

Analysis of Accounting and Control in Georgia

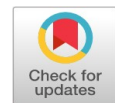
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Abstract: The article “Analysis of Accounting and Control in Georgia” discusses the legislative and normative acts of regulation of accounting and control, key issues of control in organizations’ activity, issues of improvement for accounting and control regulation. It also discusses the issues of improvement of the united system of financial control. The 2015-2017 survey report presented by us analyzes the condition and challenges of the internal financial control system and the hindering factors of its development. At the initial stage of the survey, a detailed selection scheme has been made up, which included the organization selected for characterization of internal financial control. We have emphasized problems on the one hand and - best practices on the other. We discussed issues that are equally problematic for organizations. The relevance of the article’s topic is caused by problematic issues related to the control in the institutions. A successful business is impossible without finance control and management skills. Although the Audit Service has been set up, which replaced the Chamber of Control, a united system of control and monitoring of budget funds has not been established yet. Control, which is mainly undertaken by state structures, is characterized by the necessity of detecting and eliminating violations. Whereas while the conclusion of the results of audit account of the financial accountancy, the issuance of recommendations and negative feedback in case of certain circumstances is done.

Keywords: Accounting, Audit, Budget process, Control methodology, Treasury system

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INTRODUCTION

The introduction of work includes the relevance of the topic under research, the purpose and objectives of the study, innovations.

The relevance of the research topic is determined by the necessities of any enterprise, organization for their successful functioning, regardless of whether it is state organization or commercial business unit. The arrangement of accounting and control, bringing it into the system are one of the most important factors and are essentially relevant to Georgia, and for countries with transition economies in general.

The aim of the research is to find ways of improving the accounting and control methodology, by establishing of which the financial situation of the enterprise will be evaluated objectively, and the control will be activated, which is directly related to the correct and smooth accounting for the purpose of reaching the institution’s goals and accomplishment of tasks. The tasks of the research are all the actions that are to be accomplished to achieve this goal. These include: assessing the legal basis of accounting and control regulation, classification of risks related to accounting and control and their reduction mechanisms, assessment of state financial control environment, analysis of control practice in Georgia. The object of the research is problematic issues related to the perfection of accounting and control methodology in Georgia.

The audit was formed as an integral part of the modern economy. Competitiveness of the modern economy is due to the development of new directions and rapid development of existing fields. To achieve this goal, it is necessary to take the correct steps to management. Financial information is essential for correct and

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timely decisions. Financial information is credited to the financial statements audit.

The audit is a fairly complex and lengthy process because the range of activities went beyond state borders and the need to take into account both local legislation and international (Pailodze & Gabaraevi, 2015).

The development of audit in modern business shows that despite some successes, there are a number of shortcomings in which the timely remediation will facilitate the improvement of audit organizational and improvement of management.

LITERATURE REVIEW

Activating authority, strengthening and expanding our missions should play a great role in achieving political and economic goals at this stage (Kokrashvili et al., 2016).

Modern Georgia is in complex search conditions of its own model of economic development and selection of practical tools of its regulation. This is primarily determined by the business culture of our country. When choosing, we should consider how to influence the transitional development of the Georgian economy and its incorporation into the process of globalization, factors such as national culture and new information technologies. National characteristics are studied with regard to their use in business management, as without national awareness will be difficult to formulate the general postulates that will help understand the actions of rulers and ruled in Georgian society (Baratashvili, Pailodze, Bolkvadze, & Sulashvili, 2015).

One of the key directions for speeding market transformation of Georgia's economy and successful management of business management is to further improve the accounting and its civilized development in entrepreneurship practice. (Pailodze et al., 2013).

We should all be asking ourselves the most important question - what could be the formula of success in the future? As we have already witnessed, expansion of the private business, national culture and religion, and the effectiveness of corporate management cannot possibly become barriers to the crisis. The effectiveness of the national management, good macroeconomic index, and a large number of population, successful external policy and strong armed forces could turn out to be a guarantee of the national and international success (Abralava et al., 2015).

The article deals with the taxation mechanism that has been operated in Georgia. The above mention has a great influence in financial accounting. Since January 1, 2011 the new Georgian tax law entered into force. The observance is all of the taxpayer's duty. The new Tax Code retained the main provisions of the Tax Code. We can proudly say that by the adoption of the new Tax Code Georgia belonged to the number of states, which have civilized tax system (Boonvut, 2017; Pailodze et al., 2016).

Information about financial statements stimulates economic activity by reducing risks. The liquidity of the company's assets affects its capital cost. The timely publicity of the company's high-quality financial information reduces the risk of loss of investors (or creditors), which facilitates attracting more financial resources, increasing access to capital markets (Pailodze & Murvanidze, 2016).

The legalization of business had significantly increased the demand on conduction of an audit among entrepreneurs. To be more protected against tax authorities financial statements prepared (Balance sheet, Income statement, Statement of Cash flow, a Capital Flow Statement, accounting policy, and explanatory remarks) by the company should be checked by the competent auditor.

Nowadays, the real demand for audit service exists. The demand, itself has led to the formation of healthy competition among auditors (audit firms) and as there is a business rule, in a competitive environment performer of the work with higher quality wins, which means that the quality of audit service should be improved (G. Sulashvili et al., 2017).

The need to increase the effectiveness of the management in organizations determined the necessity to improve legislative/normative base and introduce new control mechanisms.

To strengthen the efficiency of accounting and control system it is necessary to improve Georgia's normative acts, the existence of complete information on the financial performance of organizations and the results. This is only possible through using international accounting standards and fully harmonizing them with international standards (Dwi & Renny, 2017; M. Sulashvili, Murvanidze, & Taruashvili, 2018).

Strengthening the human factor in the management of companies is the main feature in the modern economy. Despite the active participation of our country in the condition of globalization a lot of problems still exist. The essential role of solving the given problems is granted to the audit. For making the right decisions, governmental agencies, as well as, economic entities should possess the complete and accurate information. Since the area of economic activity overshoots country's borders and the local legislation, international legislation, as well as legislation of the country in which business relationships are carried, should be taken under consideration, the process of an audit of such type of operations is quite a complex and lengthy process. This audit should be carried out by highly qualified specialists. The effective management of the company that is a precondition for economic growth and sustainability is depended on the reports prepared by auditors (G. Sulashvili & Murvanidze, 2017).

RESEARCH METHODOLOGY

The main methods of research: Analysis and generalization of scientific literature, works of Georgian and foreign researchers; study and generalization of statistical data, internet network materials; methods of description, interpretation, and prediction; methods of processing research results and other.

The part of the literature review deals with both works of famous Georgian and foreign authors from the perspective of individual research.

In the work, it is determined the essence of financial control, where you have detailed reviewed the prerequisites of the audit and the development trends, the essence and functions of the control. What are the goals and objectives and the methodology on which based the accounting and auditing activities?

The work also discusses the international standards of accounting and methodological approaches, development, and analysis of the state and private control system, as well as the ways of systemic and methodological development of financial control of state and private companies. We tried to argue the legislative basis and regulations in compliance with local and European guideline. The study of the accounting methodology existing in the states was defined:

To develop and issue international accounting and audit standards in accordance with the interests of the public, which should be taken into consideration throughout the world when submitting financial statements;

Methodological-conceptual provisioning of the issues related to the preparation of financial statements, and the improvement of accounting procedures.

RESULTS AND DISCUSSION

Structural and organizational arrangements of the state financial control fundamentally changed in recent years in Georgia. Establishment of the Treasury System in the Budget Process has been conducted, which put in the agenda the need of using new methods in revision-checking of budget execution processes such as revision, audit, thematic inspection, economic analysis, investigation (examination), economic dispute, etc.

Despite the fact that foreign countries adopted universal principles and methods, every country has its own peculiarity, which, in turn, is conditioned by national legislation, historical practices, traditions and custom of the country.

Accounting management includes an overview of the compilation of financial accounting related to the risk of internal control and the management of the risk system. Financial control is important for any organization. The purpose of financial control is to make the right decision, namely, whether financial accounting contains any significant inaccuracy and an opinion. Is financial accounting prepared in accordance with requests established by law and financial accounting standards? (Pailodze & Murvanidze, 2016). In the modern conditions, application of modern informational technologies in audit activities has a significant role in increasing productivity and ensuring increasing the quality of an audit of the operations of economic entities. It significantly changes the method of conducting an audit, and at the same time it requires the special knowledge and technical equipment of audit companies that should be taken under consideration for the near future. IT has become the indivisible part of the modern economy. The development of the given sphere had made a significant contribution in globalization of an economy,

in strengthening the relationships and in a rapid exchange of information, which has touched all areas of the modern economy. The development and active application of informational technology in the process of auditing it as well as in the estimation of results has also begun in an audit - as in one of the institutes of the modern economy. The elaboration of new informational technologies is necessary for the development of an audit and the improvement of the accountancy that will promote the development of the given sphere and eradicate the existing deficiencies. The reforms made in the Georgian Economy have led to the establishment and development of new economic institutions, which regulates the relationship between economic and business entities. Among the given institutes, the important role should be granted to an audit, which is an integral part of market relations. Development of audit activity in Georgia has shown that it is impossible to directly import the methods of conduction of an audit that is used in capitalistic countries in a Post-Soviet economy that is under the condition of reorganization. That is why the active works are undergoing in Georgia on the concept of audit activities (G. Sulashvili et al., 2017).

We consider the financial control not as the process of checking, but as an analysis, aiming at determining if any problem exists, and what led to this problem. The paper will discuss the strategy of financial control in order to improve the management of a financial entity that will lead to the a sustainable development of an entity. Financial control is a special financial means to protect public property.

Financial control is effective when the system is strictly and organized in order to achieve the goals set out in the specific functions; in addition, employment of best practices is necessary to eliminate and identify violations. One of the key elements of effective financial management and control is to carry out regular and permanent measures through which the examination of the function of the object and the correspondence of the relevant solutions is carried out (M. Sulashvili et al., 2018).

It's important basic internal and external factors affecting the risk management activities of the institution. The expected risk determines the possibility of low indicators of financial results of activities in the organization. The risks are determined by the likelihood of suitability, and in the event of the suitability, they are determined by the level of impact on the capability indicator. These are the signs the assessment of which is required according to the principle of feedback. More precisely, we should pay more attention to the risks the probability of which is high. Consequently, the organization should not only identify risks, arrangement of the risks according to the priorities - in correspondence with the likelihood of suitability, to minimize the possibility of error, but the appropriate control measures should be taken to maintain risk determination, assessment, monitoring and risk management and the implementation of reciprocal events against the revealed negative factors should be done. The implementation of these measures will affect the goals and objectives of the organization.

For the purpose of minimizing risks, our recommendation is that the organization should implement the detailed detection, evaluation, monitoring, analysis of the factors which caused the existed risks and control measures of the correspondent risks in advance, which should be specifically implied in the functions of the Internal Audit Service;

Recommendations are issued when concluding the results of the financial accountancy audit report. The last stage of the audit is monitoring of implementation of the recommendations, when State Audit Service reviews the process of implementation of the recommendations by the audit object according to the deadlines established in advance. The issue is that not only the recommendations issued as a result of audit activities and monitoring of its implementation are important, but their timely and correct implementation is also essential.

On December 18, 2015, the Law of Georgia "On State Internal Financial Control" defined the issues concerning the elaboration and establishment of the methodology standards of the financial control system. Each institution will develop its own system of financial management and control in accordance with this law. The financial control elements are: budget control, taxation, currency control, banking control, and auditing control. Here are set up tasks of auditing control. With regard to the development of financial management and control system we can formulate:

1. Each institution shall develop its own system of financial management and control in accordance with the provisions of this Law, the other Legal and Law Subordinate Acts of Georgia and in accordance

with the instruction on rules and procedures for the establishment of Financial Management and Control System elaborated by Harmonization Center and approved by the Government of Georgia.

2. The head of all hierarchical level of the institution is responsible, within his competence, to inform the superior head about the actions taken in connection with the financial management and control.

Internal audit is a consultative activity and not punitive. Internal audit subjects can not be engaged in the inspection. Our point of view is that internal audit and the control must be sharply separated.

In accordance with the First Paragraph of Article 5 of the Law of Georgia on “State Internal Financial Control”, the “Instruction on Rules for Procedures for Establishing of Financial Management and Control System” was approved together with the Annex.

In the first paragraph of Article 12 of the same Instruction the goal of reporting establishment, within the frames of financial management and control system, is to provide reliable and timely information to the management of the institution about both, the implementation of the budget of individual program and successfulness of the program, and about establishment of financial management and control in the institution and the current condition, on the basis for which the timely and effective analysis of financial and operational results will be possible, also the promotion of the implementation of this instruction in practice, timely identification of defects, eradication and permanent perfection of the existing system will be achievable.

There is no uniform opinion about what financial control includes. Most researchers recognize that financial control is a common generalized discipline involving various narrow specializations.

Financial control in the legislation is put on the same level as the State Audit. In Georgia the State Audit Service has been established as a separate direction, which controls the local and central budget. It is necessary to determine that state control implies budget control, as other functions may be implemented by other supervisory bodies.

The head of the institution in accordance with his competence is responsible for informing the superior head about the actions taken concerning the financial management and control.

Based on the results we are able to conclude about how important financial control is for the country and society. Implementation of its results is very obligatory unlike the audit results. The audit results are of recommendatory character.

We consider the financial control not as the process of checking, but as an analysis, aiming at determining if any problem exists, and what led to this problem. The paper will discuss the strategy of financial control in order to improve the management of a financial entity that will lead to a sustainable development of an entity. Financial control is a special financial means to protect public property.

Financial control is effective when the system is strictly and clearly organized in order to achieve the goals set out in the specific functions; in addition, employment of best practices is necessary to eliminate and identify violations. One of the key elements of effective financial management and control is to carry out regular and permanent measures through which the examination of the function of the object and the correspondence of the relevant solutions is carried out.

For strengthening of accounting and control system capability, it is shown that it is necessary to improve Georgia’s normative acts and its full compliance with international standards - with INTOSAI (The International Institute of Supreme Audit Institutions) and IIA (The Institute of Internal Auditors). It is also necessary to implement the accounting and control system capacities in practice in accordance with the INTOSAI standards, increase public trust quality, establish close cooperation with international organizations. To strengthen the efficiency of accounting and control system it is necessary to improve Georgia’s normative acts, the existence of complete information on the financial performance of organizations and the results. This is only possible through using international accounting standards and fully harmonizing them with international standards.

CONCLUSION AND RECOMMENDATIONS

After obtaining the state independence of Georgia, in the process of forming the market economy, has arisen inevitable necessity of introduction of an independent control service, which led to the introduction of an audit service for financial information, its authenticity and quality assessment, which will provide

customers with competent specialists about the business subjects, an argumentative audit report on the accuracy and quality of the financial statements. Today, the necessity of audit activity is an important function and driving force of our public life.

A successful business is impossible without finance control and management skills. Although the Audit Service has been set up, which replaced the Chamber of Control, a united system of control and monitoring of budget funds has not been established yet. Control, which is mainly undertaken by state structures, are characterized by the necessity of detecting and eliminating violations. Whereas while the conclusion of the results of audit account of the financial accountancy, the issuance of recommendations and negative feedback in case of certain circumstances is done.

What kind of financial model and control technology can be used in different areas of administration? How to protect the organization from faults? What difficulties can we come across in the work process? How can the company's financial accountancy be protected and how to rule it to increase net profit? What support does the development of innovative Georgian companies foresee? These are the issues we have tried to solve in our work and we believe that it is necessary to create priority projects in this field and to support innovative solutions on the use of new technologies in the created environment.

Future directions of the study is to create a model of accounting and control methodology, which will be able to evaluate of the legislative base of control, characterization of control instruments and basic aspects, which ensures the legitimate, transparent, economical, efficient and productive use of funds in the process of achieving the goals of the institution.

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