

Priorities for Improving the National System of Accounting and Auditing in Georgia

Mariam Pitskhelauri - Doctoral Student of Georgian Technical University
pitskhelaurim@yahoo.com

Abstract. It is well known that the introduction of laws or accounting standards is often based on the developed world. The developing world is simply forced to mirror international experience.

These regulations are often not sufficiently adopted to local specifics. In the absence of theory - how the "copying" of laws affects developing countries - we need an in-depth (one-on-one) discussion of country examples. Even in the presence of a perfect theory, we need to consider countries one by one, as the institutional specificity on the ground requires special consideration. Based on empirical research, the point of view of business entities and audit firms/auditors regarding the new legislative regulations in Georgia is researched and analyzed.

Keywords: Audit, Accounting, Financial Reporting.

Basic text. Questions have arisen regarding the enactment of the new law on "Accounting, Reporting and Auditing": How good the quality of the law is, how well the law is enforced in reality, how well the goal of the reform is achieved - to improve the quality of financial information. For the purpose of the above analysis, we conducted a survey in which financial managers and audit firms/auditors of private business entities were interviewed.

The survey was conducted electronically, and two types of questionnaires with their possible answers were sent to each randomly selected respondent: a) for private business entities and b) for audit firms/ auditors. 81 randomly selected enterprise financial managers and 44 auditors participated in the study.

85% of the surveyed enterprises are category III and IV firms, while the remaining 4 % and 11 % were category I and II firms, respectively. The majority of respondents use the minimum standard applicable to the relevant category established by law for accounting purposes. In particular, the mandatory standard for the first category of firms is full IFRS, the second and third category firms can use SMEs - IFRS, and the fourth category of firms has a special standard for them. All categories of enterprises except the first can use a standard higher in size. The results of the research show that the production of accounting by enterprises is most often done according to LFRS for SMEs. 14 % of surveyed enterprises use full IFRS, of which one belonged to the 4th category and four to the 3rd category enterprise.

The survey showed that 36% of the surveyed enterprises did not prepare financial statements before the enactment of the law on "accounting, reporting and auditing, while 36% partially prepared them. This indicates that in the past accounting was not performed according to the standards and there were frequent cases when the accounting was done in accordance with the requirements

of the tax law, which did not provide accurate information about the financial condition and profitability of companies.

The above problem become especially apparent when from January 1, 2017, most legal entities switched to a new model of profit taxation called the "Estonian model", according to which the taxable profit base is determined from the retained earnings calculated according to the relevant standard when the company distributes the dividend. Consequently, companies also have to adjust their accounting for the past period in order to properly determine tax liabilities in the income tax segment.

11% of respondents say that since they started preparing financial statements according to the standards, getting a loan from a bank has become easier, 48 % has partially made it easier, 14 % have not used the loan, and 27% answered in the negative. As mentioned, the main goal of the reform is to increase the quality of reporting credibility and transparency and to promote the development of the capital market. to ensure the credibility and transparency of companies, the company needs to prepare financial statements in accordance with the standards. These figures partly indicate an increase in the confidence of banks to lend to businesses according to the financial statements of enterprises. It should be emphasized that companies with audited and streamlined financial statements will find it much easier to access finance and collaborate with donor organizations. Overall, the reform should, as a rule, help ensure the financial sustainability of companies.

Thus, we can conclude that law enforcement is incompletely timely, albeit positively. The main question is the following: in financial reporting - how high is the quality of financial information provided to help customers make effective decisions? At the macroeconomic level, it is interesting what the current reform will bring to the Georgian economy. Will it help the country attract more foreign investment, develop capital markets, reduce unemployment and increase gross domestic product per capital?

More time, more databases, and in-depth analysis will be needed to answer these questions as the world, including Georgia, emerges from the economic woes of new coronavirus pandemic (COVID-19).

According to the results of audits of audit firms by the supervision service from 2018 to October 2020: out of a total of 270-registered audit firms, 20% were audited, of which 32 % received fifth category status. According to the law, the fifth category of audit firms has the authority (except for public interest entities, enterprises of first and second size categories and groups of first and second size categories) to audit the financial statements of entities, which means that these audit firms will in fact have a very low demand for audit services from business entities, as the law does not

require an entity that is not a public interest entity, a first or second tier firm, to audit financial statements.

55% of the surveyed auditors have implemented an audit program in the company, which is quite a good indicator, as the audit program is a document of a technical nature necessary for planning, which is prepared by the audit team and aims to conduct the audit effectively and efficiently. It can be prepared as part of an individual plan or as a separate document. The audit program includes a sequence of instructions followed by members of the audit team. Practically this is a list of audit procedures that group members should follow when implementing an individual audit plan. In order to distribute the work precisely, every member of the group must know what and when he/she is doing it, there must be some instructions for conducting detailed control testing.

The survey found that 91% of the surveyed auditors are willing to receive support from the supervision service in the form of professional training. This need has arisen with the introduction of new regulations, in addition, the pace of development itself has accelerated in recent years, there is a periodic change of standards and people working in the profession are constantly being trained and improved.

Conclusion. Thus, it is noteworthy that not much time has passed since the enactment of the law to assess its effectiveness in the long run. In addition, the global pandemic that occurred in 2020 significantly slowed down the rate of economic growth in the world in general, including Georgia.

Used literature:

1. Law of Georgia on Accounting, Reporting and Auditing
2. <https://saras.gov.ge>
3. <https://reportal.ge/>.