

# **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

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<sup>0</sup>the

**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) 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