

## **USE OF ASSURANCE SERVICES FOR INTEGRATED REPORTING IN DEVELOPING GEORGIA.**

**Manana MCHEDLISHVILI**

*Caucasus International University, 0141, Georgia  
m.mchedlishvili@agrui.edu.ge*

**Naira TABATADZE**

*Caucasus International University, 0141, Georgia  
n.tabatadze@agrui.edu.ge*

**Abstract:**

*The economic crisis caused by the Covid-19 pandemic has had the most severe impact on the financial accounting and auditing of enterprises. Hindered the events of the reporting period and the possibility of continuous operation of the enterprise. Integrated reporting is the brief communication of how an organization's strategy, management, efficiency, and prospects create value in the short, medium, and long term. Many of the world's leading companies publish integrated reports outlining key reporting innovations.*

*Further development of practical approaches is needed in this relatively new and underdeveloped field of integrated reporting and assurance services. Individuals involved in reporting and assurance service providers should be the initiators of the news and provide their views and comments to the standards development bodies. Consumers should actually evaluate their expectations for the assurance service. The belief in integrated accounts lays a solid foundation for gaining capital markets and public confidence so that enterprises can maintain stability and grow their business sustainably.*

**Keywords:** *Integrated reporting, Assurance service, Reasoned services, Auditor responsibilities, Forecast information.*

**JEL Classification:** M4

### **I. INTRODUCTION**

The economic crisis caused by the Covid-19 pandemic proved to be the most severe for the economies of both the world and individual countries. The coronavirus has significantly slowed down the globalization process, restricted the operation of many businesses, affected asset price fluctuations, leaps in the exchange rate, and interest rates on loans. The above factors have had a significant impact even on the Georgian economy. Georgian Gel has weakened significantly compared to foreign currency. These and other economic fluctuations have had a significant impact on the financial accounting and auditing of enterprises. In particular, it hindered the events that took place after the reporting period and the possibility of continuing the activities of the enterprise without interruption.

In the conditions of increasing competition and globalization, when companies are actively expanding their activities in the world market, the trust of investors and business owners has become a critically important factor in international growth opportunities, in the case of going to the stock exchange and finding other ways of financing. The purpose of the audit is to obtain reasonable assurance about whether the report does not contain material inaccuracies and in all respects provides fair information about the Company's financial condition, financial results and cash flows. Complete and accurate financial information available after the audit is the basis for building trust with clients. (www.bdo.ge.) Creating integrated reporting is especially important for companies in modern conditions. It is necessary to develop a global mechanism to strengthen the field of integrated reporting and the possibility of developing assurance services in it. As a result, enterprises will be able to maintain stability and sustainable business development.

## II. RESEARCH METHODOLOGY

According to the Law of Georgia "International Standards on Auditing" (ISA), the purpose of the audit is to prepare financial statements that will increase customer trust. This is achieved by the auditor expressing an opinion on whether the financial statements have been prepared, taking into account all material matters, in accordance with the proper rationale for submitting financial statements. In particular:

- Audit of financial statements prepared in accordance with IFRS
- Mss Audit of financial statements prepared in accordance with IFRS
- Audit of financial statements prepared in accordance with the principles of accounting

In the near future several enterprises appeared on the market, with integrated reporting. An integrated account is a summary report of what value a company generates in both the short and long term. The integrated report should reflect the organization's relationship with stakeholders; Describe how and to what extent the organization understands, considers and responds to the needs of stakeholders. Consequently, an integrated report implies a complex presentation of the company's activities and results with both financial and non-financial values. It is of interest to various stakeholders, though it is mainly intended for investors. The International Board of Integrated Reporting, a coalition of legislators, investors, companies, experts, financiers and NGOs, released the International Integrated Reporting Format in 2013. The format aims to align capital investment and corporate behavior with the goals of financial stability and sustainable development. In 2020, the IIRC released an updated version of the standard. ([www.csrgeorgia.com/csr-themes](http://www.csrgeorgia.com/csr-themes))

At the end of 2020, the International Standards Board on Auditing and Assurance Services (IAASB) issued a new Quality Management Standard for further development of the audit profession. ([www.cfr.worldbank.org](http://www.cfr.worldbank.org))

These standards take audit quality management to a new level, with three interrelated standards strengthening firms and modernizing their approaches to quality management.

- International Quality Management Standard (IASQ) 1 - Quality Management for Firms Performing Audit and Review of Financial Statements and Other Assurance and Related Services Transactions IS (ISQM1)
- International Quality Management Standard (IFRS) 2 \_Transaction quality Review(ISQM 2)
- International Standard on Auditing 220 (revised) \_ Financial Audit quality management of reports.

Through these standards, the International Standards Board on Auditing and Assurance Services (IAASB) focuses on the need for adaptive quality management systems. By December 15, 2022, firms will be required to develop and implement their own quality management systems. New approaches will support high quality audit activities in Georgia.

## III. RESEARCH RESULTS

The basis for financial reporting and auditing reform in Georgia was laid in 2016 with the adoption of the Law of Georgia on Accounting, Reporting and Auditing, which created a common legislative framework governing reporting and auditing. According to the survey, up to 55% of the world's population believes that a good auditor will prevent a company from failing. In addition to financial information, it can obtain non-financial information about the company. Consequently, if the information is transparent and made public, the auditor will gain the trust of the companies. An important role in this process is played by the accountant, who collects reliable information about the enterprise, analyzes the current situation, and submits them.

Companies are guided by the International Standard on Integrated Reporting. As mentioned above, integrated reporting is a brief communication about how an organization's strategy, management, efficiency, and prospects create value in the short, medium, and long term. Many of the world's leading companies publish integrated reports outlining key reporting innovations. Georgian companies are also actively involved in creating integrated reporting. In 2019, Georgia established (BARTA) the "Best Annual Report and Transparency Award". Within the framework of a joint project of the World Bank and the European Union for Financial Involvement and Accountability, in cooperation with the National Fund for Accounting, Audit and Reporting Reform Support. ([www.forbes.ge](http://www.forbes.ge)) The purpose of the award (BARTA) was to encourage compliance with the new reporting rules; Promoting healthy competition between companies and improving the overall standard of corporate reporting to gain investor confidence locally and internationally.

A survey was conducted and Georgian companies with the best reporting and transparent practices were identified. Companies met specific requirements, they submitted management, corporate governance and non-financial statements. Three major awards were given to "Large Financial Companies", "Large Non-Financial Companies" and "Small and Medium Enterprises".

In 2021, 116 companies participated in the survey.

A new award was presented to the companies participating in the study - for the best integrated reporting. ([www.on.ge.story](http://www.on.ge.story)) The aim of the study was: 1) compliance of companies' reporting with the new standards; 2) Revealing the results of the company's activities in financial and non-financial terms; 3) how much and how the company understands, considers and responds to the needs of stakeholders; 4) What is the healthy competition and attitude between companies in order to gain investor confidence? 5) What is the management, efficiency and prospects of the company in the short, medium and long term. 6) The role of financial auditors - in compiling integrated reports in terms of obtaining high quality assurance.

The companies participating in the study were divided into 3 categories: 1) Large financial companies (with more than 500 employees) 2) Large non-financial companies (with more than 500 employees) 3) Small and medium companies (with less than 500 employees).

The companies were selected taking into account 3 stages:

The first stage was the initial selection of companies, which depended on whether the company was a public interest listed on the stock exchange. All banks, financial institutions, insurance companies and certain state-owned enterprises are classified as persons of public interest. Who comply with current financial reporting requirements, as evidenced by the audit report and timely submission of the annual report to the Accounting, Reporting and Auditing Oversight Service (SARAS); Which are published on the website: [www.reportal.ge](http://www.reportal.ge). These companies also met the lifetime requirements of the relevant regulator. A detailed evaluation of pre-selected companies in the second stage, and the identification of a winner by local and international experts in the third stage.

As a result of the research, the joint-stock company "Microfinance Organization Crystal" (Crystal) was revealed from 116 companies. Which is the leading financial organization in Georgia and the largest non-bank financial institution with its assets. Crystal manages a loan portfolio of 316 million, with nearly a thousand employees in its 50 branches. Serves more than 112,900,000 customers nationwide. Crystal delivers innovative financial products and services tailored to micro and small entrepreneurs and farmers. Its reporting is transparent, truly informative and customer focused. The information presented in the management report is important to investors and the public interested in the company's activities. Reporting conditions are open and transparent, which increases the degree of trust in the company. Various structural subdivisions of the company participated in the compilation of Crystal Integrated Reports. ([www.crystal.ge](http://www.crystal.ge) > Financial Organization Crystal Integrated Account )

In our view, new thinking is needed to gain credibility for integrated reporting. The purpose of the Assurance Services in Integrated Reporting is to prepare integrated reporting and innovations in the existing field. In some countries, such as Germany, auditors are already required to obtain sound assurance on a large portion of their governance reports, on the financial statements audit, as for non-financial information, if it exists, it is also subject to verification.

A combined belief model has been developed in South Africa; which means the coordination-harmonization of the internal audit of the enterprise and the credentials issued by the external providers, which will help enterprise managers to better manage risks. High quality assurance on integrated reporting in enterprises is provided by financial auditors who conduct statutory audits as well as independent practitioners working in the audit firm. Confirmation of integrated reporting may be limited or substantiated or a combination of both; The purpose of limited trust is to reduce the risk to a level acceptable to a particular situation; which is the basis for the practitioner's negative form of opinion. The purpose of sound assurance is to reduce the risk to a level acceptable to a particular situation; which is the basis for the practitioner to assume a positive form.

Integrated reporting limited and substantiated assurance transactions involve procedures such as surveying, monitoring, reviewing, and conducting analytical procedures with management documentation, related to enterprise governance, strategy, resource allocation and management, business model, risk and opportunity management, strategic and efficiency indicators, as well as an assessment of their submission to the integrated report.

Companies with integrated reporting have appeared on the market in the form of limited credit: **ABN AMRO** –Bank based in the Netherlands. **Cbus** –Australian Pension Fund. **CIPLA** – A pharmaceutical company headquartered in India. **CPA Australia** –An organization of professional accountants headquartered in Australia. **Petronas Chemicals Group** –A group of chemical manufacturing companies in Malaysia.

However, even more knowledge and myths are needed to move from a limited faith transaction to a substantiated trust transaction, and for this we need to obtain persuasive procedures, evidence. Enterprises are assisted in this by the Extended External Accounting Assurance Services (EER) Project of the International Standards on Auditing and Assurance Services (IAASB). ([www.saras.gov.ge](http://www.saras.gov.ge)) Auditors may perform other important services in addition to limited and reasoned power of attorney transactions; Such as "Agreed Transactions" -

International Service Standard 4400 (revised). This revised standard is effective from 1 January 2022. On the basis of which auditors try to use their professional skills and prepare a report for the intended users. The report reflects the identified facts and their recommendations. The responsibility of the auditor is important when compiling integrated reports.

International Standard on Auditing (ASS 720) (revised) addresses "the auditor's responsibility for other information". The standard obliges the auditor to review the information accompanying the financial statements; Such as: management reports and similar national annual reports with different names, to identify material discrepancies between other information and financial statements and the information obtained by the auditor during the audit process, and to determine whether "other information" contains material inaccuracies. When compiling an integrated report, the assurance service allows the description of the enterprise given in the integrated report to be evaluated and independently identify indicators that are important to the business that are not required by the Financial Reporting and Accounting Standards;

Execution of an integrated reporting assurance transaction will have a significant impact on business decisions. In particular: 1) Influence the development of enterprise strategy and business models, establish risks and opportunities in management and reporting approaches. 2) The ratio of intellectual capital is reflected in the integrated report, but it will not be presented in accordance with International Financial Reporting Standards. Some indicators are excluded from the financial statements.

It is especially important to prepare explanatory notes and submission principles when preparing integrated reports, where it is clear from the integrated reporting that all the necessary appropriate criteria for a trust transaction. In particular, the rational purpose of the persuasive transaction in the report, for the investor and other stakeholder

#### **IV. CONCLUSIONS**

-Integrated reporting assurance service Accounting and auditing is new and in the process of reform, many scientists are talking about it, and it is still a subject of discussion. It is true that some foundations have already been laid in this direction, but those who are involved in the process of preparing and submitting integrated reports still face significant challenges. Further development of guidelines and practical approaches will be necessary in this relatively new and underdeveloped field of integrated reporting and assurance services.

- To solve the problem, it will probably not be enough to rely on existing approaches to persuasive services significantly while much more emphasis is placed on issues such as descriptive and predictive information. Individuals involved in reporting preparation and assurance service providers should be the initiators of the news, and provided their views and comments to the standards bodies, consumers should actually evaluate their expectations according to the level of development of the trust service system. This requires that all participants in the process take some risk in order to maintain compliance and trust.

- The International Federation of Accountants (IFAC) and the International Council on Integrated Reporting (IIRC) are committed to promoting integrated reporting assurance services, continuity of the process of preparation and submission of integrated reporting, as well as the introduction of innovations, the establishment of best practices and the joint development of integrated reporting and integrated reporting assurance services.

-Integrated reporting assurance service is part of corporate governance, it helps to increase the reliability of integrated reporting and future oriented (forecast) information, which in turn enhances the regulatory environment for investors.

- Belief in integrated accounts forms a solid foundation for gaining capital markets and public confidence. It will improve the quality of integrated reporting and entrepreneurial activities.

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