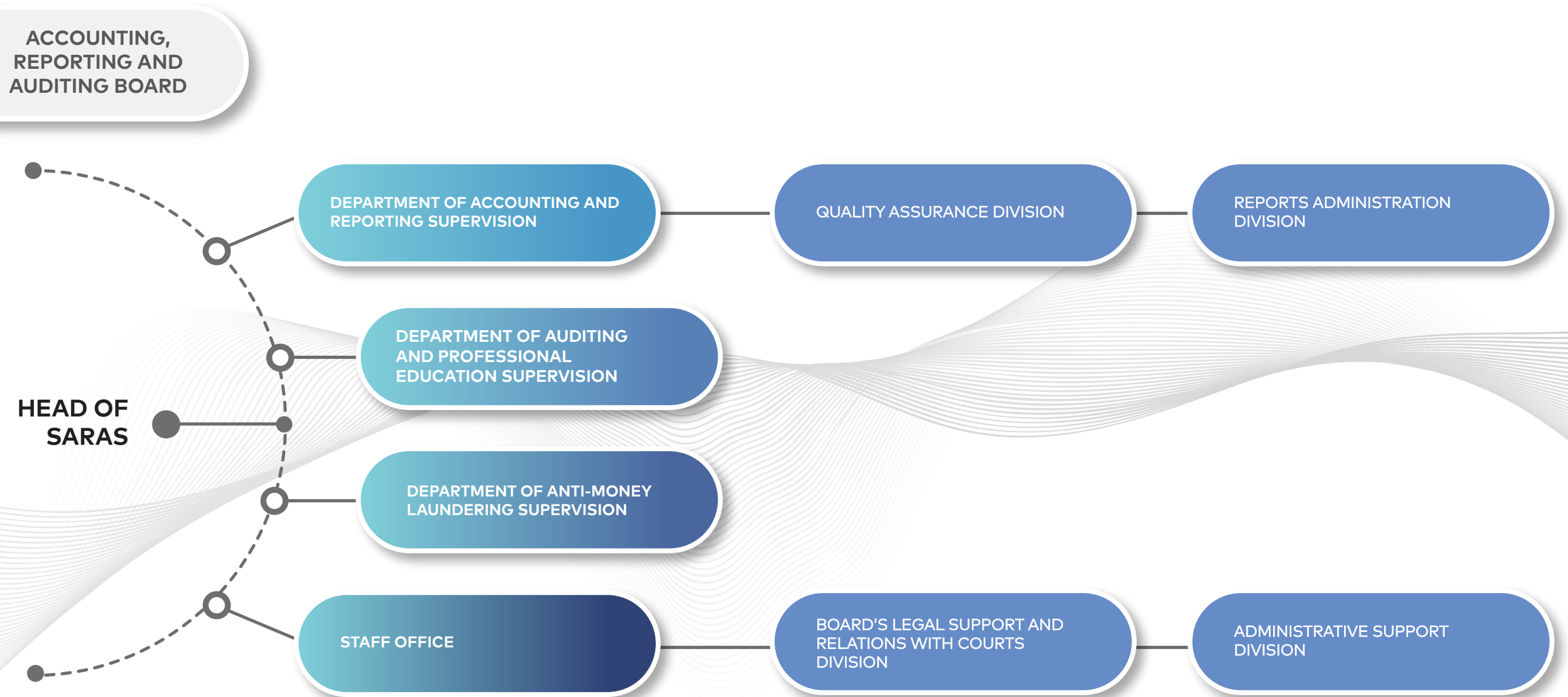
In 2023, the structure of the Service was changed, the Department of Anti-Money Laundering Supervision² was established; Two Divisions were created in the Department of Accounting and Reporting Supervision and the other two Divisions - in the Staff Office.

The creation of these divisions is part of the long-term vision of the Service, which includes the creation/strengthening of the middle management function in the Service. This approach will facilitate the specialization of staff in terms of their roles and responsibilities, bring more clarity to their roles/responsibilities, and create more opportunities for promotion/career development. All of this will have a positive impact on staff retention and continuity in the workplace. As part of this vision, structural changes are planned in the coming years in both the Department of Auditing and Professional Education Supervision and the Department of Anti-Money Laundering Supervision.

²Task 2 of strategic goal 2 describes this in detail.

The structure of the Service consists of 37 permanent employees and 9 employees under contract (freelancers). The current structure is as follows:

STRUCTURE OF THE SERVICE



TASK 4.2

RECRUITMENT AND RETENTION OF HIGHLY SKILLED AND EXPERIENCED STAFF

In order to achieve long-term sustainability and institutional strengthening, it is essential to recruit and retain highly qualified and experienced staff. The recruitment process for qualified staff takes on average at least 2 months, which in certain circumstances causes operational difficulties for the Service, especially if the staff member suddenly leaves the Service. The length and multi-stage process of the application process may also discourage experienced professionals from applying. Attracting and retaining highly qualified staff is partly possible through the use of certain exceptional norms allowed by the legislation, in particular, by granting the status of a rare profession, which allows relatively high salaries for positions with this status. At present, this status is only granted to the audit supervision inspectors. Attracting/retaining qualified staff for non-rare profession positions also remains a challenge.

The Service believes that the planned structural changes (Task 1) will have a positive impact on the staff motivation and retention, which, together with the resolution of the issues described below, will significantly facilitate the performance of this task:

COMPETITIVE SALARIES

In order to maintain the motivation of the employees, it is important that the remuneration for the position defined as a rare profession should be close to the salary rates of the corresponding field in the private sector, which is supervised by the Service through employees with appropriate qualifications. The Service is considering giving the same status to the reviewer of the submitted statements/reports on compliance with the reporting standards and to the persons and inspectors working on the development of the methodology in the direction of anti-money laundering.

PROFESSIONAL DEVELOPMENT PROGRAMS AND THEIR FINANCING

In a changing and rapidly evolving environment, it is essential that the qualifications and supervisory practices of the Service's staff are kept up to date in line with international experience, including that of the European Union, for which it is extremely important to promote the continuous professional development of staff through the provision of flexible work schedules and financing relevant training programs. In addition, it is also important that training and education programs are targeted and tailored to the position and needs of the staff as much as possible.

OPTIMISING THE RECRUITMENT PROCESS

Reducing the duration of the employee recruitment process, which will significantly increase the interest/activity of job seekers and increase the variety of choices.

IMPROVING PUBLIC RELATIONS IN THE DIRECTION OF HUMAN RESOURCES MANAGEMENT

- Sharing stories of employees' professional success with the community
- Deepening relations with universities, colleges and professional organizations in the direction of promoting internship programs
- Raising awareness among young people of the benefits of working in the public sector.

TASK 4.3

AN INDEPENDENT SOURCE OF INCOME

The Service, in legal form, is a sub-agency of the Ministry of Finance of Georgia, which at the time of its establishment was considered to be the optimal organizational form for the transitional phase of the reform (5-7 years). This legal form does not consider the existence of an independent source of income. However, in order to ensure financial sustainability, to reduce dependence on budget funding and to gain more flexibility, it is important for the Service to create an independent source of income, for which it is necessary to initiate/implement relevant legislative changes.

As part of this process, it is planned to identify the range of people who are interested in using the services of the Service, to carry out demand analysis and, if positive, to initiate a legislative change.

TASK 4.4

STRENGTHENING THE SUPERVISORY ROLE OF THE BOARD

The following main parties interested in the reform are represented in the Accounting, Reporting and Auditing Board: the Ministry of Finance of Georgia, the Ministry of Economy and Sustainable Development of Georgia, the National Bank of Georgia, LEPL – Insurance State Supervision Service of Georgia, the professional community, business associations and academic circles. The main functions of the Board, as defined by the law, are to discuss disputes related to the decisions of the Service and to adopt relevant decisions, to review the draft normative acts of the Service, to provide consultations on the candidacy of the Head of the Service and to prepare a recommendation.

It should be noted that the work of the members of the Board is currently not remunerated, which limits the necessary resources and access to time. In order to increase the involvement of interested parties in the activities of the Service, to further strengthen the supervisory function and to ensure organizational sustainability, it is necessary to optimize the functions of the Board and to extend its powers, namely by ensuring the following:

- Involvement of the Board in strategic management, setting/forming strategic goals of the Service
- Strengthening the dispute resolution role of the Board

TASK 4.5

STRENGTHENING THE DISPUTE RESOLUTION ROLE OF THE BOARD

Discussion of disputes related to the decisions of the Service is the most important link in the protection of the rights of enterprises participating in the reform, which at the same time ensures the correctness of the development vector of the reform through the analysis, generalization of the information received in the process of disputes and constructive feedback to the Service. In the course of its activity, up to and including 2022, about 150 complaints were submitted to the Board, of which approximately 30% were related to auditing and 70% to reporting. It is important to note that most of the complaints submitted were dealt with within 3-5 months of their submission, although there were cases where 7-8 months or exceptionally longer were needed to discuss the complaints, mainly due to the multi-step process of changing the composition of the Board and its reconstitution.

In order to ensure greater timeliness, efficiency and flexibility in the Service's dispute resolution process, it is important to optimize and strengthen the dispute resolution role, which will increase the confidence of the parties in the reform process, increase the efficiency of the Service and contribute to the establishment of a sustainable dispute resolution system.

SUMMARY

Georgia has taken an important step towards European integration by implementing accounting, reporting and auditing reforms. The achievement of the above goals will bring the Service closer to the world best practice and contribute to the effective performance of its supervisory functions and the mission assigned to it.