

LAW OF GEORGIA

On Accounting, Reporting and Auditing

Chapter I General Provisions

Article 1. Scope of the Law

1. The present Law sets legal framework in Georgia for accounting, preparing and filing financial and management reports (as well as report on payments made to the state according to this Law), professional certification, auditing (service) and quality assurance, public oversight and imposing responsibility in these areas.

2. The present Law aims to facilitate financial transparency and economic growth through approximation of accounting and auditing regulation with the norms of the European Union Directives.

3. The present Law shall not apply to the budgetary organizations defined under the Budget Code of Georgia except for cases provided for in the legislation.

Article 2. Definitions of Terms

1. For purposes of this Law, the terms used herein shall have the following meanings:

- a) **Accounting** – organized and continuous system for collecting, recording, measuring, generalizing information on economic events in monetary terms, which impacts the entity's activities and resources;
- b) **Accountant** – a natural person who performs accounting or/ and prepares financial statements;
- c) **Accounting documents** - primary documents providing evidence for an economic transaction and accounting ledgers;
- d) **Financial statements** – financial information of the prior period, which provides structured reflection of the entity's financial position, outcome of its activities, cash flow and changes in equity, accounting policy and disclosure notes in accordance with respective reporting requirements;
- e) **Entity** - legal entities of public and private law, except for budgetary organizations provided for in the Budget Code of Georgia and the National Bank of Georgia, branch of a foreign enterprise, sole proprietors that meet the criteria with respect to revenues, assets used in an economic activity and employee number specified in subparagraphs (t), (u) and (v);

- f) **Auditing (Service)**- work carried out by an auditor / audit firm in accordance with the International Standards on Auditing aimed at:
- f.a) **expressing auditor's /audit firm's opinion** in all material respects **on authenticity** and completeness of financial statements (including special purpose statements) prepared in accordance with the respective reporting requirements;
 - f.b) **expressing opinion of auditor / audit firm by review** of financial statements;
 - f.c) **expressing or making the respective opinion on the other substantiated or/and limited assurance engagement;**
 - f.d) **achieving other objectives provided for in Article 14 (2) of this Law;**
- g) **Auditor** – a certified accountant, who is a member of a Professional Organization of Accountants or/ and Auditors and is registered in the State Registry of Auditors /Audit Firms (hereinafter the Registry) and is authorized to perform audit (service), inter alia, on an individual basis;
- h) **Audit Firm** – a legal entity registered in Georgia or a branch of the foreign registered legal entity operating in Georgia, which is registered in the Auditors' Registry and renders professional services through engagement partner (partners);
- i) **Accounting, Reporting and Auditing Oversight Service (hereinafter the Service)** – a public subordinated agency of the Ministry of Finance of Georgia (hereinafter the Ministry);
- j) **Professional services** – services that require accounting and related skills, when auditor / audit firm renders services in accounting, auditing, tax, financial management or/ and the other similar business consulting areas;
- k) **Certified accountant** – a natural person who is certified by the Professional Organization of Accountants or/ and Auditors in accordance with professional certification standards set by the Service, or is recognized as such under this Law, and who can prove his/her qualification after certification in accordance with the continuous education standard;
- l) **Engagement partner** - an auditor, appointed by an audit firm as a main person in charge of specific audit assignment or the other audit service and who acts on behalf of an audit firm or an auditor who signs an audit opinion or the other document prepared as a result of the other auditing activity (service);
- m) **Audit opinion** - a document issued by an auditor / audit firm, in which auditor / audit firm expresses opinion whether financial statements of an entity in all material respects are prepared in accordance with the respective reporting requirements, or issues disclaimer of opinion;
- n) **Respective reporting requirements** – requirements for preparation and filing financial statements, the application of which is mandatory or permitted for an entity in accordance with the Georgian and international legislation;
- o) **Assurance Engagement** - means an engagement in which an Auditor/ Audit Firm expresses an opinion about the outcome of the evaluation or measurement of a

subject matter against criteria and is aimed to enhance the degree of confidence of the third parties towards such subject matter.

- p) **Accounting, Reporting and Auditing Board (hereinafter the Board)** -a body established at the Service that reviews issues related with accounting, reporting and auditing and makes respective decisions.

- q) **Professional Organization of Accountants or/ and Auditors** – a Professional Organization of accountants or / and auditors (hereinafter the Professional Organization), which, pursuant to the Georgian legislation, is registered as a non-entrepreneurial (non-profit) legal entity and meets requirements of the Present Law.

- r) **Specialized Examination Body** – a legal entity, branch of foreign registered legal entity in Georgia, which, for purposes of this Law, is recognized by the Service as an examination body for organizing certified accountant exams;

- s) **Enterprise of the fourth category** – an entity, the indicators of which at the end of the reporting period meet at least two criteria out of the following three:
 - s.a) The value of total assets does not exceed GEL 1 million;
 - s.b) The revenues do not exceed GEL 2 million;
 - s.c) The average number of employees during the reporting period does not exceed 10 (ten) people.

- t) **Enterprise of the third category** - an entity, which does not represent an enterprise of the fourth category and the indicators of which at the end of the reporting period meet at least two criteria out of the following three :
 - t.a) The value of total assets does not exceed GEL 10 million;
 - t.b) The revenues do not exceed GEL 20 million;
 - t.c) The average number of employees during the reporting period does not exceed 50 (fifty) people.

- u) **Enterprise of the second category** - an entity, which does not represent an enterprise of the fourth or a third category and the indicators of which at the end of the reporting period meet at least two criteria out of the following three:
 - u.a) The value of total assets does not exceed GEL 50 million;
 - u.b) The revenues do not exceed GEL 100 million;
 - u.c) The average number of employees during the reporting period does not exceed 250 (two hundred fifty) people.;

- v) **Enterprise of the first category** - an entity, the indicators of which do not exceed at least two criteria out of the following three:
 - v.a) The value of total assets does not exceed GEL 50 million;
 - v.b) The revenues do not exceed GEL 100 million;

- v.c) The average number of employees during the reporting period does not exceed 250 (two hundred fifty) people;
- w) Revenue –the gross inflow of economic benefits of an entity (cash, receivables, other assets) arising from the ordinary operating activities, such as sales of goods or/ and services; it does not include any sales discount, VAT, funds derived on behalf of the third party, economic benefit in the form of dividends, interest and royalty from the use of entity’s assets, unless such benefit represents an outcome of entity’s ordinary economic activity.
- x) **Public Interest Entity** (hereinafter PIE) – a legal entity, which represents:
- x.a) reporting enterprise the securities of which are traded at the stock exchange in accordance with the Law of Georgia on Securities Market;
 - x.b) a commercial bank and a qualified credit institution - in accordance with the Organic Law of Georgia on the National Bank of Georgia;
 - x.c) microfinance organization – in accordance with the Law of Georgia on Microfinance Organizations;
 - x.d) an insurer- in accordance with the Law of Georgia on Insurance;
 - x.e) a founder of non-state pension scheme – in accordance with the Law of Georgia on Non-State Pension Insurance and Welfare;
 - x.f) an investment fund - in accordance with the Law of Georgia on Investment Funds;
 - x.g) Non-bank deposit institution – credit union – in accordance with the Law of Georgia on Non-Bank Deposit Institutions – Credit Union;
 - x.h) Entities defined as PIEs by the Government of Georgia;
- y) **non-practitioner**⁷ - any natural person who for at least three successive years prior to appointment as a member of the Board has not carried out auditing (service), has not held voting rights in an audit firm, has not been employed by an audit firm has not been a member of the management or oversight body of an audit firm, or otherwise associated with it.
- z) **Control** – this term with respect to enterprise relations shall be defined in accordance with International Financial Reporting Standards (IFRS);
- aa) **Parent company**- an entity, which controls one or more subsidiaries;
- bb) **Subsidiary** – an entity controlled by a parent company, including a subsidiary representing a parent enterprise;
- cc) **Group** – a parent company and all of its subsidiaries.
- dd) **Quality Control System Monitoring** –evaluation of compliance of auditing, review, assurance engagement and related procedures performed by Auditor/ Audit Firm with international standards and law requirements, including an assessment of compliance with applicable ethical rules, as well as of the quantity

and quality of resources spent, the audit fees charged and the internal quality control system of the audit firm;

- ee) **Corporate Governance Code** – a document, which regulates work of an entity’s management and governance bodies, their efficiency, remuneration, relations with shareholders and reporting to them, as well as the other issues related to corporate governance.
- ff) **Regulatory Body** – national regulatory body acting in Georgia defined under the Law of Georgia on National Regulatory Bodies;
- gg) **Supervision (Oversight) Body** – oversight body defined under the *Organic Law of Georgia on the National Bank of Georgia*, the *Law of Georgia on Insurance*, and the *Law of Georgia on Investment Funds*.
- hh) **Asset Manager – manager of assets defined under the Law of Georgia on State Property.**

2. For purposes of this Law, the terms used herein other than those presented in Paragraph 1 of this Article, shall be interpreted in accordance with the International Standards on Financial Reporting, auditing, assurance, related services and the other auditing service.

Article 7 – Management Report

1. PIEs and the first and second category enterprises shall prepare and file management report to the Service. Procedure for preparation and filing management report with consideration of respective EU Directives shall be defined by the Service.

2. Management report shall include:
- a) Review of the entity’s activities;
 - b) Corporate Governance Statement;
 - c) Non-financial statement.

3. Review of the entity activities provided for in subparagraph (a), paragraph 2 of this Article shall be prepared by PIEs and the first and second category enterprises.

4. Corporate Governance Statement provided for in Paragraph 2(b) of this Article shall be prepared by entities defined in Paragraph 1 (x.a), Article 2 of this Law ;

5. Non-financial statement provided for in paragraph 2(c) of this Article shall be prepared by those PIEs, which meet the first category enterprise size criteria and average number of whose employees during the reporting period is over 500.

6. Review of the entity’s activities provided for in Paragraph 2(a) of this Article, with consideration of their volume and complexity, shall present the comprehensive analysis of the entity’s business development, outcome and position, major risks and uncertainties faced by it, which shall further include key financial and non-financial indicators associated with the entity’s activities including employment and

environmental aspects, as well as additional description of amounts given in annual financial statements. Review of activities shall also include the following elements:

- a) Entity's future development plans;
- b) Review of research and development performed by the entity;
- c) Information on branches of an entity;
- d) Review of the entity's credit, market, liquidity and cash flow risks and mechanisms for their management;
- e) Detailed information on acquisition of its own shares, which at least shall include:
 - e.a) reason for stock acquisition during the reporting period;
 - e.b) number and par value of the stock acquired and disposed during the reporting period, while in case of their absence – book value and its percentage share in the placed equity;
 - e.c) responsive action to stock acquisition or disposal
 - e.d) number and par value of the stock acquired and kept in ownership during the reporting period, while in case of their absence – book value and its percentage share in the placed equity;
- f) Enterprise goal and policy with respect to financial risk management.

7. Corporate Governance Statement provided for in paragraph 2 (b) of this Article, shall at least include the following:

- a) Review of Corporate Governance Code that is mandatory for an entity or is selected voluntarily (if any); also review of all those corporate governance practices that exceed the requirements set under the legislation; in the event of using corporate governance code selected by an entity at its own discretion, it shall specify where the code is publicly available. In case of disclosing corporate governance practice, the enterprise shall publicize detailed information on it;
- b) Deviations by an entity from the mandatory or voluntarily selected corporate governance code or cases of not referring to the Code specified under Subparagraph (a) of this Paragraph and analysis of respective reasons;
- c) Review of internal controls and risk management systems related to financial reporting process;
- d) Review of and authority of shareholders and shareholders' general meeting;
- e) Review of composition and operation of entity's management and supervision bodies;
- f) Review of the diversification policy used by an entity (e.g. age, gender, qualification and etc.) for its management and supervisory boards, except for those reporting enterprises that meet the second and the third category requirements, as well as review of the policy goals, used methods and results achieved during this period. Where there is no such policy, the reasons are explained in the Corporate Governance Statement;
- g) The following information for mandatory tender offer provided for in Article 53² of the Law of Georgia on Entrepreneurs:
 - g.a) Direct or indirect significant participation in capital;
 - g.b) Information on holders of those shares that grant special control right and description of such rights;

g.c) Information on any restriction of voting right, such as restriction of voting right for holders of certain percentage of shares or votes;

g.d) Rules related to appointment and replacement of members of management bodies, as well as information on amending the Charter;

g.e) Powers of members of management bodies;

8. Non-financial statement provided for in Paragraph 2(c) of this Article reflects at least essential information on development, outcome and position of the company's activities with respect to environmental, social, human rights, anti-corruption and anti-bribery issues, including:

a) A brief review of the entity's business model;

b) Description of the policy applied against the issues provided for in this paragraph, including implemented complex procedures and outcome of the policy. If an entity does not use the similar policy, the respective explanation shall be provided in this regard in the statement;

c) Risk analysis of the entity's activities, which includes but is not limited to the entity's business relations, potential negative impact of products or services on issues specified in this paragraph and risk management methods applied by the entity;

d) Non-financial KPIs of entity's specific activity.

e) Whenever necessary, non-financial statement includes reference to amounts in the annual financial statements and additional explanations with respect to them.

9. Entity that does not represent a subsidiary shall not be obliged to file non-financial statement specified in Paragraph 8 of this Article if such information is submitted in the group's consolidated statement.

10. PIE and enterprises of the first and second categories shall provide the management report to an Auditor/ Audit Firm. Auditor/ Audit Firm according to Paragraph 6 and Paragraph 7 ((c) and (g)) of this Article will express its opinion on management report, its compliance with regulatory normative acts and correspondence with the financial statements of the same reporting period, as well as about material inaccuracies and their substance. Auditor/ Audit Firm shall check whether the report includes the information provided for in Paragraph 7 (a, b and d – f) and Paragraph 8 of this Article.

11. In case the information provided for in this Article is already reflected in financial statements prepared in accordance with Article 9 (2) of this Law, the entity shall be relieved of the obligation to reflect submitted information in the management report.

12. Requirements of this Article shall apply to groups that meet criteria for enterprises of the first and second categories.

13. Regulatory/ supervision body in agreement with the Service shall be entitled to set restrictions with respect to the requirement to publish the information provided for in this Article, if disclosure of such information endangers financial stability of a PIE or the respective industry.