

# PAO GLOBAL DEVELOPMENT REPORT



**MOSAIC: THE MEMORANDUM OF  
UNDERSTANDING TO STRENGTHEN  
ACCOUNTANCY AND IMPROVE  
COLLABORATION**

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When professional  
accountancy  
organizations function  
properly, they hold  
the power to support  
the production of  
high-quality financial  
information, contributing  
to public and private  
sector development,  
economic growth, and  
the aid effectiveness  
agenda.

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## A CLOSER LOOK AT PAO DEVELOPMENT: THE GEORGIAN FEDERATION OF PROFESSIONAL ACCOUNTANTS AND AUDITORS

The Georgian Federation of Professional Accountants and Auditors (GFPAA) is the non-governmental, non-profit organization representing the accountancy profession in Georgia. Established in 1998 through the merger of the Georgian Club of Accountants and the Georgian Association of Accountants, GFPAA is the main body uniting the accountancy profession in Georgia. GFPAA includes more than 20 corporate members (i.e., auditing firms) and approximately 6,000 individual members, more than 500 of whom maintain recognition as Professional Accountants. GFPAA achieved membership in IFAC in 2000 and has continued to undertake strong reforms to strengthen its organization and the country's accountancy environment.

### LEGAL AND REGULATORY FOUNDATION—THE PAO-ENABLING ENVIRONMENT

Georgia maintains a strong legal and regulatory foundation supportive of the development of the accountancy profession and its relevant PAOs. The strength of the PAO enabling environment is largely drawn from the recent adoption of the amended Law on Accounting and Audit (2012), a core aspect of which is the creation of a PAO accrediting body that will oversee and provide accreditation to the PAOs operating in Georgia. The criterion for PAO accreditation envisioned by this law is PAO membership in IFAC. As GFPAA is the only IFAC member body in Georgia as of 2012, it is the only PAO that will satisfy the criterion for accreditation envisioned.

The new law also provides GFPAA with more regulatory authority over the audit profession, QA, and disciplinary functions. Although the law does not require compulsory membership in GFPAA, it does require audit firms maintain membership if they wish to be included in the state register of auditors.

Additionally, this law further refines the legal framework for accounting, financial reporting, and audit in Georgia by defining the legal and institutional framework for accounting and

reporting; the levels of financial reporting; and the rules and conditions for external audits. As one of its key activities, GFPAA seeks to continue working with legislators to strengthen the legal and regulatory environment in line with international standards.

A key area for donor efforts will be supporting the implementation of this new legislation and the impacts it will have regarding capacity building needed to prepare professionals that have the knowledge and skills to apply international standards.

### PAO ORGANIZATIONAL CAPACITY

GFPAA is a self-financed organization with a sound organizational structure with operations in over 10 regions in the country. GFPAA's constitution outlines its remit and includes a chairman and 12-person Board to guide and direct its activities. The day to day management of GFPAA is overseen by an executive director along with a staff of 20.

GFPAA has a formal strategy focused on promoting international standards with a view to improving the Georgian business environment. This link between GFPAA's activities and national economic development strengthens its delivery of valuable functions and services for both its membership and the country. GFPAA maintains a modern committee structure, including committees for undertaking education, ethics, quality assurance, and the adoption and implementation of international standards. Generally, each committee is chaired by one of the members of the Board.

GFPAA has a culture of strong volunteerism, which helps advance the objectives and goals of its committees and the overall purpose of the organization. In addition to its boards, committees, and volunteers, GFPAA advances the knowledge and understanding of its members through its training center, the Institute of Professional Accountants.

*The Georgian Federation of Professional Accountants and Auditors is the non-governmental, non-profit organization representing the accountancy profession in Georgia.*

## PROFESSIONAL EDUCATION, ASSESSMENT, PRACTICAL EXPERIENCE, AND CONTINUING PROFESSIONAL DEVELOPMENT

GFPAA works in strong coordination with the ACCA to undertake professional certification.<sup>13</sup> GFPAA requirements for entry into the program of professional accountancy education include a university degree. In recognition of the importance of support for curriculum strengthening at the high school and university level in Georgia, in 2008 GFPAA signed a memorandum of cooperation with economics-oriented high schools and Tbilisi State University (TSU). This agreement supports GFPAA's fulfillment of requirements of the International Education Standards (IESs), issued by the International Accounting Education Standards Board (IAEBS) and to strengthen syllabi in line with Level I ACCA training programs.

Additionally, since 2009, GFPAA professional members have provided lectures for economic faculty students of TSU in financial accounting and reporting with the support of GFPAA. In developing its Georgian-language education and assessments, GFPAA looked to the ACCA program as a model. As such, its certification draws heavily upon ACCA coursework and exams.

In structuring its system of certification, GFPAA also incorporated the various tiers of the profession, auditor, accountant, and technician, to allow for various levels of certification and knowledge attainment. This helps provide professionals with certification that is "fit for purpose" and appropriate for meeting the needs of the public and private sector.

Professional assessments are conducted by the GFPAA, uniform for all students, and given in written form. Assessment questions are set by a group of experts from GFPAA consisting of both members and non-members to allow for a variety of perspectives and expertise. Assessments are offered on a biannual basis. In 2008, through the strong efforts of the GFPAA to develop its professional certification program in line with ACCA, GFPAA was granted nine exemptions by ACCA from the ACCA 14 exam certification scheme. Additionally, GFPAA received exemptions for the GFPAA Certified Bookkeeper Certificate and the GFPAA Certified Accounting Technician from the ACCA certification program.

GFPAA currently requires CPD for its membership. GFPAA's focus is on further developing its system of CPD in line with IESs and international best practice.

## SUPPORT FOR ADOPTION AND IMPLEMENTATION OF CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

The GFPAA has adopted the 2006 version of the IESBA *Code of Ethics for Professional Accountants* (the Code) for its membership, after translating these standards into Georgian and making small allowances to adjust for the Georgian legal environment. The new Law on Accounting and Audit (2012) requires the application of the Code by all professionals. Consequently, the most recent version of the Code will be translated into Georgian and registered in law accordingly.

The new legislation included the option for utilizing the English language version of the Code, and other international standards, if the most recent version of the international standards is not available in Georgian.

GFPAA continues to maintain ongoing compliance with the Code in accordance with regulations. Additionally, GFPAA will work to ensure that all ethical requirements are included among training and education materials to enhance awareness and understanding among membership.

## SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Recent passage of the Georgian Law on Accounting and Audit (2012) requires public interest entities (e.g., banks, insurance companies, listed companies, large private companies) to apply IFRS, private SMEs to apply IFRS for SMEs, and micro-entities to apply specially designed standards for their reporting purposes. The current timetable for implementation envisions application of IFRS among public interest entities in 2013 with the requirement for application of IFRS for SMEs beginning in 2015.

Although IFRS has been required since 2000 in Georgia, the implementation of these standards has concentrated mainly among large, international, and/or listed firms. Therefore, this legislation presents a significant need for additional education, training, and capacity building within the accountancy profession. Although GFPAA translates the standards as well as promotes

<sup>13</sup> Certification includes professional education, assessment, practical experience and CPD.

their application through its education, training, assessment, and CPD activities, additional donor support for GFPAA is needed in light of significant changes in financial reporting .

Support to GFPAA may focus on facilitating the transition of companies to IFRS, IFRS for SMEs and/or micro-entity reporting standards; designing and developing training materials; and providing training courses, educational programs, and technical guidance to enhance the application of international standards.

#### **SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL STANDARDS ON AUDITING**

The new accounting and auditing law requires all audits to be in accordance with ISAs. Despite lacking legal responsibility, GFPAA translated, updated, and issued IAASB pronouncements. Regardless of GFPAA's use of ISAs, additional training and education, especially for SMPs, is still needed. Assistance from donors in the design and development of training materials and provision of training courses, educational programs, and technical guidance specific to the needs of SMPs will greatly advance the efforts of GFPAA and the implementation of ISAs.

#### **SYSTEM OF INVESTIGATION AND DISCIPLINE**

Under the old Audit Services Law, passed in 1995, responsibility for I&D of audit professionals rested with the Council of the Parliament of Georgia. Prior to the current law, no activities were undertaken to develop and implement a system of I&D.

Within GFPAA, I&D activities were restricted to introducing activities that could be undertaken by the Membership and Ethics Committee. Operationalization of this very limited system was minimal—no cases were ever heard. According to the new law, I&D authority now rests with the GFPAA.

As the GFPAA works to design and develop its system of I&D, additional donor support in the form of technical assistance for development of an I&D system and processes could be especially helpful. Additionally, support in the form of a PAO mentoring relationship that focuses on I&D may provide a platform for transferring knowledge, experience, and lessons learned in the design, development, and operation of an I&D system.

#### **QUALITY ASSURANCE**

Under the old law, the Auditing Council of the Parliament of Georgia was entrusted with the QA of audit services in Georgia. To meet the IFAC SMO on QA (SMO 1), GFPAA revised its constitution in 2006 and adopted corporate membership in order to conduct QA review within its corporate members (i.e., member audit firms) through its own system. The development of a QA system progressed during this time; however, much more remains to be done to ensure the development and operation of a strong system.

The new law grants GFPAA with legislative authority for QA and requires all firms interested in undertaking audits of public interest entities participate in this program. Although the GFPAA has made some progress in the development of its QA system, it needs to reorient its activities to be in line with the new requirements. To this end, the GFPAA has developed a working group comprised of eight individuals to determine how the QA program and its related Quality Control Committee may be structured and function in line with IFAC SMO on I&D (SMO 6) requirements and the new law.

As GFPAA works to develop its system in line with international best practice, SMO 6, and Georgian law, additional donor support in the form of technical assistance for development of the system and processes related to QA, development of manuals and trainings, and education of Georgian auditors ahead of the launch of the system will be extremely important to ensure the development of a strong, well-functioning system that operates to enhance the quality of financial reporting. Additionally, the provision of support through PAO mentoring focused on QA systems, design, and operation may greatly enhance the development of the GFPAA system as well positively impact the overall quality of audit services.

#### **SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

According to Georgian legislation, the Ministry of Finance of Georgia is responsible for establishing public sector accounting standards. IPSASs are not presently adopted in Georgia.

The current accounting system for the public sector is largely based on the system utilized during the Soviet period. Over the past few years, the main role of GFPAA in supporting the adoption and implementation of IPSAS has been in raising awareness of



the standards, their benefits, and their potential adoption among Georgian government stakeholders.

According to the Strategic Plan of the Ministry of Finance of Georgia, implementation of IPSAS in Georgia will be finalized by the year 2020. In preparation for IPSAS adoption, the Ministry of Finance has announced a tender on translation of IPSAS. GFPAA proposed undertaking these efforts.

As Georgia moves to adopt and implement IPSASs, it will need massive retraining of public sector accountants. Supporting the development of educational and training programs within the GFPAA to address the emerging demands of the public sector may help facilitate a smooth transition to the standards and ensure strong knowledge and understanding of the standards among public sector accountants.

#### **SUPPORT TO PUBLIC FINANCIAL MANAGEMENT**

GFPAA has been an active supporter to the capacity-building efforts of the government sector of the accountancy profession. GFPAA worked with the Georgian Supreme Audit Institution (SAI) to train staff, provide lectures, and further the achievement of GFPAA professional designation by public sector employees. This past year, through GFPAA programs, 20 professionals from the SAI achieved GFPAA designation. In addition to GFPAA's work with the SAI, the organization is also active in supporting the capacity-building efforts of the Ministry of Finance and Revenue Services to assist in building their staffs professional knowledge and capacity.



For more information on MOSAIC, please visit [www.ifac.org/MOSAIC](http://www.ifac.org/MOSAIC) or email [MOSAIC@ifac.org](mailto:MOSAIC@ifac.org).

