



# Recommendation Guidelines on Management Report regarding the form of auditor's/audit firm's opinion

In accordance with paragraph 10 of article 7 of the Law of Georgia on Accounting, Reporting and Auditing (hereinafter - the Law), PIEs and the first- and second-category enterprises are obliged to provide the management report to the auditor/audit firm. According to the Law, the auditor/audit firm expresses the opinion: (a) compliance of the part of the performance review of the management report and the constituent parts of the corporate governance statement, given in subparagraphs "c" and "g" of paragraph 7 of article 7 of the Law, with their regulatory normative acts; and (b) its coincidence with the financial statements of the same reporting period. In the process of auditing, the auditor/audit firm defines the material inconsistencies/misstatements in the entity on the base of findings and, if necessary, indicates their substance. Also, the auditor/audit firm checks, (c) whether the management report reflects the constituent parts of the corporate governance statement, given in sub-paragraphs "a", "b" and "d" - "f" of paragraph 7 of article 7 of the Law, and those of the non-financial report, given in paragraph 8 of article 7 of the Law .

In case, if the signing dates of the management report and the financial statements coincide with each other, the opinion expressed by the auditor/audit firm on these statements shall be reflected in a single auditor's report. In this case, the auditor's report about the coincidence of the management report with the financial statements (B) shall be reflected in the following part/section of the auditor's report - "Other Information", according to ISA 720 (see relating appendices of ISA 720); and the opinion on correspondence of the management report with the regulatory normative acts (A), also the information on the submission of the relevant parts of the management report (C) according to ISA 700 shall be reflected in the following part/section of the auditor's report - "Report on Other Legal and Regulatory Requirements" (Illustration samples for A and C see below).

If the management report is signed after the issuance of the auditor's report on the financial statements, the following two approaches may be used:

- A) the auditor's/audit firm's opinion on the management report can be expressed in a separate document (letter to shareholders/partners). In this case, the opinion on coincidence of the management report with the financial statements and the opinion on compliance with the regulatory normative acts and the information about submitting of the relevant parts of the management report shall be of the same content as it would have been in a single auditor's report.
- B) to update the auditor's report on the financial statements in which the above mentioned opinions are reflected.

In the process of forming of A and C opinions, the auditor should assess the necessity of complying with the corresponding requirements of ISA 620.

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Illustration samples of the relevant part of the report/letter:

- 1) In the absence of material inconsistencies/misstatements:

#### Report on Other Legal and Regulatory Requirements

Our commitment is, on the base of conducted procedures, to express our opinion on compliance of the parts [It is recommended to identify these parts] of the management report, governed/defined by the Law of Georgia on Accounting, Reporting and Auditing (the Law), with this Law and in case of material inconsistencies/misstatements, indicate their substance, as well as in case of failure to provide any information in the management report as prescribed by the Law, to declare about it.

#### *Opinion on the Management Report*

In our opinion, the parts of the management report defined by the Law are in conformity with the requirements of the Law, in all material respects.

- 2) In case of material inconsistencies/misstatements:

#### Report on Other Legal and Regulatory Requirements

Our commitment is, on the base of conducted procedures, to express our opinion on compliance of the parts [It is recommended to identify these parts] of the management report, governed/defined by the Law of Georgia on Accounting, Reporting and Auditing (the Law), with this Law and in case of material inconsistencies/misstatements, indicate their substance, as well as in case of failure to provide any information in the management report as prescribed by the Law, to declare about it.

#### *Qualified opinion on the Management Report*

On the basis of the procedures we have been conducting, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the parts of the management report defined by the Law are in conformity with the requirements of the Law, in all material respects.

#### The Basis for Qualified Opinion

[Substance of material inconsistencies/misstatements]

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3) In case of material and pervasive inconsistencies/misstatements:

#### Report on Other Legal and Regulatory Requirements

Our commitment is, on the base of conducted procedures, to express our opinion on compliance of the parts [It is recommended to identify these parts] of the management report, governed/defined by the Law of Georgia on Accounting, Reporting and Auditing (the Law), with this Law and in case of material inconsistencies/misstatements, indicate their substance, as well as in case of failure to provide any information in the management's report as prescribed by the Law, to declare about it.

#### *Adverse opinion on the Management Report*

On the basis of the procedures we have conducted, we declare that the management report is not in conformity with the requirements of the Law because of the effects of the matters described in "The Basis for Adverse Opinion" paragraph.

#### *The Basis for Adverse Opinion*

[Substance of material and pervasive misstatements]

This document is of a recommendatory character and does not have a mandatory legal force. In case of difference between the document and the legislation, the norms of the legislation are used.

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