

IFRS IMPLEMENTATION IN POST-SOVIET COUNTRIES: THE GEORGIAN EXPERIENCE

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Zurab Lalazashvili, GPFAA Chairman



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About GFPAA

Georgian Federation of Professional Accountants and Auditors (GFPAA), full member of IFAC, is a non-governmental, non-commercial professional organization established in 1998.

Basic organizational structure of GFPAA:

- General Meeting
- Chairman
- Executive Board
- Committees:
 - Standards and Practice
 - Education and Certification
 - Membership and Ethics
 - Tax and Business Law
 - Quality Control



About GFPAA (Cont.)

Initiatives and Achievements

- Law on regulation of accounting and reporting
- Self-regulation of accounting profession
- Institute of Professional Accountants (training centre)
- Approved system of education, training and certification of professionals in practice
- International Standards on Auditing and International Accounting Standards recognized as national standards in Georgia
- Translation of international standards and development of supporting literature
- Publication of comments to Tax Code
- Introducing quality control system on voluntary bases for corporate members



IFRS Implementation

- Georgia's financial reporting is governed by the Georgia Law on Regulation of Accounting and Reporting enacted in 1999.
- The law provided for the establishment of the Accounting Standards Commission at the Parliament of Georgia, which is mandated to (i) approve translated IFRS and (ii) approve temporary accounting standards not covered by International Financial Reporting Standards (IFRS) but relevant to Georgia for use in the country
- Commission has neither offices nor budget and was therefore unable to carry out its mandate.



IFRS Implementation (Cont.)

- The law required the adoption of IFRS by all entities of private law.
- Although GFPAA translated almost all versions of IFRS into Georgian, Last approved Georgian version of IFRS is 2004 edition.
- Major barrier to the adoption of IFRS in Georgia is the compliance gap.
- Only companies which are audited by leading audit firms prepare financial statements under IFRS
- Other companies' compliance with IFRS is very poor



IFRS Implementation (Cont.)

- There was a project financed by USAID in 1998 – 2000 to help companies adopt IAS
- Intensive training in IAS and ISAs were provided
- Many of companies and professional accountants and auditors participated in this project
- The project was successful and has good results and feedback
- But as there was no single agency responsible for supervision of the accounting and auditing professions, implementation and use of IFRS, and enforcement of International Standards on Auditing (ISA), the results could not be maintained.



ISA Implementation

- Auditing in Georgia is governed by Georgia's Law on Auditing (Audit Law) enacted in 1995
- According to that law Auditing Council (Council) at the Parliament of Georgia was created.
- Council's roles are:
 - Certifying auditors – individuals
 - Licensing audit firms
 - Adoption of audit standards
 - Quality control of audit firms
 - Maintaining audit register



ISA Implementation (Cont.)

- Before 2005 all companies were subject to mandatory audits
- Licensing of auditors and mandatory audits for companies except listed ones, financial institutions and issuers of securities were abolished in June 2005
- The functions actually performed by the Council are:
 - Certifying auditors
 - Maintaining audit register
- The only audit standards adopted in Georgia are ISAs
- There is a significant compliance gap due to the limited use of these standards outside the leading audit firms and don's having quality control assessment process.



Proposed Regulation

- A new law on accounting and auditing completely overhauls Georgia's accounting and auditing practice and supervision architecture.
- It provides for the application of harmonized, IFRS-compliant accounting disclosure standards for all companies in Georgia except SMEs
- It facilitates the automatic import of IFRS and ISA updates
- Proposed law based on the European Union's 8th Directive
- Only members of professional organizations (who have IFAC membership) to practice as auditors in the country.



Proposed Regulation (Cont.)

- This provision regulates entry into the accounting and auditing profession by raising professional entry barriers, consistent with international best practice. Accountants will be certified by their (IFAC member) professional organization subject to their meeting its continuing professional education, ethical, and other requirements.
- The law proposes the creation of a new government agency (similar to the Public Company Accounting Oversight Board of the US or the FRC of the UK) with powers to register in State Register auditors, subject to their certification by their professional organization.



Proposed Regulation (Cont.)

- This new agency will be responsible for the prudential oversight of Georgia's professional accounting and auditing body, thereby maintaining a balance between autonomy and accountability.
- The law introduces ISA-compliant quality control standards and procedures for audits undertaken by members of a professional organization or organizations.
- The law mandates the organization to have effective mechanisms to enforce compliance of such standards by its members.
- The law makes it mandatory for all audit companies to have professional indemnity insurance.

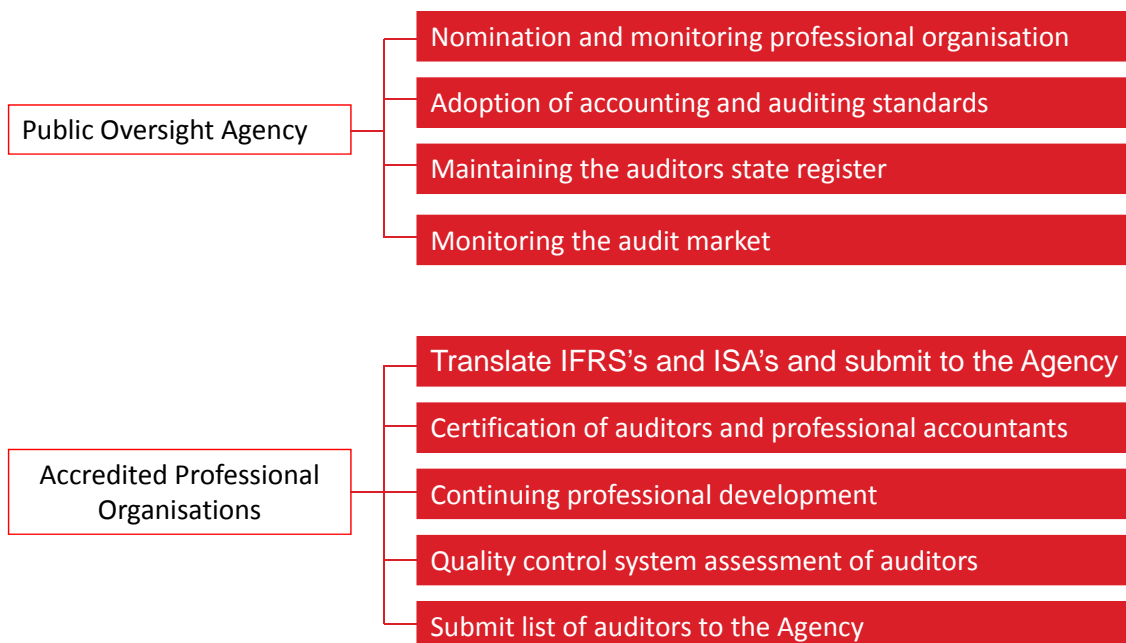


Proposed Regulation (Cont.)

- It also establishes reporting hierarchies to be deferred based on the reporting levels and the standards applicable to each level, and it will determine the level each reporting entity will use.
- In summary, the draft proposed law addresses the important deficiencies in the regulation of Georgia's accounting and auditing professions. By improving accounting and auditing standards, it will increase the value of audited financial statements as a basis for rational investment or credit decisions. Importantly, it seeks to discipline the profession, demanding from it accountability while granting it professional autonomy.



Proposed Regulation (Cont.)



Future prospects

- Engaging auditors in tax inspection process



Annex - Translation of Professional Standards by GFPAA

IFRS:

- 1999
- 2000
- 2004
- 2008
- 2009
- 2010, translation finished, publication in progress

ISA:

- 1998
- 2000
- 2004
- 2007
- 2009
- 2010, translation finished, publication in progress

IFRS for SMEs:

- Translated in 2010. Waiting for new law for publication

