

**Accounting and Auditing Standards
Community of Practice (A&A CoP)
STAREP**

**Transposing the Accounting Directive
in **Georgia**: status and main challenges**

BACKGROUND INFORMATION

- 1. There is no specific institution responsible to prepare transposition tables in Georgia. The tables were separately prepared by the Georgian Federation of Professional Accountants and Auditors (on voluntarily bases) as well as the representatives of the World Bank (as part of ROSC Report) and the two tables were then agreed between these parties.*
- 2. Responsibility to implement requirements of Accounting Directive lies on Georgian government as stated in the Association Agreement signed between Georgia and EU. However the agreed transposition table mentioned above will be used by the Government.*
- 3. The table is not public in Georgia yet, as the Government has to make a decision how to implement requirements of Accounting Directive.*
- 4. There is a commission formed recently by the Government which will be responsible to implement changes in accounting and audit legislation and to align these fields to EU relevant legislation*

ACCOUNTING DIRECTIVE: CHAPTER I - SCOPE, DEFINITIONS AND CATEGORIES OF UNDERTAKINGS AND GROUPS

- 1. No PIEs are defined in the national legislation. This makes a very big difference from the directive. Georgian law has a concept of entities, which are required to undergo statutory audit, and which may be viewed as something close to PIEs, but the absence of the term poses problems. We think that it would be necessary to make such a definition in the law.*
- 2. Participating interest and Related parties are not directly defined in the A&A Law.*
- 3. A&A Law does not include the definition of Parent Undertaking.*
- 4. There is no materiality definition in A&A Law.*
- 5. The thresholds of companies that are defined by the Georgian government are significantly different from the directives. Micro enterprises, in addition, are a completely different notion in Georgia and have very low thresholds. In addition, the definitions of the sizes of companies in the A&A Law are incompatible with EU requirements as defined by the directive.*

ACCOUNTING DIRECTIVE: CHAPTER II - GENERAL PROVISIONS AND PRINCIPLES

- 1. The requirements of Article 5: General Disclosure need to be defined in the law: the document containing the financial statements shall state the name of the undertaking and information prescribed by points (a) and (b) of Article 5 of Directive 2009/101/EC.*
- 2. The substance over form principle should be given from the law (Article 6, paragraph 1 (h)).*
- 3. The requirement that the opening balance sheet for each financial year shall correspond to the closing balance sheet for the preceding financial year is not given in the legislation.*

ACCOUNTING DIRECTIVE: CHAPTER III - BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

- 1. There are no provisions on the requirements of Article 11 paragraph 3: Whether particular assets are to be shown as fixed assets or current assets shall depend upon the purpose for which they are intended.*
- 2. The value adjustments with respect to current assets are not provided for by the legislation. Only inventories are covered.*
- 3. No requirements for writing-off the assets where the useful life of goodwill and development costs can not be reliably estimated.*

ACCOUNTING DIRECTIVE: CHAPTER IV - NOTES TO THE FINANCIAL STATEMENTS

- 1. There are no provisions in the law for all undertakings to disclose information in accordance with Article 16 of the directive.*
- 2. There are no specific disclosure requirements for PIEs, for medium sized and large undertakings. These concepts first need to be defined and then disclosure requirements be provided in the law.*
- 3. The same applies to groups and their sizes. The sizes of the groups are not defined and no specific requirements for group disclosures.*

ACCOUNTING DIRECTIVE: CHAPTER V - MANAGEMENT REPORT

- 1. Requirements to prepare a management report for any types of undertakings are not provided in A&A Law*
- 2. Contents of the management report is not defined by the legislation. The term itself needs to be defined in the law, its purpose and the minimum content of this document as well as the indications that the management report should give.*
- 3. The requirement for corporate governance statement does not exist. It needs to be required by the law and its contents and purpose defined.*

ACCOUNTING DIRECTIVE: CHAPTER VI - CONSOLIDATED FINANCIAL STATEMENTS AND REPORTS

1. *The A&A Law needs to define parent undertaking and a subsidiary undertaking.*
2. *Scope of consolidated financial statements needs to be defined for all types of companies as today it exists only for banks derived from the banking law.*
3. *Where there are differences between IFRS and this directive the issues need to be addressed by writing them in legislative documents.*
4. *No rules exist for exemption from consolidation requirements.*
5. *No requirement exists, that assets and liabilities of undertakings included in a consolidation shall be incorporated in full in the consolidated. The same applies to incomes and expenditures.*
6. *No requirements in legislation for the situation where the composition of the undertakings included in a consolidation has changed significantly in the course of a financial year.*
7. *No specific rules in A&A law for the accounting of associate undertakings. The term needs to be defined by the law.*

ACCOUNTING DIRECTIVE: CHAPTER VII - PUBLICATION

- 1. Publication requirements do not exist. Only banks are obliged to publish financial statements without management report. The requirement needs to be applied to entities depending on their size and be reflected in the law.*
- 2. The same applies to the publication of consolidated financial statements.*
- 3. There are no responsibilities for drawing up and publishing the financial statements and the management report, which need to be defined.*

ACCOUNTING DIRECTIVE: CHAPTER VIII - AUDITING

1. *The requirements of Article 34 that all PIEs, large and medium sized undertakings must be audited by statutory auditors does not exist in the national legislation.*
2. *Requirements of Article 34 regarding expressing opinion on management report's compliance with financial statements does not exist in the national legislation*
3. *Requirements of Article 34 regarding expressing opinion on whether management report has been prepared in accordance with the applicable legal requirements does not exist in the national legislation*

ACCOUNTING DIRECTIVE: CHAPTER IX - PROVISIONS CONCERNING EXEMPTIONS AND RESTRICTIONS ON EXEMPTIONS

- 1. Main differences arise because micro-undertakings are a completely different notion in Georgia.*
- 2. There are no exemptions for subsidiary undertakings.*
- 3. Since there are no PIEs defined, the respective restrictions or exemptions do not exist.*

ACCOUNTING DIRECTIVE: CHAPTER X - REPORT ON PAYMENTS TO GOVERNMENTS

- 1. No definitions exist at all regarding the reporting on payments to governments. The contents of the whole chapter are not addressed in the Georgian legislation.*
- 2. Therefore, no respective penalties are defined.*

REGULATION ON THE APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS

- 1. Georgian A&A Law states that IFRS and IFRS for SMEs are adopted directly. The entities which are required to undergo statutory annual audit are also required to have their financial statements prepared in accordance with IFRS. These are generally financial and insurance institutions as well as some other entities defined by the Government. Small and medium sized enterprises are entitled to use IFRS for SMEs in preparing their financial statements. These requirements are posed to individual financial statements rather than consolidated statements, which are not addressed directly in the A&A Law.*
- 2. Which version of IFRS is applied in your country? How often is the translation updated? Who is responsible for translation?
GFPAA is responsible for translation. Currently, the latest version of IFRS translated and issued is that of 2014, however the latest version adopted by the respective normative acts is that of 2004.*

CONCLUSIONS

From Georgia perspective next steps will be that Government to approve ROSC report prepared by WB, which incorporates Transposition Tables for Audit and Accounting directives.

Additional support will be needed from CFRR team when we will start drafting legislation and forming public oversight body

We expect that major changes in Georgian legislation which will be in compliance with the relevant directive will be done by the end of 2015