FIRST-HAND ASSESSMENT OF THE ONGOING ACCOUNTING AND AUDIT REFORM IN GEORGIA

[1]EREKLE PIRVELI, [2]TEONA SHUGHLIASHVILI

[1]Caucasus School of Business, Caucasus University, Georgia
[2]Munich Graduate School of Economics, Ludwig-Maximilians-Universität München, Germany
E-mail: epirveli@cu.edu.ge

Abstract - Georgian government enacted the Law of Georgia on Accounting, Reporting and Auditing as of June 8, 2016. The lawhas required about 600 firms of first and second categories as well as Public Interest Entities to report their financial statements latest on October 1st, 2018. Groups of the third and fourth categories (about 83.000 firms) shall report their financial statements latest on October 1st, 2019.This is a unique possibility not only for data-seeking 'poor' researchers (like us), but also for the regulators and standard-setters in Georgia and within the EU, as the regulation towards massive transparency happens for the first time in the country's history. Before the larger dataset enters the playing field by the end of this year and before grasping the roots of financial information quality provided within the financial statements of the reporting firms, this research project aims to theoretically review the ongoing reform details, descriptively analyzethe details of already available data of about 600 firms and draw the firstestimations ofthe reform outcomes. Our analysis suggests that the ongoing reform positively differs from any of its predecessor attempts in several regards: the reform's regulatory window is consistent with the EU framework/experience; the reform is actively supported (financially and administratively) by international organizations; active focus is given to the increase of interested parties' awareness and understanding of the accounting fundamentals; monitoring process is stronger and stricter. Findings show that the mandated legislation is well-obeyed; few companieshaveeven voluntarily published their audited financial statements; a high proportion of the reports is audited by large audit companies. These details enable us to expect that the currently ongoing field reform, unlike to previous attempts, will lead to significantly different positive outcomes.

Keywords - Accounting and audit reform; Georgia; Accounting quality; Disclosure; Enforcement.

I. INTRODUCTION

Laws and standards are mostly established based on the experience of the developed world, while the under-developed countries merely mirror those regulations and their private sectors in some cases do not even bring enough professional skills to appropriately follow the dictated rules. Despite the ongoing globalization of financial flows and the increasing reach of transnational disclosure regulation, it remains unclear how underdeveloped markets are touched by these developments. Without a theory of how flows and regulations spread, we are forced to consider countries on a case-by-case basis. Even given a (corroborated) theory, we might still need to consider cases as soon as the specific institutional basis within the underdeveloped markets warrants closer inspection (Zimmermann and Werner 2013, Pirveli 2015). To serve up the existing research gap, this work will examine the first-hand reform outcomes of the accounting and audit field in the light of under-developed economy of Georgia.

The field of accounting and audit in Georgia has been a subject of changes since the independence from the Soviet Union. The field, however, systematically experienced solid problems, among others, related to the regulatory base's deficiencies (unclear categorization of the firms, particularly PIE entities), inefficient transparency of financial reports and accountants and auditors' limited understanding of the accounting fundamentals (particularly accounting of accruals-based transactions) all together leading to Georgian firms' deficient access to finances(World Bank Group 2007, Georgian Government 2013, McGee 2014, Pirveli 2014, 2015).

In the framework of EU and Georgia's signed Association Agreement, Law of Georgia on Accounting, Reporting and Auditing was enacted in 2016 (Law 2016). The law brought some marked changes to the field.Firms have been categorized into 4 classes according to their size, profitability and number of employees. Groups of the first and the second categories as well as Public Interest Entities (PIEs) had to report their financial, managerial and audit reports of the financial year 2017 not later than October 1st, 2018. Groups of the third and fourth categories shall report their consolidated financial statements of the financial year 2018 not later than October 1st, 2019 (Law 2016). This implies about 84.000 firms to be transparent by the end of this year. It is a unique possibility for academics, regulators in Georgia and within the EU, and standard-setters. Before this massive dataset breaks a threshold of transparency, in this paper we aim to provide the first-hand assessment of the ongoing reform and estimations for the near future. To formulate pertinent estimations, we aim to compare the overall objective of the reform to its initial achievements. Before being able to go deeper to the within the financial statements and assess the quality of the information provided within them, we base our analysis on a careful review of the reform-related activities as well as on an already available descriptive information of about 600 companies of I and II categories and PIEs

who have already submitted their annual financial statements of 2017.

We note several aspects why the currently ongoing reform might be significantly different from any of its predecessor. Theoretical review of the reform details has witnessed few aspects how the current changes may differ and may bring significant changes to the field. First, we note that the currently ongoing changes align with the EU framework; that is, the processes are governed, managed, administered and financially supported by foreign authoritative parties, which may already represent a crucial tool to achieve quality results. The law of 2016 is also aligned with and based on the European framework and intensive debates/workshops are held, which aim to monitor and plan the steps of a Georgian regulatory body, Service for Accounting, Reporting and Auditing Supervision (SARAS).

Second, it needs to be noted that the ongoing reform targets and fights against, among others, those weakness previously associated with the Georgian accounting and audit field. That is, a clear classification of the entities has been set by the law, more focus is set on professional translation processes, an electronic system has been organized and administered, trainings have been organized and held by the regulatory body to ensure local accountants and auditors' awareness on high-quality reporting fundamentals. New law of 2016 has categorized firms by their size, profitability and the number of employees. In 2017, SARAS has enacted 10 normative acts. These, among others, covered Professional Certification and Continuous Education standards. In 2018 SARAS's focus has shifted form the establishment of the regulatory base, towards the increase of the interested parties' awareness. A particular attention has been paid to a professional translation process of the related materials and standards in the field. To achieve a high-quality translation, a specific working group (Committee of Experts) has been created which is supposed to be staffed by experienced professionals. This has been mostly done through the establishment of different textbooks as well as conduction of trainings and informative meetings. Importantly, SARAS created and administered electronic web-site and portal for reporting financial and managerial statements.

Descriptive statistics also reveal that almost all required companies have submitted their reports of 2017. This in some cases required either warning or a sanction from SARAS. It is difficult to judge how timely firms have followed the requirements as SARAS itself played a mediator role and has published the reports publicly only after controlling the statements. Few noteworthy aspects are: almost half of the companies used the audit service of big 6 audit companies; this may indicate that large Georgian companies, presumably because of gaining the credibility from banks or other credit agencies, do not hesitate to use the costlier services of bigger audit companies (DeAngelo 1981, Francis et al. 1999, Francis 2004, Gvaramia 2014, Pirveli 2015).

Our analysis suggests that the ongoing reform positively differs from any of its predecessor activities in several regards: the reform's regulatory window is based on the EU framework/experience; the reform is actively supported by international organizations such as the World Bank and others; active focus is given to the increase of interested parties' awareness and understanding of the accounting fundamentals; monitoring process is stronger and stricter. The first data reveals that the mandated legislation is well-followed; some of the companies even voluntarily published their audited financial statements; a large share of the reports is audited by large audit companies. Consistent to these findings, we cautiously predict that the actively led accounting reform will bring unexperienced positive outcomes to the field. The question remains: what time the reform would necessitate to bring the tangible and visible results to a playing field, however, we believe the reform would reflect into a better-quality financial information. The reform not only improves the awareness of the involved parties, but also increases the overall transparency of the private sector's financial health and improves firms' adherence to the dictated rules.

II. THEORETICAL BACKGROUND

Historical Overview

Within the first years following independence from the Soviet Union, a chaos prevailed in Georgia's accounting and audit field. No legislation existed to regulate the sector; accounting and auditing firms were established spontaneously, and staff in those companies experienced a solid lack of international practice (Kaciashvili 2003, Pirveli 2015). The Law on Auditing and the Law on the Regulation of Accounting and Financial Reporting were launched in 1995 and 1999, respectively (Law 1995, 1999). Establishment of the regulatory base – aimed to recognize the international financial reporting standards – was an important step along the policy-makers' will to transform the country into a market-based, capitalist society. However, debates towards the quality of the regulatory base have been intensified over the following decades (Wumburidze 2013, Pirveli 2015). The government, as well as the private sector confessed a necessity of considerable changes within the laws – e.g., a clearer classification of public interest companies, increased public availability of financial statements; and more (for the critics see: World Bank Group 2007, Alagardova and Manuilova 2015, Pirveli 2015).

Subsequent draft versions of the law on accounting in Georgia were prepared in 2006 and 2008. The reforms were initiated under the guidance of the Ministry of Economy and implied a shift towards a fully self-regulating accounting system. New draft

versions, inter alia, intended an abolishment of the Audit Council, established on the basis of Parliament, and a delegation of its functions to a local professional organization (GFPAA). While the both draft versions of the law were rejected, accounting and audit laws were unified for the next draft version, signed in June, 2012 and effective starting from January, 2013. The unified law aimed to augment the overall legislative background of the field, though essential questions still remained (see: McGee 2014, Pirveli 2015). Overall, despite of attempts, the regulation of the field has been chaotic for years.

The Ongoing Reform Details

In June 2014, the EU and Georgia signed an Association Agreement. The agreement entered into force on July 1, 2016. It implied development of the existing Georgian legislation and its conformity with the EU acquis. These, indeed, covered many fields, including the field of accounting and audit. In this context, Georgian government adopted the Action Plan for Financial Reporting and Auditing Reform which has resulted in the enactment of the Law of Georgia on Accounting, Reporting and Auditing as of June 8, 2016 (Law 2016).

The Law (2016) gave the birthto some marked changes. One of these was establishmentof the Service for Accounting, Reporting and Auditing Supervision (SARAS) – a subordinated agency operating under the Ministry of Finance of Georgia on June 24th, 2016. The main functions of this supervisor authoritywere set as follows: establishment of a state register for the auditors and audit firms; production of the financial and managerial reporting website of the enterprises; introduction of financial statements and audit standards as regulations, rules of action; monitoring the quality control system of the service provider; recognition of certification programs, examination processes and continuing education programs as well as monitoring of the persons implementing these services. SARAS aims to get acquainted to the best practices worldwide and adopt them in for local settings. Creating the supervisor authority laid the basis for the reform of the accounting and audit field in Georgia. The reform aims at developing capital and financial markets and improving the investment environment by ensuring transparency of reporting entities, which, in turn, protects the needs of external stakeholders relevant to the field. The reform targets to create reliable information source containing the financial and managerial data of the entities, which would also increase the credibility of audit (SARAS 2016).

In order to lead the reform effectively and achieve its long-term goals SARAS actively cooperates with internationalorganizations. SARAS actively collaborates with the World Bank's Financial Reporting Reform Center (CFRR) based in Vienna and holds various seminars covering the progress as well as plans of the ongoing reform. With the help of the Centre for Financial Reporting Reform (CFRR) (part of the World Bank's Governance Global Practice), SARAS is working to implement good corporate governance practices and financial reporting standards (Law 2016).The regulatory body also collaborates with Asian Development Bank of Georgia. As a result of meetings held within the mission, the Bank has approved a project "Audit Quality Security System" which is a part of the technical support implementation program.

In 2016, the regulatory body was established, for which the functions, structure and action strategies were defined and allocated. During 2016, SARAS issued a number of important statutory acts and established an online registry for auditors, from which the statistical data on the registered insurers, their revenues or number of employees (among others) could be viewed by any interested parties. SARAS issued procedures for determining the conditions of auditor company's professional liability insurance and the amount of insurance, rules of electronic procedures, structure, forms, informational content and consumer's identification procedures for the website and registry, and the rule of providing temporary authority for implementing audit of PIEs' financial statements.

The major step was the categorization of the firms by their 'size'. The law of 2016 defined four categories of enterprises (see Figure 1). The categories are defined based on entities' total value of assets, income and an average number of employees during the reporting period calculated on a consolidated basis at the end of the reporting period of the parent company. SARAS has recently mandated the public disclosure of audited financial statements of private sector entities in Georgia. Financial statement of the enterprise of the first category shall be prepared according to IFRS, while second and third categories apply IFRS for SMEs and the fourth category follows the "Simplified (temporary) Standard for Accounting for Small Enterprises" (approved by the resolution N9 of April 5, 2005 by the Committee of Accounting Standards at the Parliament of Georgia). Groups of the I and II categories shall report their financial, managerial and audit reports of the financial year 2017 immediately, but not later than October 1st, 2018. Groups of the third and fourth categories shall report their consolidated financial statements of the financial year 2018 immediately, but not later than October 1st, 2019 (Law 2016). Starting from October 2018 a new dataset is available within the Georgian private sector. It is a large research asset and, indeed, a huge opportunity to detect first outcomes of the reform and judge how successful the overall reform is/would be.

Based on these requirements, about 80.000 firms of IV category and 3.270 firms of III category are requered to 'go public' by October 1, 2019.

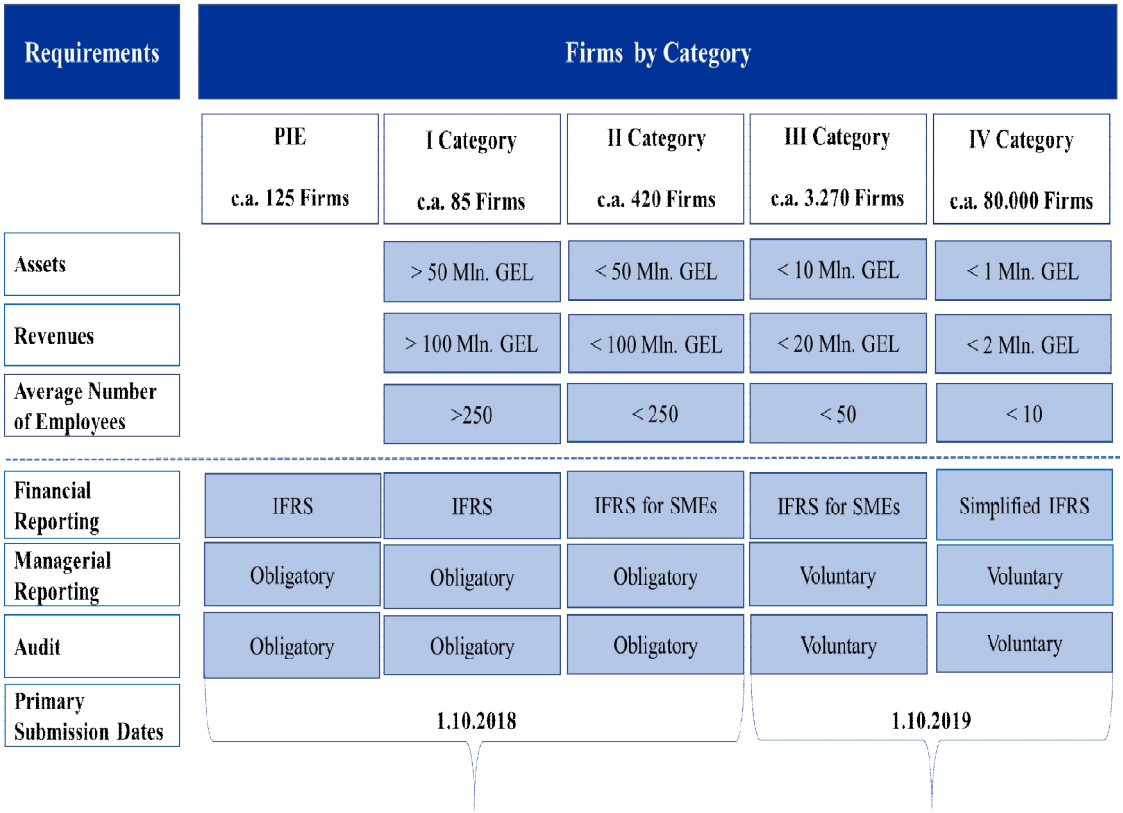

Figure 1: Requirements for Companies of Each Category
Source: Law 2016,SARAS 2017

2017 was fruitfulin terms of the enactment of normative acts, but also becauseSARAS created and administered electronic web-site and portal for reporting on financial statements, management statements of subjects andpayments towards the state in order to facilitate business transparency, economic analysis,as well as capital and credit marketsdevelopment.

This process started in January 2017 and lasted for the next 9 months. Overall 10 normative acts have been amended in 2017. Figure 1 shows the timeline of normative act amendments in 2017. Some of the major changes related toimprove the quality of education of accountants and auditors, SARAS, based on EU directives, have established the standards of Professional Certification and Continuous Education.

These include teaching, testing and certification of interested parties. For the purpose of maintaining the certified accounting qualifications, education program and legal basis for its implementation and recognition, on August 18, 2017, SARAS approved "Continual Education Standard". According to the standard, certified accountant is obliged every year to comply with the continuing education requirements.SARAS also provides examination processes, professional certification and continuing education programs registry. Recognized programs are posted on the official website of the regulatory body. During the year, in accordance with the standard requirements, SARAS has recognized, officially registered and monitored three continuing education programs.

In order to determine the rule that non-certified experienced persons' certification and monitor of the enforcement of this rule,on March 24th, 2017 SARAS approved "Simplified Rule of Professional Certification"that defines simplified test administration and procedures for professional certification of persons who have more than 7 years of relevant experience of acting as a transaction partner before the enactment of the law and are not certified accountants in accordance with the same law.

Particular focus has been put to the role of professional translation in the process of establishment of international standards. Professional Accountants Ethics Code was translated into Georgian language by GFPAA and then was enacted by the regulatory body in 2017. To achieve a high-quality translation, a specific working group (Committee of Experts) has been created which is supposed to be staffed by experienced professionals in the field. SARAS approved the Georgian language versions of IFRS, IFRS for SMEs and International Audit Standards as officially accepted standards by the end of 2017. Translated standards as well as normative acts are placed on the official website of SARAS.

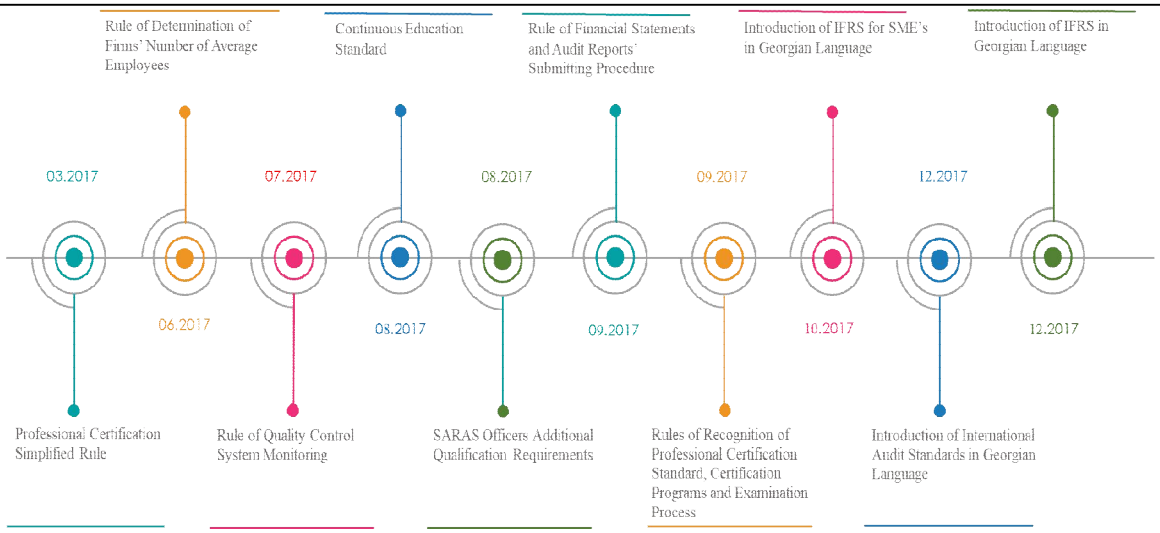

Figure 1: Normative Acts Amended by SARAS in 2017
Source: https://www.saras.gov.ge/,SARAS 2017

In 2018 SARAS's focus has shifted form the establishment of the regulatory base, towards the increase of the interested parties' awareness. This has been mostly done through the establishment of different textbooks as well as conduction of trainings and informative meetings. The meetings targeted for rising the involved parties' awareness have been attended by a wide range of stakeholders such as company managers and auditors, representatives of professional organizations, business associations, SME associations, academia, diplomatic corps, donors and international organizations. The held meetings aimed at providing important information to the audience and sharing the best practices of leading countries. The meetings were held in different regions of Georgia and focused on the amended legislation and reform details as well as the expected benefits, the goals of SARAS, essential innovations, the specifications of IFRS for SMEs, the necessity of introduction, the content and advantages of its use. The meetings have been largely coordinated, organized and financed by the World Bank Financial Reporting Reform Center (CFRR) and other Contracting Parties such as Good Governance Fund of Great Britain, USAID and EBRD.

In order to simplify the process of preparation of management reporting, SARAS has developed a "Managerial Reporting Manual", targeted for the PIEs as well as I and II category representatives. The manual is a wide-use, recommendation-oriented document that is based on the best practices and the latest international developments and does not generate new legal obligations. It establishes basic principles that protect enterprises' performance in the appropriate form and provide comparability.

In order to support homogeneity of the financial reports of IV category firms, SARAS on 26 June 2018 approved the "Financial Reporting Standard of Fourth Category Enterprises". The provisions of the relevant EU Act and the best international practice were taken into account in developing the standard. The standard is focused on simplicity and aims to reduce the cost of administrative expenditure for the fourth category enterprises. In the framework of the project, a consultative group was created which included accountants, revenue services, commercial banks, business associations, academic circles, professional organizations and private consulting companies. In order to detect the nature and complexity of the operations for the fourth category, the consultative group has in depth studied accounting practices of more than 60 enterprises. In the framework of the project, the experience of micro organizations from Estonia, the United Kingdom, Poland, Ireland and Singapore have been shared.

Within the framework of the Action Plan for Financial Reporting and Auditing Reform, the USAID,with the support of the World Bank and G4G, is implementing a program for promoting the standard of second and third enterprises. The program consists of the following main components: training of English- and Georgian-language trainers of IFRS and IFRS for SMEs and translations of IFRS Foundation's textbooks and materials. Within the framework of the program, on 8-12 October 2018, the English language trainerstraining course was conducted.

The training was conducted by the World Bank's International Consultant for Education and Training, Michael Wales, selected by the World Bank in the frames of the SFRR project, which has experience of trainings in similar countries. By the end of the year, training for English- and Georgian-language trainers have been organized and held by SARAS with support of the USAID and G4G. With this activity, the tutoring training is over. As a result, 88 trainers

were trained, covering people from 14 regions. From 2019, the program for the end-users is expected to start. At the same time, the standard of training materials is translated and adjusted to Georgian reality.

These actions have been presumed to set the environment in which firms would be able to provide credible, standard-driven financial information to the market. s

IV. DESCRIPTIVE ANALYSIS

We have obtained descriptive statistics of 586 companies from their separate profile websites given at https://reportal.ge/by using the AI scraper "Scrapestorm". The visual analysis has been implemented by Microsoft Power BI.

This section descriptively reviews the collected sampledataof the private sector in Georgia. By January 2019, total of 586 firms have submitted their annual financial statements to SARAS. This information reveals what are the characteristics of the companies which immediately obeyed the law and provided financial statements good enough to passthe controlling by SARAS.

Figure 1 shows the descriptive statistics of the sample by the following criteria:

- Firm Categories (Panel A),
- Legal Status (Panel B),
- Sphere of Operation (Panel C),
- Year of Registration (Panel D),
- Audit Status (Panel E) and
- Audit Company (Panel F).

Firm Categories - Panel A

Firms belong to one of the five categories: I, II, III, IV and Public Interest Entities (PIEs). 81 firms (13.82%) belong to the I category, the majority of firms (317 – 54.1%) come from the II category, 36 and 33 firms belong to III and IV categories, respectively and 119 firms (20.31%) are the PIEs.Worth noting that, even though not required by the law until October 1, 2019, some of the III and IV categories firms have already submitted their financial statements a year earlier. Given in total about 83k firms, 69 (sum of third and fourth category) firms indeed constitute a very minuscule proportion, however, may also hint on the existence of a (small) good-will towards a volunteer publication at the market.

We note that the largest firms satisfying at least two of the following three criteria: actives above 50 mln, revenues above 100 mln and the number of employees above 250 have significantly smaller share (about 25%) compared to the second largest category. In sum 180 PIEs have been registered at the official website, from which many of the firms do not anymore bear the 'active' status of an enterprise and as such 119 companies have submitted their reports. As it would have been expected, from 119 companies of the PIEs, 100 of them operate within the financial sector. That is, PIEs are mostly the banks, microfinance organizations and others. Overall, the given picture on firm categories could be an expected, but interesting one.

Legal Status - Panel B

Firms belong to one of the four legal status: Joint Stock Company (JSC), Limited Liability Company (LLC), Cooperative (COOP) and Foreign Company Branch (FCB). The most prevalently represented group is LLC, constituting 427 firms (72,87% of the sample) from total of 586. 143 (24,4%) companies are JSCs, and only minor 16 companies (2,73%) have legal status of either Cooperative or a Branch of Foreign Enterprise.

Sphere of Operation - Panel C

We have categorized firms by spheres of operation following the SIC rules. We have categorized firms by the following spheres: agriculture, mining and construction, manufacturing, transport and communication, retail, banking/finance, service and public administration. We note the most widely represented spheres are retail (142 firms), banking/finance (130 firms) and service (173 firms). A small portion of firms (9) are within agriculture, 70 firms manufacture their products/services.

Year of Registration - Panel D

We note that after the minimum number of firms' registration recorded in 2003, the number started to increase starting from 2004, reached its maximums (42 companies) in 2007 and 2010 and had a relatively decreasing tendency thereafter. These results adhere to the Georgia's ranking changes within the 'ease of doing business' ranks. An average number of firms registered per year in Shevardnadze's government was 19, in Saakashvili's time 39 and during the Georgian dream now it stands at 20.

Audit Status - Panel E

Panel E shows whether companies have reported audited or non-audited financial statements. Only 28 (out of 586) financial statements are non-audited. That is, financial statements are audited in most of the cases and the rule is well-followed in this regard. Interestingly, beyond the fact that non-required firms of III and IV categories have also voluntarily submitted their reports, we see that overwhelming majority of these reports are audited. Based on the regulation, IV category firms are not required to submit audited financial statements. This would indicate that firms not only follow the regulation, but also target to some other interested parties (most likely the creditors – banks, as the capital markets are weak to say the least).

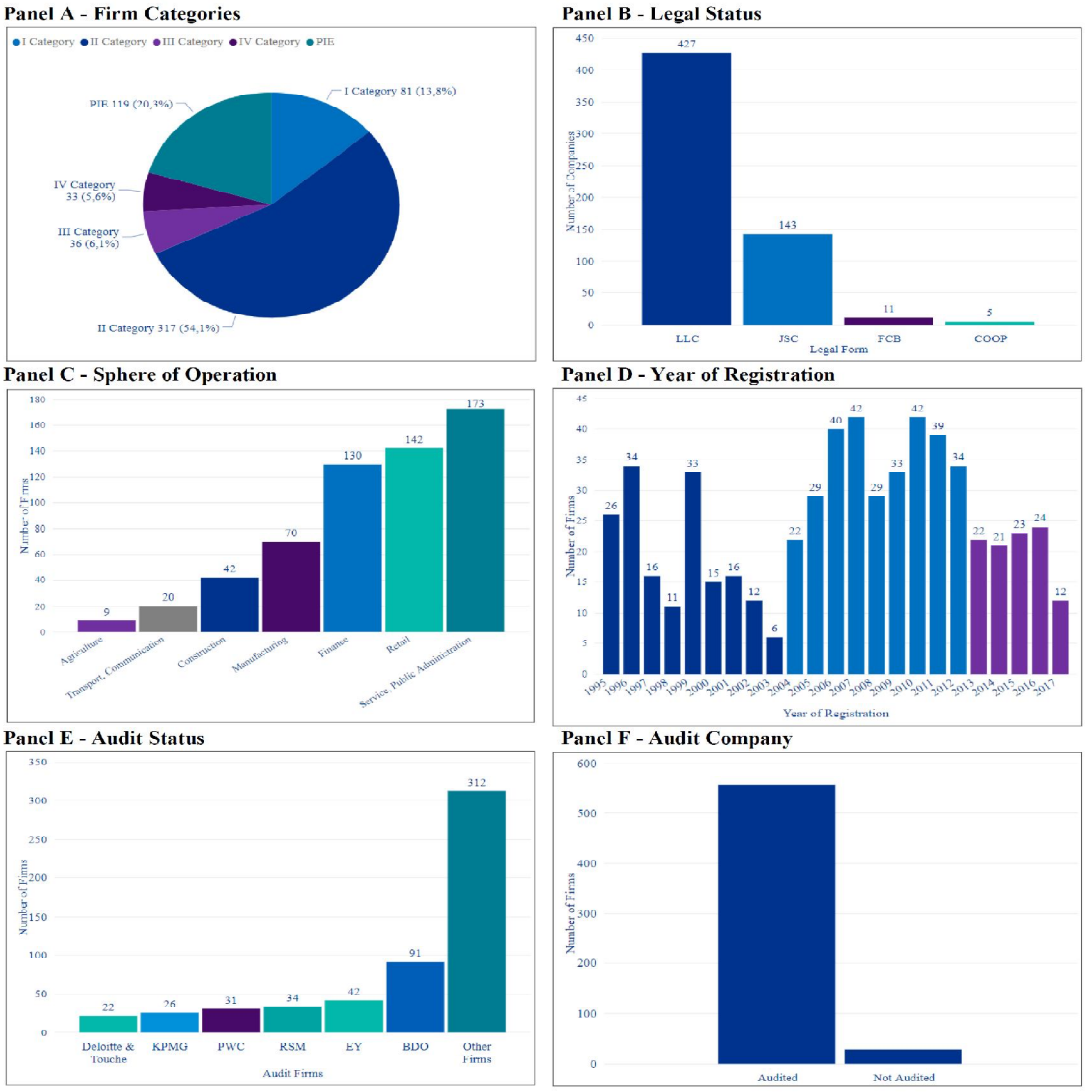

Figure 1:Descriptive Statistics of 586 Firms by Firm Categories (Panel A), Legal Status (Panel B), Sphere of Operation (Panel C), Year of Registration (Panel D), Audit Status (Panel E) and Audit Company (Panel F).

Audit Company - Panel F

As next, we would like to distinguish firms by their auditor companies. Here we note that 246 financial statements (44% of total) are audited by large auditor companies such as: KPMG, BDO, Deloitte &Touche, PWC Georgia, RSM Georgia, E&Y Georgia. 312 firms are audited by other, smaller players. This shows a considerable demand on a 'qualitative' audit services from the I and II category firms and PIEs. BDO has audited the largest number of companies (91). E&Y, RSM and PWC follow with the corresponding 42, 34 and 31 companies to have audited. Unreported statistics also reveal that most active clients of big audit companies were companies operating in banking/finance sphere. More precisely, 45% of the submitted reports from this sphere (54 reports) were audited by the big audit companies. From the perspective of firm categories, 38% of I category firms, 24% of II category firms and 29% of PIEs used the service of big audit companies. While III and IV category firms were not obliged to submit audit reports, 19% and 29% of them submitted financial reports audited by the big players. This again shows cooperation with big players and interest to the quality of audit, even if audit is not required.

It is worth noting that some companies volunteered to publish their financial reports of 2016. Financial reports of 2016 were published by 148 companies from 83.300 registered, which corresponds to 0.18%. Most of the volunteering companies were the Public Interest Entities (79 Companies). There were no firms reporting from the first category and there were only several reports from the second (4 Companies). 69 companies volunteered from the third and fourth categories.

Implications and Estimations

As the world around changes in a systematic way, regulations are also subject to permanents changes. To observe the field of Accounting and Audit in Georgia, it has been a subject of changes starting

from 1990s. Instrumental questions, however, have always remained unaddressed. We note several aspects why the currently ongoing reform might be significantly different from any of its predecessor. Theoretical review of the reform details has witnessed few aspects how the current changes may differ and may bring significant changes to field. First, we note that the currently ongoing changes align with the EU framework; that is, the processes are governed, manage, administered and financially supported by foreign parties that may already represent a crucial tool to achieve quality results. The law of 2016 is also aligned and based on the European framework and intensive debates/workshops are held which aim to monitor and plan the steps of a Georgian regulatory body, SARAS.

Second, it needs to be noted that the ongoing reform targets and fights, among others, against those weakness previously associated and strongly linked to Georgian accounting and audit field. That is, a clear classification of the entities has been set by the law, more focus is set on professional translation processes, an electronic system has been organized and administered, training courses have been organized and held by the regulatory body to ensure local accountants and auditors' awareness on high-quality reporting fundamentals.

First descriptive statistics also reveal that almost all the companies have submitted their reports of 2017. This in some cases required either caution or a sanction from SARAS. It is difficult to judge how timely firms have followed the requirements as SARAS itself played a mediator role and only after controlling the statements has published the reports publicly. Few noteworthy aspects are: almost half of the companies used the audit service of big 6 audit companies;

Prior literature has suggested that there are no particularly high expectations towards high quality accounting numbers in Georgia – within its banking and insurance sectors (World Bank Report 2007), at the Georgian Stock Exchange (Pirveli and Zimmermann 2015) and overall within the country (Pirveli 2014, 2015). On the one hand, in the absence of functional capital markets and the consequent incentives (e.g., target meeting/beating), there is no stimulus to play with earnings. On the other hand, however, corporate managers also do not input particularly high efforts in providing highly decision-useful accounting information as the overall demand on accounting numbers is moderate. In the absence of the capital market pressures, the demand may shift towards the banks. Banks in Georgia, however, base their crediting decisions on the amount of collateral and website visits (World Bank Report 2007). Prior literature has additionally shown that tax-incentives prevail over financial or managerial reporting incentives (Pirveli 2015).

Consistent to these findings, we cautiously predict that the actively led accounting reform will bring positive outcomes to the field. The question remains: what time the reform would necessitate to bring the tangible and visible results to a playing field, however, we believe the reform would reflect into a better-quality financial information. The reform not only improves the awareness of the involved parties, but also increases the overall transparency of the private sector's financial health and improves firms' adherence to the dictates rules.

The findings are of high contribution in several ways. At a scientific level, this study contributes to the existing literature on accounting and audit system's efficiency from an under-developed market's perspective. At the regulatory level, the findings are of importance for the regulators in Georgia (to formulate appropriate policies, currently debated in the Parliament of Georgia) and in Europe. Finally, financial information users such as banks, investors and tax regulators may gain insights at what level the firm's given fundamentals could be trusted within the Georgian private sector.

REFERENCES

[1] Alagardova, G., and Manuilova, N. 2015. Report on the Observance of Standards and Codes on Accounting and Auditing., World Bank Report.

[2] DeAngelo, L.E. 1981. "Auditor Size and Audit Quality", Journal of accounting and economics, Vol. 3, No. 3, pp. 183-199.

[3] Francis, J.R. 2004. "What Do We Know About Audit Quality?", The British accounting review, Vol. 36, No. 4, pp. 345-368.

[4] Francis, J.R., Maydew, E.L., and Sparks, H.C. 1999. "The Role of Big 6 Auditors in the Credible Reporting of Accruals", Auditing: a Journal of Practice & theory, Vol. 18, No. 2, pp. 17-34.

[5] Government, G. 2013. Socio-Economic Development Strategy of Georgia, Georgia 2020,

[6] Group, W.B. 2007. Report on the Observance of Standards and Codes (Rosc) Georgia, Accounting and Auditing., World Bank Report.

[7] Gvaramia, N. 2014. "The Issues of Activity Accounting and Audit Regulation in Georgia", Economics and Management, Vol. 18, No. 4, pp. 619-624.

[8] Kaciashvili, V. 2003. აუდიტორულისაქმიანობისფორმირებისადარეგულირებისთავისებურებებისაქართველოშიგარდამავალეტაპზე, Finance Research Institute, Finance Research Institute.

[9] Law. "Law of Georgia on Accounting, Reporting and Auditing." edited by Parliament of Georgia, 2016.

[10] ———. "Law of Georgia on Auditing." edited by Parliament of Georgia, 1995.

[11] ———. "Law on the Regulation of Accounting and Financial Reporting." edited by Parliament of Georgia, 1999.

[12] McGee, R.W. 2014. "A Comment on the Accounting and Auditing Law of Georgia", Business & Law, Vol. No. 3, pp. 11-13.

[13] Pirveli, E. 2014. "Accounting Quality in Georgia: Theoretical Overview and Development of Predictions", International Journal of Business and Social Science, Vol. 5, No. 3, pp.

[14] ———. 2015. Financial Statement Quality: First Evidence from the Georgian Stock Exchange, Shaker Verlag, Germany.
[15] Pirveli, E., and Zimmermann, J. 2015. "Time-Series Properties of Earnings: The Case of Georgian Stock Exchange", Journal of Business and Policy Research, Vol. 10 No. 1, pp. 70-96.
[16] SARAS. 2016. Annual Financial Statement, SARAS.
[17] ———. 2017. Annual Financial Statement, SARAS.
[18] Wumburidze, L. 2013. "მოსაზრებებიბუღალტრულიაღრიცხვისადაფინანსურიანგარიშგებისაუდიტისშესახებ", ბუღალტრულიაღრიცხვა, Vol. 1, No. pp. 1-5.
[19] Zimmermann, J., and Werner, J. 2013. Regulating Capitalism?, Palgrave Macmillan UK, UK.

★★★