

# **Law of Georgia**

## **On Audit Activities**

### **I. General Provisions**

#### ***Article 1.***

Audit activities in Georgia are regulated by the present Law and other legislative acts of Georgia.

The Law of Georgia “On Audit Activities” determines the legal bases of executing an audit in Georgia and regulates the relevant terms of this activity.

The present Law applies to the audit examination of activities of all entities that are created in accordance with the legislation of the Republic of Georgia.

#### ***Article 2.***

Audit activities include the audit examination (audit), rendering of audit services, and organizational and methodological provision of an audit.

Audit examination (audit) is carried out by auditors and audit firms to determine fairness, completeness, compliance with acting legislation and normative acts of business activities, public accounting and reporting, taxation and business-financial activities and charter requirements of the entity.

Audit services include accounting services, expert examination and consultation services in finances, tax and other spheres of business law.

Audit activities are carried out by specially authorized Georgian state bodies independent from the entity’s financial control.

#### ***Article 3.***

Audit examination (audit) is carried out in cases determined by the acting legislation (compulsory audit), and also at the entity’s initiative (voluntary audit) on the basis of an appropriate contract.

Law enforcement agencies have the right in accordance with the Georgian legislation to invite an auditor (an audit firm) for audit examination of the entity. The work of the auditor is compensated by the client.

**Article 4.**

An auditor is a natural person who holds an auditing qualification certificate issued by the Audit Activity Council within the Parliament of Georgia. He/She carries out audit activities independently and/or through an audit firm.

**Article 5.**

An audit firm is an enterprise which holds a license to carry out audit activities on the territory of Georgia and the only goal given in its charter of which is audit activities.

The audit firm and its branch is given the right to carry out audit activities only when it employs at least one auditor.

**Article 6.**

An auditor's opinion is an official document compiled in accordance with appropriate rules and attested by the signature and seal, where the opinion on the fair representation of entity's financial statements, financial-business activities, completeness of accounting and its compliance with the acting legislation and determined normative acts is expressed.

Where audit services are provided in the form of an expert examination, an expert opinion or act is issued. Audit consultations to entities could be provided orally or in writing on the basis of an appropriately signed certificate or any other official document.

## **II. State Regulation of Audit Activities and Self-Regulation**

**Article 7.**

State regulation of audit activities implies:

- a) legislative provision for an audit;
- b) attestation of auditors;
- c) licensing of audit activities.

**Article 8.**

For execution of the state functions of audit activity regulation, the Audit Activity Council within the Parliament of Georgia upon the resolution of the Parliament of Georgia, is hereby formed.

Authority and functions of the Audit Activity Council are determined by this Law and the Charter of the Audit Activity Council, which is duly approved by the Parliament of Georgia.

### **Article 9.**

The Audit Activity Council is authorized to :

- a) develop standards and methodological guidelines for audit execution;
- b) develop and approve qualification requirements for auditor attestation and approve provisions on attestation procedures;
- c) develop and approve the provision on licensing audit activities;
- d) develop a system of training and retraining the audit cadre (qualification upgrading), auditor attestation, licensing of audit activities; maintain a general state register of auditors and audit companies;
- e) maintain an unified register of auditors and audit firms;
- f) legalize documents on audit activities issued in other countries for the territory of Georgia and license foreign auditors (audit firms);
- g) resolve other issues related to the state regulation of audit activities, also perform quality control over auditors' (audit firms') work, discover facts of violation by them with respect to Georgian legislation, audit standards, requirements of Ethics Code for Auditors, provisions and normative acts and react appropriately.
- h) obtain and analyze annual reports on activities of independent auditors and audit firms.

It is permissible to delegate certain issues within the authority of the Audit Activity Council to self-regulatory non-governmental unions of auditors.

### **Article 10.**

Attestation of auditors (determination of qualification level) is executed by the Audit Activity Council within the Parliament of Georgia.

Natural persons having high or secondary special economical or legal education, with at least 5 years of work experience as auditors, specialists in audit firms, accountants,

economists, inspectors, lawyers, enterprise managers, scholars or teachers in economic disciplines, are eligible to attestation.

Where the attestation examination is passed, the person obtains a qualification certificate, validation period of which does not exceed five years.

#### **Article 11.**

Auditors and audit firms on the territory of Georgia can engage in audit activities only after obtaining the license.

License of audit activities is granted by the Audit Activity Council.

Attested auditors and state registered audit firms have the right to obtain the license of audit activities. The validation period of the license does not exceed five years.

Licenses will separately be granted for:

- a) bank audit
- b) audit of insurance agencies;
- c) audit of exchange, non-budgetary funds and investment institutions;
- d) general audit (audit of other entities).

Auditor or audit firm can obtain an audit license in one or several fields.

Specific terms of the audit licence are determined by a special provision approved by the Audit Activity Council.

#### **Article 12.**

Public accounting includes an auditor's opinion, balance sheet, income statement, other financial and accounting statements, which do not carry commercial secrets and are determined by the acting legislation for presentation to users of financial and accounting information and for publication in the press.

#### **Article 13.**

Users of financial and accounting information are representatives of state governance bodies determined by the Georgian legislation, natural persons and legal entities interested in business results of the entity, among those: owners, founders, creditors, investors and other individuals eligible by the acting legislation to obtain information presented in accounting and financial statements.

**Article 14.**

The entity manager is responsible for correct compilation of accounting and financial statements and their presentation to users.

**Article 15.**

The audit is compulsory for:

- a) those entities whose organizational-legal form in accordance to acting legislation implies limited ownership responsibilities of their owners;
- b) banks, insurance companies, non-budgetary funds, stock and commodity exchanges;
- c) security issuers and investment institutions;
- d) other entities whose list is annually approved by the Ministry of Finance of Georgia.

**III. Regulations and Terms of Implementation of Audit Activities**

**Article 16.**

The audit shall be carried out on the grounds of agreement made between the auditor (audit firm) and the customer.

Audit service provided in the form of consultations may be rendered on the basis of an agreement, the written or verbal request of the customer to the auditor (audit firm).

The agreement between the auditor (audit firm) and customer shall provide for the subject of the audit, the term and volume of auditor's service to be rendered, the rate and terms of remuneration and the responsibility of the parties, etc.

The remuneration of auditor's services under agreement cannot be linked with the excepted amount of reduction in taxes as result of the examination.

The subject and terms of the agreement shall be confidential.

**Article 17.**

Entities shall have the right to choose an auditor (audit firm). Auditors are independent from their clients as well as from third parties, including governmental bodies and from owners and management of the audit firm where they are employed.

**Article 18.**

The fulfillment of the terms of an agreement by the auditor (audit firm) shall be finalized by the delivery and acceptance of an audit opinion. The audit opinion shall be made in proper form and proved by the auditor's signature.

**IV. Rights and Duties of Audit Activities Parties**

**Article 19.**

Auditors (audit companies) have the right to:

- a) determine on his own the forms and methods of an audit on the basis of acting legislation, norms and standards, terms of signed agreement with the client and professional knowledge and experience;
- b) obtain all required documents concerning the subject of an audit which are in hands of the client or third parties. Third parties possessing such documents shall provide them to the auditor (audit firm) at the request verified by the client.
- c) obtain all required comments concerning the subject of the audit from management and employees of the client in written or oral form;
- d) check the whole volume of documentation of an entity concerning its financial and business activities, cash available, securities, inventory; demand to carry out control measurements, determination of quality of products and conduct other works from the management of the entity;
- e) invite specialists of various background to participate in examinations on a contractual basis.

**Article 20.**

Auditors (audit firm) are obliged to:

- a) follow all legal requirements of the Republic of Georgia, current auditing standards, requirements of the Ethics Code, regulations and normative acts of the Republic of Georgia while carrying out the audit;
- b) arrange the qualified audit service, check the state of accounting and reporting of a client, their fairness, completeness, conformity to the acting legislation and fixed norms;
- c) inform the client and, in case of special application, - the owners, their trustees, on the deficiencies discovered in accounting and reporting during the audit.

- d) ensure the information obtained during the audit remains confidential, not disclose information containing commercial secrets except in cases stipulated by the legislation of Republic of Georgia, and not use them for private interests and the interests of third parties;
- e) not allow to advertise of business skills - both of their own and of third persons.

**Article 21.**

The audit shall not be allowed when:

- a) auditors are close relatives of the next of any of managers of the entity to be examined;
- b) auditors are linked with the audited entity by private property interests;
- c) auditors are employees, owners, founders or members of management of the audited entity;
- d) auditors are either employees or owners of any subsidiary, branch or representative.

**Article 22.**

Entities, the activity of which is subject to compulsory audit control, shall inform the Tax Inspection of a signed agreement for audit services by December 31 of the reporting year. The audit opinion shall be submitted to the Tax Inspection together with the Financial statements.

An audit opinion on state funds and other entities defined by the Ministry of Finance should be submitted to the Ministry of Finance.

**Article 23.**

The management of the audited entity shall undertake:

- a) to submit to the auditor (audit firm) all required documents for the performance of the audit; provide at the request of the auditor any explanations, orally or in writing, related to subject of the audit without delay and create conditions for performing the audit;
- b) to eliminate in a timely basis deficiencies revealed during the audit .

**Article 24.**

An auditor (audit firm) who does not fulfil his duties in a proper manner bears the property and other types of responsibilities in accordance with the acting legislation of Georgia and the signed agreement with the client.

The level of property responsibility of an auditor (an audit firm) cannot exceed the amount of actual losses incurred by the client at the fault of an auditor. The property disputes between an auditor (audit firm) and a customer shall be settled by the court as provided by the acting legislation.

**Article 25.**

An audit license on audit can be withdrawn by a decision of the Audit Activity Council in the following cases:

- a) on establishing facts of performing a low quality audit;
- b) as a result of deliberate violation of the acting legislation of Georgia, audit standards and Ethics Code of auditors while carrying out the audit;
- c) if after the issue of license it is revealed that doubtful information was provided by an auditor (audit firm) for obtaining the license;
- d) if an auditor (audit firm) carries out an audit not stipulated in the license.

In other cases stipulated by acting legislation, the order of withdrawal of license on audit shall be determined by the Audit Activity Council.

**Article 26.**

An auditor (an audit firm) has the right to appeal the decision of the Audit Activity Council on refusal of issuing a license or its withdrawal to the court; he also has the right to apply for an audit activity license a second time after a year following the time of withdrawal.

*Chairman of the Parliament of Georgia  
Head of State*

*Eduard Shevardnadze*

*Speaker of the Parliament of Georgia*

*Vakhtang Gogvadze*

*Tbilisi*

*07.02.1995, N623-11s*

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