

THE ISSUES OF ACTIVITY ACCOUNTING AND AUDIT REGULATION IN GEORGIA

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Abstract

The key issues of the activity accounting and audit regulations existed nowadays in Georgia and correspondingly, legal alternations conducted concerning above-mentioned issues are given in this scientific study. The goal of this study is to reveal the importance of the role of the audit and activity accounting in the modern management system. Wherein it does not satisfy only with the registration of economic operations, but as well represents a significant instrument of the financial information, represents the main connection between the economic activity and the entities, which has a great importance in the functioning of the economic units in order to make correct management decisions.

The objective of the study is to show the existing experience in the fields of the activity accounting and audit in Georgia. The criteria of the accountant professional recognition in compliance with the alternations carried out currently relying on the legislation basis.

At the moment, in Georgia it is pressing issue to share the international experience and accordingly, its implementation into the fields of the activity accounting and financial statements. Coming out from this, in the scientific study is discussed the world concepts established in the fields of the modern activity accounting and audit, among them are the experiences of the European countries and the U.S. regarding this direction. Is represented the approved approaches of the world practice concerning the recognition criteria of the profession of an accountant; the main aspects of the social, department and personnel audits; the risks concerning the social audit are stressed. In the scientific study is also described and given the types of audits according to the current Legislation of Georgia as well as the key issues of the internal and outer audits.

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1. Introduction

Since the 90s of the last century, when Georgia decided to step on the way of independence, instead of the administrative and planning economics in the country were being developed the market relations oriented solely on the private property. As a result, the necessity for the radical transformation of the institutional and the infrastructural systems were emerged into the agenda. This, on its part, caused dissolution of the united system of accounting reports based on the state property and stipulated formation of a new accounting system that was oriented on the international standards. The first steps, in order to put the given objective into the practice were being made by The Georgian Federation of Professional Accountants and Auditors (GFPAA). The Federation was founded in April 1998, as a result, of unification of the Club of the Accountants of Georgia and the Association of Georgian Accountants.

The Georgian Federation of Professional Accountants and Auditors and the U.S. Agency for International Development (USAID) played a significant part in the process of the improvement of the activity accounting. Followed by the adoption of the law on “the Accounts and Records” by the Parliament of Georgia. Since January 1, 2000 Joint Stock Companies and since January 1, 2001 the

Limited Liability Companies as well as the Co-operative societies are carrying out financial statements according to the International Accounting Standards.

According to the activity accounting of the world practice, it is obvious, that the role and importance of the international standards of the financial statements is gradually increasing as it is conditioned by the growth of the globalization scales of the world economics. That means that the world capital is being participant in the economics of the many countries. Furthermore, the interested investors, creditors etc. need opportune and reliable information about the possible economic profit in return for the invested capital and obtaining such information without considering the principles of the international standards of financial statements in the National Account System is practically impossible.

In modern economic relations, the audit control is one of the most significant elements of the management. Increasingly developing private enterprises and the capital market, the aspiration of the economic units for the self-regulation, the demands for guaranteeing the protection of the invested capital of owners and creditors, has created necessity for formation and development of the Systems and Controls Audit, which secures the economic growth. All types of audits represent a specific system, which gives us an opportunity to make conclusions about the quality effectiveness of the company's activities during their improvement. It is well-known fact that there are two types of audit, the internal and the outer audit. Moreover, the concept of the "Audit" is connected to such audit, which is carried out for the owners, stockholders, etc. by completely independent auditors in order to establish the objective opinion about the authenticity of the financial statement. An independent auditor, whose independence is determined not only by legislation but also by the norms of ethic as well, should conduct the outer audit. According to those objectives and goals, the outer audit is divided into the compulsory and initiative audits. The compulsory audit is held if its terms and size are determined by the legislative acts. The initiative audit is held any time, according to the size defined in the framework of the signed agreement as the company have requested it. In the process of the compulsory audit, the only goal for an auditor is to form and express his/her attitude regarding the authenticity of the essential aspects of the financial statements intended for checking. During the process, an auditor is able to decide the intermediate objectives: he/she can determine whether those arrangements made by the company comply with the legislation or not, check fiscal balance calculations, tax payments etc. While in the process of the initiative audit, an auditor has a specific objective, which services to achieve an objective determined under the agreement. These objectives can be consultations, analysis of financial stability, surveying inspection, payment inspection, etc. The set objectives can be different like the correction of revealed errors, personnel training, strategic planning, assets maintenance and inspection, etc.

Coming out from the above-mentioned, the part of the audit and financial statement in the economic activities is rather important and consequently, always represents the subject of the great interest over how is the specific field being developed in different countries? How are the audit activities being regulated in Georgia? How is determined the public supervision not only in this field but in the public sector as well? In this scientific study, we intend to review the very issues.

2. Method

It must be mentioned that nowadays, in the world exist various systems of the supervision over the audit activities that are continuously improving which is caused by the such reasons as the ineffective financial statements, the weaknesses detected in the self-regulating systems, the demands of the new legislation, etc. According to the historical facts, the supervision of the audit activities gained the form of the self-regulation. During such approach were often used expert reviews simultaneously to the outer prices of the company's activities, which were carried out by the other professionals and later the Self-regulatory Company Council was presented with the appropriate reports by them.

In the recent years, have been developed regulating systems according to the increased demand for independent supervision that conditioned the tendency for establishing the national regulators to be more successive as well as in compliance with the global scales.

Since 1977 in the U.S., the Security and Exchange Commission (SEC) Practice Section (SECPS) have been guided by the American Institute of Certified Public Accountants (AICPA), which was a self-regulating body, supervising activities of the audit companies registered in Security and Exchange Commission. The above-mentioned body carried out the periodic expert evaluations of the audit activities in order to reveal shortcomings and consequently to correct them and thus supported the audit companies. In 2002, in the United States of America, the Public Company Accounting Oversight Board (PCAOB) became the major body for the audit supervision. The Board consists of the Board members and its staff, whose responsibilities are regular audit inspections along with other objectives. The above-mentioned tendency was reinforced since June of 2006, by the 8th Company Law Directive (regarding the compulsory audit) issued by the European Union referring the issues of the compulsory audit, the public supervision and the quality maintenance. The 8th Directive secures and regulates the issues of the compulsory audit within the European Union and sets the principles for the public supervision on audit activities and the quality maintenance.

For more efficient functioning of the capital market, each interested individual participating in the system of financial statement should act reasonably. Despite the fact that on the capital markets auditors represent only one group among the other interested parties, they play a crucial role in the provision of financial statement authenticity. Specifically a qualitative audit can stipulate the improvement of the financial statement process and increase the public confidence towards the capital market system in general. Supervision of audit activities is the best way to improve the quality of the financial statement audit. Numerous countries with increasing capital have implemented the system of the independent supervision and currently the same process is taking place in many other countries.

In the conditions of the public supervision, the companies who are willing to suggest the certain audit services to their clients (generally, the compulsory audit or the audit of the companies quoted on the stock exchanges) are required to register in bodies independent from their profession. Thus, the registration and consequently its maintenance represent the preconditions of the audit activities conducting. The appointment of the above-mentioned body members should be transparent process in order to provide the selection of skilled personnel who will be serving the public interests. The structure and the organization of the supervisory bodies vary in different countries, but generally, the body has the following functions:

- The Board, appointed by a plenipotentiary State Body, which is responsible for the execution of the entire process regulation;
- The function of registration and reporting, requiring the submission of the specific information from all audit firms about the initial registration as well as periodic reports concerning their business activities (sometimes called as a “transparency report”);
- The function of inspection within the framework of which activities and operations of registered companies are periodically monitored; as a result the mentioned company as well as the interested society will be presented with the report;
- The function of investigation, the cases irrelevant to the professional standards and to other requirements are investigated and are given recommendations over the sanctions.

Each auditor should subordinate to the efficient supervision of the independent body that service the public interests. As we have, it already admitted, the majority of members of the above-mentioned body should not be auditors. However, the individuals with new professional experience in the field of the audit activities should participate in the work of the already mentioned body.

The Supervisory Body for the implementation of its own business activities should have a stable source of financing. The Public Supervisory Body financing should not suffer the risk from the interested groups. In order to avoid the duplication of the regulation that negatively influences

on the quality and expenses of the audit, national regulators having the analogue systems at their disposal should achieve the bilateral recognition and of course, such equivalency is achieved by the forming of the Supervisory Body.

3. Results

As for our country, under the Financing Agreement “Financial Management Reform Support for Georgia” signed between Georgia and Euro Commission in 2007, in the Ministry of Finance of Georgia was created the Department of Risk Evaluation and Internal Audit. Their main objectives represented the formation of the internal audit units and the management of the public finances as well as the implementation of the actions preparing for the introduction of a new control system. In 2009, the strategy of the Public Internal Financial Control (PIFC) was created in the Ministry of Finance of Georgia and was approved by the Government of Georgia that gave detailed information about the plan of Public Internal Financial Control System Development. Although, it is obvious that for the elaboration, formation and implementation of State Internal Financial Control, Financial Management, Internal Audit Control System was essential the existence of the appropriate legislative ground. Coming out of this, on March 26, 2010 by the Parliament of Georgia was adopted a new law on “State Internal Audit and Inspection”, which represents the main ground for the formation of the State Internal Financial Control System. According to this law, during 2010 the Internal Audit Unit was formed in 12 Ministries. Currently, 24 Internal Audit Units already exist in Georgia. In compliance with the Legislation of Georgia about the “State Internal Audit and Inspection”, on the ground of 345th Resolution of November 9, 2010 of the Government of Georgia was created the “Board Discussing Issues Related to Internal Audit” (Harmonization Centre). Was adopted the regulations of the Board, were determined the secretariat rights as well as its responsibilities. Was formed the main objective of the Harmonization Centre that meant the coordination of activities of the internal audit units. The mentioned centre co-chairmen are the Minister of Finance of Georgia and the Chairman of the Chamber of Control of Georgia. The Harmonization Centre elaborated appropriate methodological documents: the Code of Ethics of the Institute of Internal Auditors; Working Principles of Internal Auditors; Methodology of Internal Auditors; Standards of Internal Audit and Manual of Risk Management in the State Sector that later were approved by the Government of Georgia and the Minister of Finance of Georgia.

It must be admitted, that the development of State Internal Financial Control System is a continuous process. Consequently, the approaches towards this issue are being constantly improved. It is worth mentioning that in 2011 the law on “State Internal Audit and Inspection” was improved and harmonized with the international standards of INTOSAL and IIA. On this ground, on December 9, 2011, the Parliament of Georgia issued the amendments in the law on the “State Internal Audit and Inspection” and except the fundamental changes, the title of the very law was also altered and it was named as a law on the “State Internal Financial Control”.

Nowadays, according to the Legislation of Georgia, the Audit Board defines the qualification requirements towards the auditors and the professional organizations define the qualification requirements towards the professional accountants. It can be added that in the field of profession regulation the principles of the State regulation and self-regulation work together. According to the Audit Board, requirements towards the qualification of professional accountants obtained from the Georgian Federation of Professional Accountants and Auditors (GFPAA) are considered sufficient for an auditor (along with the qualification requirements of the Board). The GFPAA determines the standards of the professional education, carries out tests. The accountants are given the qualification of the professional accountants only after becoming the members of the GFPAA, after accomplishing the ACCA programme in the Georgian language and after having not less than 3 years of the working experience. The GFPAA standards of the professional education completely meet all standard requirements of the International Federation of Accountants (IFA). Furthermore, it must be mentioned that the Government of Georgia has initiated and prepared a draft law on the “Financial Statement Audit”, which aim is the further development of financial statements and audit

system as well as its close approach to the international standards. The above-mentioned amendments came into force since January 1, 2013. The legal ground for conducting an audit is determined by already mentioned law according to which the audit activities in Georgia are carried out in compliance with the International Standards on Auditing (ISA). The ISA is a reference book issued by the International Federation of Accountants (IFAC) containing official documents on the assurance engagements and international standards which by the time this law is adopted, have been redesigned, amended, approved and issued by the International Federation of Accountants (IFAC) or its assignee body. According to the draft law, in order to make the International Standards on Auditing (ISA) available into the Georgian language they should be translated and issued by that accredited professional organization that is an actual member of the International Federation of Accountants (IFAC).

The accredited professional organization will present the translation of the International Standards on Auditing (ISA) into the Georgian language for registration to the Legal Entity of Public Law - the Georgian National Agency for Standards and Metrology, which issues the mentioned standards after their registration. Moreover, the right of conducting the audit activities is given according to:

Legal entity registered in Georgia, the Georgian branch office of a legal entity registered in abroad, or an individual is given the right of the audit activities only after having been registered in the Public Register. The Public Registry that acts under the Legal Entity of Public Law - the Ministry of Justice of Georgia carries out registration.

There are two types of registry:

- First category registry in which those auditors/audit firms are registered that have the right of conducting the compulsory audit;
- Second category registry, in which those auditors/audit firms are registered that have no right to conduct the compulsory audit.

Only accredited professional organization can apply the Registry with the request of registering legal entity registered in Georgia, the Georgian branch office of a legal entity registered in abroad, or an individual in the first category registry. If this body is a actual member of the Regional Organization of the International Federation of Accountants (IFAC) or is a member of the Organization approved by the International Federation of Accountants (IFAC) or if it goes through the control procedures of the accredited body without failure after an year of accreditation.

- Conducting audit is compulsory in Georgia for: banks, insurance companies, stock and commodity exchanges;
- For the enterprises and the investing funds under the law of Georgia on “Stock Market”.

The compulsory audit is carried out annually, between the end of a calendar year and the following year until October 31. The right of its conducting has only those auditors/audit firms registered in the first category registry. Furthermore, an auditor or a certified professional accountant working in the already mentioned audit firm must conduct it. The initiative audit is conducted by the decision of a plenipotentiary entity (the entities) or in other cases determined under the Legislation of Georgia. An auditor/audit firm is accountable for the creation and usage of the appropriate policy and the procedures of the Quality Control System in accordance with the requirements of the International Federation of Accountants (IFAC). The accredited professional organization carries out the monitoring of the quality control system of an auditor/audit firm that is a member of the above-mentioned organization. The monitoring of the quality control system should be held at least once in three years.

In the process of the quality control system monitoring of an audit firm, at least one audit conducted by each certified employee of the audit firm is being monitored. A certified quality control inspector carries out monitoring of quality control system of an auditor/audit firm.

It's worth mentioning that since 1998 the Georgian Federation of Professional Accountants and Auditors (GFPAA) started the professional certification practice; the certification programme mainly complied with the educational standards of the International Federation of Accountants

(IFAC) and the thus this very fact became significant ground for the joining the International Federation of Accountants (IFAC) in 2000. After which the local programme was replaced the much more developed, world approved and acknowledged programme. On the ground of the recommendations from the IFA and foreign partners the programme of the Chartered Association of Certified Accountants (ACCA) was selected and since 2001 and later began its adaptation into the Georgian language.

4. Discussion

Coming out from the above-mentioned, is obvious that modern world faces the necessity of considering the existed requirements and their implementation into the practice. Nowadays, the importance of the financial statement and audit is indisputable for the efficient functioning of the economic units. Moreover, that means the sharing and usage of the international experience of the professional acknowledgement in the field of accountancy and audit. This goal is achieved only by receiving higher education in accounting statement.

In addition, it must be mentioned that in the public sector, a long-term prospect of the supervision will be effective if the internal national supervisory bodies and inspectors carry it out. Who have complete understanding of those cultural and legislative specifications within the framework of which the audit activities are carried out, furthermore, will also be used the results of the monitoring held by the regulators of the other countries.

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