

**GEORGIA ENTERPRISE  
ACCOUNTING REFORM**

**FINAL REPORT**

January 2001

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## **Executive Summary**

SIBLEY International Corporation, Washington, D.C., successfully executed the Georgia Enterprise Accounting Reform Project (GEAR) from September 30, 1997, to December 31, 2000, complying with the requirements of Contract EPE-I-03-95-00078-00 from the United States Agency for International Development (USAID). The primary goal of the project was to develop enterprise market economy accounting and auditing in Georgia in the aftermath of the collapse of the Soviet Union. The Project worked within the sphere of ministries, effectively interfacing when appropriate with the Georgian Ministry of Finance (MoF), Ministry of Revenue (MoR), Ministry of Tax Revenue (MoT), Ministry of Justice (MoJ), and Ministry of Education (MoE). Further, the Project staff worked with the National Bank of Georgia as well as several Parliament committees, the Securities Commission, institutions of higher education, and a professional body of accountants and auditors (the Georgian Federation of Professional Accountants and Auditors). With Sibley International as the prime contractor, the other Project Team members included Carana Corporation and Barents Group LLC as subcontractors.

The original contract for this Project ended on October 31, 1999, and a contract modification extended the Project until December 31, 2000. The tasks completed by the Project have contributed to Georgia's ongoing transition from a command economy to a market economy, thereby fulfilling USAID's strategic objective to accelerate development and growth of private enterprises. During the Project's 3-year period, it focused on the following activities: (1) establishing a fully functioning legal and regulatory framework for the adoption and full implementation of International Accounting Standards (IAS) and International Standards of Auditing (ISA); (2) developing professional capacity and technical methodologies at enterprises and implementing the conversions of enterprises to be IAS compliant; (3) developing the institutional capacity of a self-regulating organization (SRO) for professional accountants and auditors; ensuring that the SRO is internationally recognized and able to continue reform without USAID assistance; and developing and implementing a training, testing, and certification program (TTCP) for the SRO; (4) developing new accounting and audit curricula for higher education institutions and training faculty; and (5) using a public education program and in-depth training to aid people who use accounting information, such as auditors, tax inspectors, enterprise financial managers, investors, shareholders, and creditors.

When the Project started at the end of September 1997, the accounting and auditing framework in Georgia had not progressed beyond the former Soviet methodology for accounting and auditing systems. For example, the MoF administered a "statutory accounting" system and oversaw accounting standards and technical responsibility for accounting. Similarly, the government's Council of Auditors established auditing standards and technical responsibility for auditing. Also, two professional organizations for accountants and/or auditors had formed in 1996, but one had a limited role and was not sustainable either technically or financially; the other favored a German statutory accounting model.

Furthermore, educational reform meant developing new curricula for institutions of higher learning and extensive training for the faculty. Overall, accomplishing the tasks related to Georgia’s institutional, legal, and regulatory framework meant repositioning the framework from a “statutory accounting” system to a “financial accounting” system that would address the needs of the people who use financial information.

While the Project’s accomplishments stand on their own, one also needs to understand the context in which the Project worked. As the Project focused on accounting reform and development, USAID simultaneously funded other related reform programs: tax reform, capital markets, and bankers’ training. The intention was for all Projects to work closely, with the achievements of one impacting the progress of the others.

In April 1998, seven months after this contract began, USAID and many of its contractors in the region met in Almaty, Kazakhstan, to discuss “best practices” in accounting reform. Two outcomes from that meeting effected major portions of this Project’s work plan. First, participants decided that the preferred “best practice” for a training, testing, and certification program (TTCP) would be to use existing programs that taught IAS/ISA-based accounting. The accounting and auditing SRO in Georgia, however, had already developed and started conducting its own TTCP adapted from other guidelines; this change meant the SRO needed to shift from one TTCP system to another. Second, regarding the topic of converting enterprises, participants at the Almaty conference changed the favored “best practice” of converting all the financial components of a few enterprises (a pilot approach) to “mass” conversions. In mass conversions, hundreds of enterprises convert their financial statements to an IAS-based Chart of Accounts after relatively short and intensive training. As the Project had already begun the pilot approach, this decision also required the Project to alter its work plan.

### **Goals Achieved**

The Project Team fulfilled six major tasks from the original contract and completed five major tasks during the extension period by providing assistance and working with various local entities. These entities included governmental, educational, and professional institutions as well as private enterprises, local media, and individual citizens. The outcomes of the tasks have had immediate impact on reforming accounting and auditing practices in Georgia, including greater financial transparency. These initial improvements already have helped spur reforms and will continue to prompt reforms and stimulate the country’s economic development. Enterprise managers, for example, have the “tools” to improve their decision-making skills, and some businesses are allocating their resources more efficiently, thereby improving profitability where possible. Another considerable achievement is that the Project nearly has created a new profession in Georgia. There were bookkeepers in Georgia before this Project, but soon the country will have accountants who have been trained, examined, and certified to have the same skill sets as Western professional accountants. This profession did not exist before this Project’s work. Also, these skilled accounting and auditing professionals will help attract investments, as potential capital investors require a clear picture of an enterprise’s

financial well-being. As other economic and political conditions improve in Georgia, the results of this Project will encourage investors to act.

Below are highlights of the Project's initial and expected impacts. (For more details and/or statistics, please see the body of this report and the appendices. See also Appendix A – Tangible Results.)

### **Initial Impact**

- The Government of Georgia (GoG) adopted new accounting standards in full compliance with IAS, as well as a new Chart of Accounts. Parliament adopted the IAS as the Georgian Accounting Standards without making any changes.
- Georgia adopted new auditing standards in full compliance with ISA without making any changes. Adopting these internationally recognized standards without adapting them was unprecedented in the Former Soviet Union (FSU).



**Marina Purtseladze accepts her certificate following an ACCA examination.**

- The Georgian Federation of Professional Accountants and Auditors (GFPAA) was established as an independent SRO and is working toward self-sustainability. This internationally and nationally recognized organization continues to develop the accounting and auditing profession in Georgia, ensuring that practitioners meet international standards and recognition and have internationally recognized professional certification.
- The GFPAA tallied 1,592 members at the end of November 2000.
- The Project facilitated a partnership between the GoG and the private sector, resulting in the GoG transferring authority and responsibility to the GFPAA for developing accounting standards. In the new system, the association examines standards and then

passes them to the MoF for review and approval. In fact, the new accounting standards were adopted using this system of cooperation.

- The new accounting law transferred the responsibility of training, testing, and certifying accountants from the GoG to the GFPAA.
- The accounting law required joint stock companies (JSCs) to comply with Georgia Accounting Standards by January 1, 2000, and limited-liability companies (LLCs), by January 1, 2001.
- 1,771 accountants and auditors, including 150 tax inspectors, received training in the methodology for converting enterprises to IAS accounting.
- A critical mass was reached in the number of enterprises having undergone financial conversions to IAS. A total of 535 enterprises were converted (284 non-JSCs; 251 JSCs). Benefits of this financial transparency include the following:
  - Assisting capital market development;
  - Help with accessing loans and other credit vehicles; and
  - Attracting direct foreign investment.
- Fifteen (15) Georgian audit companies received training in the conversion process and now can provide financial conversions to the remaining JSCs and LLCs. Local audit firms participated in 314 of the 535 conversions, conducting 99 of them without Project assistance. Thus, audit companies now have business tools to become stronger and financially self-sustaining providers of professional services.
- Fifteen (15) audit firms received basic training in developing their capacity to perform audits using internationally accepted practices. With this training, they can assist in providing financial information for potential foreign investors and certify compliance with the new local laws. The Project has provided skill sets to these audit firms that could increase the firms' prosperity as the demand for financial information and services increases.
- The Tax Reconciliation Form, a new form, makes an effective link between enterprises converted to IAS and the Georgian tax inspectorate. The form adjusts IAS-based income to taxable income, allowing enterprises to eliminate the former Soviet-based statutory accounting practices.
- Twenty-one (21) Georgian enterprises received direct assistance from the Project Team about cost accounting. The Project's cost-accounting model often revealed how reallocating an enterprise's costs could increase its opportunities for survival.
- Georgian accountants now train using the GFPAA's Training, Testing, and Certification Program (TTCP), which was developed from materials acquired through the internationally recognized Association of Chartered Certified Accountants (ACCA), a professional organization from the United Kingdom. These materials also

meet guidelines set by the International Federation of Accountants (IFAC) and the United Nations (UN), and are based on IAS and ISA.

- The success rate of Georgians participating in the English-language ACCA training is in line with those of other ACCA participants globally, and now these Georgians act as a local pool of IAS instructors.
- People who use financial information were educated in understanding and utilizing IAS-based accounting information through a public education program and several courses. These users included 25 members of the Securities Commission, stock exchange, and brokerage houses; 18 enterprise managers; 175 staff members of the Georgian tax authority; and 37 accountants from the energy sector.
- A total of 393 accountants and auditors took courses on managerial accounting, which provided a basis for enterprises to implement cost accounting and break-even analysis.
- The Project developed a course for tax inspectors, with 500 tax inspectors expected to complete basic training in accounting and auditing by the end of February 2001.
- Four (4) Georgian auditors completed a one-month training-of-trainers course to conduct a practical course on audit engagement. A group of local university professors will tailor the course to Georgia's needs and begin presenting it in 2001.
- Georgian higher education institutions started to develop new curricula based on IAS and ISA. This action will ensure that future generations of accountants are trained to meet the needs of the Georgian economic market. Four institutions targeted by the Project amended their curricula for introductory accounting courses and introduced pilot programs of these courses in September 2000.

### **Expected Impact**

- Modern accounting practices could stimulate further changes in the legal and regulatory framework—specifically the audit law.
- The reformed accounting practices will improve corporate governance and lead to increased investor confidence in Georgia.
- Georgian enterprise managers and owners making business decisions using IAS-based financial information will encourage the growth of capital markets and entrepreneurship, and enhance Georgia's participation in the global economy.
- Transparency of the new accounting and auditing practices provides the Georgian government a strategic step toward regaining the public's confidence.

### **Words of Encouragement**

Seven months after the Project began, in June 1998, the Georgia Enterprise Accounting and Audit Reform Conference took place in Tbilisi. The Charge d'Affaires at that time for the American Embassy in Georgia, Martin Adams, spoke at the gathering and recognized the importance of accounting and auditing reform for the whole of Georgia. Below are excerpts from his remarks at the conference:

Over the past several years, Georgia has made impressive progress toward economic recovery. The currency has been stabilized, inflation has been reduced significantly, and economic growth has been buoyant. The decisions that led to these gains have not always been easy ones for the Georgian government and its people to take. Equally difficult decisions lie ahead. We believe, however, that while the path to economic reform may sometimes be a rocky one, the rewards of a strong, open, market-driven economy are indisputable.

The United States government, through the U.S. Agency for International Development (USAID), is pleased to be able to support Georgia's economic reform efforts...USAID's Georgian Enterprise Accounting Reform (GEAR) project is an integral component of the USAID's program because accounting is crucial to the efficient allocation of resources in a market economy, in both the private and public sectors. In the private sector, accounting and reporting of financial information at the enterprise level guides capital flows and provides the basis for maximizing enterprise efficiency and profitability. Transparent and reliable financial information is necessary for the investment community to make investment decisions. The GEAR effort will assist Georgia in adopting accounting and auditing practices that are recognized and accepted by the international business and investment communities.

Today, not only accountants and auditors, but entrepreneurs, government, and the academic community are interested in the adoption of international standards of accounting. The training of highly qualified Georgian accountants—who will help carry Georgia's economic development into the 21st century—is important for the long-term success of this program and will be a key contribution to successful economic reform. I hope that the initial efforts begun in accounting and auditing reform and discussed at this conference will continue. This will contribute substantially to the development of financial markets, as well as the growth of Georgia's entire market economy.

### **Georgia's Future**

While Georgia's market economy remains in its infancy with residual concerns, such as corruption impeding its progress, the country has begun taking steps to place itself in the community of nations that practice democracy and a free marketplace. A stable economy

could significantly support achieving these goals. Sibley International is pleased to report the results achieved in this Project, recognizing that it has helped create a firm foundation of accounting practices upon which Georgia's economic future can be developed, measured, and strengthened.



**Nodar Kabadze (center), Chair of Georgia's Audit Activity Council, listens to comments from Michael Farbman (left), Mission Director for USAID/Caucasus.**

## **I. Background and Objectives**

In the early 1990s, several events immediately and negatively impacted Georgia's economy. While the collapse of the Soviet Union in 1991 led Georgia to declare its independence, Georgia's economy quickly faltered. Its gross domestic product (GDP) dropped 44.2% in 1992, 29.3% in 1993, and 11% in 1994. Also, soon after declaring its independence on April 9, 1991, Georgia faced ethnic and civil conflicts from armed separatists in the regions of South Ossetia and Abkhazia. Ceasefire agreements were eventually reached with the regions in 1992 and 1994, respectively, but by that time, more than 230,000 people had been displaced. The conflicts and upheaval of 230,000 dispossessed people further burdened—and still negatively impact—Georgia's economy. Missions from the Organization for Security and Co-operation in Europe (OSCE) and the United Nations (UN) continue to negotiate for peaceful political settlements in South Ossetia and Abkhazia, respectively, while peacekeeping forces from other nations monitor the ceasefire operations.

Georgia's economy stabilized in the mid-1990s after the government initiated changes toward democracy and a free market economy. Parliament established the State Constitutional Commission in 1993 to review and revise the constitution, and in 1995, Georgia became a democratic republic after Parliament adopted the new constitution and the presidential elections were held. Economic reforms during those years included improving taxation and banking systems, liberalizing trade and currency exchange, and introducing a privatization policy and a national currency. President Eduard Shevardnadze has continued similar reforms, and international organizations have offered assistance to develop Georgia's free market potential. USAID's market reform programs in Georgia have addressed, for example, tax and fiscal policy, banking, private enterprise, capital investment, commercial law, market development, accounting reform, land privatization, and corruption. A major achievement in Georgia's development was its accession in October 1999 to the World Trade Organization (WTO).

The Georgia Enterprise Accounting Reform Project was initiated to develop market-oriented accounting practices. When the Project started, it faced an accounting and auditing system in Georgia still largely based on a Soviet statutory framework, and logically the accounting practices of enterprises and the curricula of higher-education institutes conformed to that framework. Common practices in a market economy, such as cost accounting or managerial accounting, were completely unfamiliar to many in Georgia. Any development then had to factor in not just the technical skills an individual utilizes in a market economy but how one reasons about financial information in a market economy, because an individual's role as an accountant, auditor, manager, or educator changes in comparison to a command economy. The approach is different and, thus, the decisions are different. Given this environment, the Project sometimes encountered daunting conditions while fulfilling this task order.

### **Objectives**

Acknowledging these historical, political, educational, and professional conditions in Georgia and recognizing USAID's Europe and New Independent States (ENI) Strategic

Objective 1.3 (to accelerate development and growth of private enterprises), USAID set forth the following objectives in the original 1997 contract:

- Develop an accounting and audit professional association (AAPA) as an accounting and audit self-regulating organization (SRO), and through this SRO, do the following:
  1. develop financial accounting and auditing technical basis and institutional/legal/regulatory framework for Georgia in collaboration with relevant Government of Georgia institutions;
  2. develop and test financial accounting and managerial accounting conversion methodologies, through pilot enterprise implementations;
  3. develop professional capacity in accounting and auditing by:
    - a. designing and establishing a training/testing/certification program (TTCP) for accountants and auditors;
    - b. developing a program for promoting business skills of accountants and auditors relating to marketing services; and
    - c. collaborating with education institutions and the Ministry of Education to develop curriculum reform and faculty development program.
  4. develop and implement a program for increasing awareness and knowledge of accounting information users, including managers and financial market professionals; and
  5. represent the accounting and audit professions and advocate for the professions' points of view.

Periodically throughout the course of the Project, USAID and the Project revised these objectives, when necessary, to meet specific conditions encountered in Georgia. For example, after the Almaty meeting in 1998, the preferred best practice regarding converting enterprises changed from converting all the financial components of a few enterprises over several months (a pilot approach) to “mass” conversions, whereby hundreds of enterprises converted to a Chart of Accounts based on International Accounting Standards (IAS) after short but intensive training.

The objectives during the extension period for the Project also pertained to the ENI Objective 1.3 noted above and included:

- Establishing a fully functioning framework for the full implementation of IAS and International Standards of Auditing (ISA). Establishing recognized certification and licensing of auditors in accordance with international best practices.

- Converting accounting practices of an additional 300 enterprises to IAS-compliant national accounting practices, including short-term training in the conversion process and IAS core standards. Assure that converted enterprises continue to use IAS.
- Developing the Georgian Federation of Professional Accountants and Auditors (GFPAA) as a technically and financially self-sustainable professional SRO that is a member of the international accounting and audit community, capable of carrying out accounting reform and development without indefinite USAID assistance.
- Implementing new accounting and auditing curriculum at four higher educational institutions.
- Providing more focused training for users of financial statements, auditors, tax inspectors, and enterprise financial managers (managerial training).
- Establishing and equipping three training facilities in Tbilisi, Katusi, and Batumi, and training the trainers.

Similarly, any revisions to these objectives are discussed in the Tasks and Results section of this report.

### **The Details**

The Project met these objectives by completing six major tasks from the original contract and five major tasks from the extension period; the details of this work are described in the following section, along with the benefits that were brought to a wide range of users of financial information and the development of private enterprises.

#### **Case Study: Bakery**

A bakery in Tbilisi decided to introduce a new product after the GEAR Project completed cost-accounting analyses and the conversion to IAS for the enterprise. Management concluded that a cost-accounting analysis of the new type of bread supported its production.

Making decisions using this type of accounting model was something new for this bakery, which employs nearly 100 people. Without the Project's help, management probably would have made an educated guess on what the market could bear or relied on Soviet Norms, which are standard costs set more than 10 years ago by the Soviet Union prior to perestroika

In business since the 1930s, this bakery now has management tools to compete in the new millennium.

## **II. Tasks 1–5 and Results**

### **Task 1.**

**(From contract extension: part of Task Order 1 in original Task Order)**

**Original Task Order: A fully established SRO (AAPA) responsible for:**

- (i) interpreting and disseminating financial and managerial accounting and financial auditing standards and practices...will be functioning.**

**Extension Task Order: Establish a fully functioning legal and regulatory framework for the full implementation of IAS and ISA.**

Originally this task focused on ensuring that the private sector developed Georgian Accounting and Auditing standards. Thus, the Project spent considerable effort in moving a bill through Parliament that would transfer the authority for developing accounting standards from the MoF to the private sector (GFPAA) with a parliamentary committee on accounting standards having final approval. Parliament eventually adopted the bill, and the president signed it into law on February 5, 1999. (See Appendix B for a copy of the Georgian Accounting Law.) Additionally the law requires that Georgian Accounting Standards be in full compliance with IAS and, in fact, during the contract period, the Parliament approved all standards proposed by the GFPAA and the standards are in full compliance with IAS. The law also allows the transfer of the training, testing, and certification of accountants from the GoG to the private sector (GFPAA).

Georgia thus became the second republic from the Commonwealth of Independent States (CIS) to adopt standards in full compliance with IAS. Moldova was the first, but has not maintained its standards. Armenia and Kyrgyzstan quickly followed, making Georgia one of only three republics in the CIS to have accounting standards in full compliance with IAS.

### **Chart of Accounts**

The IAS adoption plan included developing a new Georgian Chart of Accounts with related instructions, and the Project led the GFPAA in modifying the Chart of Accounts and the instruction manual. The GoG approved the Chart of Accounts and related instructions on October 26, 2000.

### **Tax Reconciliation Form**

The Project also facilitated the adoption of the IAS by assisting the MoF and Ministry of Revenue to develop and adopt a Tax Reconciliation Form, which was finally approved by the MoJ in late summer 2000. This new form adjusts IAS-based income to taxable income, allowing enterprises to eliminate the former Soviet-based accounting. With the

Tax Reconciliation Form, the IAS become the basis for tax accounting and allows those enterprises that have adopted IAS to use only IAS-based accounting.

### **Simplified Accounting**

Originally, USAID sought a simplified accounting system for small businesses in the contract extension. However, upon review and discussion with USAID, the Project and USAID agreed that this was essentially a tax policy issue and beyond the scope of the GEAR project resources. The decision was based upon an understanding that if one eliminates all users of financial statements, only one user always remains—the tax authorities. Therefore, the simplest accounting system is limited to the tax accounting rules and the tax law, which in the case of Georgia, have rather extensive accounting requirements, that is, either full IAS accounting or the old Soviet-based accounting. The only way to simplify accounting for small business was to change the tax law. Therefore, USAID eliminated this deliverable.

### **Private – Public Partnerships and Auditing Standards**

The Project sought to facilitate the formation of a partnership between the public and private sectors to effect accounting and audit reform in Georgia. Therefore, it assisted the GFPAA in developing accounting standards in full compliance with IAS, and the parliamentary committee eventually approved the standards without any changes.

Similarly, the Audit Activity Council (AAC) of the Parliament and the GoG, assisted by the Project, adopted ISA in full compliance on September 27, 1999. Thus, Georgia and Kazakhstan are the only two republics in the CIS to have auditing standards in full compliance with ISA, and Armenia expects to have ISA-compliant standards during 2001. The development of audit standards, however, still remains with the AAC. All the stakeholders are currently negotiating a new audit law (see Appendix C – Audit Law Amendments [Draft] ) that would move development of audit standards and the responsibility of overseeing the professional auditing certification and licensing to the private sector. However, there is considerable resistance among influential officials in Georgia to keep this function with the government’s AAC.

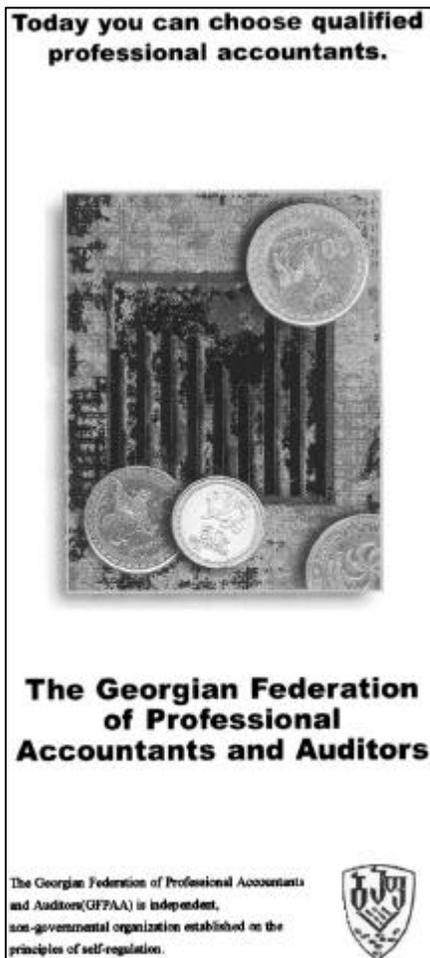
Realizing it made little difference who “owns” the standards, the Project did not consider this a major problem because all audit standards were and must remain in full compliance with ISA.

This balance between the government and private sector seems to be working well for Georgia. The Project, however, hoped that the GoG would over time delegate more responsibility to the GFPAA for development of audit standards and, particularly, the training, testing, and certification of auditors. At the Project’s close, the government’s AAC accepted the TTCP of the GFPAA for the licensing of auditors, but retained its own parallel course.

## **Public-Sector Accounting**

The transfer of self-regulating authority to the private sector is supported by the government’s desire to implement a program to introduce international standards for its own public accounting and auditing. During the latter part of the contract, USAID and the Project started discussions with the AAC that involved the AAC giving up its control over private-sector auditing in return for USAID support for a governmental TTCP for public-sector auditors. This included a TTCP for governmental public accounting and auditing. This initiative could contribute significantly to more transparent governmental reporting and auditing—assisting its anti-corruption efforts and making government more transparent and accountable, particularly now that IFAC has officially approved governmental accounting standards.

Practically, the government was and remains without the resources to regulate both private-sector and governmental accounting and auditing. Therefore, before it undertakes a program to bring governmental accounting and auditing up to international standards, it must fully relieve itself of the burden from these private-sector tasks.



Cover of a GFPA A brochure.

## **Upper Tier Joint Stock Companies For the Stock Exchange**

The Project was expected to assist the GFPA A and the Georgian Securities Commission (GSC) in developing comprehensive financial disclosure and assurance-testing requirements. To be registered in the upper listed tier, enterprises must complete compliance with IAS accounting, with no other financial reporting requirements. Therefore, the Project’s enterprise conversion training plus the Project’s and GFPA A’s professional training program (from the Association of Chartered Certified Accountants [ACCA]) provide adequate support in this area.

## **Transferring Responsibility to the GFPA A**

At the end of the project, the GFPA A had the authority to develop IAS, but final approval remains with the Parliament’s Accounting Committee. Both parties endorse the Georgia Law, which requires that accounting standards to be in full compliance with IAS. In this respect, the Project observed that this private-sector development, balanced by governmental final approval, works well for Georgia.

The Project’s initiatives in legal regulatory issues involving accounting reform should be considered

complete, with the exception of the new audit law's pending approval. Enterprises are now allowed to establish sound financial reporting, and managements have started making strategic changes that will impact the survival and profitability of enterprises. These new business tools will subsequently impact employment and the general economy of the country.

## **Task 2.**

### **(From contract extension; Task 5 in original Task Order)**

#### **Original Task Order: Enterprises using market economy accounting systems, including both financial and managerial accounting.**

#### **Extension: Convert accounting practices of 300 additional enterprises to IAS-compliant national accounting practices, including providing short-term training in the conversion process and IAS core standards.**

Initially the Project called for implementing 25 selected pilot enterprises regarding bookkeeping and accounting methodologies based on IAS. This method's objective was to develop the technical bookkeeping and accounting methodologies and professional expertise for wider-reaching implementation in anticipation of the Republic of Georgia adopting IAS. Furthermore, the development of managerial accounting methodologies to enterprise owners and managers was an objective for improving enterprise performance.

### **Full Enterprise Conversion Versus 'Mass' Conversion**

The 1998 Almaty meeting caused USAID to refine its enterprise conversion strategy to focus on the "best practices" by using the Kazakhstan model of "mass" conversion rather than extensive and complete conversion work that included components of budgeting for only a small number of enterprises. The Kazakhstan model entails spending three to five days training enterprise accountants, followed by three to five additional days assisting each enterprise to convert to an IAS-based Chart of Accounts, rather than spending several months converting all the financial components of a single enterprise. This approach for Georgia was superseded with instructions to implement accrual accounting and international standards within several hundreds of enterprises.

The approach for mass conversions sought to gain a "critical mass" of enterprises striving to meet IAS, even at the risk of a slightly less-than-perfect basis. The concurrent IAS-based training programs available from the professional TTCP were the vehicles to give the enterprise accountants the supplementary knowledge they needed for higher quality conversions.

The primary activities involved the Project personnel working within Georgian enterprises to illustrate and develop the conversion methodologies for financial and managerial accounting. This approach later served as a basis for training in financial auditing, and the pilot enterprises provided the Georgian accounting and audit consultants valuable experience in supplying business services to established enterprises.

### **Building Capacity for Mass Conversions**

After the first six months of the Project, which were devoted to training a core group of Sibley staff to perform full conversions for a small number of enterprises, the Project staff reorganized to perform mass conversions. Training-of-trainers seminars quickly

built up the capacity of the Project's conversion team. The Project also developed and assembled a conversion-training course and manual to start mass enterprise financial conversions.

### **Dovetailing Mass Conversions with that Allowed by Law**

The receptiveness of enterprises to participate in the mass financial conversion process was linked to the subsequent adoption of an accounting law in Georgia. This law required all joint stock companies (JSCs) to keep their accounts in conformance with Georgia Accounting Standards by January 1, 2000. Thus, enterprise preparation for January 1, 2000, accelerated the need for mobilizing wide-scale adoption of a new bookkeeping/accounting methodology in these enterprises. The law also stipulated that all limited-liability companies (LLCs) must convert by January 1, 2001.

Mass conversions started in March 1999 after the Project trained auditors from 15 audit firms. By January 2000, local audit firms were implementing all conversions. The Project and the GFPAA reviewed the auditing companies' work papers for completion, correctness, and authorized payment.

### **The Tangible Outcomes**

The Project recommended that technical assistance be devoted to the most critical enterprises in converting to IAS-based accounting and to training private-sector audit and accounting firms to perform these conversions on a fee basis.

The most critical enterprises, from an IAS conversion perspective, were viewed as the JSCs and regulated industries, such as banking and energy. Other USAID-funded projects were converting regulated industries to IAS-based accounting, so this Project focused on voluntary conversion candidates and JSCs. The Project determined JSCs to be critical because they possibly were to be publicly traded and to have minority shareholder interests and corporate governance concerns.

The Georgian Securities Commission (GSC) listed 379 registered JSCs during the period of this Task Order, with the Project converting 251. The remaining 128 enterprises were not operational or showed no interest in converting (with Project assistance). The Project, therefore, concludes that the most important JSCs were converted to IAS-based accounting. The Project worked closely with the Georgia Securities Commission and several USAID projects (tax and fiscal reform, privatization, energy, and SME) to ensure that the conversion process provided the benefit. As the Project built local capacity within 15 audit firms in the conversion process, they, in turn, participated in 314 of the 535 conversions (284 were non-JSCs). As Georgian audit firms are well trained to carry out the conversion process, this responsibility has been successfully transferred to the private sector. Senior conversion specialists have been transferred to the GFPAA to oversee and to ensure this process continues.

The Project prepared and distributed a manual that detailed the conversion process to all conversion training participants, the involved audit firms, and the GFPAA.

Many of the non-JSCs that requested the Project’s assistance during the conversion process needed to have IAS-based financial information because of foreign investment and/or credit applications—or hopes of investment and/or credit.

The conversion methodology and details of the Project’s deliverables, which meet the goals of this task, are summarized below:

- Through various contracts and work plans, the Project and USAID agreed that, based upon the Georgian economy and the desire to limit USAID expenditures to enterprises that showed some promise of viability, the Project would convert 540 enterprises. The Project met this goal by converting 535 enterprises and exhausting all means of finding another operational JSCs willing to accept Project assistance. (See Appendix D – Converted Enterprises; see also Appendix E – Summary of Audit Firm Conversions by Region, and Appendix F – Monthly Summary of Enterprise and Audit Firm Conversion Activity.)
- Of the 535 enterprises converted (284 non-JSCs; 251 JSCs), 99 were converted solely by audit/accounting firms using local accountants and auditors trained in conversion methodology.
- 1,771 accountants and auditors (including 150 tax inspectors) participated in conversion-methodology training.
- 21 enterprises participated in cost conversion (see Appendix G – Summary of 21 Cost-Accounting Conversions).

### **Conversion Follow-up**

During the summer of 2000, the Project contacted or visited many of the converted enterprises in the regions and a sample of converted enterprises in Tbilisi. This follow-up

#### **Testimonial: Author! Author!**

When the GEAR Project hired Paata Mikadze as a consultant, and later as a trainer, little did it know it had also hired a budding author. While he had been mulling over writing a book on managerial accounting since a 1994 training in Vienna on the market economy and financial analyses, his exposure to training materials and expert instructors at the Project solidified his desire to publish a book from a Georgian’s perspective.

Building on training materials he developed for lectures he presented to the Georgian Federation of Professional Accountants and Auditors (GFPAA), Mr. Mikadze spent two years penning his book, “Managerial Accounting: With Appendix of Practical Examples; Textbook for Financiers and Managers.” Published by the GFPAA in 2000, the book has sold 200 copies. Today Mr. Mikadze is Deputy Head of the Cost Accounting Department and he continues to instruct on managerial and financial accounting for the GFPAA. He spends his personal time working on his second book, “Financial Accounting.”

showed that about 50% of enterprises converted remained converted. The 50% that had reverted to the former Soviet-based accounting said they did so because of fear that the tax authorities would not accept IAS-based accounting. Reports of intimidation by the tax authorities have been emerging in other CIS countries. The enterprises also stated they would be ready to convert again as soon as clear instructions were issued from the tax inspectors.

The results of that survey are as follows:

Region	# Converted thru Sibley	Remained converted	Percentage	Notes*
Tbilisi*	30	16	53%	Not a random sample – best enterprises selected.
Batumi*	14	8	57%	All converted enterprises.
Poti*	25	12	48%	All converted enterprises.
Kataisi*	34	22	65%	All converted enterprises.
Total surveyed	103	58	56%	

The MoJ’s approval of the Tax Reconciliation Form and the extensive training of the reorganized tax inspectorate will contribute to the resolution of this issue. GFPAA/SI has already trained 175 tax inspectors in IAS-based accounting, and the GFPAA has an agreement with the Barents tax program to train 500 tax inspectors before the end of February 2001.

**Task 3.**

**(From contract extension; part of Task 1 in original Task Order)**

**Original Task Order: Self-Regulatory Organization for the Accounting and Auditing Profession is fully established....**

- (ii) **Establishing and administering professional training/testing/certification standards for the accounting and auditing profession....**

**Extension: Develop GFPAA as a technically and financially self-sustainable professional SRO that is capable of carrying out accounting reform and development without USAID assistance.**

A fundamental building block of accounting reform is the establishment of an independent professional association of accountants and auditors that ultimately has the collective ability, authority, and responsibility to act in the public interest. The “professionalism” of existing top-tier accounting and auditing bodies has been founded on the trust that their members earned from the users of their services. Greater public trust is displayed when governments bestow on such associations the regulatory or semi-regulatory status of activities, such as establishing and maintaining accounting and auditing standards.

A desired outcome of the Project was the establishment of such an independent, self-regulating association. The goal was that this SRO would develop and retain the capacity to sufficiently establish its credibility (and its members’ credibility) to provide effective and responsible leadership in the accounting reform process.

During the Project, the GFPAA was formed as the professions’ SRO, and with its high-quality and successful TTCP, it shows promise of becoming completely self-sufficient within the next few years. Further, the GFPAA has quickly become a model for other SROs in Georgia.

This new professional body of accountants and auditors emerged when two existing professional organizations, the Georgia Club of Accountants (formed in December 1996) and the Georgia Association of Accountants (formed in April 1996), officially united. Members ratified the charter for the new body, which was developed from guidance promulgated by the IFAC at a general meeting on March 18, 1998 (see Appendix H – GFPAA Constitution). The Court of Didube Region officially registered the GFPAA on May 5, 1998.

The Project worked closely with the GFPAA to assist in establishing and emulating international best practices. This assistance concentrated on four key areas:

## **1. Establishing a sound governance and committee structure.**

At the general meeting, members formed a council and then, subsequently, appointed chief executives and a small staff complement. Members installed election and operating procedures, a policy manual, and a mission statement—all of which contributed to achieving accreditation with the IFAC.

The Project enabled the GFPAA to be admitted as a full IFAC member at the IFAC’s summer meeting in 2000. Simultaneously the professional association for Kazakhstan also received full membership, making Georgia and Kazakhstan the only two full IFAC members in the CIS. (Armenia’s professional association of accountants and auditors completed its IFAC application and is awaiting an IFAC review in January/February 2001.)

The council determined and approved a committee structure based, again, on IFAC guidance. The committees included accounting standards, education and certification, membership, ethics, public relations, tax, and academic education; after the council established terms of references, it appointed committee members with staff support. The committees created work plans and began monthly meetings actively from October 1998, except for the committees on tax and academic education, which were organized and began meetings in September and November of 2000, respectively. (See Appendix I – GFPAA Organizational Structure.) The council did not initiate an audit committee, as it intended to wait until the proposed audit law was passed and roles were more clearly defined between the GFPAA and the Audit Activity Council (AAC).

The GFPAA prepared a business plan and the council adopted it for the period 2000 through 2001 (see Appendix J – GFPAA Business Plan for 2000 – 2001). The association also established branch offices in the city of Gurjaani, Kakheti region; Kutasisi, Imereti region; Zugdidi, Samegrelo region; Batumi, Ajaei region; Ozurgeti, Guria region; Khashuri, Gori region; and the cities of Rustavi and Markenli. Furthermore, the association has produced monthly financial reports based upon IAS since June 2000.

## **2. Establishment of a code of ethics and rules of professional conduct with enforcement mechanisms in order to protect the public interest.**

Following the translation of a code of ethics that is based on the IFAC Code of Ethics, the council adopted the code on January 11, 1999. To emphasize the importance of this code, the GFPAA requires members to study the rules of professional conduct as part of their continuing education coursework. Enforcement mechanisms were exercised and disciplinary procedures were established, but no cases had been brought to the attention of the GFPAA before the Project’s end.

The Project conducted ethics training courses for the main office and all branches of the GFPAA in the summer of 2000, resulting in 45 GFPAA staff capable of leading the training for other members. However, the GFPAA later decided that since ethics training was an integral part of the “old IAS/ISA” TTCP at level three and that under the new TTCP, ACCA Paper 6 covers ethics well, a special course was redundant. Therefore the

GFPAA decided to rely on its normal certification programs to appropriately cover ethics. Under this scheme, the Project trained 45 trainers in its special half-day ethics course, 91 under the “old IAS/ISA” TTCP, and 45 under the ACCA TTCP; thus, a total of 181 GFPAA members received training in ethics by the end of December 2000.

### **3. Establishment of a certification and training model based on international best practices.**

The GFPAA council adopted in the summer of 2000 a certification model based on the UN Global Accountancy Curriculum and supported by ACCA-based materials; this model was documented in a MoU between the Project and the GFPAA (see Appendix K for the MoU and GFPAA Certification Model). The certification model, including testing in local language, follows the ACCA model:

- Certified Bookkeeper (CB) ACCA local or English Papers 1–4 (local certification only, not part of the ACCA certification);
- Certified Accounting Technician (CAT) ACCA local or English Papers 1–8; and
- Certified Professional Accountant (CPA) ACCA local or English Papers 1–14.

The GFPAA encouraged participation in the above courses, as it included attendance as a contribution to its established annual minimum of 30 hours per year of continuing professional education (CPE).



**Revaz Dzdazamia, chair of the GFPAA, speaks at a GEAR conference.**

All branches of the GFPAA, including its main office in Tbilisi, established training centers and conducted training courses on a regular basis. The GFPAA intends to expand the ACCA-based English- and local-language training into the regions.

### **4. Development leading to sustainability.**

The Project assisted the GFPAA to develop a two-year business plan in template form, which allows for updates every six months. The business plan includes a financial plan that focuses on a timeframe for the GFPAA’s overall commercial viability and financial sustainability, and it addresses issues such as projected revenue-generating activities, including dues, publications, training, and certification; projected staff; equipment; supplies; materials; other expenditures; and proposed support for staff and equipment.

The GFPAA's revenue-raising activities consist of its limited publications, membership fees, and the fees from the ACCA-based TTCP training, with the ACCA and other training providing the greatest income. The association established a separate entity for publishing purposes, and it has been preparing monthly periodicals and newsletters regularly. Membership programs stood ahead of target at the end of November 2000, with 1,592 members, of which 953 members had paid their dues for 2000. The membership programs were targeting segments of the accounting and audit profession, including enterprise practitioners; firms of accounting, audit, and consulting professionals; bank and government accountants; and academics.

The GFPAA's financial plan reflected progress toward financial sustainability even with the decreases of USAID support during the contract extension period (November 1999 to December 2000). Accordingly, senior staff salaries were cut by roughly two-thirds during this period. USAID has informed the Project and the GFPAA that future USAID support will be limited to only scholarships for ACCA English- or local-language students who cannot afford ACCA training and pass all ACCA English or local exams.

In other matters, the GFPAA has documented a plan for developing regional chapters and establishing equipped training facilities in accordance with its business plan. Also, the Project sought an independent assessment of the GFPAA's ability to meet conditions for sound financial management of USAID awards, and the Project and the association took steps to start implementing the recommendations by the end of the project.

The GFPAA, a founding member of the Eurasia Federation, hosted a Eurasian Federation council meeting in Tbilisi during 2000 and one (informal) Caucasus SRO meeting, thus maintaining its regional presence and remaining current of regional developments.

### **The Future for GFPAA**

The GFPAA has gained the recognition and respect of government departments that historically have regulated accounting and auditing. This respect is demonstrated by the willingness of the government to acknowledge the GFPAA's capability in assisting with the standard-setting process, as well as by its ability to provide leadership in training, education, and curriculum reform.

In this regard, the Accounting Standards Committee of Parliament requested that the GFPAA prepare all Georgian Accounting Standards in full compliance with IAS and present them to the Parliament committee for final approval. The GFPAA completed this directive fully, and all IAS have been approved in Georgia.

Although preparation and approval of ISA remains with the AAC, the AAC does accept the GFPAA's ACCA-based TTCP as a basis for licensing of Georgian auditors. At the end of the contract, an audit bill had been prepared and was being negotiated among various bodies of the GoG. This new bill would transfer representation for private audits from the government to the private sector, most likely the GFPAA. Also, the AAC approved and published all ISA, making Georgia one of the few republics in the

Commonwealth of Independent States (CIS) to have audit standards in full compliance with ISA.

Provided that the GFPAA continues to act in the public interest, circumstances indicate that the GoG is willing to formally and irrevocably transfer many aspects of accounting and auditing regulation to the GFPAA.

Without doubt, the Project achieved the stated USAID objectives and deliverables in forming and giving guidance in the development of GFPAA. However, as the GFPAA remains in its infancy, it is likely to require limited financial and focused technical support to ensure its viability.

**Task 3a.**

**(From contract extension; Task 2 in original task Order)**

**Original Task Order: Trained, tested, certified and functioning accountants and auditors.**

**Extension: 3a. certification [develop an internationally recognized TTCP, using ACCA based materials].**

Immediately after the Project helped establish the GFPAA, both groups developed a TTCP based upon standards defined by IFAC. Recognizing that IFAC guidelines are good, but not well defined, the GFPAA developed a TTCP based upon its understanding of the IFAC guidelines and the abilities and needs of Georgian accountants and auditors. Unfortunately its TTCP fell short of UN standards and UN Global Recommendations when compared with the well-established IAS/ISA-based ACCA training programs.

At the beginning of the project, the “best practice” for a TTCP had not been established. Each republic was experimenting and developing its own approach until the Almaty meeting in April 1998. At that meeting, USAID and its contractors reached a consensus that translating materials from an existing program that taught IAS/ISA-based accounting and auditing, such as the ACCA’s program or the plans of the Certified General Accountants’ Association of Canada (CGA-Canada), is preferable to developing a TTCP for each individual republic.

Shortly after the Almaty meeting, the Project began an English-language ACCA program and in late summer of 2000, the GFPAA agreed in a MoU (see Appendix K) with the Project to change its TTCP to meet both IFAC and UN guidelines and use ACCA materials on which to base its program. Even though the association’s “old” IAS/ISA TTCP covered significantly less than the UN recommendations, it was based on ACCA materials, and it was perhaps an excellent beginning for Georgian accountants and auditors.

Transition from one TTCP scheme to another is always difficult and in many transition schemes the previously certified or practicing accountants/auditors are simply “grand-fathered in.” This is a common practice in the United States, but the fact that the Project required all certified accountants/auditors to undergo significant IAS/ISA training in order to maintain their certifications speaks well for Georgia. In fact, the Project assisted in “raising the bar” so that Georgian accountants and auditors would have an instantly recognizable international certification. Some accountants and auditors might not have a full TTCP as the Project has defined it (using IFAC/UN/ACCA criteria), but they certainly have a good start and after December 2001, all Georgian accountants and auditors must meet rigorous international TTCP standards.

Since the summer of 2000, the GFPAA, with Project support, has conducted both ACCA English- and local-language TTCPs. The new GFPAA TTCP is exactly the same as the ACCA program and meets both UN and IFAC guidelines. The old IAS/ISA GFPAA

TTCP will be phased out. After December 2000, no new students will be admitted to the old GFPAA IAS/ISA TTCP. Since the GFPAA had many students in various phases of the “old IAS/ISA” program, a phaseout was critical in gaining GFPAA and member approval to change to an ACCA-based certification model.

In this transition phase, the GFPAA recognized many students signed up for the older and less-demanding certification program; thus, the original targets outlined in the contract extension and promised by the GFPAA could not be met.

In the Project’s final work plan, the goal was to have 100 students in the new ACCA-based, local-language program for Papers 1–3. Out of these 100, 45 dropped the course during the initial classes and in the last month, leaving 55 local-language ACCA students. Based upon prior experience and mock exams, the Project expected about a 50% pass rate when the association offers the local exams in January 2001. Exams were given for nine ACCA Papers, and students exceeded 50% on six out of the nine exams (see Appendix L – Summary of English-language Examination Results; see also Appendix M – Results of December 2000 Examinations).

The Project further expects that ACCA-based, local-language enrollment will significantly increase after December 2000, when the old certification program is no longer available.

Under the “old” GFPAA IAS/ISA program, the following results had been achieved (as of December 31, 2000):

- Level 1 (223 accountants passed)
- Level 2 (161 accountants passed)
- Level 3 (91 accountants passed)

The Project considers the ACCA-based TTCP as far superior because it:

- Raises the TTCP profile by using the international reputation of ACCA training;
- Builds capacity of local trainers to provide training in the local language;
- Creates a superior income stream to help the newly formed SRO become financially self-sustaining; and
- Improves local knowledge of the IAS and ISA.

Appropriately, the GFPAA now conducts the training and testing and uses the testing as a basis for providing its members a certification model with international credibility.

As a result of these programs, the GFPAA implemented the second internationally recognized TTCP in the CIS (Armenia being the first). This program provides Georgian accountants and auditors the skills necessary to implement international accounting and auditing standards. The resulting large cadre of trained professional accountants and auditors—with more than 200 students having participated in the ACCA TTCP programs

when the Project finished—will assist in attracting both domestic and international investment and provide local enterprises the financial skills to become competitive domestically and internationally.

### **Training Beyond the Accountants – Auditors and Other ‘Users’**

The GFPAA expanded its educational role beyond its own members to embrace the larger community of “users” of accounting information, including managers, investors, shareholders, and creditors. This provided the Georgian business community an understanding of the emerging global economy and Georgia’s role in it.

First, the Project identified and started satisfying the need to provide a wider range of accounting and auditing courses to auditors. In the latter case, the Project delivered, on behalf of the GFPAA, a more focused training program that had been developed in Armenia. This training simulated how to conduct an audit that utilizes international standards (IAS and ISA), and during the summer of 2000, four local Georgian auditors spent a month in Armenia training as trainers to deliver this course in Georgia. The course, titled “Audit Engagement Practices Course,” included “The Noah Brewing Company” audit case study developed in April 2000, which contains student text (245 pages), many solutions (145 pages), and representative examination questions (25).

While the Project did not deliver this course in Georgia, the GFPAA and local university professors were very impressed with the practical approach and deemed the course an important addition to the GFPAA’s training plan. Thus, a group of local university professors (those who studied in England during the summer of 2000) volunteered to

adapt the course for Georgia and begin presenting it in 2001. The course proved to be popular in Armenia, and this Project expected the same results to occur in Georgia.

#### **Case Study: Drugstore**

The GEAR Project assisted the director of a Tbilisi drugstore to convert to cost-accounting models, particularly the cost classification and cost assignment methodologies. After the Project’s five-day examination, he identified the application of cost assignment methods on a section-by-section basis as the best approach for his business.

Only two years in business, this LTD’s methods for determining expenses would give most accountants a migraine. The Project helped restore order to the director’s cost calculations, and this six-employee business now has a better chance of surviving its infancy.

Another training audience included business owners, investors, government tax inspectors, and accountants/bookkeepers of companies seeking to publicly list on the proposed capital market exchange. The Project, and then subsequently the GFPAA, also provided training as part of the mass-

conversion exercise, introducing IAS to more than 530 Georgian enterprises and converting their bookkeeping and financial reporting systems to the new Georgian accounting requirements. In addition, some senior personnel within those enterprises received training in cost and management accounting to assist them in developing general business skills and better business information and in understanding the value of management/cost accounting as a decision-making tool.

### **The GFPAA Role in Retaining Good Training**

Toward the end of this Project, the GFPAA developed policies and procedures through its Education and Certification Committee to ensure the rigor and integrity of the assessment processes. The application of these policies and procedures is expected to continue, thereby retaining the credibility and reputation of GFPAA's training and certification program. For example, in order to eliminate any perception of testing irregularities, the GFPAA has agreed that all local-language tests of its new ACCA-based TTCP will be developed, translated, and administered by local representatives of the "Big 5" audit firms. Three of these firms have already agreed to do so—on a *pro bono* basis. English-language exams are not subject to the same rigor as they are already developed and administered by ACCA/London and proctored by the local British council.

The Project considers the GFPAA testing and certification program to be as creditable as most others in the CIS and that any perception of irregularities has been eliminated. This is critical for the recognition of a professional association in this part of the world.

See Appendix N for a complete summary of all GEAR project training. It should be noted that the GFPAA forecast the goals for the local-language examinations regarding student pass rates in October 1999. Thus, the Project devoted much time questioning and coaching the GFPAA staff to reach the most realistic projection; it also pointed out the ambitious nature of having an almost equal number of students pass the higher third stage as the middle second stage. While the Project staff was not housed within the GFPAA nor responsible for the design or delivery of the local-language courses, it was available for consultations. However, the GFPAA was adamant, and with the Project team having little else from which to refer, the GFPAA's projections were submitted.

#### **Task 4.**

#### **(From the contract extension; not part of original Task Order)**

#### **Extension: Implement new accounting and audit curriculum at two higher educational institutions.**

The Project recognized the importance of updating educational elements within accounting that could keep pace with the sweeping reforms materializing from the core project components and the importance of targeting the immediate users of financial information. The Project aimed to ensure that future graduates had the requisite and theoretical foundation to match the understanding and skills needed for integration and further enhancement of Georgia's economic growth.

To facilitate curriculum reform, the Project developed a MoU with four of Georgia's accredited institutions that provide the most comprehensive accounting programs: Tbilisi State University, Georgian Technical University, Caucasus School of Business, and The European School of Management. (See Appendix O for a copy of the MoU.) The MoU covered the following:

1. To immediately change the content of courses offered in introductory accounting, specifically by introducing ACCA Courses 1 and 3 during the September 2000–June 2001 school year;
2. To provide long-term refinements by aligning curricula with the following:
  - Recent regulatory reforms to accounting in Georgia;
  - IFAC's International Education Guideline #9;
  - UN's Global Accountancy Curriculum; and
  - GFPAA's Certification Model.

Specific educational reform achievements during the contract period include:

- Translating the UN's Global Accountancy Curriculum into Georgian.
- Comparing and matching ACCA Papers to specific modules in the UN curriculum; and
- Correlating the expected pass rate to the expected number of student enrollees.

The Project provided Russian and Georgian translations to senior faculty members and developed the stages of implementation, which were also shown to the faculty. These stages included:

- How each institution would make the required changes;
- How support and consensus should be gained from the remaining faculty;
- How immediate changes could be introduced;
- How plans for introducing the full reform over the longer term were to be adopted; and

- How GFPAA could assist in implementing the curriculum through a syllabus modeled from ACCA.

### **Positive Enforcement for the Professors**

In the summer of 2000, senior faculty from the institutions attended workshops to develop a comprehensive implementation plan for bringing the ACCA Papers into their curricula. The plan covered the following:

- Deciding the start date of each paper;
- Determining each paper’s objectives;
- Providing the learning outcomes of each paper; and
- Selecting the professor responsible for implementation and gaining his/her signature.

ACCA provided a training-of-trainers seminar in London, England, to eight Georgian professors, all from the institutions noted above and all committed to curriculum reform. The seminar helped prepare the attendees to teach ACCA Papers 1 and 3, as well as introduce further papers and pending changes to the curricula. Sibley International and AED organized this activity and simultaneously included professors from Armenia and Azerbaijan. This Transcaucasus cooperation supports USAID strategy for the region and should be encouraged with additional activities (see the Recommendations section in this report regarding the harmonization of efforts in this region).

By early September 2000—in time for first-term courses—all four institutes of higher education amended their curriculums for introductory accounting courses. Further, all institutions expressed interest “...to commence procedures leading to Partnership arrangements with the London College of Accountancy and the University of Essex....” The Project initiated the university partnerships to maintain the long-term support, development, and accuracy of the Georgian accounting curriculum.



**Professors from Georgian universities attend an ACCA training course at the London College of Accountancy.**

**Task 5.**  
**(From contract extension; Task 4 in original Task Order)**

**Original Task Order: Users of accounting information have been informed and trained.**

**Extension: Provide more focused training for users of financial statements, auditors, tax inspectors, and enterprise financial managers.**

The Project and GFPAA developed an outreach program to increase awareness and disseminate information to users of accounting information as a way to accelerate the simultaneous acceptance and the demand for accounting reform. The program, through education and demonstrated practical application of financial information, enhanced the perceived “utility”—and therefore value—of financial information.

It is important to realize that with the acceptance of IAS/ISA through regulated financial reporting, the accounting reform process should not be considered complete. IAS/ISA-based financial information will help enterprises attain credit or investments, which in itself is a valid goal, however, full reform needs the users of this new financial information to be trained for making rational business decisions that make a positive impact on the general economy at the national level.

**Courses for Non-Accountants**

The Project assisted 21 enterprises in establishing sound cost-accounting systems (described below), and these efforts were highly publicized. In addition, the Project introduced a 24-hour “round table” format, which utilized local and expatriate experts to train non-accountants in understanding and using the IAS-based financial information. Also, tax inspectors participated in a specific training course for their profession.

**Courses Delivered**

The Project developed all of the courses described below, and the GFPAA is capable of continuing the delivery of all the training. The courses were given to the following:

- 25 members of the securities commission, stock exchange, and brokerage houses received training in the understanding and use of the new IAS-based financial information.
- An additional 18 enterprise managers received the same training.
- 175 staff of the Georgian tax authority successfully completed the tax inspector’s course and learned the application of the new Tax Reconciliation Form.

- Through the energy program, the Project trained 37 accountants in the conversion-methodology training course. The goal was 50, however, only 37 were made available.
- Four (4) Georgian auditors completed a practical audit-training course in Armenia based upon the course developed for the Armenia project. However, as this Project lacked the financial resources to deliver the course during the contract extension period, a group of local university professors agreed to develop the course for Georgian needs and begin offering it in 2001.

### **Market Participant Training**

Twenty-five professional employees of the securities commission, stock exchange, and brokerage houses participated in a special, 24-hour training course that focused on understanding and using the new financial information available under IAS reporting.

### **Tax Reconciliation Form Training**

The GFPAA delivered a special training course for tax inspectors that consisted of a modified enterprise accountants' conversion course with an emphasis on the new Tax

#### **Testimonial: A New Enterprise**

Six Georgian partners, five of whom brought expertise to and gained additional experience through the GEAR Project, formed their own audit and consulting company in June 1998. Soon afterward, they signed an agreement with Deloitte & Touche to work cooperatively in the Georgian market, providing joint management consulting, training, and other related services for local and foreign companies. The partners consider one of their competitive advantages to be the fact that each of them is a certified instructor in International Accounting Standards.

The firm, named Georgian Audit & Consulting Company (GACC), lists the following major projects among its endeavors: developing an internal control system for Sakenergogeneratsia, Georgia's largest power-generation company, and training funded by the World Bank and the European Bank for reconstruction and development.

GACC's partners include two Team Leaders from GEAR's conversion project, Temuri Partskhaladze and Natela Tchigladze, and three of GEAR's consultants, Lasha Tsagareishvili, Michael Jobava, and Alex Skhiladze. All credit their training with GEAR, especially in IAS, managerial accounting, and conversion methodology, to be an essential source of their professional success. The sixth partner is tax consultant David Ramishvili.

Reconciliation Form, and if the tax inspectors had little or no knowledge of accounting, they received introductory information on IAS-based accounting (in essence, a modified ACCA Course 1). This special training course also introduced the tax inspectors to the new Georgian Accounting Standards and the methodology used to assist enterprises in converting to the new Chart of Accounts. Twenty-five (25) tax inspectors had sufficient existing knowledge of basic accounting, based upon a GFPAA test, to waive Course 1 from ACCA Paper 1, titled Introduction

to Accounting (IAS based). These 25 tax inspectors took only the modified enterprise conversion course. The other 150 tax inspectors took Course 1, and then went on to the

enterprise conversion course. In total, 175 tax inspectors were trained by the contract's end.

The Project has recommended to USAID that the basic training in accounting and auditing for tax inspectors consist of the following theoretical and practical courses:

- ACCA Paper 1, Introduction to Accounting, IAS based (theory);
- Pre-conversion course, Practical Accounting in Georgia;
- ACCA Course 6, Introduction to Auditing, ISA based (theory); and
- Practical Audit Case Study.

The GFPAA has an agreement with Barents's tax and fiscal reform program to train 500 tax inspectors in the first two recommended courses by the end of February 2001.

### **Practical Audit Training**

As described in the Task 3a section above, four Georgian auditors completed a practical audit course in Armenia in the summer of 2000. A group of local university professors (those who studied in England during the summer of 2000) have volunteered to adapt the course for Georgia and begin presenting it in 2001.

### **Courses on Managerial Accounting**

Courses on managerial accounting came from several sources:

1. Under the old IAS/ISA GFPAA TTCP, a course on managerial accounting was given in Level 3. Ninety-one (91) participants passed this level, thus gaining a sound managerial accounting foundation.
2. Under the English-language ACCA program, 129 participants completed a managerial accounting course, of which 45 have passed to date.
3. Under the local-language ACCA program, 55 participants completed ACCA Paper 3 on cost accounting.
4. Eighty (80) participants completed a special cost-accounting course.
5. Thirty-eight (38) enterprise accountants and auditors took a special cost-accounting course as a condition for participating in a Project-sponsored program for establishing sound cost-accounting systems at enterprises.

In total, 393 Georgian accountants and auditors took managerial accounting courses, and the Project directly assisted 21 enterprises in establishing sound cost-accounting systems.

### **III. Lessons Learned**

#### **Project Design**

The original project design for the financial conversions was significantly adjusted after implementation began, and while this change had the potential to jeopardize the Project's credibility with Georgian enterprises and counterparts, it only caused a slight delay in obtaining results. As this Project was designed for all tasks to be implemented simultaneously, the delay in the enterprise conversions had a knock-on effect with the other tasks. While the approach of using simultaneous interventions has overall proved successful and should be considered for future accounting reform projects, consideration should be given to the following if another project were to be initiated based on the same design:

#### **1. An essential need for early counterpart commitment.**

The Project faced a perilous obstacle within the first year because a strategic decision had been made to circumvent certain Georgian counterparts such as the MoF and Department of Accounting Methodology. While, on reflection, it is difficult to say if another approach would have sped the IAS's adoption into law, the delay of this critical component reduced the imperative need for enterprise conversions and lowered the training needs for capacity building. This, in turn, reduced the revenue streams (from training courses) to the SRO, thereby undermining its financial sustainability goal and potentially jeopardizing the GFPAA's credibility. The early experiences of this Project reinforce the newly accepted best practice in accounting reform (Kiev 2000) that it is always best to engage the participation of the governmental counterparts.

The Project steadfastly worked with the necessary interests and secured the appropriate accounting laws impacting the adoption of IAS. Future projects with a high expectation of not securing these laws may find it strategically helpful to deploy the training of accounting for non-accountants in the early stages of the project. This bottom-up approach could be beneficial for the following reasons:

- Enterprise managers quickly learn the benefits of internationally based accounting, thus creating a demand for official reporting of financial statements based on IAS at the enterprise level; and
- Support to use IAS by companies would come from those seeking an early listing within capital markets, demonstrating good corporate governance accompanied by transparency with internationally accepted financial statements.

#### **2. A clear demonstration of sufficient resources.**

For any similarly designed project in the future, there should be sufficient time and financial and technical resources to ensure full execution of the tasks. During this Project, the staff within some of the counterpart institutions checked with other republics where earlier USAID projects expired before sufficient inertia for reform had accumulated. The

reversal of project reforms in these other countries made certain individuals in the GoG skeptical about the GEAR project and that diminished the overall support.

### **During Start-Up**

The start-up challenges experienced were minor when compared with other projects in other republics of the former Soviet Union. The specific lesson learned is not to take operational matters for granted. Finding appropriate commercial space, installing functional communications equipment, and even securing office furniture proved to be slightly problematic.

### **During Implementation**

#### **1. Seeking early counterpart engagement.**

The Project, along with USAID, learned that even when counterparts such as the MoF and/or the AAC proved to be skeptical and reluctant to support the efforts of the project, there is little long-term value to simply ignoring the counterparts. In the long run, there are greater benefits and rewards from investing time to develop a relationship and some level of cooperation with the counterparts rather than having them oppose the project activities and deliberately and proactively obstructing the project's progress.

#### **2. Applying simultaneous task implementation as soon as possible.**

Once the IAS become law, the simultaneous implementation of all the tasks had a synergistic effect, with the combined results being greater than if implemented sequentially. Consequently, until that time, it was difficult to gain maximum inertia for the training and for the enterprises to engage in mass financial conversions. For example, accountants with modern training in IAS were needed to facilitate having enterprises agree to adopt financial accounting conversions (a bottom-up strategy). Equally, the need for enterprise conversions generated demand for training (a top-down strategy). Both

activities supported the need and development of the SRO.

#### **Case Study: Medical Services**

A Georgian provider of medical services, which was still dependent on old Soviet Norms for its cost assignments and management decisions regarding product mix, welcomed the GEAR Project's seven-day financial conversion. This LTD planned to use its transfusion of new norms as the basis for its cost accounting.

Abandoning out-of-date rates that Moscow assigned prior to perestroika, this former state-run organization—and now private enterprise—is poised for a healthier bottom line.

#### **3. Maximizing public education to weave together various economic reform projects.**

The public education component in this Project was part of another contractor's work, and its efforts were extremely helpful in reaching the targeted audiences. However, having experienced the impact of having the public education function within the project itself in Armenia, this Project recognizes that the comparative

impact in Georgia was less. For this reason, having dedicated resources incorporated within project would be preferable.

#### **4. Accepting unsatisfactory compromises inevitable.**

At the beginning, the Project provided accounting training courses to the English-speaking Georgian community. Simultaneously, the Project staff encouraged the SRO to provide the courses to the Georgian speaking community. Although the Project staff constantly liaised with the SRO and offered any assistance on an “on-call” basis, this did create, on reflection, a translucent environment between the SRO and the Project. Future projects should try to avoid this approach. The preferred technique (developed and proven in Armenia and later adopted within the last six months of this Project) is for all the English- and local-languages courses to be delivered under the name of the SRO, with the revenues for both going to the SRO. This helps the SRO’s self-sustainability, and as part of the equation, provides the Project oversight into the management, delivery, and quality of the courses.

#### **5. Overcoming resistance to changing the educational curricula.**

The academic community within Georgia was reluctant to implement curriculum changes. To overcome this problem and to stimulate the academics, the Project encouraged the GFPAA to form a Higher Education Committee. With the support of government and the influence of accounting and auditing leaders in Georgia, this committee, with its perceived leadership role, was able to overcome this resistance by reviewing and commenting on the current best practices, i.e., the UN Global Curriculum Recommendations and IFAC Guidelines. The result was a recommendation for a curriculum reform program that met the IFAC Guidelines and supported the GFPAA’s proposed new certification requirements.

#### **6. Changing the teaching approach.**

Toward the end of the contract, the Project recognized that the SRO teaching approach for the local-language courses required modification. Using demonstrated techniques of enhanced revenues from the English ACCA, the Project established and maintained the management of the local-language accounting courses by providing recommendations regarding the teaching and learning techniques. It is important to remember that the Soviet culture induced a system based on bribes and influence through personal favors. For this reason, teaching and learning approaches in this region are very different from Western Europe or North America.

Demonstrating to students that qualifying is earned through true knowledge and ability requires time; this different approach also requires good teachers with the ability to capture interest, explain, and empower students. Further, the students needed to recognize the importance of allocating their time and effort to truly learn the new skills. With this backdrop, the Project needed to demonstrate that having examination pass rates at levels of 40 to 50% was, in fact, better than a Soviet-based system with a 98% pass rate as the norm. The lower pass rate demonstrated that the reward was the result of hard work and disciplined study, giving value to both the teaching and examination process.

## Working with the Client

### 1. Centralizing interface with the client—preferably in the field

There was a good working relationship with USAID throughout this Project, and this proved invaluable when the Project needed to change its implementation strategy. The relationship helped overcome rising pressure as new goals were set and new skill sets were sought. However, for future projects, all parties may find it beneficial to have the CTO responsibilities held within the field. The advantages to be gained include a reduced risk of communication errors and misunderstandings, as well as expeditious consensus in reaching decisions. The original Task Order was written flexibly, which had advantages and disadvantages. The advantages were that it allowed the Project and USAID to work as a team in responding to the Georgian environment and for both parties to proceed knowing that the activities remained within the contractual boundaries of the Task Order. However, this flexible nature of the original Task Order also meant that it was subject to interpretation—and possibly different interpretation—with the changes in USAID’s CTOs. In this respect, the more focused Task Order for the extension period was welcomed. The Project Team would recommend that USAID apply this practice to all its projects, not only the accounting reform projects.



**A Georgian consultant to GEAR, Paata Mikadze, penned a book titled *Managerial Accounting* (see also page 17).**

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### Working with Local And International Interests

**Local Staff:** The majority of the local staff proved to have a good work ethic and a keen interest toward personal gain and achieving

personal knowledge. There were no significant cultural barriers to overcome. However, it is worth noting that the environment—with limited water and heat, particularly in the winter months—meant that local staff sometimes required more time to prepare for work. Expatriate staff had to take a sympathetic and patient approach.

**Self-regulatory Organization:** Once the GFPAA had been formed, the Project had difficulty judging the intensity of initial support it should provide. The Project would have preferred a closer intervention to strengthen management and decision making, but direct intervention could well have been perceived as intrusive, creating resistance and perhaps resulting in some operational support with distance. Eventually, the Project strived to achieve a balance of having a “watchful eye” without direct, intrusive intervention, but this was not fully possible as the GFPAA was reluctant to having the expatriate technical assistance based within the SRO.

Local Universities: Sometime after the Project's inception, support was obtained from the universities' senior staffs to change accounting curricula. However, it became apparent that there was a divide between intentions and practical application. One challenge the universities face in implementing changes is the lack of financial and material resources (books and teaching equipment). The issues of motivation and incentives are also challenges. Many of the professors have dedicated their lives to academia and enjoyed higher social status in the Soviet era. Subsequently, their social standing has dropped, and there has been a lack of pay from their respective state-run institutions. Consequently, there is little interest or drive for the staff in their senior years to learn something new and teach using modern pedagogic techniques.

International Organizations: The Project assisted in gaining the commercial cooperation from international suppliers such as A.T. Foulks Lynch (U.K.-based supplier of training texts) and the ACCA. Strategically, the Project assigned one local staff member to be the main liaison with the international suppliers, and with expatriate guidance, this staff member was recognized as competent by the international organizations and the relationships developed. It would have been preferable for this staff member to be quickly moved into the GFPAA, thereby encouraging the suppliers to contract and deal directly with the GFPAA as soon as possible. However, the GFPAA's lower pay scale and its reluctance to pay a salary to meet the responsibilities of this task delayed the transition. This transfer was made in the extension period of the contract when the Project simply oversaw the logistics and ensured that the payments cycles were met. This approach was intended to minimize any disruption after the Project's end.

## **IV. Project Assessment**

Prior to the Project’s beginning, the accounting landscape in Georgia was as follows:

- The MoF and its Department of Accounting Methodology were against the introduction and adoption of IAS;
- The regulatory and legal framework offered no provision for adopting internationally based accounting practices—both the public and private sectors were functioning on the statutory for the Soviet accounting methods;
- Very few individuals had undergone formal training involving IAS; and
- Certification and licensing of auditors remained the function of the government, with little emphasis placed on training and proven ability.

### **Initial Impact:**

#### **Georgia has fully adopted the use of IAS.**

Georgia adopted new accounting standards in full compliance with IAS, as well as a new Chart of Accounts. Parliament adopted the IAS as the Georgian Accounting Standards without making any changes.

Once Georgia became the first CIS republic to adopt IAS in full compliance with international guidelines, it became a model for the other republics. Also, a private-public partnership is in place to regularly update the standards.

Georgia adopted new auditing standards in full compliance with ISA without making any changes. Adopting these internationally recognized standards without adapting them was unprecedented in the Former Soviet Union (FSU).

The accounting law required JSCs to comply with Georgia Accounting Standards by January 1, 2000, and limited-liability companies (LLCs) by January 1, 2001.

#### **A nationally and internationally recognized and respected professional association for accountants and auditors has been established.**

The GFPAA has been established as an independent SRO and is working toward self-sustainability. This institution is recognized nationally within the accounting and auditing profession and achieved international respect when it became the one of the first CIS SROs to acquire full IFAC membership. The organization will continue developing the accounting and auditing profession in Georgia to ensure that practitioners meet international standards and recognition.

The GFPAA tallied 1,592 members at the end of November 2000, of which 953 had paid their year 2000 dues.

The GFPAA represents the accounting and auditing professions and, furthermore, it provides a valuable service to the community as a whole by setting professional codes of ethics that elevate each member's status. Members benefit from this status and, thus, value maintaining their membership.

The GFPAA's continuing education program ensures that the professional body stays current. In this regard, its members have become and will remain more informed on the subjects of accounting and auditing than the government, which has transferred the responsibility of interpreting and maintaining international accounting standards to the GFPAA.

Given the general public's inherent suspicion of the government, having the SRO within the private sector will bolster the public's confidence in the profession, and the public will more likely start believing the news they hear about an enterprise's performance. Ultimately, this confidence will lead people to invest their cash savings (currently under mattresses) in enterprises.

The Project facilitated a partnership between the Government of Georgia (GoG) and the private sector, resulting in the GoG transferring authority and responsibility to the GFPAA for developing accounting standards. In the new system, the association will examine standards and then pass them to the MoF for review and approval. In fact, the new accounting standards were adopted using this system of cooperation.

Georgian accountants now train using the GFPAA's Training, Testing, and Certification Program (TTCP), which was developed from materials acquired through the internationally recognized ACCA. These materials meet IFCA and UN guidelines, and are based on IAS and ISA.

### **Georgian accountants trained to internationally accepted standards.**

Many Georgian accountants with English-speaking abilities have passed ACCA examinations and received internationally recognized certificates, with several being only two courses short from achieving full international CPA status. The non-English-speaking accountants have been trained using the samples from translated ACCA instructional manuals and past examinations, but using extracts from the 14 module courses. This abridged yet expansive training formed the basis of the national certification. Toward the end of the Project, the GFPAA was encouraged to substitute its abridged local training to one based on the full contents of all 14 modules. Adopting this "best practice" will make Georgia consistent with the region and more acceptable by the international community.

**A critical mass has been reached in the number of enterprises having undergone financial conversions.**

A total of 535 enterprises were converted to IAS (284 non-JSCs; 251 JSCs). Benefits of this financial transparency include the following:

- Assisting capital market development;
- Help with accessing loans and other credit vehicles; and
- Attracting direct foreign investment.

A remarkable number of accountants and auditors, 1,771, including 150 tax inspectors, were trained in the methodology for converting enterprises to IAS accounting.

**The Tax Reconciliation Form makes an effective link between enterprises converted to IAS and the tax inspectorate.**

The Georgian tax inspectorate has accepted a new method for enterprises to submit their ISA-based financial reporting. An effective income-to-tax reconciliation form has diffused potential objections and hindrances to the progress of the accounting reform project. This form simply restates the figures of IAS-based financial reports into a format familiar to the tax inspectorate.

**Audit companies have gained business tools to become stronger and financially self-sustaining providers of business services.**

Fifteen (15) Georgian audit companies received training in the conversion process and now can provide financial conversions to the remaining JSCs and LLCs. Local audit

firms participated in 314 of the 535 conversions, conducting 99 of them without Project assistance. Thus, audit companies have gained business tools to become stronger and financially self-sustaining providers of business services.

**Testimonial:  
From Trainer to Deputy Minister**

Prior to his current position as Deputy Agriculture Minister for Georgia, George Tkeshelashvili worked for the GEAR Project as a consultant, instructor, and a team leader for the cost-accounting conversions. He was also so inspired by the training he received from the Project and his own observations of the Georgian economy that he and several of his associates founded the Georgian Federation of Asset Valuers. Mr. Tkeshelashvili recently reflected on his experience with accounting and auditing reform in Georgia:

“The GEAR Project was one of the best experiences in my career. It was of great help in upgrading my professionalism, for I gained experience in human resource management, led training courses on various economic issues, gained international experience in Armenia on cost accounting, developed relationships with many experts, and cooperated on solving problems and dealing with our expats during the project. All of these experiences assisted me in improving my professional and personal skills.”

Fifteen (15) audit firms received basic training in developing their capacity to perform audits using internationally accepted practices. With this training, they can assist in providing financial information for potential foreign investors

and certify compliance with the new local laws. It should be noted that the Project has provided the skill sets to these audit firms, and their prosperity will increase if the demand for financial information/services increases.

**Twenty-one (21) Georgian enterprises received direct assistance to increase their chances of survival and prepare for growth.**

The Project provided 21 Georgian enterprises the first tool of cost accounting, enabling managers and owners to learn the importance and benefits of installing managerial accounting. To make the enterprises competitive and increase sales, the Project helped demonstrate break-even analysis and showed how production inefficiencies can increase costs and impact selling prices. Enterprises immediately benefited from this assistance.

**New audit law pending.**

The new Audit law has been drafted and is awaiting passage by Parliament. There has been considerable delay in receiving consent from all stakeholders, who include the GFPAA, the AAC, and the government's Chamber of Auditors for public accounting. While the content of the new law remains available, it is expected that the stakeholders will reach agreement in 2001 and the law will be passed.

**Users of financial information received practical knowledge.**

People who use financial information were educated in understanding and utilizing IAS-based accounting information through a public education program and several courses. These users included 25 members of the Securities Commission, stock exchange, and brokerage houses; 18 enterprise managers; 175 staff members of the Georgian tax authority; and 37 accountants from the energy sector.

A total of 393 accountants and auditors took courses on managerial accounting, which provides a basis for enterprises to implement cost accounting and break-even analysis.

The Project developed a course for tax inspectors, with 500 tax inspectors expected to complete basic training in accounting and auditing by the end of February 2001, according to an agreement between the GFPAA and the Barents Group's tax and fiscal reform program.

Four (4) Georgian auditors completed a one-month training-of-trainers course to conduct a practical course on audit engagement. A group of local university professors will tailor the course to Georgia's needs and begin presenting it in 2001.

**Changes for the national academic curricula.**

Georgian higher education institutions started to develop new curricula based on IAS and ISA to ensure that future generations of accountants are trained to meet the needs of the

Georgian economic market. Four institutions targeted by the Project amended their curricula for introductory accounting courses and introduced pilot programs of these courses in September 2000.

**Expected Impact:**

By installing international accounting practices as an integral part of Georgia's long-term economic development, the Project has benefited Georgia beyond providing a better financial and reporting environment for enterprises and beyond raising the professional status and career prospects of auditors and accountants. Good, solid accounting practices can be the cornerstone for a country's economy and support other activities that improve society. From solid accounting practices, assets can be valued and longer-term wealth can be realized.

**Enterprise managers and owners can make decisions that encourage entrepreneurship and participation in the global economy.**

Georgian enterprise managers and owners making business decisions using IAS-based financial information will encourage the growth of capital markets and entrepreneurship, and enhance Georgia's participation in the global economy. Some of the enterprise managers that received assistance in cost accounting understood the need to reallocate overheads and adjust their pricing accordingly. In several situations, they reduced their prices with confidence and strived to regain market shares they had lost to intruding foreign competitors. The ability to make these types of decisions retains employment for Georgians within Georgia, repels foreign competitors, and potentially provides a way for Georgian entrepreneurs to seek higher volumes by expanding export sales.

**The integration of internationally based accounting systems into state-owned enterprises (SOEs) will expedite the privatization process.**

As the Georgian government's commitment for accounting reform increases, future expectations are that the MoF will request financial conversions for state-owned enterprises. This progressive step could subsequently support privatizing these enterprises. Their financial performance would be recorded and interpreted with a higher level of confidence, giving future shareholders greater incentive to seek improved performance from the enterprises themselves.

**Modern accounting practices could stimulate further changes in the legal and regulatory framework—specifically the audit law.**

The results from IAS-based financial reporting and the Tax Reconciliation Form have highlighted residual issues from the Soviet era that perhaps are no longer pertinent in the emerging economic market. For example, the permissible limits on expenditure for advertising and personnel training are potentially obsolete. These confrontations with

existing tax policies may lead to future changes in tax policy and tax law. Also, the Project drafted amendments for a new audit law, and it is awaiting passage by Parliament.

### **Encourage growth of the capital market.**

As more enterprises report, disclose, and build a history of their financial statements based on IAS, there will be greater transparency and trust in the enterprises and their managers. This, in turn, will further stimulate the capital markets. As enterprises report and demonstrate their financial success, the demand for their shares will increase and consequently the share value will rise. Through an eventual initial public offering (IPO), outside institutional and individual investors will invest, and managers will be held responsible to make good use of the new capital.

### **Improve corporate governance.**

The changes in Georgian accounting practices from this Project will improve corporate governance and lead to increased investor confidence. Financial reporting and good management accounting provide mechanisms of traceability and transparency. Both are required for improving corporate governance, which defines the responsibility of the enterprise managers, their directors, and the shareholders.

### **Regain the public's confidence of the government through greater transparency.**

Transparency of the new accounting and auditing practices provides the GoG a strategic step toward regaining the public's confidence. As the government transfers its accounting authority to the private sector and sees the benefit of using IAS, it can apply the same reform mechanisms to its own accounting activities. The subsequent summary financial reports can be used as performance measures when evaluated and compared over time.

#### **Case Study: Bread Maker**

A five-year-old Georgian enterprise that concentrates on baking and selling only bread learned a new recipe for calculating its cost per unit and anticipates increasing its production volume, following its six-day financial conversion from the GEAR Project.

The Project “organized” the bakery, from an accounting perspective, into 10 departments and analyzed efficiency. Using this breakdown and the newly harvested information, management is examining its operations from a better vantage point.

The Project also instructed the management for this 20-employee LTD the proper use of depreciation and its application to machinery and departments.

Provided the performances show improvements, the public most likely will conclude that the funds are well managed. Such evidence could increase their confidence in the government.

### **Provide every citizen a way of measuring and growing their wealth for the benefit of themselves and the strengthening of their country.**

The legacy of a communist administration in Georgia is a cash economy. Many citizens measure their wealth by the cash stored under their mattresses. As land, property, and enterprises become privatized, and wealth is recognized also according to

tangible, long-term assets—and formally recognized by internationally based accounting practices—then the plight of cash from the state can be reversed. When Georgians believe in investing in their enterprises, the international community will follow, and the standard of living, including social services, will likely improve.

## **V. Recommendations**

### **General Recommendations**

- A longer-term vision for accounting reform in the CIS, including harmonizing the efforts within the different countries, would enhance individual tasks. Prior to this Project, USAID seemingly tried different techniques to implement accounting reform. These variations included involving the government versus excluding the government to have IAS approved; converting a limited number of enterprises with full financial and managerial conversion versus simple conversion for the majority of enterprises; and training based on ACCA versus training according to a mix from different origins and somewhat dependent on the comfort of the expatriate staff delivering the courses.

It is understood that not all the techniques employed in the first accounting reform projects were successful. However, counterparts for this Project who were reluctant to make changes would on occasion research the activities of other republics and cite how the technical approaches among projects differed. Having all projects communicate, debate, and implement best practices across the region as a whole would be helpful.

Harmonizing new accounting reform activities internationally can only strengthen the development efforts and outcomes from USAID and its contractors. For example, if a number of the SROs from different countries agreed upon a standard for local-language examinations, this would elevate the status of each country's national testing and certification process.

- Coordination with other economic reform activity would ensure the integrity of the accounting reforms and prevent unforeseen problems. The other economic reform projects (capital markets, banking, energy, tax and fiscal reform) have the potential to forge out a variant form of accounting, thus possibly reducing the overall accounting reform in the region. In particular, efforts should be made in Georgia to ensure that there is an agreed upon and standardized use of the Chart of Accounts.
- Selection criteria should be established for enrolling students in training. Naturally, students who are admitted to the ACCA English-based courses should have suitable English-language skills. Having a mechanism to determine a student's English skills is important for many reasons. If the selection process is too relaxed, initial enrollment will be high (encouraged by revenues from fees) but this could lead to student frustration and high dropout rates or worse, i.e., high failure rates on exams. In contrast, if the requirements are too stringent, then the process could be exclusive and perhaps focus on those who have better English skills than potential accounting skills. An established mechanism that is quick, easy, and inexpensive to administer is needed to determine the necessary English skills. Ideally, this mechanism should not be the judgment of the course instructor, which could be subject to debate or bias. In designing such a mechanism, care should be given to recognize that the lower-level courses involve more arithmetic and that skills in understanding English are more

relevant. In the higher level ACCA modules, however, the examinations require students to write argumentatively in English.

For the non-English courses, potential students should demonstrate their ability and commitment because the coursework requires completing major tasks. For example, the Audit Engagement Course requires students to prepare audit work papers and schedules in good form and complete a written examination of international standards.

### **Recommendations Specific to this Task Order**

- When developing curriculum reform in the future, projects should seek alternatives to forming partnerships with U.S. universities. This Project experienced difficulties in this area for the following reasons:
  - Not many of the U.S. universities were familiar with the ACCA-based courses, as most U.S. teaching is based on U.S. Generally Accepted Accounting Practices (GAAP); and
  - Most of the U.S. universities contacted seemed to be motivated by money or status. Once it became apparent that there was little financial gain, the interest rapidly dropped, and achieving some recognition, through exchange research programs, was unrealistic due to the underfunded universities of the former Soviet Union.

To overcome this shortcoming, this Project recommends a partnership with a teaching institution in the U.K.

- A longer duration time for the Project would have been beneficial. Continued training of the ACCA English course would have enabled students to reach even higher levels of expertise. Also, the Project could have periodically supported the fledgling GFPAA regarding its activities to further install good accounting practices throughout Georgia. Additionally, staff would be available to answer enterprises' technical questions as they complete their IAS-based financial reporting for the first time.
- The Accounting for Non-Accountants course should be introduced earlier. These targeted professionals should be selected on the basis that they are likely to serve as "reputational intermediaries" for investors seeking guidance in a young capital market. Such intermediaries extend beyond the voluntary or mandatory SRO of the stock exchange but include specialized accountants (who are trained to investigate and review self-dealing transactions and to ensure that the transactions are correctly disclosed); lawyers; investment bankers; and bond or fixed-income investment rating agencies.
- Resources should be dedicated to one or two high-performing enterprises to demonstrate that cost accounting and financial accounting can assist business decision

making. Using the correct public education vehicle, news of success stories could stimulate other Georgian enterprises to follow suit. The cost-accounting exercises could be applied to different aspects of an enterprise's business components; for example, enterprises could examine different scenarios to strengthen their financial standing, or managers could compare the cost of reducing their labor force versus modifying equipment to reach a new market.

- Formally explain and promote the importance of corporate governance as an integral part of applied accounting. Some courses, particularly those targeting enterprise managers and owners, could discuss how managers and shareholders have a responsibility for instilling good corporate governance practices.
- Intensify non-accountant training in key sectors, such as the tax inspectorate.

### **Testimonial: Professional Development**

Irina Tsikhelashvili, a consultant and team leader for the GEAR Project, is currently a consultant for accountancy at the National Bank of Georgia through the USAID Bank Supervision and Enforcement Program. She reflected recently on her time with the Project and accounting reform in Georgia:

“My experience with the GEAR Project started in February 1998. I heard about the Project from a friend, and immediately knew it was the most interesting opportunity available. Early on, the Project focused on analyzing Georgian enterprises' financial and managerial accounting functions, conversion to IAS-based accounting, and providing advice on management techniques. As a consultant, I was particularly interested in the managerial accounting component and was delighted to see some immediate results of our work. For example, our findings allowed a small company to significantly reduce the costs of its raw materials and resist a price-dumping policy employed by its major competitor.

I shall never forget the IAS training course in September-October 1998. The course had a twofold purpose: 1) teaching GEAR employees IAS and its practical implications, down to transaction-level accounting, and 2) selecting consultants, after a rigorous examination system, who were capable of conducting similar courses. I came to understand IAS very well through this training, and I also discovered I was a capable trainer. I never thought I would be teaching IAS to people much older than myself—and many of them had life-long experience in “Gosplan” accounting (the Soviet system).

Another extremely valuable opportunity was the ACCA professional certification. GEAR introduced the program in Georgia, and now more than 200 Georgian students are aboard to obtain an internationally recognized qualification in accounting and finance. I was among the first students to sign up for the ACCA program, and I am currently halfway through its final, professional stage. This has been the most important investment in my professional development I have ever made. I wish to express my gratitude to the GEAR Project for making a difference in the accounting profession in Georgia.”

### **Logical Follow-on Work**

- Offer practical assistance to enterprise accountants in completing financial statements. Financial reporting and disclosure, however, are not extensively addressed until ACCA Course 10, after completing all of the foundation stages. The Project therefore recommends that USAID develop an intermediate and practical training program of approximately 45 hours, similar to the Project’s development of supplemental practical training in conversion methodology and audit practices. This would assist enterprise accountants in preparing financial statements and the most common disclosure requirements.
- Continue dispersing cost accounting as a managerial tool to as many enterprises as possible.
- Add to enterprise managers’ and owners’ financial toolboxes with other managerial accounting practices. Follow the initial training in cost accounting with topics that include:
  - Controlling costs;
  - Cash-flow management;
  - Inventory valuation and control;
  - “Make or buy” decision analysis; and
  - Return on asset investment analysis.

Management accountability and performance evaluation processes throughout enterprises are paramount for good decision making, implementation, control, and adjustment. The monitoring and accountability processes should include reporting results and trends as well as audit testing. The business decisions within the management accounting framework must be based on economic reality that reflects the best available measure of present and probable future cash flows, costs, and values. This economic reality cannot be specified or constrained by historical costs and values if they have been specified by inappropriate government regulations that may impair the determination of fair value. Obviously for Georgian enterprises to have effective cost-accounting mechanisms, they must balance economic realities with timeliness and have the ability to routinely update needed information without costly adjustment and reclassification of the underlying accounting records. In this respect, having Georgian enterprises base their economic reality on internationally approved and recognized standards bypasses the need to create or debate standards and provides guidance for immediate implementation; managers and owners also are provided rapid assistance to make critical business decisions.

- Introduce more ways to show the relevance of how managerial accounting impacts other business practices. Enterprises that complete a managerial/cost-accounting program and incorporate the mechanisms into their daily operations would benefit from receiving sequential or follow-on training regarding capital and marketing practices.

- Further expand and strengthen the legal and regulatory framework, particularly the audit law and other tax laws. With the legal framework for IAS now in place, the next step is to ensure that enterprises are using the new standards and are in compliance with the law. This will require completing the approval of international standards for auditing and having Parliament pass the proposed audit law. Also, laws for settling disputes between tax authorities and enterprises should incorporate the use of independent audits.
- Champion audits as a way to applaud transparent corporate success. Transparent audits will aid corporate governance, build company strength and stability, and attract and demonstrate safe usage of investor funds. With the correct public education effort surrounding the new audit law's announcement, the audit process can be perceived positively, rather than as a legal mechanism for tax inspectors to police an enterprise's tax returns.
- Help the SRO reach true technical and financial self-sustainability. While the SRO in Georgia no longer requires the assistance of an expatriate on a full-time basis, an expert is needed to provide timely advice. A possible solution, which is also cost efficient, is to contract with a SRO advisor whose time can be shared with a number of SROs in the region. The advisor could visit periodically and focus on solving common problems as well as nurture support among the SROs themselves. Further, the SRO's training, certification, and continued education programs can fulfill its goal for financial self-sustainability. Marketing the value of these programs and delivering quality courses will generate substantial fees as well as keep members current with international accounting and auditing developments.
- Continue GFPAA topical training courses. The impetus to provide training that matches the growing needs of the financial community is now well and truly incorporated in GFPAA culture. However, continued support and expertise from outside Georgia is still needed to introduce topical issues that will fulfill the GFPAA's commitment to high-quality training and certification.
- The Project recommends that over time, with a continuing professional education (CPE) requirement for tax inspectors, special training courses for tax inspectors will provide them a basis in accounting and auditing that is needed to become good tax auditors. Of course, additional tax-related administration and tax law courses are also required, but these basic courses are already available through the GFPAA and will give the tax inspectors the foundation necessary for further tax-specific training.
- Through curriculum reform, ensure that future generations understand and are equipped to work with internationally approved accounting practices. The next step is to re-establish the curriculum reform working group and hold a workshop to analyze the pros and cons of implementing curriculum reform at the targeted universities during the fall 2000 semester. This workshop should stimulate overcoming common obstacles together, thus maintaining enthusiasm and a supportive network for the reform to continue. The group should then formally link and strengthen ties with the

accounting training center in London, which could take over the Project's role of stewarding the curriculum reform process. Taking on this responsibility and providing periodic support throughout the year would be in the training center's best interests to ensure that the group attends the center's refresher courses and that new professors attend its fee-based courses in the summers.

- The Project has recommended to USAID a course with four 45-hour modules (university-level courses) for non-accountants (based upon ACCA's Certified Diploma in Accounting and Finance) in order to provide a core group of subjects for bank and security market training. Topics for the four modules cover financial accounting, cost accounting, managerial finance, and business analysis. While the Project recommended this aspect of the program to USAID for future use through the GFPAA to establish a uniform basis for bank training and security market participants, the program could have widespread applicability for non-accountant enterprise managers and others needing a basic understanding of accounting and financial management.
- Perform higher level international accounting training. This training should include not only the formal ACCA training to the highest level (currently module #14) but also specialized disciplines such as:
  - Asset evaluation and appraisals for initial public offerings (IPOs); and
  - Elementary financial analysts.
- Take local training to a higher level of international recognition. The training of accountants based on the translated syllabus of ACCA had a good start in Georgia. This method has become the benchmark for the CIS, and other republics should be encouraged to adopt the same form of training. As USAID reduces its technical intervention, a further mechanism to encourage self-support would be to help facilitate a regional program where the examinations are standardized for a number of the republics. This would help prevent republics from lowering the quality or standards for their courses and simultaneously provide a way to give individual national certificates international recognition, albeit within the other participating republics.
- Encourage but channel the natural development of Georgian-language training materials. As Georgians become more proficient in accounting, some will see the opportunity to create texts and training guides in the Georgian language rather than Russian. In fact, that has already started with some of the university professors and the Project staff. This should be seen as enhancing the existing resources and emerge naturally as a commercial opportunity responding to market demand, rather than requiring further donor funding. However, some early mechanism should be installed to test the relevance and accuracy of new content.
- Support the counterpart (MoF) by integrating IAS within government accounting.

The next pressing step in accounting reform is for the public accounting sector to adopt IAS standards, thus keeping the government current with the private sector, helping restore transparency to government agencies, and complementing anti-corruption initiatives promoted by global bodies such as the World Bank and International Monetary Fund (IMF). This would increase confidence in the Georgian government—both in Georgia and abroad.

- Assist the MoF with auxiliary accounting components within the private sector that meet new market needs. These developments are likely to include, for example, specialized charts of accounts for certain industries. The MoF likely will seek guidance in making these adjustments, in addition to Small and Medium Enterprises (SMEs) that may require a modified chart of accounts following changes in the tax law.
- Oversee the remaining tiers of financial conversions for enterprises. The Georgian government now has experience and confidence in introducing IAS into private-sector enterprises and a strong interest to do the same for many of the state-owned businesses. This should be supported, particularly alongside the introduction of cost accounting and managerial accounting, as IAS will allow managers to evaluate efficiencies and possible results from future investments. Armed with these tools, state officials can make better-informed decisions about investing in the enterprises or privatizing them. If privatization were selected, then “pre-privatized,” state-owned enterprises (SOEs) would benefit from having a history of IAS-based financial reporting. Potentially the GoG could secure more realistic prices, which would contribute significantly to reducing the national debt.
- Oversee corporate restructuring, including debt restructuring and cash flows. As Georgian enterprises develop a history of IAS-based financial reporting and



**Chris Badach (standing, foreground) instructs a training class in converting enterprises to IAS.**

incorporate managerial accounting with increasing sophistication, they should seek assistance for analyzing various corporate restructuring scenarios. This could include reviewing and rescheduling debts with new and more appropriate lending vehicles. Also, maximizing cash flow could benefit improvements in production or gains in economies of scale through market share expansion.

- Train specialized accountants. As the activities of USAID's five individual economic reform activities begin to meld, the synergistic benefits that emerge can be facilitated and used as examples for others to acquire confidence. For example, a recently privatized enterprise that has incorporated IAS could be listed on the stock exchange. The managers then would be able to use internationally recognized financial techniques to evaluate and argue the optimal investments the enterprise requires to achieve its strategic objectives. With good corporate governance and the roles of enterprise managers and responsibilities of shareholders clearly understood, the new era of Georgian enterprises should be able to issue shares and seek access to capital for investment purposes using the capital market institutions. To facilitate these activities and to shorten the time for the benefits to be realized, some accountants will require specialized training in disciplines that cover:
  - Appraisal services and asset valuation for IPOs; and
  - Financial analysis (e.g., building investor confidence by researching and verifying the absence of undisclosed corporate dealings).
  
- The training for the securities commission staff was well received but they also wanted a detailed course on financial statement format and disclosure requirements so they could review listed company reports for content. Also, the brokerage house staff wanted a course on brokerage house financial reporting and accounting. Thus, the participants appeared to focus on limited aspects of their jobs; the Project recommends that perhaps more specific training courses need to be developed in the future to meet these needs.

## **VI. Concluding Remarks**

The Georgian accounting reform project was very successful, first technically by achieving all of USAID's desired deliverables in the time frame provided and, second, by institutionalizing internationally recognized accounting practices into everyday business activity. The GFPAA now has the status, structure, and skills for being the self-regulatory organization that represents the professional body of Georgian accountants and auditors. This body will coordinate and continue the work this Project started. It is leading toward becoming financially self-sustaining, primarily due to its ability to provide high-quality, ACCA-based (English and local language) courses introduced by this Project and now reputed to be the benchmark for all accounting reform projects.

The Government of Georgia has gained understanding of and confidence in international accounting and auditing standards, to the point that it endorses their use throughout the private sector. New laws have been established and passed that ensure Georgian enterprises present their financial reports in compliance with international standards and practices. A critical mass of enterprises have received instruction on how to comply with the new laws and use the new financial reporting to fulfill their tax obligations, which ensures the irrevocability of the transition. Technical capacity now successfully resides within the local auditing firms to assist those enterprises yet to convert to IAS-based reporting, bringing to a close the need for further donor support for this component of the Project.

The strong training programs, both in local and English languages, have nearly created a new profession in Georgia, one that is vastly different from its previous bookkeeping role. Also, some academic institutions have recognized the importance of this training and have started to adjust their curricula in order to teach the new generation the financial/accounting skills they'll need when they become part of the Georgian workforce.

Components of cost accounting are being utilized as decision-making tools by Georgian entrepreneurs and business owners/managers. These tools will be vital for Georgian enterprises that are currently surviving as rudimentary commercial shells and are seeking ways to transform themselves into being major employers and wage providers for the country's citizens.

With this firm basis of international accounting practices, Georgia's economy can start to recover. Enterprises that have a history of accurate and transparent financial reporting are more likely to receive financial investment. Business owners and managers are becoming better equipped to make the best use of the investments, providing returns and reducing risk in order to attract further investments. The future role of good corporate governance and the distinct responsibilities of enterprise managers and shareholders will be important in perpetuating the investment cycle.

Supporting the Government of Georgia to adopt IAS practices into its own agencies will contribute to the transparency of the government's financial transactions and help reduce

corruption. This will further build investor confidence to participate in transforming Georgia's economy. The new accounting skills that now reside in Georgia's private sector will have to be introduced into the state-owned enterprises as well. This will require assistance from the international community, and it could increase the efficiency of SOEs, improve cash flow, contribute to reducing the country's debt, and increase the level of private investment in the privatization process. The country is ready to grow.

Sibley International is pleased to report the results achieved in this Project. The professionalism and commitment of its expatriate and local staff significantly contributed to its successes. In particular, the Project Team worked in cooperation with USAID in Tbilisi to create and leave a firm foundation of accounting practices upon which Georgia's economic future can be developed, measured, and strengthened.

### **End of Report**

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## Appendix A

### Tangible Results

**Note: The tangible results listed below are primarily taken from Modification No. 5 (11-22-1999) to the Task Order.**

**Task 1. Establish a fully functioning legal and regulatory framework for the full implementation of International Accounting Standards (IAS) and International Standards of Auditing (ISA).**

Status:

- 1a.) All charts of accounts and implementation guidelines are fully drafted, approved, and implemented by the Government of Georgia (GoG) in conversion to IAS. **Completed.** The GoG, USAID/Georgia, and Contract Technical Officer (CTO) agree to a plan for simplified accounting rules for small businesses. **As USAID and the Project agreed (via a revised work plan) that simplified charts of accounts were not required for small businesses, this tangible was eliminated.**
- 1b.) A book-to-tax reconciliation form is accepted by the Ministry of Justice. **Completed.**
- 1c.) Auditing professional certification/licensing is developed with appropriate GoG recognition. **The framework of audit certificate and licensing was developed and proposed to the Audit Council and Chamber of Auditors; however, full implementation was dependent on the 2001 acceptance of the Georgian Audit Law.**
- 1d.) Licensing and certification systems are in place. **A national certificate program for accountants was established and put in place by the GFPAA; the program was updated to more closely match the ACCA model and the region's best practices.**

**Task 2. Convert accounting practices of 300 additional enterprises to IAS-compliant national accounting practices, including providing short-term training in the conversion process and IAS core standards.**

Status:

- 2a.) By 4/30/00, there will be at least 100 additional companies converted and 100 accountants trained. **Virtually completed – USAID/Georgia agreed that the first part of the year should be devoted to ensuring the converted enterprises remained converted rather than increase the number with new conversions.**
- 2b.) By 7/31/00, there will be at least another 100 companies converted and 100 accountants trained. **Virtually completed – with new conversions started.**
- 2c.) By 10/31/00, there will be at least another 100 companies converted and 100 accountants trained. **Virtually completed – USAID/Georgia agreed (revised work plan) that the Project should provide financial conversion assistance to good Georgian enterprises that were operating and viable. This reduced the total number of new conversions to 99.** In addition, the Georgian Federation of Professional Accountants and Auditors (GFPAA) shall assume management of the conversion activities. **Completed – all conversion techniques**

**and follow up work was transferred to the GFPAA.**

- 2d.) In all cases, there will be documented follow-up with randomly selected companies. **Completed.**
- 2e.) Training of accountants shall be at least 40 hours of class time, but not to exceed 80 hours of class time, utilizing methodologies and materials developed by the USAID-funded project in Kyrgyzstan. **Completed.**
- 2f.) A complete conversion manual that details the process of conversion is to be prepared and distributed to all conversion training participants throughout the remainder of the project. **Completed.**

**Task 3. Develop GFPAA as a technically and financially self-sustainable professional self-regulating organization (SRO) that is a member of the international accounting and audit community, capable of carrying out accounting reform and development without USAID assistance.**

Status:

- **3a.) Certification.**
- By 4/30/00, all completed translations (Papers 1 and 3 through 8) of ACCA training materials into Russian will have been obtained from Armenia as part of the AED-funded program. **Completed up to Paper 6 (Paper 7 not relevant as it relates to UK taxes.)** Also, a Georgian version of ACCA Paper 2 will be completed and translated into Georgian by 4/30/00. **Completed.** Supplementary translated materials will be obtained from other USAID contractors, as appropriate, so that stages of local certification are supported with needed materials by 4/30/00. **Completed.**
- By the end of the task order, at least 135 students will have taken and passed two or more of the ACCA Papers 1 through 8, working toward English language certification. **Completed.** At least 10 students should have completed the Foundation and Certification stages. **Completed – pending outcome of December 2000 examinations.**
- By the end of the task order, at least 800 students should have passed First Stage ACCA-based local/Russian language certification. **Virtually completed with 223 passes – note: initial figures set by GFPAA**
- By the end of the task order, at least 510 students should have passed Second Stage ACCA-based local/Russian language certification. **Virtually completed with 161 passes – note: initial figures set by GFPAA**
- By the end of the task order, at least 400 students should have passed Third Stage ACCA-based local/Russian language certification. **Virtually completed with 91 passes – note: initial figures set by GFPAA**
- **3b.) SRO financial sustainability.**
- By 12/15/99, the GFPAA shall revise and implement its annual business plan, including cash-flow projections, which include collection of dues and other methods of generating revenue and cost control. The business plan should fully reflect a declining level of salary support as follows:

- By 1/31/00 — 25% decrease. **Completed.**
  - By 4/30/00 — 50% decrease. **Completed.**
  - By 7/31/00 — 75% decrease. **Completed.**
  - By 10/31/00 — 100% decrease. **Completed.**
- 
- **3c.) Ethics and continuing education.**
  - By 5/30/99, the GFPAA shall publish guidance on interpretation of the ethics codes. **Eliminated per work plan of September 2000.**
  
  - Throughout the duration of the task order, the GFPAA headquarters and local chapter leaders shall be trained in ethics. They will, in turn, train another 200 GFPAA members. **Completed**
  
  - By 9/30/00, the GFPAA shall enforce ethics codes by investigating cases, imposing disciplinary actions, including de-certification. **Completed – with mandatory CPE requirements for certificate holders.**
  
  - By 6/30/00, the GFPAA shall have mandatory Continuing Professional Education (CPE) requirements for certification holders. **Completed.**
- 
- **3d.) International liaison.**
  - As requested, started as soon as possible and completed by 1/31/00, a project and financial review of the GFPAA shall take place and a letter on reportable conditions, if appropriate, issued to its management. **Completed.**
  
  - By 6/30/00, the GFPAA shall fully implement recommendations in the management letter to the extent feasible. **Completed – with GFPAA commencing the implementation of recommendations.**

**Task 4. Implement new accounting and audit curriculum at two higher educational institutions.**

- **4a.) New curriculum.**
  - By 8/31/00, recommendations will have been finalized, detailed curriculum revisions for all undergraduate years and will have been submitted to the Committee for Accounting Reform. **Completed.**
  
  - By 3/31/00, the selected educational institutions will be equipped with guidelines for the appropriate accounting training materials. **Completed (May 2000).**
  
  - By 8/15/00, all faculty members shall be trained in delivering appropriate courses. **Completed – six Georgian professors.**
  
  - By 8/31/00, the complete, revised curriculum will have been delivered and be ready for implementation by the selected higher education institutions. **Completed.**
- 
- **4b.) Partnership development.**
  - By 3/31/00, partner universities are identified. **Completed (November 2000).**
  
  - By 4/30/00, partnerships are established. **Completed (December 2000)**

- By 5/15/00, a Faculty Exchange Program between the U.S. partners and the two Universities is accomplished (in coordination with other USAID contractors). The goal is to have at least one selected faculty member from each educational institution get short-term training in the U.S. and two of their respective U.S. colleagues visit their Georgian institutions to consult on curriculum development and training methodology. **Completed – revised in the September work plan to include six Georgian professors visiting London-based accounting college.**
- By 8/31/00, efforts will have been made to have other donors or projects supply and install basic equipment. **Completed.**

**Task 5. Provide more focused training for auditors, tax inspectors, enterprise financial managers, and users of financial statements.**

- **5a.) Training based on specific user needs.**
- By the end of the task order, conduct a course for 25 professional employees of the securities commission, stock exchange, and brokerage houses to provide understanding in the use of financial statements for due diligence and oversight. **Completed.**
- By the end of the task order, conduct a course for 25 tax inspectors to provide understanding in the use of financial statements for determining taxable income or loss and book-to-tax reconciliation. **Completed.**
- By the end of the task order, as part of the conversion training, train 25 accounting managers from priority state-owned enterprises (SOEs) scheduled for privatization. **Eliminated per agreement with USAID in September 2000 work plan.**
- By the end of the project, train 50 energy-sector accounting managers. **Completed with 37 available energy-sector accountants trained.**
- **5b.) Audit engagement training through GFPAA and possibly cooperative efforts with the Audit Activity Council (AAC):**
- By 3/31/00, agreement will be reached with the GFPAA and the AAC on an approach to auditor training that best meets the interests of the professional auditing community. **Completed with approach explained to both GFPAA and AAC.**
- By 6/30/00, a total of 100 auditors and prospective auditors will have been trained in audit engagement practices that include engagement planning, working paper preparation, control and substantive testing, working paper review, audit program design, and statistical sampling. **Completed – tangible result revised in September 2000 work plan to include four selected trainers who received ToT course in Armenia and gave instruction to 25 Georgian Auditors.**
- **5c.) Managerial accounting training through the GFPAA.**
- By the end of the task order, at least 100 enterprise financial managers from the converted enterprises will have been trained in management accounting concepts, cost accounting, planning and control, and inventory control. Training includes work assignments for accountants of converted enterprises to provide actual hands-on costing of their companies' products. **Completed – Revised tangibles of September 2000 work plan completed, with 50 enterprise financial managers from converted enterprises receiving training and 21 enterprises (10 being the minimum requirement) with established cost systems.**



# **Georgian Law**

## **On Regulation of Accounting and Reporting**

### **Article I. Goals of the Law**

Goals of this law are to:

- a) support accounting reform implementation in Georgia;
- b) define spheres of state regulation and self-regulation in accounting and reporting in Georgia;
- c) adopt IAS and
- d) establish Georgian Accounting Standards Commission.

### **Article 2. Definition of Terms**

Terms used in this Law have following meaning:

*a) The International Accounting Standards (IAS)* – are accounting standards as promulgated by the International Accounting Standards Committee (IASC).

*b) State regulation of accounting and reporting* – define accounting and reporting rules and norms by state bodies through adoption of respective legislative and normative acts.

*c) Self-regulation of accounting and reporting* – improvement of accounting practices for private entities in accordance with IAS by independent professional organizations of accountants through practical implementation of standard interpretations, temporary standards and methodological guidelines approved by the Accounting Standards Commission.

*d) Standard Interpretations* – explanations developed to clarify statements and terms used in IAS.

*e) Temporary Accounting Standards* – temporary accounting rules approved by Georgian Accounting Standards Commission for those accounting issues that are not regulated by the Georgian legislation and IAS.

### **Article 3. International Accounting Standards**

Georgia adopts International Accounting Standards.

### **Article 4. Normative Acts Regulating Accounting and Reporting**

Accounting and reporting in Georgia is regulated by the Georgian “Law on Entrepreneurs”, hereby Law, and other legislative and normative acts.

### **Article 5. State Regulatory Body of Accounting and Reporting**

- 5.1. State regulatory body in accounting and reporting is the Ministry of Finance, which is eligible to approve accounting norms and rules for public entities, issue relevant instructions and guidelines and implement them in practice.
- 5.2. With respect to accounting and reporting issues the Ministry of Finance cooperates with the GASC at the Parliament of Georgia and with independent professional organizations of accountants.

**Article 6. Self-regulation of Accounting and Financial Reporting**

Self-regulation of private sector accounting and financial reporting is carried out by independent professional organizations of accountants and the Accounting Standards Commission within the Georgian Parliament.

**Article 7. Eligibility of Independent Professional Organizations of Accountants.**

Professional accounting organizations are eligible to:

- 1) develop interpretations to IAS;
- 2) develop temporary standards of accounting;
- 3) upgrade qualification of accountants and certify professional accountants.

**Article 8. Accounting Standards Commission at the Parliament of Georgia**

- 1) “Accounting Standards Commission of Georgia” is created at the Parliament of Georgia and unites representatives from business, accounting, finance, economics or law. The Commission is comprised of 9 members including each representative from the Ministry of Finance and the Securities Commission.
- 2) The members of the Georgian Accounting Standards Commission are nominated by the Finance Budget Committee and approved by the Parliament Bureau for a three-year term.
- 3) The Charter of the Accounting Standards Commission is approved by the Georgian Parliament.

**Article 9. Functions of the Accounting Standards Commission within the Parliament of Georgia**

- 1) The functions of the Accounting Standards Commission are as follows:
  - a) to approve Georgian translation of IAS for implementation;
  - b) to approve IAS interpretations for implementation;
  - c) to approve temporary accounting standards;
  - d) to approve the structure of the Chart of Accounts based on IAS.
- 2) In carrying out its functions the Commission collaborates with Georgian state bodies and independent professional organizations of accountants.

## **Article 10. Accounting and Financial Reporting**

- 1) Private entities (except small enterprises and non-commercial entities) are obligated to carry out accounting and financial reporting in accordance with IAS and temporary accounting standards.
- 2) Individual entrepreneurs, small enterprises and non-commercial entities have the right to carry out accounting and financial reporting in accordance with IAS and temporary accounting standards.

## **Article 11. Transitional Provisions**

1. Educational institutions of Georgia reflect in their accounting curricula rules and norms determined by the IAS and the normative acts adopted by the Accounting Standards Commission.
2. Enforce Item 10.1:
  - a) for joint stock companies from January 1, 2000.
  - b) for limited liability companies, comandate companies, joint responsibility companies, cooperatives - from January 1, 2001.
3. Bring the Presidential Decree N 70 "On Approval of the Regulation of Accounting and Reporting in Georgia" issued on February 6, 1998 in compliance with this law.

## **Final Provisions**

1. Enforce this law on the 15<sup>th</sup> day of its publication date.

With regard to the enforcement of this law, revoke:

- a) Order ? 120 of the Ministry of Finance on "Accounts payable from enterprise retained earnings and other own assets," 04.24.1997, immediately after enforcement of this law.
- b) Joint "Methodological guidelines on simplified forms of small enterprise accounting and financial reporting" of the Ministry of Finance and the Georgian State Department of Social Economical Information, 07.11.1996 from January 1, 2000.
- c) Order ? 130 of the Ministry of Finance "On approval of the Chart of Accounts for accounting of the enterprise financial and business activities" 12.21.1992 from January 1, 2001.

President of Georgia  
Tbilisi February 5 1999  
? 1796 – IIs

Eduard Shevardnadze

*Sibley International/USAID*

*Draft*

*Audit Law Amendments for the*

*Republic of Georgia*

*August 14, 2000*

**LAW OF THE REPUBLIC OF GEORGIA  
ON AUDIT**

**CHAPTER I. GENERAL PROVISIONS**

***Preamble***

1. The Law of the Republic of Georgia on Audit is adopted with the purpose of bringing Georgian audit practices into full compliance with the following promulgations of the International Federation of Accountants (hereinafter “IFAC”): (1) International Standards on Auditing; (2) Code of Ethics for Professional Accountants; (3) International Education Standards and Guidelines; (4) Pronouncements on Management Accounting; (5) Promulgations regarding Information Technology; and (6) Promulgations regarding Financial Reporting by Governmental Enterprises, including International Public Sector Accounting Standards.
2. An additional purpose of this law is to ensure that the Republic of Georgia complies with international standards for education, testing, certification and licensing of auditors as reflected in the United Nations Conference on Trade and Development (hereinafter “UNCTAD”) Global Curriculum for Professional Education of Professional Accountants and UNCTAD’s Guideline for a Global Accounting Curriculum and Other Qualification Requirements.
3. This law further intends that audit regulation in Georgia conforms with the following World Trade Organization (hereinafter “WTO”) guidelines: (1) Guidelines for Recognition of Qualifications in the Accountancy Sector; (2) Guidelines for Mutual Recognition Agreements or Arrangements in the Accountancy Sector; and (3) Disciplines on Domestic Regulation in the Accountancy Sector.
4. To achieve the above goals, the law provides that the authority to implement and regulate the above shall be split between the Georgian Government and a private sector self regulating organization (hereinafter “SRO”) of professional auditors, which will be a full-fledged member of IFAC and the International Accounting Standards Committee (hereinafter “IASC”). The authority to regulate private sector auditors shall rest with a newly established Chamber of Auditors and the authority to regulate public sector auditors shall remain with the Georgian Parliament’s Audit Advisory Council.

***Article 1. Scope***

Auditing in the Republic of Georgia shall be regulated by this law and other relevant legislative acts and regulations of the Republic of Georgia.

The Law of Republic of Georgia on Audit (hereinafter “Audit Law”) shall determine the legal bases for the execution of audits in the Republic of Georgia and regulate the relevant terms of this activity. The Audit Law shall at all times be in full conformity with IASC, IFAC, UNCTAD and WTO requirements discussed in the above preamble, and specifically address the authority, which shall establish ethical requirements including auditor competence and independence.

The Audit Law is applicable to audit examinations of all public sector and private sector entities that have been created in accordance with the legislation and regulations of the Republic of Georgia. The Audit Law establishes the authority and governing bodies that shall regulate these two spheres of audit. In addition, the Audit Law addresses the responsibilities of auditors and their related potential liability.

## **Article 2. Definitions**

### **Auditing**

Auditing is the process by which a competent, independent auditor accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria. The scope of work performed by an auditor or auditing company shall not be limited to auditing, but shall be limited to the parameters of IFAC's International Standards on Auditing and the IFAC Code of Ethics for Professional Accountants.

The objective of auditing is to enable an auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. In accordance with Georgian accounting law, the relevant financial reporting framework is International Accounting Standards.

### **Auditor**

An auditor is an individual or audit company that has been certified and licensed in accordance with the provisions of this law. Achieving certification and maintaining a license will enable such a person or audit company to be eligible to practice auditing within the territory of Georgia. The auditing profession shall be bifurcated into two separate spheres, which are not mutually exclusive:

1. **Public Sector Auditors:** Auditors that audit government spending agencies. Public sector auditing includes all the activities necessary for a government auditor to form an opinion on the compliance of a governmental entity with International Public Sector Accounting Standards and relevant laws regulations and directives of the management of that entity after an examination conducted in accordance with International Standards on Auditing.
2. **Private Sector Auditors:** Auditors that audit the financial statements of co-operatives, joint stock companies, partnerships, limited liability companies, sole proprietorships and other non-governmental entities. Private sector auditing includes all the activities necessary for independent professionals to form opinions on the fairness of the presentation of financial statements in conformance with International Accounting Standards after an examination conducted following International Standards on Auditing.

### **Audit Company**

An audit company is an enterprise that possesses an audit license for conducting audits of entities within the territory of Georgia.

An audit company shall be entitled to carry out audits only if it employs one or more licensed auditor. Only a licensed auditor shall be permitted to be managing partner, director or equivalent thereof of an audit company.

An audit company may be organized in any legally acceptable form except as a joint stock company.

## **Audit Opinions**

An audit opinion is a clear written expression of opinion on the financial statements as a whole. The opinion is to be prepared in accordance with International Standards on Auditing.

## **Certification**

Certification is the process of confirmation of necessary knowledge and experience to practice auditing. Requirements of eligibility for certification, attainment and maintenance of certification shall be established by an SRO known as the Chamber of Auditors. Certification for the purposes of this law shall mean maintaining the responsibility for approving the professional educational requirements, administering a qualification test, determining the experience requirement and establishing continuing educational requirements for practicing auditors.

## **Independence**

Independence of an auditor is: (1) the state of mind that permits the provision of an opinion without being affected by influences that impair professional judgment, and (2) the ability to demonstrate that risks to independence of mind have been eliminated or limited to such clearly insignificant matters that an informed third party would not reasonably question the reporting accountant's objectivity (sometimes referred to as independence of appearance).

## **International Accounting Standards**

International Accounting Standards (hereinafter "IAS") are accounting standards promulgated by the International Accounting Standards Committee, which is a London-based non-profit non-governmental international organization that was founded in 1973. Since then, the IASC has attempted to harmonize accounting practices throughout the world by issuing IAS. International Accounting Standards are designed to be a single set of high quality, uniform, globally applied and enforced accounting standards, which satisfy information needs for both domestic and cross-border investment and financing decisions.

## **International Federation of Accountants**

The International Federation of Accountants is a New York-based non-profit non-governmental international organization for the accounting profession. Worldwide uniformity of auditing standards is an objective of IFAC. The Republic of Georgia is represented on IFAC through the membership of the Georgian Federation of Professional Accountants and Auditors.

## **International Public Sector Accounting Standards**

International Public Sector Accounting Standards (hereinafter "IPSASs") are designed to improve government accountability. For the purposes of this law only, references to IPSASs also include the following IFAC promulgations: (1) International Public Sector Guidelines, which recommend practices to be followed in the public sector on financial reporting; (2) International Public Sector Studies, which are intended to provide advice on financial reporting, accounting and auditing issues in the public sector;

and (3) Occasional Papers, which provide information that contributes to some segment of the body of financial reporting and auditing knowledge.

### **International Standards on Auditing**

International Standards on Auditing (hereinafter “ISAs”) are developed by the International Auditing Practices Committee, a committee of IFAC. ISAs are a codified set of standards that outline basic responsibilities for auditors, help them cope with increased and changing demands for financial statement information, and provide guidance in specialized areas. For the purposes of this law only, references to International Standards on Auditing also include the following IFAC promulgations: (1) International Auditing Practice Statements, which provide practical assistance to auditors in implementing the standards or on related subjects and promote good practice; (2) Audit Risk Alerts, which apprise auditors of the audit implications arising from recent international issues; and (3) Discussion Papers, which present worldwide perspectives on timely issues.

### **Licensing**

Licensing is the process of issuing special permission to auditors to conduct audits within the territory of Georgia. Licenses shall be granted to auditors that hold valid certificates and pass the appropriate character and fitness requirements established by this law.

Licensing power shall be vested within the Audit Advisory Council at the Parliament of Georgia.

### **Professional Services**

Professional services are comprised of any service requiring auditing or related skills performed by a professional auditor including accounting, appraising, auditing, taxation, management consulting and financial management services. Except for auditing, an auditing license shall not be required to engage in any of the above services. An auditor is not precluded from engaging in any of the above professional services unless such engagement violates the IFAC Code of Ethics for Professional Accountants.

## **CHAPTER II. GOVERNMENTAL REGULATION OF AUDIT ACTIVITY**

### ***Article 3. Governmental Regulation***

Activity subject to governmental regulation of audit includes:

1. legislating an adequate audit law;
2. undertaking the licensing of certified auditors; and
3. carrying out disciplinary proceedings against auditors, which may include suspension and revocation of auditors’ licenses.

#### ***Article 4. Audit Activity Council***

For execution of functions of government control over auditing, the Parliament of Georgia has established the Audit Activity Council at the Parliament of Georgia.

#### ***Article 5. Competence of the Audit Activity Council***

The competence of the Audit Activity Council encompasses the following:

1. Interpreting and implementing the use of ISAs and IPSASs for private sector and public sector audits, respectively;
2. establishing, approving, and enforcing this statute on licensing of auditors, which conforms to WTO's Guidelines for Mutual Recognition Agreements or Arrangements in the Accountancy Sector and WTO's Disciplines on Domestic Regulation in the Accountancy Sector;
3. maintaining a state register of auditors that conduct private sector audits;
4. establishing certification requirements for public sector auditors and maintaining a state register of public sector auditors;
5. providing solutions for questions related to the state regulation of auditing;
6. establishing a code of conduct for public sector auditors that is either the IFAC Code of Ethics for Professional Accountants or uses the IFAC Code of Ethics for Professional Accountants as a basis for approved ethical requirements for public sector auditors in Georgia;
7. providing administrative support for the Chamber of Auditors;
8. providing training for the certification of public sector auditors, which comply with IFAC's International Education Standards and Guidelines, UNCTAD's Global Curriculum for Professional Education of Professional Accountants, UNCTAD's Guideline for a Global Accounting Curriculum and WTO's Disciplines on Domestic Regulation in the Accountancy Sector; and
9. establishing and overseeing a system of peer review for public sector auditors.

#### ***Article 6. Users of Financial Statements***

According to the legislation of the Republic of Georgia, the users of financial statements of economic entities shall be the representatives of certain bodies of state, physical and legal persons interested in the results of an entity. Interested parties include owners, founders, creditors, investors or other persons who have a legal right to obtain information reflected in the financial statements.

#### ***Article 7. Standards of Accounting and Auditing***

The published financial statements for private sector audits shall include all reports, schedules, notes and other requirements mandated by International Accounting Standards and International Standards of Auditing. The published financial statements for public sector audits shall include all reports, schedules, notes and other requirements mandated by International Public Sector Accounting Standards and International Standards of Auditing.

### ***Article 8. Licensing***

The Audit Activity Council possesses the competency to establish licensing rules and procedures. These rules and procedures shall conform with the licensing procedures and requirements established by the WTO's Disciplines on Domestic Regulation in the Accountancy Sector and the mutual recognition provisions and licensing provisions of the WTO's Guidelines for Mutual Recognition Agreements or Arrangements in the Accountancy Sector. Both private sector auditors and public sector auditors located in the Republic of Georgia may perform audits only after obtaining:

1. An audit license that is issued by the Audit Activity Council.
2. The right to obtain an audit license shall be granted only to private sector auditors that have been certified by the Chamber of Auditors and meet character and fitness requirements. An audit license shall be valid for term of not more than 3 years.
3. The right to obtain an audit license shall be granted only to public sector auditors that have been certified by the Audit Activity Council and meet character and fitness requirements. An audit license shall be valid for term of not more than 3 years.
4. The Audit Advisory Council shall have 60 days to perform its responsibilities regarding the licensing of private sector auditors. If the Audit Advisory Council finds that a candidate does not pass the character and fitness requirements, it will inform the candidate in writing of the basis for refusal of a license, and allow the candidate to appeal the decision through an administrative hearing conducted by the Audit Activity Council in accordance with the General Administrative Code of Georgia. If a candidate qualifies for a license, the Audit Activity Council shall issue the license as promptly as possible within 60 days of the application's receipt.

### ***Article 9. Character and Fitness***

The Audit Activity Council shall neither grant a license, nor enter onto the list of auditors:

1. private sector auditors that have not been certified by the Chamber of Auditors or who are not in good standing with the Chamber of Auditors;
2. public sector auditors that have not been certified by the Audit Advisory Council or who are not in good standing with the Audit Advisory Council;
3. natural persons who have been sentenced for a criminal offense carrying a maximum penalty of over one year of imprisonment;
4. natural persons who has deleted from the list of auditors during the period of the past ten years on the basis of disciplinary measures.

### ***Article 10. Discipline-Suspension***

The Audit Activity Council may suspend an auditor's license; thereby enjoining the auditor from performing audit activities:

1. if an action has been brought against the auditor to restrict the auditor's legal competence or deprive the auditor of such legal competence, and the legal action has been adjudicated to a final judgment that restricts or deprives an auditor of such legal competence;
2. if the auditor has been prosecuted for criminal offense carrying a maximum penalty of over one year imprisonment;
3. upon recommendation of the Chamber of Auditors that a private sector auditor is not in good standing with the Chamber of Auditors for violating the Chamber's ethical code, a private sector auditor has failed to maintain continuing professional education requirements or because a private sector auditor's certificate has been suspended for just cause; or
4. if there are any disciplinary measures, in which case the suspension shall be in force until the date stated in the decision of the Audit Activity Council.

### ***Article 11. Discipline-Revocation***

The Audit Activity Council shall revoke the license of an auditor; thereby deleting the auditor from the list of auditors if the auditor:

1. Has been declared legally dead;
2. is no longer legally competent or whose competence has been restricted;
3. has been rightfully sentenced for criminal offense carrying a penalty of over one year imprisonment or has been enjoined from practicing the profession of auditing as a criminal penalty or a civil sanction;
4. is affected by disciplinary deletion from any list of auditors kept by the Audit Activity Council;
5. has requested in writing that the Audit Activity Council to remove the auditor from the Audit Activity Council's list of auditors;
6. has not maintained a minimum level of auditing activity;
7. is in liquidation or declared bankrupt; or
8. upon recommendation of the Chamber of Auditors that a private sector auditor is not in good standing with the Chamber of Auditors for violating the Chamber's ethical code, a private sector auditor has failed to maintain continuing professional education requirements or because a private sector auditor's certificate has been revoked for just cause.

### ***Article 12. Auditor's Right to Appeal Audit Activity Council's Judgments Regarding Licensing***

An auditor, whose license is refused, suspended or revoked by the Audit Activity Council shall be entitled to an administrative hearing prior to the finality of such a decision. The administrative hearing

must be conducted in accordance with the General Administrative Code of Georgia. In particular, the auditor shall be entitled to present evidence and be heard by an impartial, neutral magistrate. The decision of the Audit Activity Council's magistrate to refuse, suspend or revoke an auditor's license may be appealed to the appropriate district court, which exercises jurisdiction over the conflict.

### **CHAPTER III. REGULATION AND TERMS OF IMPLEMENTATION OF PRIVATE SECTOR AUDITS**

#### ***Article 13. Entities Required to Undergo Annual Audits***

The following entities must undergo an annual private sector audit:

1. economic subjects, the organizational and legal form of which, in correspondence with the legislation in force, provides for the limited property responsibility of their owners;
2. banks, insurance companies, non-budgetary funds, stock exchanges and markets;
3. other entities on the annual list of entities that require audits, which is approved by the Ministry of Finance of the Republic of Georgia; and
4. any entities required to comply with Articles 4 and 11 of the Law of Georgia on Securities Market.

#### ***Article 14. Audit Engagements***

The audit of a private sector entity shall be carried out on the grounds of an agreement made between the auditor and the client.

The agreement made between the private sector auditor and the client shall provide for the subject of the audit, term and level of an auditor's service to be rendered, rate and terms of remuneration, and the responsibilities of the respective parties.

The remuneration of auditor's service under the agreement is subject to the IFAC Code of Ethics for Professional Accountants' provisions on: (1) Independence; and (2) Fees and Commissions. The subject and terms of agreement shall be confidential. All audit engagement terms are subject to ISAs Terms of Audit Engagements.

#### ***Article 15. Performance of the Audit Engagement***

The terms of an audit agreement by a private sector auditor shall be stipulated by an engagement letter. The performance of the engagement is completed by the delivery of the agreed upon audit opinion. The engagement letter shall be drafted in accordance with ISAs Terms of Audit Engagements and signed by the auditor.

Public sector audit engagements shall be executed and performed in accordance with ISAs Terms of Audit Engagements and the related provisions of the IFAC Code of Ethics for Professional Accountants.

#### ***Article 16. Audit Opinions***

1. An auditor shall render an opinion, which complies with ISAs on annual financial statements unless applicable Georgian legislation or regulations additionally require interim reporting. The audited opinion must be signed by the person responsible for the audit, who must be a partner or director of

the auditing company and entered on the list of licensed auditors maintained by the Audit Activity Council.

2. Auditors shall render opinions in accordance with ISAs.
3. Where an auditor renders an adverse opinion or a disclaimer on a publicly traded company registered with the National Securities Commission of Georgia, under Section 4.13.c of the Law of Georgia on Securities Market, the auditor shall inform the National Securities Commission of Georgia within a reasonable time.
4. The reports on the accounts must remain on deposit at the registered office of the audited entity for a period of not less than ten years in accordance with Section 13.3 of the Law of Georgia on Entrepreneurs.

#### **CHAPTER IV. RIGHTS AND DUTIES OF PARTIES FOR PRIVATE SECTOR AUDITS**

##### ***Article 17. Conduct of Private Sector Audits***

Private sector auditors are entitled:

1. to determine on their own the forms and methods of auditing in accordance with ISAs and the IFAC Code of Ethics for Professional Accountants, relative Georgian legislation, terms of agreements with clients and the auditor's professional judgment;
2. to receive all required documents concerning the subject of the audit, which are in the possession of clients or third parties. Third parties shall provide such information to the auditor at the client's request;
3. to receive all required comments regarding the audit from client's management and employees either in written or oral form;
4. to review all relevant documentation of an economic subject regarding the client's financial and industrial activity, availability of funds, investments, financial valuation and be permitted to perform planned measurements, testing and evaluation to determine the quality of information provided by the management of the client; and

##### ***Article 18. Ethical Requirements***

Private sector auditors are obliged to adhere to a code of professional conduct for private sector auditors that is either the IFAC Code of Ethics for Professional Accountants or uses the IFAC Code of Ethics for Professional Accountants as a basis for approved ethical requirements for private sector auditors in Georgia.

##### ***Article 19. Independence***

Private sector auditors must be independent in fact and in appearance. Private sector auditors are obliged to adhere to IFAC's independence rules, which shall be either in the IFAC Code of Ethics for

Professional Accountants or in approved ethical requirements for private sector auditors in Georgia, which is based upon the IFAC Code of Ethics for Professional Accountants. An auditor is not precluded from engaging in professional services besides auditing unless such engagement would violate the independence rules of either the IFAC Code of Ethics for Professional Accountants or approved ethical requirements for private sector auditors in Georgia based upon the IFAC Code of Ethics for Professional Accountants.

### ***Article 20. Civil Liability of Auditors***

Unless otherwise prescribed by this law, any liability of an auditor shall be redressed in accordance with the Civil Code of Georgia.

#### **1. Auditor Negligence**

An auditor must exercise all such care as is reasonably necessary in each particular circumstance. The relationship between the auditor and the client is one of trust, in which the auditor owes a fiduciary duty to the client. Where the client suffers a loss or damages as a result of the failure of its auditor to discharge this fiduciary duty imposed upon him, the auditor shall be liable for negligence. In addition an auditor may be liable to a third party for negligence if the third party has contractual privity to the audit engagement.

The above provision shall apply to disputes involving misstatements of material fact and omissions of material fact. In a dispute involving misstatements of material fact, the claimant must prove that the claimant actually relied upon a misstatement of material fact. In a dispute involving an omission of material fact, reliance need not be proven.

The level of an auditor's liability shall not exceed the amount of actual damages suffered by the client or party, which had contractual privity to the audit engagement.

The auditor may claim a due diligence defense of the above charges. Under the due diligence defense, if an auditor can prove that that a reasonable investigation was performed, then the auditor shall not be liable for damages. Reasonable investigation means that the auditor conducted the audit engagement in a manner of a normal prudent auditor in accordance with ISAs and observed the relevant ethical code provisions.

The disputes between auditors and clients shall be settled by the appropriate court that may legally exercise jurisdiction over the matter in dispute.

#### **2. Misstatements or Omissions in Audits of Publicly Traded Companies**

Regarding audits of publicly traded companies registered with the National Securities Commission of Georgia, under Section 4.13.c of the Law of Georgia on Securities Market, auditors are subject to National Securities Commission of Georgia sanctions for material misstatements or omissions outlined in Article 55 of the Law of Georgia on Securities Market. An auditor may claim a due diligence defense against such sanctions under Article 4.14 of the Law of Georgia on Securities Market.

#### **3. Auditor Fraud and Insider Trading**

Auditors shall be subject to the fraud and manipulation provisions of Section 44 of the Law of Georgia on Securities Market. In addition, auditors shall be subject to the insider trading provisions of Section 45 of the Law of Georgia on Securities Market. Violations of such provisions subject auditors to National Securities Commission sanctions outlined in Article 55 of the Law of Georgia on Securities Market.

***Article 21. Responsibility of Management regarding Accuracy of Financial Statements***

In accordance with Article 13 of the Law of Georgia on Entrepreneurs, the responsibility for correctness of making and providing financial statements of economic entities in accordance with international standards rests upon the management of the economic subject.

***Article 22. Management's Responsibilities Regarding Private Sector Audits***

The management of the audited private sector entity shall undertake:

1. to provide the private sector auditor with necessary and relevant documentation required to perform an accurate and complete audit;
2. at the request of auditor and without any unreasonable delay, explain in writing and/or orally any and all relevant information related to an audit;
3. to eliminate and/or correct errors in a timely matter revealed during the audit.

In addition to the above, joint-stock companies' management must adhere to Section 58 of the Law of Georgia on Entrepreneurs, which provides the appropriate conditions management should follow in selecting an auditor and management's responsibility regarding the annual audit.

**CHAPTER V. REGULATION OF PRIVATE SECTOR AUDITORS**

***Article 23. Establishment of the Chamber of Auditors***

A Chamber of Auditors shall be established following the passage of this law. The Chamber shall be established as a non-profit non-governmental self-regulatory organization. The Chamber of Auditors shall be established observing IFAC: (1) Items to Consider for Inclusion in Charters/By-laws of Professional Accountancy Bodies; and (2) Guidance on the Formation and Organization of a Professional Accountancy Body.

The competence of the Chamber of Auditors encompasses the following:

1. Promulgating quality control standards;
2. implementing and maintaining of a code of professional conduct for private sector auditors that is either the IFAC Code of Ethics for Professional Accountants or uses the IFAC Code of Ethics for Professional Accountants as a basis for approved ethical requirements for private sector auditors in Georgia;
3. implementing and maintaining auditor independence standards that comply with IFAC's independence rules;
4. submit to the Audit Advisory Council names of private sector auditors subject to discipline who are not in good standing with the Chamber of Auditors or have violated ethical requirements including independence standards;
5. establishing competency and certification requirements for private sector auditors to enter the profession, which shall be based on the current and updated training, testing and certification requirements of IFAC, UNCTAD's Guideline for a Global Accounting Curriculum and Other

Qualification Requirements and WTO's Disciplines on Domestic Regulation in the Accountancy Sector;

6. submit to the Audit Advisory Council names of private sector auditors that are eligible for licensing once such auditors have passed the competency and certification requirements that comply with the above mentioned IFAC, UNCTAD and WTO guidelines; and
7. establishing and maintaining a system of peer review.

***Article 24. Specialization***

The Chamber of Auditors may deem specific areas of specialization, such activities may be performed only by an auditor who has a special certificate in the relevant area of specialization. The Chamber of Auditors shall issue specialization certificates to a licensed auditor who has satisfied the requirements for the relevant specialization.

***Article 25. Continuing Professional Education***

The Chamber of Auditors will determine the continuing professional educational requirements for private sector auditors to maintain auditing licenses and certificates. Continuing professional education requirements shall follow IFAC requirements for Continuing Professional Requirements and UNCTAD's Guideline for a Global Accounting Curriculum and Other Qualification Requirements. Additionally, the Chamber of Auditors shall determine the minimum level of audit activity required constituting active auditor status the purposes of Article 11.6.

***Article 26. Requirement to Provide Information and Duty to Update***

Applicants for certification are obliged to provide the Chamber of Auditors with all necessary and relevant information and documents that the Chamber of Auditors requires for consideration of an application. Certified auditors are obliged to notify the Chamber of Auditors of all changes in the data recorded by the Chamber of Auditors in accordance with this law or requirements established by the Chamber of Auditors.

***Article 27. International and National Affiliations***

1. The Chamber of Auditors may join any international or regional organizations necessary to accomplish its mission;
2. the Chamber of Auditors shall strive to become a full fledged member of IFAC;
3. the Chamber of Auditors may form territorial or regional divisions necessary to accomplish its mission.

***Article 28. Certification Requirements and Maintenance***

The Chamber of Auditors shall in accordance with IFAC's International Education Standards and Guidelines, UNCTAD's Global Curriculum for Professional Education of Professional Accountants, UNCTAD's Guideline for a Global Accounting Curriculum and WTO's Disciplines on Domestic Regulation in the Accountancy Sector:

1. Approve adequate educational requirements for the certification of private sector auditors, which include general accounting and auditing educational programs and specialized educational programs that teach general and specialized theoretical aspects of professional accounting and auditing;
2. develop and administer qualifying exams for candidates for either general or specialized certification for private sector auditors;
3. periodically review existing, approved educational programs to determine whether such approval should be maintained;
4. maintain and publish a list of general and specialized educational programs that are approved by the Chamber of Auditors;
5. supervise activities of private sector auditors and institutes a system of peer review;
6. determine the experience requirements required for private sector auditors to be certified for either general or specialized certification.
7. determine the necessary continuing professional educational requirements for private sector auditors to maintain certification.

***Article 29. The Chamber of Auditors Structure and Due Process***

The formation of the Chamber shall observe IFAC: (1) Items to Consider in Charters and/or By-laws of Professional Accountancy Bodies; and (2) Guidance on the Formation and Organization of a Professional Accountancy Body. The Chamber shall be established with the appropriate structure to facilitate efficiency and an atmosphere of openness and due process. The Audit Advisory Council shall provide administrative support to the Chamber.

1. The Council of the Chamber of Auditors (hereinafter “Council”) shall be the governing board of the Chamber of Auditors.
  - a) A Nominating Committee shall select the initial Council. The Nominating Committee shall be selected by parties that have a legitimate interest in the formation of the Chamber of Auditors could choose the Nominating Committee.<sup>1</sup> The Nominating Committee shall be composed of nine

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<sup>1</sup> Such parties could include the Audit Activity Council, the Georgian National Securities Commission the Georgian Federation of Professional Accountants and Auditors, industry representatives, and the donor community, such as USAID, World Bank, etc. The reason for the creation of the Nominating Committee is proposed because the current list of licensed auditors may not adequately represent the constituency current professional auditors in Georgia. The Nominating Committee should be composed of individuals from diverse functional backgrounds that have an interest in the development of a legitimate audit profession in Georgia. For example, the Nominating Committee that selected the initial Board of Trustees for the newly restructured IASC were as follows: (1) Dr. Karl H. Baumann, Chairman of the Supervisory Board, Siemens AG, Deputy Chairman DRSC (the German national accounting standards setter); (2) Mr. James E. Copeland, Jr., Chief Executive Officer, Deloitte Touche Tohmatsu; (3) Mr. Howard Davies, Chairman, UK Financial Services Authority; (4) Mr. Arthur Levitt, Jr., Chairman, US Securities and Exchange Commission; (5) M. Michel Prada, Chairman, French Commission des Operations de Bourse; (6) Mr. Andrew Sheng, Chairman, Hong Kong Securities and Futures Commission; and (7) Mr. James D. Wolfensohn, President, The World Bank. The Nominating Committee members have elected Arthur Levitt as Chairman of the Nominating Committee. Also, the Nominating

members. The Nominating Committee shall select and approve by simple majority the initial nine Council members.

- b) Thereafter, the Council shall be elected at a Council organized annual meeting of all members of the Chamber of Auditors. The term of office of the members of the Council shall be for one year.
- c) The Council should have membership that represents the following constituencies: (1) licensed professional auditors; (2) auditing educational specialists; (3) industry representatives; and (4) users of audited financial reports.<sup>2</sup>

## 2. Council Competency:

- a) The Council shall be responsible for all undertakings necessary to accomplish the Chamber of Auditors' mission.
- b) The Council shall organize an annual meeting to elect the new Council. Appropriate notice of the meeting shall be given to all members of the Chamber of Auditors. A majority of all members of the Chamber of Auditors shall constitute a quorum necessary to elect a new Council. A decision is valid only if a clear majority of those members present vote for the decision.
- c) The Council may organize additional meetings as necessary to accomplish the Chamber of Auditors' mission.
- d) The initial Council may change or propose additional specific requirements of voting as long as the changes are approved at a legitimate General Meeting.
- e) The council may establish other auxiliary bodies or committees necessary to accomplish the Chamber of Auditors' mission.

## 3. Organic changes of the Chamber of Auditors may only be achieved through a valid vote at a General Meeting. The following may be accomplished only at General Meetings:

- a) Approval of the election and voting rules;
- b) election of the Council;
- c) deciding all other matters within the competency of the Chamber of Auditors that have been reserved by the meeting.

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Committee could either appoint or eventually serve as a supervisory or oversight board to the Council. This would be following the current trend in accounting and auditing organizations, where supervisory boards provide guidance, oversight and fund-raising.

<sup>2</sup> The drafter of this law does not believe that specific membership should be mandated by the law, but rather that an aspiration of board membership composition should be presented. For example, a governing board could consist of nine members with four individuals who are private sector auditors, two industry representatives, two education specialist and one user of financial reports. An additional aspiration should be to strive for a Council whose members are truly independent. To achieve independence, members would sever existing relationships and affiliations to avoid conflicts of interest.

4. Members of the Chamber of Auditors may delegate to other members, by written proxy, their right to vote or act at General Meetings.
5. In a manner specified by its governing statute, the Council shall organize and hold a General Meeting at least annually.
6. All General Meetings shall be open to the public and conducted in a manner that affords due process and observes notions of fairness.
7. The functions of the bodies of the chamber are honorary.

*President of Georgia*

*Eduard Shevardnadze*

*Chairman of the Parliament of Georgia  
Tbilisi*

*Zurab Zhvania*

	<b>Company Name</b>	<b>City</b>	<b>Type</b>	<b>Conversion Date</b>
1	Litoponi	QUTAISI	JSC	3/12/1999
2	Avtokarkhana (1) with 6 subsidiaries	QUTAISI	JSC	3/15/1999
3	Avtokarkhana (subsidiary)	QUTAISI	JSC	3/15/1999
4	Avtokarkhana (subsidiary)	QUTAISI	JSC	3/15/1999
5	Avtokarkhana (subsidiary)	QUTAISI	JSC	3/15/1999
6	Avtokarkhana (subsidiary)	QUTAISI	JSC	3/15/1999
7	Avtokarkhana (subsidiary)	QUTAISI	JSC	3/15/1999
8	Avtokarkhana (subsidiary)	QUTAISI	JSC	3/15/1999
9	Saaviatsio karkhana	QUTAISI	JSC	4/15/1999
10	Ministaris karkhana	QUTAISI	JSC	3/15/1999
11	Sakmilsadmsheni	QUTAISI	LTD	3/12/1999
12	Davit Sarajishvili and Eniseli	Tbilisi	JSC	4/19/1999
13	Tbilisi	Tbilisi	JSC	4/23/1999
14	Elektroni	Tbilisi	JSC	4/29/1999
15	Divaisi	Tbilisi	LTD	5/10/1999
16	Kartuli chai	Tbilisi	JSC	5/15/1999
17	Avtotranssistema	Tbilisi	JSC	5/15/1999
18	Charkhi khazi	Tbilisi	JSC	5/14/1999
19	Saknavtobsadeni	Tbilisi	JSC	5/14/1999
20	Coca-Cola Bottlers Georgia	Tbilisi	LTD	5/14/1999
21	Kartu jgupi	Tbilisi	JSC	5/10/1999
22	Agroindustria	Tbilisi	JSC	5/10/1999
23	Komertsia	Tbilisi	JSC	5/10/1999
24	KTP	Tbilisi	JSC	5/10/1999
25	Mineraluri tsklebi	Tbilisi	JSC	5/10/1999
26	Orioni	Tbilisi	LTD	5/27/1999
27	Lino	Tbilisi	JSC	5/27/1999

28	Marsi	Tbilisi	LTD	6/2/1999
29	Elada	QUTAISI	LTD	6/8/1999
30	Interparmi	QUTAISI	LTD	6/8/1999
31	Vaziani	Tbilisi	JSC	6/9/1999
32	Deda	Tbilisi	LTD	6/9/1999
33	Giorgi	Tbilisi	LTD	6/9/1999
34	TV+	Tbilisi	LTD	6/9/1999
35	Tbilgvino	Tbilisi	LTD	6/25/1999
36	Arkstudia	Tbilisi	LTD	6/28/1999
37	ElektromekaniKosi	QUTAISI	JSC	6/28/1999
38	Tegi	QUTAISI	LTD	5/30/1999
39	Kutaisgza	QUTAISI	LTD	5/30/1999
40	Zudagi	QUTAISI	LTD	5/30/1999
41	Kavtrekstransi	Tbilisi	LTD	6/30/1999
42	Vashlijvari	Tbilisi	JSC	6/30/1999
43	Iberia	Tbilisi	LTD	
44	Kartli	Tbilisi	JSC	7/8/1999
45	Tbiltambako	Tbilisi	JSC	7/8/1999
46	Batumis avtosadguri	Batumi	JSC	7/20/1999
47	Besana & Georgia	Batumi	JSC	7/23/1999
48	Gumbati	Batumi	JSC	7/25/1999
49	Avtoturisti	Batumi	LTD	7/16/1999
50	Industria investi	Batumi	LTD	7/27/1999
51	Elita XXI	Batumi	LTD	8/2/1999
52	Batumis pekhsatsmlis pabrika	Batumi	JSC	8/3/1999
53	Stamba	Batumi	JSC	8/3/1999
54	Vachrobtransi	Batumi	JSC	7/18/1999

55	Mtsvane Kontskhi	Batumi	LTD	7/19/1999
56	Densi	Batumi	LTD	7/21/1999
57	Batumi Enterprises	Batumi	LTD	7/17/1999
58	Acharasagareoservisi	Batumi	LTD	7/17/1999
59	Avtomobilisti	Batumi	JSC	7/15/1999
60	Interservisi	Tbilisi	LTD	6/30/1999
61	Piramida 60	Tbilisi	LTD	7/3/1999
62	TS Jgupi	Tbilisi	LTD	7/3/1999
63	Ghazli	Tbilisi	LTD	7/3/1999
64	Omega	Tbilisi	LTD	7/3/1999
65	Tbiluavtoservisi	Tbilisi	JSC	7/3/1999
66	Imperiali	Tbilisi	LTD	8/5/1999
67	Shemokmedi	Tbilisi	LTD	
68	Danti	Tbilisi	LTD	
69	Mamuli	Tbilisi	JSC	
70	Shemokmedi	Tbilisi	LTD	
71	Lechiva-geo	Tbilisi	LTD	
72	Technologiuri initsiativa	Tbilisi	LTD	
73	Lechiva-geo	Tbilisi	LTD	
74	Temso	Tbilisi	LTD	
75	Kartli	Tbilisi	LTD	
76	Momavali	Tbilisi	LTD	
77	Poligrapi	Tbilisi	JSC	
78	Universali	Tbilisi	LTD	
79	Mshenteknika	Tbilisi	JSC	
80	Tsitsinatela	Tbilisi	LTD	
81	Tbilmsheni	Tbilisi	LTD	

82	Imereti	Tbilisi	LTD	
83	Tatia	Tbilisi	LTD	
84	Vake 777	Tbilisi	LTD	
85	Sakkamazavtotsentri	Tbilisi	LTD	
86	El. Servisi	Tbilisi	LTD	
87	Gasi	Tbilisi	LTD	
88	Diagnostikuri tsentri	Tbilisi	LTD	
89	Dedopala	Tbilisi	LTD	
90	Tbilisi 2000	Tbilisi	LTD	
91	Oilendi	Tbilisi	LTD	
92	Ghvinis sahli	Tbilisi	LTD	
93	Diagnostikuri servisi	Tbilisi	LTD	
94	Anglo gas & lubricants	Tbilisi	LTD	
95	Spetbi	Tbilisi	LTD	
96	Angri	Tbilisi	LTD	
97	Pazisi	Tbilisi	LTD	
98	Tbilkhelsatsko	Tbilisi	LTD	
99	Bazaletis tba	Dusheti	JSC	
100	Merkuri-92	Tbilisi	JSC	
101	Neli	Tbilisi	LTD	
102	Meshvide kontinenti	Tbilisi	LTD	
103	Arkitektura & Dizaini	Tbilisi	LTD	
104	Elgo	Tbilisi	LTD	
105	V V V	Tbilisi	LTD	
106	Kontrasti	Tbilisi	LTD	
107	Arsi-elservisi	Tbilisi	LTD	
108	Beta 2	Tbilisi	LTD	

109	Chogburtis akademia	Tbilisi	LTD	
110	Piri	Tbilisi	LTD	
111	Traktebi	Tbilisi	JSC	8/11/1999
112	E.B.A.S	Rustavi	JSC	8/11/1999
113	Rekor-laboratoria	Tbilisi	LTD	8/11/1999
114	Pres-a-98	Tbilisi	LTD	8/14/1999
115	Kristali 1887	Tbilisi	JSC	8/12/1999
116	Mtsvanemsheni	QUTAISI	LTD	9/7/1999
117	Tbomsheni	QUTAISI	LTD	9/7/1999
118	Puris kharkhana	QUTAISI	JSC	9/7/1999
119	Medko	QUTAISI	LTD	9/7/1999
120	Ghvinis karkhana	QUTAISI	LTD	9/7/1999
121	Zagi	Tbilisi	LTD	9/7/1999
122	Erili	Tbilisi	LTD	9/7/1999
123	Rustavgazi	Rustavi	JSC	9/7/1999
124	Kera XXI	Tbilisi	LTD	9/7/1999
125	Els0	Tbilisi	LTD	9/7/1999
126	Satbobi 99	Tbilisi	LTD	9/7/1999
127	Iurservisi	Tbilisi	LTD	9/7/1999
128	Evromarketi	Tbilisi	LTD	9/7/1999
129	Levon Travel	Tbilisi	LTD	9/7/1999
130	Samta	Tbilisi	LTD	9/7/1999
131	Khiminji 75	Tbilisi	LTD	9/7/1999
132	Kashanuri	Tbilisi	JSC	9/7/1999
133	Tskalmsheni 1	Tbilisi	JSC	9/7/1999
134	Georgian Jams & Jewelry	Tbilisi	LTD	9/7/1999
135	Kakabeti	Tbilisi	LTD	9/7/1999

136	Argo 95	Tbilisi	LTD	9/7/1999
137	Georgian Credits	Tbilisi	LTD	9/7/1999
138	Khuteuli	Tbilisi	LTD	9/7/1999
139	Ika	Tbilisi	LTD	9/7/1999
140	Multisami	Tbilisi	LTD	9/7/1999
141	Maya	Tbilisi	LTD	9/7/1999
142	Shevardeni 1906	Tbilisi	LTD	9/7/1999
143	Meridiani	Tbilisi	LTD	9/7/1999
144	Kobi	Tbilisi	LTD	9/7/1999
145	Magti Energy	Tbilisi	LTD	9/8/1999
146	Akolo	Tbilisi	LTD	9/8/1999
147	Bondi	Tbilisi	JSC	9/8/1999
148	Kompleksi	Tbilisi	JSC	9/8/1999
149	Terma	Tbilisi	LTD	9/8/1999
150	Lausani	Poti	LTD	9/29/1999
151	Pumigatori	Poti	LTD	8/29/1999
152	Kavtreksi		LTD	8/15/1999
153	Luka	Tbilisi	LTD	8/29/1999
154	Dobera	Tbilisi	LTD	8/29/1999
155	Bia	Tbilisi	JSC	9/8/1999
156	Mdzgolta momzadebis tsentri	Tbilisi	JSC	9/8/1999
157	Aptiakari	Tbilisi	LTD	9/8/1999
158	Menova	Tbilisi	LTD	9/8/1999
159	Aviasatsvavservisi	Tbilisi	LTD	9/8/1999
160	Pirma 89	Tbilisi	LTD	9/8/1999
161	DSG & ia		LTD	9/8/1999
162	Metekhi		LTD	9/8/1999

163	Aviaekspreskruizi	Tbilisi	LTD	9/8/1999
164	GBS Elektroniksi	Tbilisi	LTD	9/8/1999
165	Vere	Tbilisi	LTD	9/8/1999
166	BTO piliali sakartveloshi	Tbilisi	LTD	9/8/1999
167	Magtivini	Tbilisi	LTD	9/8/1999
168	Eksperti	Tbilisi	LTD	9/8/1999
169	Memi	Tbilisi	LTD	9/8/1999
170	Merkuri 95	Tbilisi	LTD	9/8/1999
171	M.G. & Company	Tbilisi	LTD	9/8/1999
172	Mesazgvre	Tbilisi	LTD	9/8/1999
173	Giorgi	Tbilisi	LTD	9/8/1999
174	Kristali	Tbilisi	LTD	9/8/1999
175	Gama	Tbilisi	LTD	9/8/1999
176	Lombada	Tbilisi	LTD	9/8/1999
177	Kibaro	Tbilisi	LTD	9/8/1999
178	Kenguru	Tbilisi	LTD	9/8/1999
179	Prima	Tbilisi	LTD	9/8/1999
180	Paza	Tbilisi	LTD	9/9/1999
181	Saktelekom pliusi	Tbilisi	LTD	9/10/1999
182	Posalo	Poti	LTD	9/13/1999
183	Poti kola	Poti	LTD	9/13/1999
184	Interservisi-Sadzghvao vachroba	Poti	JSC	9/13/1999
185	Serzuri	Poti	LTD	9/13/1999
186	Georgian konteiner servisi	Poti	LTD	9/13/1999
187	Serzuri 1	Poti	LTD	9/13/1999
188	Lanchkhuti	Poti	LTD	9/13/1999
189	West Georgia	Poti	LTD	9/13/1999

190	Eksim TK	Poti	JSC	9/13/1999
191	Sakstandarti	Poti	LTD	9/13/1999
192	G.V.I	Poti	LTD	9/13/1999
193	Evrazia	Poti	LTD	9/13/1999
194	Maspindzeli	Tbilisi	LTD	9/29/1999
195	Potis Navsadguri	Poti	JSC	9/19/1999
196	Potis Tsiskvilkarkhana	Poti	JSC	9/2/1999
197	Potis Purkombinati	Poti	LTD	
198	Vesti	Poti	LTD	
199	Urta	Poti	LTD	
200	Interkoni	Poti	JSC	
201	Argo	Poti	JSC	
202	ETS	Poti	LTD	
203	AVV	Poti	LTD	
204	Plagmani	Poti	LTD	
205	Poti Trans 96	Poti	JSC	
206	Kolkhi-21	Poti	LTD	
207	Kaisa-2	Poti	LTD	
208	Kemi	Poti	LTD	
209	Potivneshtansi	Poti	LTD	9/7/1999
210	Sopmar	Poti	LTD	
211	Eti	Tbilisi	LTD	
212	Naratani	QUTAISI	LTD	
213	Pari	QUTAISI	LTD	
214	D.C.G YOHO	Tbilisi	LTD	
215	Makaronis pabrika	Tbilisi	JSC	
216	Tekstili	Tbilisi	LTD	

217	Vake	Tbilisi	JSC	
218	Dino	Tbilisi	LTD	
219	Khma	Tbilisi	LTD	
220	piramida +1		JSC	
221	AISI	GURJAANI	LTD	7/1/1999
222	BAZA 93	GURJAANI	LTD	7/1/1999
223	QINDZMARAU LI	KVARELI	JSC	7/1/1999
224	KAKHETIS GULI	GURJAANI	JSC	10/1/1999
225	KASTEL-GEORGIA	KVARELI	JSC	9/23/1999
226	KVARELI	KVARELI	JSC	9/23/1999
227	SAMAMULE	GURJAANI	LTD	9/23/1999
228	KOTEKHI	GURJAANI	JSC	10/1/1999
229	CHICHNAURI	TELAVI	JSC	10/1/1999
230	UNIVERSALI XXI	GURJAANI	LTD	9/20/1999
231	VELISCIKHE	GURJAANI	JSC	9/27/1999
232	KARDANAKHI 999	GURJAANI	LTD	9/30/1999
233	MUKUZANI	GURJAANI	JSC	10/1/1999
234	ALAZANHESI	GURJAANI	JSC	10/4/1999
235	IBERIA		JSC	
236	TBILELEQTROAPRATI	Tbilisi	JSC	9/20/1999
237	G.T.S	Tbilisi	JSC	10/8/1999
238	PURPRODUQT EBI	Tbilisi	JSC	10/12/1999
239	TRANSKVEBSERVISI	GURJAANI	JSC	10/12/1999
240	GURJAANGAZI	GURJAANI	JSC	10/12/1999
241	GURJAANI 93	GURJAANI	JSC	10/12/1999
242	GAZIS CHAMOSKHMA	GURJAANI	JSC	10/12/1999
243	SATRANSPORTO MOMSAKHUREBA	GURJAANI	JSC	10/12/1999

244	CHANDARI	GURJAANI	JSC	10/12/1999
245	TRANSPORTELI	QUTAISI	JSC	9/10/1999
246	GIKO	QUTAISI	LTD	9/16/1999
247	INSTITUT OF ART	QUTAISI	LTD	9/21/1999
248	AVTOMATIKA	QUTAISI	LTD	9/20/1999
249	KHURO	QUTAISI	JSC	9/15/1999
250	TRANSVESTINJINERINGI	QUTAISI	JSC	9/10/1999
251	ERA	Rustavi	JSC	9/10/1999
252	GSC	Tbilisi	LTD	9/10/1999
253	ERISIMEDI	Tbilisi	JSC	10/10/1999
254	KHASHMI	Tbilisi	LTD	10/10/1999
255	EROLI	Tbilisi	LTD	10/12/1999
256	TEONA	Tbilisi	LTD	10/12/1999
257	UNIVERSITI "SULKHAN-SABA	Tbilisi	LTD	10/12/1999
258	AMMA	Tbilisi	JSC	10/2/1999
259	QRIENT - T		LTD	10/10/1999
260	TECNO EFECT 3344	Tbilisi	LTD	10/12/1999
261	K & COMPANY	Tbilisi	LTD	10/12/1999
262	DIAL	Tbilisi	LTD	10/10/1999
263	RIONI 96	Tbilisi	LTD	10/10/1999
264	MAMISONI 88	Tbilisi	LTD	10/10/1999
265	MARGI	Tbilisi	JSC	10/9/1999
266	BIA	Tbilisi	JSC	10/10/1999
267	SISTEMA PLAS	Tbilisi	LTD	10/9/1999
268	MDZGOLTA MOMZADWBIS CENTRI	Tbilisi	JSC	10/9/1999
269	TOTO - LOTO	Tbilisi	LTD	10/9/1999
270	GZAMSHENI	Tbilisi	LTD	10/10/1999

271	QSENONI	Tbilisi	LTD	10/9/1999
272	INGINERINGI	Tbilisi	LTD	10/7/1999
273	NDZ	Tbilisi	LTD	10/10/1999
274	FEIQARI	Tbilisi	JSC	10/10/1999
275	ERTOBA	Tbilisi	JSC	10/10/1999
276	TRANSMSHENI	KHASHURI	JSC	10/10/1999
277	LANKO	Tbilisi	LTD	10/9/1999
278	INFORMATIKA	Tbilisi	JSC	10/10/1999
279	SKRT	Tbilisi	JSC	10/20/1999
280	EKOSPECMSHENI		JSC	
281	MADLI	Tbilisi	LTD	10/25/1999
282	EXPERIMENT	Tbilisi	LTD	10/25/1999
283	TSEKAVSHIRI ECONOMIC AND UTILITIES SERVICE	Tbilisi	LTD	10/26/1999
284	BAIA	Tbilisi	LTD	10/25/1999
285	ELEQTROSHEDUGEBA	Tbilisi	LTD	10/26/1999
286	OQSINO	Tbilisi	LTD	10/26/1999
287	DUGABI-94	Tbilisi	LTD	10/25/1999
288	GARANTI-M	Tbilisi	LTD	10/27/1999
289	LAMPARI	QUT AISI	LTD	10/31/1999
290	GENERAL AVTOMOTIVI	Tbilisi	LTD	10/28/1999
291	SABURTALO-2000	Tbilisi	LTD	10/28/1999
292	SIKHARULI-I	Tbilisi	LTD	10/27/1999
293	KOBRA	Tbilisi	LTD	10/27/1999
294	LAZO	Tbilisi	LTD	10/27/1999
295	EKOSPECMSHENI	Tbilisi	JSC	10/25/1999
296	UNIVERSALI	Tbilisi	JSC	10/26/1999
297	PHENIKS 2	Tbilisi	JSC	10/25/1999

298	SAQSASHENMECNIEREB	Tbilisi	JSC	10/28/1999
299	EKONOMIA	Tbilisi	LTD	10/27/1999
300	TRANSCAVKASIA	Tbilisi	LTD	10/26/1999
301	ALIANSI	Tbilisi	LTD	10/28/1999
302	MNATOBI	Tbilisi	LTD	10/27/1999
303	GANTIADI	Tbilisi	LTD	10/28/1999
304	ORIONI	Tbilisi	LTD	10/29/1999
305	ABA & CO.	Tbilisi	LTD	10/29/1999
306	KOPSERVISI	Tbilisi	LTD	10/27/1999
307	METSNIEREAB	Tbilisi	LTD	10/28/1999
308	ARCHITECTORTA KAVSHIRI	Tbilisi	LTD	10/29/1999
309	KIRCHKHIBI	Tbilisi	LTD	10/28/1999
310	PANORAMA	Tbilisi	LTD	10/26/1999
311	IMAKOM	Tbilisi	LTD	10/28/1999
312	MSHVIDOBA	Tbilisi	LTD	10/28/1999
313	ENERGIA	Tbilisi	LTD	10/27/1999
314	SAGZAO POLIKLINIKA	Tbilisi	LTD	10/29/1999
315	RASHI	Tbilisi	JSC	10/29/1999
316	VEIL MOTORS	Tbilisi	LTD	10/28/1999
317	SAKORGGAZI	Tbilisi	JSC	10/29/1999
318	ARDZANI	Tbilisi	LTD	10/28/1999
319	VE-GA	Tbilisi	LTD	10/25/1999
320	NATURAFARMI	Tbilisi	LTD	10/27/1999
321	GEDE	Tbilisi	LTD	10/25/1999
322	MIKROFARMI	Tbilisi	LTD	10/26/1999
323	RADIOKOMPANIA 1-RADIO	Tbilisi	LTD	10/27/1999
324	RADIOKOMPANIA 1-RADIO	Tbilisi	LTD	10/27/1999

325	KOBULETIS CHAI	KOBULETI	LTD	10/27/1999
326	MERE	Tbilisi	LTD	10/26/1999
327	MBS	Tbilisi	LTD	10/27/1999
328	EQSTRA-95	Tbilisi	LTD	10/25/1999
329	MARNEULNAVTOB PRODUQTI	MARNEULI	JSC	10/29/1999
330	NARIKALA-91	Tbilisi	LTD	10/29/1999
331	KAMARA-KOMPIUTERI	Tbilisi	LTD	10/29/1999
332	PONICHALA 3	Tbilisi	LTD	10/25/1999
333	KRATERI	Tbilisi	LTD	10/27/1999
334	KERA		JSC	10/31/1999
335	SAKONSULTACIO CENTRI	Tbilisi	LTD	10/26/1999
336	KAKHIMERI	Tbilisi	LTD	10/29/1999
337	KEGELI	Tbilisi	JSC	10/28/1999
338	KHONI	Tbilisi	LTD	10/28/1999
339	BAMBIS NARTI	Tbilisi	JSC	10/29/1999
340	BAMBA	Tbilisi	LTD	10/29/1999
341	KENGURU	Tbilisi	LTD	10/29/1999
342	MSHENEBELI "Tbilisi"	Tbilisi	LTD	10/29/1999
343	RASHI	QUTAISI	JSC	10/29/1999
344	KUTAISGAZI	QUTAISI	JSC	10/29/1999
345	KHAOIANI KSOVILEBIS FABRIKA	QUTAISI	JSC	10/29/1999
346	CISQVILI	QUTAISI	JSC	10/29/1999
347	MUKHIANI 98	CKALTUBO	JSC	10/29/1999
348	"NUKBARI"	QUTAISI	JSC	10/29/1999
349	GRDEMLI	Rustavi	JSC	10/25/1999
350	DATBES	Rustavi	LTD	10/25/1999
351	PERLITI	Rustavi	JSC	10/25/1999

352	MSHENE BELI	Rustavi	JSC	10/25/1999
353	ALEKO	Rustavi	JSC	10/29/1999
354	ALDGI-QVEMO QARTLI	Rustavi	LTD	10/25/1999
355	ELEQTROMONTAJI	Rustavi	LTD	10/29/1999
356	EKOSPECM SHENIS RUST.FILIALI "BIOQOMPAQTI"	Rustavi	JSC	10/29/1999
357	RUSTAVMSHENI	Rustavi	JSC	10/29/1999
358	KONSTRUKCIA	Rustavi	JSC	10/27/1999
359	TRESTI TBILISI	GARDABANI	JSC	10/27/1999
360	MEQANOMONTAJI	Rustavi	JSC	10/27/1999
361	ILEKRO	Rustavi	LTD	10/27/1999
362	MSHENMEQANIZACIA	Rustavi	JSC	10/27/1999
363	TEQNOLIZINGI	Tbilisi	LTD	10/29/1999
364	D.K.	Tbilisi	LTD	10/29/1999
365	GAMONI	Tbilisi	JSC	10/28/1999
366	CKALKANALSPECREMMSHENI	Tbilisi	LTD	10/28/1999
367	TBILISIS BANKTASHORISI SAVALUTO BIRJA	Tbilisi	JSC	10/26/1999
368	FANTAZIA	Tbilisi	LTD	10/23/1999
369	MTKVARI	Tbilisi	LTD	10/24/1999
370	FENOMENI	Tbilisi	LTD	11/9/1999
371	saqtskalproeqtic	Tbilisi	JSC	11/22/1999
372	Tbilisi		JSC	11/26/1999
373	Tabla	Tbilisi	LTD	11/18/1999
374	biznescentri sopmsheni	Tbilisi	JSC	1/1/1999
375	Kedari	Tbilisi	LTD	4/1/1999
376	lagi-dei		LTD	11/22/1999
377	Kolkheti	Tbilisi	JSC	1/1/1999
378	pirimze	Tbilisi	JSC	11/5/1999

379	tapuza	Tbilisi	LTD	11/17/1999
380	Simba		JSC	11/12/1999
381	uqsovadi qsovebi	Tbilisi	JSC	1/1/1999
382	Kutaisi University of Law and Economy	QUTAISI	LTD	11/26/1999
383	saqtraqtori	QUTAISI	JSC	11/11/1999
384	Gorgasali	Rustavi	JSC	11/3/1999
385	Gamtsvaneba		JSC	11/18/1999
386	kordzadze da svanidze advokatebi	Tbilisi	SPS	2/1/2000
387	D.B.S.	Tbilisi	LTD	2/1/1999
388	Tsope	Tbilisi	LTD	12/3/1999
389	Hidroremmsheni	GARDABANI	JSC	12/3/1999
390	Mshenindustria garanti-sh	Tbilisi	LTD	1/1/1999
391	Mshenindustria garanti-sh	Tbilisi	LTD	1/1/1999
392	relsshemketebeli-40	Tbilisi	LTD	1/1/1999
393	SNS	Tbilisi	LTD	1/1/1999
394	Gzamsheni	Khobi	LTD	12/6/1999
395	Calenjikhshagzao	Calenjikha	LTD	10/1/1999
396	Gzamsheni 13	Poti	LTD	11/30/1999
397	Gircha	Tbilisi	LTD	12/1/1999
398	Atlantida	Tbilisi	LTD	11/30/1999
399	sascavlo centri	Tbilisi	LTD	1/1/1999
400	Delit	Tbilisi	JSC	12/1/1999
401	Dizainmshenmontaji	Tbilisi	LTD	1/1/1999
402	Magnati	Tbilisi	LTD	1/1/1999
403	Trialeti	KHASHURI	SPS	1/1/1999
404	Meganikosi	KHASHURI	JSC	1/1/1999
405	Khashuris samgzavro ass.	KHASHURI	JSC	1/12/1998

406	Khashuris minis-tara	KHASHURI	JSC	9/17/1999
407	Rektificati	KHASHURI	JSC	1/1/1999
408	Gorgota	KHASHURI	JSC	1/10/1999
409	LAINI	GORI	JSC	1/1/1999
410	LITERA	KHASHURI	JSC	1/10/1999
411	IUPITERI	KHASHURI	JSC	9/1/1999
412	AGROTEQSERVISI	KHASHURI	JSC	10/1/1999
413	SAMSHENEBLO TRESTI #9	KHASHURI	JSC	10/1/1999
414	KHASHURI	KHASHURI	LTD	11/15/1999
415	MSHENEBLI	KHASHURI	JSC	1/1/1999
416	MURGONI MJK	BORJOMI	LTD	2/29/2000
417	BORJOMIS AVTOSADGURI	BORJOMI	LTD	2/25/2000
418	SANATORIUMI FIRUZA	BORJOMI	JSC	2/29/2000
419	GEORJIAN MINERAL WHOTER	BORJOMI	LTD	2/29/2000
420	BORJOMMESESRVISI	BORJOMI	JSC	2/29/2000
421	KURORTTRANSI	BORJOMI	JSC	2/29/2000
422	MZETAMZE	BORJOMI	JSC	2/29/2000
423	TEREZA	AKHALCIKHE	LTD	2/29/2000
424	MESKHI	AKHALCIKHE	SPS	2/29/2000
425	ABELI	AKHALCIKHE	LTD	2/29/2000
426	OCNEBA	AKHALCIKHE	LTD	2/29/2000
427	BORJO	BORJOMI	LTD	2/29/2000
428	BORJOMI	BORJOMI	JSC	2/26/2000
429	METEORI	AKHALCIKHE	JSC	2/27/2000
430	ZGUDE	AKHALCIKHE	LTD	2/29/2000
431	VARDZIA	AKHALCIKHE	LTD	2/29/2000
432	MERMISI XXI	AKHALCIKHE	LTD	2/25/2000

433	MESKHETI	AKHALCIKHE	JSC	2/25/2000
434	LANA	AKHALCIKHE	LTD	2/26/2000
435	CO	AKHALCIKHE	LTD	2/29/2000
436	PERISTSIKHE	ASPINDZA	LTD	2/21/2000
437	RAINDI 1	BORJOMI	LTD	2/20/2000
438	PLATO	BORJOMI	JSC	2/18/2000
439	BORJOMKURORTSERVISI	BORJOMI	JSC	2/25/2000
440	TSAGVERI	BORJOMI	LTD	2/27/2000
441	Iadoni	Tbilisi	JSC	10/12/2000
442	Sakneoliti	Tbilisi	JSC	10/20/2000
443	Egrisi	Tbilisi	JSC	11/21/2000
444	Krtsanisi 99	Tbilisi	JSC	11/21/2000
445	Kamvolnarti	Tbilisi	JSC	11/21/2000
446	Gldanula	Tbilisi	JSC	11/21/2000
447	Electroizoliti	Tbilisi	JSC	11/21/2000
448	Sakgvirabmsheni	Tbilisi	JSC	11/21/2000
449	Publishing House Ajara	Batumi	JSC	11/21/2000
450	Batumi Furniture-bamboo plant	Batumi	JSC	11/21/2000
451	Boni	Batumi	JSC	11/21/2000
452	Batumi Universal Stock Exchange	Batumi	JSC	11/21/2000
453	Ajartsigni	Batumi	JSC	11/21/2000
454	Ssursatmretsvbakalea	Batumi	JSC	11/21/2000
455	Kauchuki	Batumi	JSC	11/21/2000
456	Bermukha	Batumi	JSC	11/21/2000
457	Batumi Resort Policlinic	Batumi	JSC	11/21/2000
458	Stomatolgi	Batumi	JSC	11/21/2000
459	Avtomobilisti 96	Batumi	JSC	11/21/2000

460	Stoma	Batumi	JSC	11/21/2000
461	Kimikosi	Batumi	JSC	11/21/2000
462	Materialuri Resursebi	Batumi	JSC	11/21/2000
463	Bavshvta Samkaro	Tbilisi	JSC	11/14/2000
464	Saklitoni	Tbilisi	JSC	11/14/2000
465	Kalasi	Tbilisi	JSC	11/14/2000
466	Enterprise Agro Commerce 93	Senaki	JSC	11/14/2000
467	Gantiadi	Tbilisi	JSC	11/21/2000
468	House of Fashion	Tbilisi	JSC	11/24/2000
469	Kapmsheni	Tbilisi	JSC	11/24/2000
470	Avtoshemketebeli	Tbilisi	JSC	12/8/2000
471	Mshentransi	Tbilisi	JSC	12/6/2000
472	Sakmontazhspetsmsheni	Tbilisi	JSC	12/6/2000
473	Tetroni	Tbilisi	JSC	12/6/2000
474	Tbilkimpaarmi	Tbilisi	JSC	12/6/2000
475	Georgian Capital	Tbilisi	JSC	12/6/2000
476	Leather Shoes Factory	Kutaisi	JSC	12/6/2000
477	Stamba	Tbilisi	JSC	12/6/2000
478	Gelati	Kutaisi	JSC	12/6/2000
479	Kvelkaraki	Zugdidi	JSC	12/7/2000
480	Chela	Zugdidi	JSC	12/7/2000
481	Gergeti	Gurjaani	JSC	12/8/2000
482	Senaki Purkombinati	Senaki	JSC	12/8/2000
483	Amtse	Tbilisi	JSC	12/8/2000
484	Baktrioni	Tbilisi	JSC	12/8/2000
485	Mankanatmshenebeli	Tbilisi	JSC	12/8/2000
486	Tbilitonnatsarmi	Tbilisi	JSC	12/8/2000

487	Saklada	Tbilisi	JSC	12/8/2000
488	Krtsanisi	Tbilisi	JSC	12/4/2000
489	Tsentroliti	Tbilisi	JSC	12/4/2000
490	Shipment Enterprise	Tbilisi	JSC	12/4/2000
491	Gorgasali	Tbilisi	JSC	12/4/2000
492	Plastic	Tbilisi	JSC	12/4/2000
493	Mekhanizaotori	Tbilisi	JSC	12/4/2000
494	Zugididis	Zugdidi	JSC	12/4/2000
495	Forest Industry Complex	Borjomi	JSC	12/4/2000
496	Paipuri	Zugdidi	JSC	12/4/2000
497	Extra	Tbilisi	JSC	12/4/2000
498	Avtoteknika	Tbilisi	JSC	12/4/2000
499	Satvirto Avtosatransporto Firma	Tbilisi	JSC	12/4/2000
500	Tea Plant #1	Zugdidi	JSC	12/4/2000
501	Mankanatmshenebeli	Tbilisi	JSC	12/4/2000
502	Onari Tea Agro Complex	Senaki	JSC	12/4/2000
503	Vekstili	Tbilisi	JSC	12/4/2000
504	Egrisi	Senaki	JSC	12/4/2000
505	Zugdidis Kagaldi	Zugdidi	JSC	12/4/2000
506	LTD Avchalpuri	Tbilisi	JSC	12/1/2000
507	Electric Termo Welding	Kutaisi	JSC	12/1/2000
508	Transmomsakhureba	Tbilisi	JSC	12/1/2000
509	Khiminji	Tbilisi	JSC	12/1/2000
510	Elektroavtomati	Tbilisi	JSC	12/1/2000
511	Sakartskuli	Tbilisi	JSC	12/1/2000
512	Charkmshenebeli	Tbilisi	JSC	12/1/2000
513	Tolia	Tbilisi	JSC	12/1/2000

514	Iberoteksi	Kutaisi	JSC	12/1/2000
515	Graali	Tbilisi	JSC	12/1/2000
516	Meskheta	Borjomi	JSC	12/1/2000
517	Damkveti	Tbilisi	JSC	12/1/2000
518	Pirveli Stamba	Tbilisi	JSC	11/30/2000
519	Golden Fleece	Senaki	JSC	11/30/2000
520	Saksashenmetsniereba	Borjomi	JSC	11/30/2000
521	Electro Technical Plant	Borjomi	JSC	11/30/2000
522	Chitakhevi Borjomi	Borjomi	JSC	11/30/2000
523	Akati	Borjomi	JSC	11/30/2000
524	Imereti	Kutaisi	JSC	11/30/2000
525	Kutmsheni	Tbilisi	JSC	11/30/2000
526	Motsameta	Tbilisi	JSC	11/30/2000
527	Nino	Tbilisi	JSC	11/30/2000
528	Sakteleponmssheni	Tbilisi	JSC	11/30/2000
529	Caucasus Stock Exchange	Tbilisi	JSC	11/30/2000
530	Sakagroservisi	Tbilisi	JSC	11/30/2000
531	Kvali Pirveli	Zestafoni	JSC	11/30/2000
532	Temka Puri		JSC	11/9/2000
533	Andza94		JSC	11/9/2000
534	Matei		JSC	11/9/2000
535	Siukhve		JSC	11/9/2000

## Summary of Audit Firm Conversions By Region and in Tbilisi (GEAR)

Region or Locale	Number Completed
<b>Kutaisi</b>	
Ind. Auditors	15
<b>Rustavi</b>	
Audit Expert	16
<b>Other Regions</b>	21
<b>Batumi</b>	14
<b>Tbilisi</b>	
ACG	19
Audit Forumi	33
Audit Inform-S	24
DGS	76
Elko Audit	22
Unic Audit	17
Coucas Bus. Audit	27
Regi Audit	22
Sami Kibo	7
<b>Total</b>	<b>313</b>

## Monthly Summary of Enterprise And Audit Firm Conversion Activity (GEAR)

	In Process	Conversion Completed
March 1999		10
April 1999		5
May 1999		16
June 1999		13
July 1999		21
August 1999		13
September 1999		95
October 1999		132
November 1999		15
December 1999		5
January 2000		13
February 2000		27
Without the date		66
October 2000	89	10
November 2000	52	37
December 2000	0	52
<b>Total</b>	<b>141</b>	<b>535</b>

Type	Completed
JSCs	251
Non-JSCs	284
<b>Total</b>	<b>535</b>

## Summary of 21 Cost-accounting Conversions (GEAR)

<p><b><u>1. Kolkheti 90</u></b> <u>Number of Employees:</u> 96 <u>Type of Business:</u> Bread production <u>Conversion lasted:</u> 8 days Management is pleased.</p>
<p><b><u>2. Berolina Color LTD</u></b> <u>Number of Employees:</u> 17 <u>Type of Business:</u> Paint production <u>Conversion lasted:</u> 8 days Management is pleased.</p>
<p><b><u>3. Okros Tavitavi LTD</u></b> <u>Number of Employees:</u> 20 <u>Type of Business:</u> Production of Bread <u>Conversion lasted:</u> 6 days Management is pleased. Okros intends to use the Project's cost-accounting model to calculate cost per unit.</p>
<p><b><u>4. Orbi + LTD</u></b> <u>Number of Employees:</u> 6 <u>Type of Business:</u> Sales of Medicines <u>Conversion lasted:</u> 5 days Management is very much pleased, as they were able to put in order all their cost calculations through the Project's cost-accounting model.</p>
<p><b><u>5. JSC TbilChimFarm</u></b> <u>Number of Employees:</u> 90 <u>Type of Business:</u> Medicine production Conversion lasted: 15 days</p>
<p><b><u>6. JSC SakEnergyRemont</u></b> <u>Number of Employees:</u> 25 <u>Type of Business:</u> Hydro-equipment repair Conversion lasted: 10 days</p>

**7. Avchal Bread LTD**

Number of Employees: 120

Type of Business: Production of bread

Conversion lasted: 6 days

Management is pleased. They plan to use the Project's model to calculate cost per unit.

**8. School Inventory LTD**

Number of Employees: 18

Type of Business: Production of school inventory

Conversion lasted: 15 days

**9. Revival of Buildings LTD**

Number of Employees: 16

Type of Business: Production of plastic frames for doors and windows

Conversion lasted: 5 days

Management is pleased. They are interested in cooperating to develop different models in the future for different types of orders.

**10. GCS LTD**

Number of Employees: 8

Type of Business: Installation of heating system

Conversion lasted: 5 days

**11. Road Polyclinics LTD**

Type of Business: Providing medical services

Conversion lasted: 7 days

Management is pleased because most medical services are using old rates, and they think the model will be helpful for its cost accounting.

**12. GK LTD**

Number of Employees: 13

Type of Business: Gasoline Station

Conversion lasted: 10 days

**13. Dolabi LTD**

Number of Employees: 8

Type of Business: Grain Milling

Conversion lasted: 8 days

**14. Guno LTD**

Number of Employees: 18

Type of Business: Production of Medicine

Conversion lasted: 5 days

**15. JISI LTD**

Number of Employees: 6

Type of Business: Dealer for Kimberley Clark in Georgia

Conversion lasted: 5 days

**16. Zviadi Shport Sole trader**

Number of Employees: 13

Type of Business: Baking Cookies

Conversion lasted: 5 days

**17. Etaloni LTD**

Number of Employees: 35

Conversion lasted: 7 days

Management is pleased and is interested in future cooperation.

**18. AISI LTD**

Number of Employees: 30

Type of Business: Ice-cream manufacturing

Conversion lasted: 7 days

Management is pleased and is interested in future cooperation.

**19. Imedi L International LTD**

Number of Employees: 15

Type of Business: Insurance company

Conversion lasted: 5 days

Management is pleased and is interested in future cooperation.

**20. Surinj LTD**

Number of Employees: 42

Type of Business: Units for plumbing

Conversion lasted: 10 days

Management is pleased.

**21. Coca-Cola Bottlers Georgia**

Number of Employees: 131

Type of Business: Production of soft drinks

Conversion lasted: 20 days

Management is pleased.

## Appendix H

Electronic version not available: For GFPAA Constitution, please see hard copy at USAID Mission Tbilisi.

## Appendix I

Electronic version not available: For GFPAA Organizational Structure, please see hard copy on file with USAID Mission Tbilisi.



**GEORGIAN FEDERATION OF  
PROFESSIONAL ACCOUNTANTS AND  
AUDITORS**

**BUSINESS PLAN**  
**2000-2001**

## **1. Introduction**

### **1.1 The Aim of the Business Plan**

The business plan is developed by the Georgia Federation of Professional Accountants and Auditors (GFPAA) in order to obtain the financial assistance of the USAID in 2000-2001.

The aim of the document is to set out the plan of future activities in the next two years on the basis of the previous activities and reasoning its sustainability. The year of 2000 and 2001 will be a transitional period for GFPAA attaining the sustainability. During the period GFPAA will bring the fundamental change in the Accounting Reform in order to ensure the complete implementation of the Law on the Regulation of Accounting and Reporting.

The business plan covers the brief history of GFPAA, reviews the existing environment and sets out the mission, objectives and strategy of the Federation for the years of the 2000 and 2001. The document also includes the activities and the time schedule for the implementation of these activities as well as the historical and projected data.

### **1.2 Brief History of the organization**

Georgian Federation of Professional Accountants and Auditors (GFPAA) is a non-governmental, nonprofit organization. GFPAA was formed on April 1998 from the merger of Georgia Club of Accountants and the Georgia Association of Accountants. GFPAA was officially registered on May 5, 1998 by the Court of Didube Region (Decree # 2/3-13).

Since Georgia Club of Accountants and the Georgia Association of Accountants were merged in April 1998 the Club was renamed. GFPAA is a legatee of the Georgian Club of Accountants and thus it counts the history of three years.

#### **The full address of the GFPAA:**

Georgian Federation of Professional Accountants and Auditors  
61 Tsereteli Street  
380064 Tbilisi, Georgia  
Tel: (+995 31) 350157/936756  
Fax: (995 32) 984396  
E-mail: gfpaa@kheta.ge

#### **Top staff position incumbents:** Revaz Dzadzamya, Chairman of the Federation

Lavrenty Tchumburidze, Deputy Chairman  
Zurab Kharatishvili, Deputy Chairman

At the Federation exist 5 committees, 6 regional offices and 3 sectors in the districts (The organizational chart is enclosed).

### **1.3 Membership**

The Charter of the Federation determines the membership criteria and provides for a two-tier membership (Associate and Full Membership) for physical entities. At now the Federation has 1400 members (Distribution data of the members according to the regions are given in the appendix). Only certified professional accountants are entitled to use the designation Full Member, therefore the number of full members are only 60.

## 1.4 Background

- 1.4.1 1997 has seen the efforts to sever the ties with the Soviet accounting system. The main task at that period was to explain new concepts to the practicing accountants. At the same year the Georgia Tax Code was adopted which posed numerous problems to the specialists in Accounting and the need for qualified consultations arose.
- 1.4.2 Taking into consideration the new realities the professional organization made efforts to bring about a change in the accountants' thinking and expanded its activities to facilitate the adaptation to the new realities. Weekly meetings and the discussions were held for the members and the problematic issues in the profession were considered.  
  
In this way the existing problems were analyzed and the ways of their solution were sought. The journal Accounting and Reporting came out in the beginning of 1997. In the mid of 1997 the methodological guidelines and 'Entrepreneurial-legal principles of Accounting' were issued which projected the image of the professional organization;
- 1.4.4 In the second half of 1997 the educational program sponsored by the USAID and Eurasia Foundation was successfully administered which even more increased the trust and interest of the specialists in the professional organization. 39 accounting professors were trained according to the new business law. Out this number 7 specialists were selected to conduct trainings in different cities of Georgia. With the mutual efforts 417 practicing accountants were trained in 17 cities and most of them became the members of the professional organization;
- 1.4.5 The milestone in the development of the professional organization was the GEAR project at the recommendation of which the Georgia Federation of Professional Accountants and Auditors was formed as a result of merging two professional organizations. From this period GFPAA channels its efforts to achieve selfregulation and introduce IASs. GFPAA initiated the Law on the Regulation of Accounting and Reporting. The first draft of this law was developed by the GFPAA.
- 1.4.6 The image of the professional organization was one of the contributory factors in adopting the Law. Personal relationship with MPs has also played an important role in this regard. Due to the trust gained by the Federation's management in the public the Georgian Parliament approved four members of the Federation as the members of Accounting Standards Commission. One of them was elected as the Chairman of the Commission;
- 1.4.7 1998-1999 saw the preparation for recognition and introduction of International Accounting and Audit Standards;
- 1.4.8 In 1999 the GFPAA undertook to hold the certification trainings to achieve a higher level of professional development of the Associate Members. The professional certification system is based on IFAC's IEG 9 and falls into 4 stages. The certification examinations are held in 14 subjects. Out of 176 candidates for professional certification 129 candidates were successful. Out of the successful 129 candidates 124 sat the second stage exams and 94 persons passed them. Out of 63 candidates 60 met the requirements and at the end of the year the Federation entitled them to the designation of 'Professional Accountant'.

## **2. Environment**

### **2.1 The ongoing Economic Reform in Georgia**

The Accounting Reform in Georgia is the integral part of the ongoing Economic Reform. Therefore the economic reform depends on the successful implementation of the accounting reform to a great extent.

### **2.2 Development Stages in the Accounting Reform**

The Accounting Reform in Georgia can be divided into 3 parts:

I Stage – 1997-98 – is the foundation stage in the reform and covers all the events that contributed to transforming the accounting system afterwards:

- Establishment of the professional organizations and their merging;
- Development of the GEAR project by USAID and beginning of its implementation;
- Signing the Memorandum of Understanding; and etc.

II Stage – 1999-2000- Institutional Formation of the Accounting system. The following activities covered at this stage:

- Adoption of the Law on the Regulation of Accounting and Reporting;
- Setting up the Accounting Standards Commission;
- Adoption of IASs as Georgia's national standards;
- Achieving the selfregulation of the profession;
- Beginning of the Accountants' professional certification;
- Conversion of enterprises is underway.

At the second stage the following is to be accomplished:

- Development of simplified accounting forms for small business;
- The institutional changes in teaching practice;
- Finalizing the formation of Audit system;
- GFPAA's accession to IFAC

III Stage – 2001-2005 – During this period the international accounting practice is to be established and the Georgia Accounting system be matched to the international level, namely:

- The International Accounting and Audit Standards should be established in the practice;
- Working out the temporary accounting standards on the issues not covered by IASs;
- Close cooperation with the IASC and active participation in discussions and developing the drafts of IASs;
- Establishing the modern educational accounting system.

### **2.3 Reviewing the current stage problems**

The current II stage is labor-consuming and critical in the Accounting Reform. It is essential that the IASs be introduced in the enterprises by March 31, 2001 (This is the deadline for submission the Financial Statements of 2000). Achieving this objective will be a real confirmation of the

implementation of the Law on the Regulation of Accounting and Reporting. The failure to elaborate the proper mechanism for preparing and presenting financial statements of 1999 by the joint stock companies according to the IASs will cause the non-compliance of the Limited Liability Companies at the next stage and will seriously hinder the reform.

According to the Law on the Regulation of Accounting and Reporting joint stock companies are obligated to carry out accounting and financial reporting in accordance with IASs from January 1, 2000. The activities carried out in 1999 this regard do not ensure the complete implementation of the requirements of the law. The accountants of some joint stock companies (Energy Sector, Banks and Enterprises the controlling packets of shares of which are owned by the State) have not been trained and therefore these enterprises and other entities were not converted. There is a danger that the foregone entities will be unable to present the financial statements of 1999 on the basis of IASs.

The Law obliges the limited liability companies to comply with IASs from the end of 2000. This requires the training of the accountants and the beginning of the conversion process in the limited liability companies.

Both the big and small enterprises should be the subject to the accounting reform. The Georgian laws (Law on Entrepreneurs, Law on the Regulation of Accounting and Reporting, Law on Promotion of Small Business) do not oblige the small enterprises to comply with IASs and provides for the simplified accounting forms for such businesses. Virtually there are no simplified forms in Georgia and there is an urgent need for elaborating and introducing them.

The oversight on implementation of IASs is beyond the GFPAA's authority. Only Auditors are entitled to this. But since the GFPAA is interested in the ongoing reform it is necessary that the relevant data be collected on the implementation of IASs. Therefore independent auditors and the Audit firms should be recruited as the GFPAA members and the ways of cooperation with them be identified.

Strengthening the cooperation with Auditors is essential for introducing International Audit Standards as of 2000.

Along with the functioning of the Securities Market the rules for the Market participants are being developed. Therefore there is a need for cooperation with the Securities Market Regulation Commission.

There are problems in the bank accounting as well. Not every commercial bank is able to prepare and present the Financial Statement for 1999 in compliance with the requirements of IASs.

The IASs do not completely cover the accounting issues in insurance companies. The IASC is developing the relevant Standard on the issue. Until the approval of the Standard it is necessary that the national standard be worked out and adopted. For this purpose the accounting problems in the insurance companies should be studied, analyzed and the experience of other countries and IASC be shared.

The joint stock companies and limited liability companies are not committed to the accounting reform; therefore it is indispensable that the same training and conversion policy implemented in 1999 be adhered to.

Educational materials of the educational institutions preparing accountants relate to the outdated curriculum that requires the retraining of a specialist to be certified.

### **3. GFPAA Mission**

The mission of GFPAA is:

- To implement the Accounting and Audit reform in Georgia;
- To establish modern Accounting and Audit system in Georgia; and
- To protect common interests of the Federation members.

### **4. GFPAA Objectives**

The GFPAA considers the period from January 2000 to April 2001 to be critical in the implementation of the Accounting Reform.

GFPAA realizes that it plays a leading role in the Accounting Reform and the fact that its responsibilities to the public are increased. Besides the foreign donor assistance is limited

Having analyzed the existing circumstances and taking into consideration its mission the GFPAA identified the following objectives to be attained in 2000 and 2001:

- a) Promotion of the implementation of the Law on the Regulation of Accounting and Reporting, introduction of the International Accounting and Audit practice and the institutional changes in Auditing;
- b) Promotion of the establishment of modern educational system;
- c) Accession to the IFAC;
- d) Facilitating the International Professional integration process;
- e) Attaining the financial independence.

### **5. GFPAA Strategy**

To attain the objectives the GFPAA devised the following strategy:

- a) Elaborating the practical recommendations and methodological guidelines of IASs;
- b) Cooperation with Accounting Standards Commission, Audit Council, USAID, Tax Inspection and other interested parties in order to carry out the activities necessary for the conversion of the enterprises identified by the Law;
- c) Introduction changes in the Law on Auditing (or drafting the new draft law) and the distribution of functions between the State and private sector in the field of Auditing;
- d) Making changes to the Law on Small Business to create the proper legal basis for such enterprises and elaborating the simplified accounting model for the small enterprises on the basis of IASs;
- e) Establishing the Center for Accountancy Studies to make available the modern accounting study system based on IFAC's recommendations;
- f) Cooperation with higher educational institutions to raise the educational standards;
- g) Developing the GFPAA's internal rules and procedures according to the requirements determined by IFAC;
- h) Organizational restructuring of the GFPAA to meet the new realities;
- i) Establishing close cooperation with IFAC and IASC;

- j) Cooperation with Eurasia Federation and the Regional Organization of South Caucasus Accountants as well as with other regional organizations;
- k) Lay down the solid foundation for the financial sustainability;
- l) Setting up the Accountancy Development Fund.

## 6. Solutions

### 6.1 Standards and Practice

- GFPAA plans to issue the following publications:

Title	Quantity
Interpretations of IASs	1 000
IASs (Bound Volume)	1 000
Chart of Accounts (in Russian)	1 000
Accounting for Small Businesses	2 000

- To establish IASs in practice GFPAA aims at implementing the following activities:
  - a) Supervising the pre-conversion training and conversion of enterprises;
  - b) Preparing the letter addressing the issue of mandatory submission of the Financial Statements on the basis of IASs together with the Tax Department and sending them to Tax Inspection Offices;
  - c) Preparing the joint letter with the Audit Council on the mandatory submission of the Financial Statement on the basis of IASs for the independent Auditors and Audit firms;
  - d) Preparing the joint letter with the Ministry of Property Management on the mandatory submission of the Financial Statement on the basis of IASs for Regional Tax Inspection Offices;
- GFPAA plans to elaborate the simplified rules for the small enterprises on the basis of the Law on Entrepreneurs and submit it to the Accounting Standards Commission.

### 6.2 Training and Certification

- For educational purposes GFPAA plans to publish the following textbooks:

Title of the textbooks	Quantity
Managerial Accounting	2,000
Financial Accounting	2,000
Auditing	2,000
Financial Management	2,000

- GFPAA plans to establish the Center for Accountancy Studies for the persons willing to study the profession as well as those willing to expand their knowledge in the field. The Center will incorporate two kinds of educational establishments:
  - a) College for the persons with secondary education. After the successful completion of the College they will be granted with the Bachelor's Degree and Master's Degree; and
  - b) Professional Training Center for practicing accountants. The Center will provide the Certification training and qualification courses.

- For this purpose GFPAA plans to develop the Investment Plan for Center for Accountancy Studies and identify the ways of its funding.

### **6.3 Expected Changes in the Organizational Structure**

GFPAA is the only professional organization regulating the accounting system in the private sector. Taking into consideration the existing circumstances it is necessary that the current organizational structure be unchanged until April 2001 so that the to the problems at the second stage be solved. The assistance of USAID and GEAR project is indispensable until this date. Otherwise it is expected that the implementation of the second stage of the reform will be delayed for a long period.

As of the April 2001 the environment will substantially changed. By this time the institutional framework in the field of accounting will be created, IASs will be established in most of the enterprises, demand for professional accountants will be on rise and significant number of professional accountants will be trained which will enable the GFPAA to become self-sustainable.

In April 2001 the GFPAA will submit the proposal to the annual general meeting on introducing the changes in the organizational structure which is acceptable and indispensable for GFPAA to obtain the main mission.

At present the Chairman of the Board and two Deputy Chairmen act as the executive directors. The foregone changes will provide for hiring the Executive Director who will be responsible for managing the GFPAA between the Board meetings. This change will not cause the substantial delays in the operations of the Federation and will be carried out according to this scheme: The activities of the Chairman of the Board will be reduced by 25% in the fourth quarter of 2000 and by 50% in the first quarter of 2001. The Chairman will hold a part time job and receive the salary accordingly. Work hours of a Deputy Chairman will reduce quarterly by 25% from the second quarter of 2000. This Deputy Chairman will concentrate on the Accounting Development Fund, Federation of Associations of South Caucasus Accountants and on his private business. The salary of the second Deputy Chairman will be reduced according to the same scheme as that of the Chairman. The Board may consider his candidacy for the executive director. He may also occupy the position of the Chief Editor of the Accounting Journal. Along with the reduction of work hours as Chairman and Deputy Chairmen, all the three managers will deliver lectures at the professional certification trainings.

The scheme ensures the substantial reduction of the salary expenses of the current managers while retaining them.

Depending on the demand the position of consultant will be closed or the consultations will be charged. Closing of other positions will also be considered.

Analyzing the circumstances at the period other changes can also be made.

## **7. Activities to be implemented**

### **7.1 Activities planned for the year of 2000**

- a) Receiving the right of translation and issuing the IASs approved by the IASC in 1999;
- b) Publishing the IASs in a Bound Volume;
- c) Publishing the Interpretations of IASs;
- d) Developing and publishing the textbooks of Financial Accounting and Managerial Accounting;
- e) Revising, editing and publishing the study materials for certification training;
- f) Organizing and holding the trainings for examination periods in May and November;
- g) Administering the certification exams in May and November;
- h) Developing the simplified forms for small business accounting and reporting; making the pilot project, submission the forms to the Accounting Standards Commission for approval and publication;
- i) Holding trainings for small business accountants;
- j) Establishing the Center for Accountancy Studies;
- k) Developing the study materials for the Center and suggesting them to other higher educational establishments;
- l) Providing technical assistance to the professional certification training center; setting up the branches and representations in the regions settled by non-Georgians;
- m) Publication of New Chart of Accounts in Russian;
- n) Studying the compliance of joint stock companies with the requirement of the law stipulating the submission of Financial Statement for 1999 on the basis of IASs;
- o) Setting up groups for pre-conversion training and holding the trainings;
- p) Beginning the conversion of limited liability companies;
- q) Translation of the draft IASs, holding discussions on the issues covered by the drafts, developing and submitting the proposals to IASC;
- r) Elaborating the temporary national standard for insurance companies to improve the Accounting and Reporting system in the insurance companies;
- s) Accession to the IFAC

### **7.2 Activities planned for the year of 2001**

- a) Organizing and holding the certification trainings;
- b) Administering the certification exams in May and November;
- c) Planning, organizing and holding the trainings for certified accountants for the continued professional education purpose;
- d) Developing and publishing the textbooks of Auditing and Financial Management;

- e) Studying the implementation stage in Accounting and Audit Reform;
- f) Making Amendments to the GFPAA Charter to change the organizational structure;  
Provided that the additional financial resources are available
- g) Translation of the draft IASs, holding discussions on the related issues and working out proposals to be submitted to the IASC;
- h) Drafting the temporary national standards on VAT and Agriculture to improve the Accounting and Reporting system in the field (If until the drafting of the temporary standards IASC approves the relevant IASs they will be translated and submitted to the Accounting Standards Commission for approval);
- i) Developing the modern accounting registers;
- j) Convening the scientific-practical seminars dedicated to the problems in Accounting in Georgia.

## **2000**

	Jan.	Feb.	Mar.	Apr.	May	June.	July	Aug.	Sept.	Oct.	Nov.	Dec.
Receiving the right of translation and issuing the IASs approved by the IASC in 1999												
Publishing the IASs in a Bound Volume;												
Publishing the Interpretations of IASs												
Developing and publishing the textbooks of Financial Accounting and Managerial Accounting												
Revising, editing and publishing the study materials for certification trainings												
Organizing and holding the trainings for examination periods in May and November												
Administering the certification exams in May and November;												
Developing the simplified forms for small business accounting and reporting; making the pilot project, submission to the Accounting Standards Commission for approval and its publication;												
Establishing the Center for Accountancy Studies												
Developing the study materials for the Center and suggesting them to other higher educational establishments												
Providing technical assistance to the professional certification training center												
Setting up the branches and representations in the regions settled by non-Georgians												
Publication New Chart of Accounts in Russian												
Studying the compliance of joint stock companies with the requirement												

of the law providing for the submission of Financial Statement for 1999 on the basis of IASs												
Setting up groups for pre-conversion training and holding the training												
Beginning the conversion of limited liability companies												
Translation of the draft IASs, holding discussions on the issues covered by the drafts and developing the proposals to be submitted to IASC												
Elaborating the temporary national standard for insurance companies to improve the Accounting and Reporting system in the insurance companies												
Accession to the IFAC												
Planning, organizing and holding the trainings for certified accountants for the continued professional education purpose												

## **2001**

	Jan.	Feb.	Mar.	Apr.	May	June.	July	Aug.	Sept.	Oct.	Nov.	Dec.
Organizing and holding the certification training												
Administering the certification exams in May and November;												
Planning, organizing and holding the trainings for certified accountants for the continued professional education purpose												
Developing and publishing the textbooks in Auditing and Financial Management;												
Studying the implementation stage in Accounting and Audit Reform;												
Making Amendments to the GFPAA Charter to change the management structure;												
Translation of the draft IASs, holding discussions on the related issues and working out proposals to be submitted to the IASC												
Drafting the temporary national standard in order to improve the Accounting and Reporting system in Agriculture (If until the drafting of the temporary national standard IASC approves the relevant IASs on the issue it will be translated and submitted to the Accounting Standards Commission for approval)												
Holding trainings for small business accountants												

## 8. Budget

### 8.1 Brief Financial History of GFPAA

#### 8.1.1 Review of GFPAA's income in 1997-1999

<b>Income Items (in USD):</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Membership Dues	610	1,016	350
Publications	10,484	1,660	3,769
Training	4,850	7,940	43,857
Grants	23,907	11,150	15,331
Others	351	2,540	704
<b>Total</b>	<b>40,202</b>	<b>24,306</b>	<b>64,011</b>

Note: The income is converted by end of year exchange rate. In 1997- 1\$=1,313Lari; in 1998 - 1\$=1,6 Lari; in - 1999- 1\$=1,91Lari.

- In order to attract members and considering the existing social-economic situation the membership dues are minimal. That is the reason why the ratio of membership dues are so low. During the budget period the ratio will be increased firstly because of increase in membership fees beginning 2001 and secondly because of higher membership fees for GFPPA full members (Certified Accountants);
- The revenues from publications are received by selling methodological and study materials developed or translated at the GFPAA. 1997 income includes revenues from selling the journal Accounting and Reporting that amounted to 8,735 USD before the journal was established as a separate legal entity. The remaining 1,749 USD was received from selling the book 'Entrepreneurial-Legal Principles of Accounting and Reporting'. Revenues from publications are lower in 1998 since only prioritized IASs were available for selling. In addition the compliance with the IASs was not required by the law and consequently there was no demand for them. From 1999 the quantity of publications was increased along with the demand. (During this period the GFPAA sold the New Chart of Accounts, the remaining IASs, Code of Ethics etc.) The revenue from publications was increased in the budget period as a result of selling the new and the remaining publications (The book value of the balance at the end of 1999 amounted to 1,875 USD);
- Incomes from training include the income from special courses and certification training. In 1997 in order to promote the Accounting Reform trainings were held in 16 cities. The trainings were conducted within the framework of the grant received from the Eurasia Foundation and fees were charged to partially cover the expenses. The income from the trainings amounted to 4850 USD. In 1998 communication sector accountants were trained at the order of the KPMG. Income from trainings in 1999 incorporates the income from certification trainings and examination fees and equal to 43,857 USD;
- The item of Grants includes the grants received from the Eurasia Foundation. Namely, in 1997 the grant of 24,051 USD for Promotion of the Implementation of the Accounting Reform was received; in 1998 the grant of 18, 795 was received for developing the regional structure of the GFPAA. The grant for elaborating the regional grant project (715 USD) and the grant for harmonizing the Accounting and Reporting System in South Caucasus Countries. The first three grants are already closed and the grant for harmonization will be closed in March 2000. Based USAID assists the GFPAA via the GEAR project. These funds are not recorded in the Federation's accounts. According to the GEAR project data the assistance offered by the USAID in 19998-1999 amounted to 335,518 USD.

### 8.1.2 Review of the GFPAA's expenses in 1997-1999 (In USD)

	1997	1998	1999
Amount of the sold publications	8,154	646	1,531
Salaries	923	1,134	12,318
Advertising	624		597
Office maintaining	1,912	2,225	5,192
Taxes	53	183	3,061
Training expenses /salaries, rent and business trips/	22,369		0
Maintaining the Branch Offices /rent, salary/		2,160	10,756
IASs distributed free of charge		7,992	1,525
Sales expenses			834
Training materials			3,984
Rent			5,057
Business trip			949
Coffe-Breaks			1,096
Miscellaneous		857	1,010
<b>Total</b>	<b>36,032</b>	<b>11,009</b>	<b>47,910</b>

### 8.2 The outline of GFPAA's future budget

The budget of the GFPAA is based on the main principle according to which at the end of the period GFPAA should be able to cover its operational expenses.

To achieve the goal the future revenue sources as well as the ways to reasonably reduce the expenses should be clearly identified on the basis of the historical data. Besides the additional investment projects should be drafted.

#### 8.2.1 Sources of Revenues

- a) Increase of the Membership Fees. The income from membership fees will be increased at the expense of the increased number of the full members. At the beginning of 2000 the number of full members equals to 60. This number will increase by 60-70 twice a year. The membership fees will be increased to 60 GEL that approximately amounts to 30 USD. The amendment should be made to the Charter of GFPAA to provide for the membership of legal entities. 15 legal entities are expected to become the members from the beginning of 2000. The annual fee for legal entities will be 200 USD; During the selection process of the firms to make conversions in enterprises the priority should be attached to the GFPAA member Audit firms to promote the recruitment of the members;
- b) Holding the Certification Trainings. It is expected that the number of candidates for professional certification will amount to 200 per stage (600 in total) in 2000 and 240-250 candidates in 2001 (740 in total). The training fee is 60 USD equivalent in Lari. The examination fee is 25 USD equivalent in Lari;
- c) Training for Certified members. The training will be conducted within the framework of the Continued Professional Education. 60 specialists in 2000 and 180 specialists in 2001 will participate in the trainings. 25 USD equivalent in Lari per participant will be charged for the training;
- d) Pre-conversion Trainings. To promote the Accounting Reform pre-conversion trainings will be held in 2000. Approximately 2000 accountants are expected to be trained. The training fee will amount to 50 USD equivalent in Lari;
- e) Revenues from Publications. The publications to be issued by the GFPAA are listed in the Item 6.1 and 6.2; Besides GFPAA has the unsold publications: 350 copies of first IASs; 300 - the remaining IASs, 450 Audit Standards, Volume I; 520 - Audit Standards, Volume II; 660 Montgomery's Auditing; 2, 757 - Chart of Accounts.

- f) Revenues from the Journal Distribution. 25% from the distribution of the Journal will remain with GFPAA. 200 subscribers are expected through the GFPAA. The annual subscription fee is 24 USD equivalent in Lari;
- g) Dividend from the Journal. 1,000 USD equivalent in Lari is expected as the Journal dividends in 2000 and 1,500 USD equivalent in Lari in 2001;
- h) Training for Small Business Accountants. In 2001 GFPAA will hold the trainings for the small business accountants to introduce the new rules to them.
- k) Other Income. The possible sources are donations, service and special trainings.

### 8.2.2 Reducing the Expenses

- a) To become self-sustainable it is necessary that the expenses be reduced along with increasing the income;
- b) To reduce the expenses the number of the candidates for the certification trainings will be increased and will amount to approximately 30 persons per group. The academic hours for Certification Training Program will remain the same (100 ac/h per stage). The invited lecturers will be paid 5 USD (instead of 7 USD) equivalent in Lari;
- c) The salaries of the GFPAA Managers will be reduced;
- d) In 2000 lectures in several subjects will be delivered by the GFPAA staff members (The Board members and an Educational Coordinator). This will save certain financial resources;
- e) Study materials for Certification Program will be published (for internal use) which will reduce the Material expenses;
- f) IASs will be translated by the Staff members without the additional expenses;
- g) From the beginning of 2001 the transportation service will be eliminated;
- h) Certified members will be invited at the certification exams on the voluntary basis. The fees for the rest of the Examination Commission members will be reduced by 2 USD and will amount to 5 USD;
- i) The salaries of the three GFPAA Board members will be reduced quarterly by 25%. From the 2<sup>nd</sup> quarter of 2000 the salary of one Board member will be cut down from the 3<sup>rd</sup> quarter the salaries of the two members will be reduced on the same scheme. From April 1, 2001 an executive director will be recruited.
- j) From January 2001 the Federation will charge for consultations. If the income from the source will not cover the salaries of the consultants the number of consultants will be reduced accordingly.

#### **8.4 Funds requested by the GFPAA**

The deficit between the income and expenses is:

In 2000 - \$81,700

In 2001 - Zero

#### **8.5 Additional Revenue Sources**

GFPAA identifies the two projects as the additional sources of income the implementation of which will promote the Accounting Reform and at the same time serve as additional revenue sources.

##### *8.5.1 Center for Accounting Studies*

The project is highly prioritized by the GFPAA and it plans to intensively work in this regard.

The project is being developed and currently it is not feasible to determine the future revenues. Though GFPAA does not expect to receive the significant income from the source in 2000 and 2001. The substantial income will be generated from 2002-2003.

The most valuable benefit will be the functioning of the Center itself.

##### *8.5.2 GFPAA Publications*

Establishing the 100% Controlled Printing House is essential for the functioning of the GFPAA.

At the GFPAA Congress held in May 1999 the decision on establishing the GFPAA's own Publishing House as a separate unit with 100% share of GFPAA was made. Unfortunately it was not implemented. The main problem is the lack of financial resources for purchasing the printing equipment. Currently GFPAA has some printing equipment (Risograph and some other simple units) for mini-typography, which to a certain extent meets the needs of GFPAA for printing training materials, textbooks and brochures. Color printing and some technical operations are ordered to other publishing houses that increases the printing costs. Due to the lack of publishing facilities GFPAA has not the capacity to publish colored publications for its purposes and has to turn down the orders from the clients as well.

Additional investment of \$48,859 is necessary for the publishing facility to function at the full capacity. GFPAA can finance only 20% - 10,000USD of the project. (See App. 2)

The expected returns on Printing House in 2000-2001 is included in Appendix 2

GFPAA publishing business should be concentrated on printing the Accounting and Academic materials providing flexible terms and conditions for the authors.

The funding received will be allocated to the following activities:

- a) Accounting Development Fund;
- b) To the activities listed in Item 7.2-g) j);
- c) To other current activities regarded essential in the Accounting Reform.

## Appendix K

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## Summary of English-language Exam Results (GEAR)

(prior to December 2000 exams)

### 1. Exams Passed to Date

Paper	Jun-99	Dec-99	Jun-00	Total	Estimate	Estimated	Targets
					Dec-00	Total	
1	6	23	22	51	40	91	
3	3	11	25	39	35	74	
5	N/A	3	9	12	12	24	
6	N/A	3	9	12	12	24	
7	N/A	N/A	4	4	7	11	
8	N/A	N/A	3	3	7	10	10
9	N/A	N/A	N/A	N/A	3	3	
10	N/A	N/A	N/A	N/A	3	3	
11	N/A	N/A	N/A	N/A	3	3	
<b>Totals</b>	<b>9</b>	<b>40</b>	<b>72</b>	<b>121</b>	<b>122</b>	<b>243</b>	<b>200</b>

Passed 2 exams

	3	11	21	35	65	100	60-70
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### 2. Analysis of June 2000 Results

Paper	Total	Pass	Fail	% Pass	Jun-00	Dec-99	Dec-99
					World Average	Georgia	World Average
1	49	22	26	46%	53%	64%	52%
3	35	25	15	62%	44%	58%	41%
5	14	9	7	56%	53%	100%	54%
6	16	9	7	56%	44%	80%	40%
7	4	4	2	67%	47%	N/A	N/A
8	3	3	1	75%	44%	N/A	N/A
<b>Totals</b>	<b>121</b>	<b>72</b>	<b>58</b>	<b>55%</b>	<b>o/s</b>	<b>65%</b>	<b>N/A</b>

## ACCA-UK Georgia Results of December 2000 Examinations (GEAR)

	<b>Paper 1</b> Accounting Framework	<b>Paper 3</b> Management Information	<b>Paper 5</b> Information Analysis	<b>Paper 6</b> Audit Framework
<b>Sat</b>	63	53	13	20
<b>Passed</b>	25	21	11	8
<b>Failed</b>	38	32	2	12
<b>Absent</b>	23	32	17	13
<b>Pass Rate Dec 00</b>	<b>40</b>	<b>40</b>	<b>85</b>	<b>40</b>
<b>Pass Rate Jun 00</b>	45	54	56	50
<b>Pass Rate Dec 99</b>	62	39	100	60

	<b>Paper 7</b> UK Tax Framework	<b>Paper 8</b> Managerial Finance	<b>Paper 9</b> Info for control and decision making	<b>Paper 10</b> Accounting and Audit Practice	<b>Paper 11</b> UK Tax Planning
<b>Sat</b>	8	7	3	3	3
<b>Passed</b>	6	5	2	2	2
<b>Failed</b>	2	2	1	1	1
<b>Absent</b>	1	3	0	0	0
<b>Pass Rate Dec 00</b>	<b>75</b>	<b>71</b>	<b>66</b>	<b>66</b>	<b>66</b>
<b>Pass Rate Jun 00</b>	100	100	n/a	n/a	n/a
<b>Pass Rate Dec 99</b>	n/a	n/a	n/a	n/a	n/a

## Summary of GEAR Training

Course	# Completed/ Attending	# passed Classroom exam	Exception received	# passed ACCA or local language exam	Total
Conversion training					
Pre-conversion training, 80-hour course in GAS/IAS plus conversion techniques	705	358			
Georgian Accounting Standards (GAS), (50 hours, included 2-day tax reconciliation training for accountants – new pre-conversion)	99	99			
Pre-Conversion training and introduction to IAS for energy Sector (80 hours)	37	18			
GFPAA pre-conversion training	786	786			
Cost Accounting conversion training, 30 hours	38	38			
Other training					
Cost Accounting training	80	80			
Ethics Training, ½ day	45	45			
2-day tax reconciliation course – accountants	68	68			
Audit Case Study, 40–50 hrs	34	34			
GFPAA small business acct'g	45	45			
Non-accountant training					
GFPAA, GAS for tax inspectors, 50 hours, Intro to Acct'g ACCA 1, modified	150	145			
GFPAA, GAS for tax inspectors, 50 hours – IAS conversion course modified	25	25			
28-hour acct'g for non-accountants	43	43			
Professional training *					
GFPAA-Old IAS/ISA Level 1	380			223	223
GFPAA-Old IAS/ISA Level 2	215			161	161
GFPAA-Old IAS/ISA Level 3	99			91	91
ACCA 1, Accounting framework	146		9	51	60
ACCA 1, local language	55				
ACCA 2, Business Law	3		142		142
ACCA 2, local language	55				
ACCA 3, Cost Acct'g	129		6	39	45
ACCA 3, local language	55				
ACCA 4, Management	3		142		142
ACCA 5, Computers	53		9	12	21
ACCA 6, Audit	45			12	12
ACCA 7, Tax	13	-		4	4
ACCA 8, Managerial Finance	13	-		3	3
ACCA 9, Info. for control plus decision making	3				
ACCA 10, Acct. and audit practice	3				
ACCA 11, Tax Planning	3				

## Appendix O

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