

**HEAD OF THE SERVICE FOR ACCOUNTING, REPORTING AND AUDITING
SUPERVISION**

ORDER N -9

July 12, 2017

Tbilisi

On approving the Regulation on Quality Control System Monitoring

Pursuant to Article 19 of *the Law of Georgia on Accounting, Reporting and Auditing I order*:

Article 1

Approve:

- a) the Regulation on Monitoring the Quality Control System in accordance with the Annex №1;
- b) the form to be submitted by an auditor/ audit firm in accordance with the Annex №2.

Article 2

Annex №2 approved under Article 1 (b) of this Order shall be deemed null and void from January 1, 2018.

Article 3

The present Order shall come into force upon its publication and apply to legal relations emerged since June 25, 2016.

Yuri Dolidze
The Head
Service for Accounting, Reporting
and Auditing Supervision

Regulation on Monitoring the Quality Control System

Article 1. The Scope of Regulation

The present Regulation sets the grounds for monitoring quality control systems of an auditor /audit firm and an engagement partner by the Service of Accounting, Reporting and Auditing Supervision, as well as procedures for managing risks by the Service, filing a report (hereinafter the Diagnostic Report) issued by a professional organization, observance of rules by monitoring entities prudently and fairly, reviewing preliminary and final results, issuing recommendation, eliminating identified deficiencies and appealing monitoring report.

Article 2. Purpose of the Regulation

1. Activities of the Service, its procedures planned for an auditor, audit firm and an engagement partner at the monitoring stage, decision made on the basis of monitoring (including a recommendation) are aimed at ensuring quality of auditing service, identifying systemic risks in the field and reducing their impact, eliminating information asymmetry in the sector subject to supervision and raising the process transparency level.
2. Monitoring aims to:
 - a) Evaluate compliance of procedures used by an auditor, audit firm and its engagement partner with international standards on auditing, review the other assurance transactions and related services and the requirements of the *Law of Georgia on Accounting, Reporting and Auditing* (hereinafter the Law);
 - b) Assess observance of ethical rules, quality and quantity of used resources, reasonability of the remuneration received for auditing service and quality control system.
3. The Service annually publishes the general report on the status of the audit quality. The general report shall not include confidential information on auditors /audit firms (including persons authorized for management/ representation of the company, registered partners and shareholders) and entities.

Article 3. Definition of Terms

1. For purposes of this Regulation, the following terms shall have the following meanings:

- a) Industry expert – a person or an organization, who has expertise in the field other than accounting and auditing and the work performed in such industry is used by an auditor/audit firm to collect sufficient and appropriate audit evidence. Expert of an audit firm may be an internal (who is a partner or an employee of this audit firm or firm network, including a temporary employee) or external expert of an audit firm;
 - b) Activities to be performed – the list of actions (with timelines) reflected in the correction plan, which is mandatory for an auditor / audit firm;
 - c) Recommendation – requirements defined by the Service, with respect to quality control system as a result of monitoring, to be met by auditor/ engagement partner /audit firm;
 - d) Professional standards – standards set in accordance with the Law;
 - e) Inspector – a person defined under Article 19 (11) of the Law through which the Service performs monitoring of an auditor /engagement partner /audit firm;
 - f) Auditor – an auditor registered in the public registry of auditors /audit firms who is authorized to render auditing on an individual basis.
2. Apart from Paragraph 1 of this Article, for purposes of this Regulation, the terms used herein are interpreted in accordance with the requirements of the Law.

Article 4. Monitoring Subjects and Grounds

1. Subjects of monitoring shall be:
- a) an auditor;
 - b) audit firm or/ and all its engagement partners that are or/and were rendering auditing services to an entity, non-entrepreneurial (non-profit) legal entity;
 - c) Auditor or audit firm and all of its engagement partners who are /were rendering auditing services to a legal entity of the public law, local self-governance body and the other entity for whom the requirement to conduct audit of financial statements or independent audit of performance is provided under the legislation.
2. Monitoring shall be performed:
- a) On a mandatory basis within the timeframe set under Article 19 (9);
 - b) Based on the initiative of the Service;

- c) Based on initiative of an auditor /audit firm.

Article 5. Mandatory Monitoring

1. Three months before a mandatory monitoring date, the Service shall send a letter to an auditor or an audit firm on commencement of mandatory monitoring and request filing of relevant documents (including the information defined in Annex N 2) within a month for preparation for monitoring.
2. The date for conducting initial monitoring for an auditor and audit firm shall be counted from the next day following registration, while each repeated monitoring date shall be counted from the day following Service decision date on monitoring results.

Article 6. Monitoring based on the SARAS Initiative

1. The Service shall be entitled to commence, under its own initiative, monitoring within the timeframe different from that defined under the Law, when there occurs a circumstance detected through risk-based approach (including outcome of the previous monitoring) or/and based on a letter submitted to the Service or/and complaint or/and in case of high public interest. The Service shall use respective methodology and software in risk management.
2. Risk management process shall cover all registered auditors, audit firms and their engagement partners.
3. The Service shall be entitled to engage invited specialists or/and industry experts with respective reputation, qualification and experience in the risk evaluation.
4. The Service shall be entitled to monitor transactions implemented by separate engagement partners prior to the next monitoring period.

Article 7. Monitoring based on Initiative of an Auditor /Audit Firm

1. An auditor/audit firm shall be entitled to apply to the Service based on its own initiative with request to perform monitoring before the date of mandatory monitoring. The Service shall review the application within 10 working days, following its filing, except for the case provided for in paragraphs 2 and 3 of this Article.

2. The audit firm, which underwent monitoring and met recommendations issued by the Service, based on monitoring results, shall be entitled to apply to the Service, before the next mandatory monitoring date, with request to conduct its monitoring, if according to the latest monitoring results:
 - a) it was not assigned and it intends to obtain the authority to perform audit of the PIE financial statements;
 - b) it was granted the authority to perform audit of the PIE financial statements, it has performed activities provided for in the Service recommendations and is willing to have monitoring (repeated) done before the due date.
3. If a firm under the Service's decision is granted the authority to perform audit of the PIE financial statements, though it has not performed such audit previously, it shall apply to the Service with request to perform its monitoring prior to signing an agreement with PIE on auditing services.
4. In cases provided for in paragraphs 2 and 3 of this Article, the Service shall make decision on monitoring within 5 working days following decision date on conducting monitoring.
5. In cases provided for in paragraphs 1 and 2 of this Article, except for the case when the audit firm's quality control system is reviewed within the international network, the application submitted to the Service shall be accompanied by a diagnostic report in accordance with the procedure specified in Article 8 of this Regulation.

Article 8. Role of a Professional Organization. Diagnostic Report

1. For purposes of this Regulation, within the scope of requirements of Article 10 (2b) of the Law, a professional organization shall ensure permanent cooperation with its member auditors /audit firms and implementation of the following activities:
 - a) Training and continuous education of all staff of the auditors and audit firms in the area of quality assurance, as well as cooperation and experience sharing among audit firms;
 - b) Development or/ and provision of methodology documents and manuals on legal acts adopted by the Service with respect to quality assurance;
 - c) Evaluation of quality control system of a member auditor and audit firm upon their request for the purpose of getting ready for monitoring;

- d) Other measures (including seminars on compliance with the professional standards), which ensures implementation of audit regulatory standard requirements in practice;
 - e) Facilitate activities required for elimination of weaknesses identified as a result of monitoring exercised by the Service.
2. Auditor and audit firm with no sufficient resources to implement quality control system, shall be entitled to apply to a professional organization with request for a respective support. The professional organization itself, for the purpose of increasing awareness about identification of audit related risks and quality assurance, shall implement respective activities for implementation of quality control system and ensuring readiness for monitoring.
 3. For purposes of paragraph 2 of this Article, a professional organization, for conducting diagnostic assessment of quality control system of its member auditor/ audit firm, shall invite highly qualified quality assurance experts.
 4. A diagnostic report prepared as a result of diagnostic assessment of quality control system, performed by quality assurance specialists, shall describe non-compliances identified with an auditor or in an audit firm and indicate the ways for improvement to an auditor/ audit firm. Diagnostic report shall not include proof on passing by an auditor /audit firm of quality control according to the procedure set under the Law.
 5. Diagnostic evaluation of quality control system is performed at:
 - a) Firm level – in the light of compliance with International Standards on Quality Control (ISQC 1);
 - b) Transaction level – in the light of compliance with International Standards on Auditing.
 6. For an auditor/ audit firm/ engagement partner that underwent monitoring and is evaluated in accordance with paragraph 5 of this Article, in case of changing a main or/and part-time work place or/ and in the event of reorganization/ succession, the Service shall be entitled to perform simplified monitoring of an auditor/ audit firm/ engagement partner based on submitted documents, which in case of reorganization/ succession of reorganization/ succession implies verification of documents proving transfer of quality control system components.
 7. Professional organization and its quality assurance specialists shall not be held liable for implementing quality control system and monitoring results. When necessary, the Service shall be entitled to request replacement of specialists if considers their qualification level as unsatisfactory.

8. Information submitted by an auditor / audit firm to a professional organization for obtaining diagnostic report and opinion prepared by quality assurance specialists shall be confidential and not publicized. Professional organization, in the course of diagnostic evaluation of the quality control system, shall act within the scope of authority granted under the legislation of ethic norms.
9. Terms related with diagnostic evaluation of a quality control system, procedures and a timeframe shall be defined under the agreements signed by the parties.
10. The role of a professional organization is limited to facilitating assurance of quality for those auditing services which an auditor provides in Georgia in accordance with the effective legislation.
11. Diagnostic report shall not be submitted to the Service, except for the case when an auditor / audit firm applies with its own initiative to the Service with request to perform monitoring on the basis of Article 7 of the present Regulation.
12. Diagnostic report shall be issued not earlier than six months before applying to the Service.

Article 9. Readiness of an auditor /audit firm

1. An auditor /engagement partner shall know the professional standards.
2. Auditor /audit firm, when providing auditing service, shall meet requirements defined under the law with respect to quality control assurance.
3. An auditor / audit firm shall meet the registration terms in accordance with the procedure set by the Service.
4. An auditor / audit firm shall agree to provision only of that service, which it can render with competence in accordance with the professional standards set under the Law.

Article 10. Review of Application on Conducting Monitoring

1. An application of an auditor / audit firm submitted under its own initiative requesting monitoring shall include:
 - a) Motivation of an auditor / audit firm;
 - b) Diagnostic report or/ and quality control system review within a network;

- c) Information on an auditor / audit firm in accordance with the Annex N 2.
2. Review of an application consists of the following stages:
 - a) Review of an applicant auditor/ audit firm based on analysis of the information available within the system or submitted additionally;
 - b) Review of a diagnostic report or /and review of documents/ opinion related with quality control system evaluation within the network;
 - d) Interview with an auditor, audit firm engagement partners and firm management;
 - e) The volume of auditor's work and complexity for the purpose of performing respective and adequate monitoring;
 3. If in the course of the application review the information available within the system does not reflect information on an auditor / audit firm as of the current date, the Service, for the purpose of planning the monitoring process correctly, shall request information update from the auditor / audit firm;
 4. The Service shall review an application and make decision on allowance or disallowance thereof within the timeframe provided for in paragraphs 1 and 4 of the Article 7.
 5. Decision shall be sent to an audit firm within 2 working days following decision date. Decision on allowance of an application shall be sent to an auditor / audit firm through electronic channels as well.
 6. The Service shall commence monitoring within 2 weeks following decision date on allowance of an application.

Article 11. Obligations of an auditor / audit firm with respect to monitoring

1. An auditor/audit firm shall present required information and documents requested by the Service for monitoring.
2. An auditor, engagement partner and all other persons engaged from an audit firm (including invited persons) shall observe confidentiality of information obtained during the monitoring process, in the course of rendering professional services as well as thereafter, regardless elapsed time and changing activity type, except for the cases provided in the Georgian legislation.

3. In the event of delegating engagement partner's authority to another person, the engagement partner shall submit the information on such person to the Service.

Article 12. Monitoring Working Group

1. Monitoring shall be exercised by a working group consisting at least of 2 inspectors, one of which is appointed as the head of the monitoring working group.
2. The Service shall ensure compliance of inspectors' qualification, technical skills and experience with the requirements set under the Law.
3. Inspector shall not be entitled to conduct monitoring if prior to monitoring or during its course existing or future relations are revealed between an inspector and an auditor or audit firm, including persons within its system, which may affect the monitoring results.

Article 13. Additional Requirements for PIE Financial Statements Auditing Process and Procedures

1. Auditing firm which intends to perform PIE auditing, apart from the requirements provided for in the Law and this Regulation shall meet the additional requirements:
 - a) Have at least 2 (two) engagement partners;
 - b) Have a group able to implement at least 2 (two) engagements independently;
 - c) Whenever needed, an industry expert (ISA 220);
 - d) Have an electronic archive for documenting audit management and information;
 - e) Have professional liability insurance;
 - f) Meet additional requirements defined by a regulator/supervisory body based on activity/ industry specifics;
2. Documents submitted by an engagement partner on an engagement subject to monitoring shall be annexed with an assessment of an engagement quality control reviewer in accordance with legislation/ professional standards or/and additional requirements of audit firm policy;

3. Quality control reviewer provided for in Paragraph 2 of this Article may be a partner, any other person employed in a firm, a person with corresponding qualification outside the firm or a group of such persons (none of which is a working group member) who have sufficient and respective experience and authority to assess significant reviews conducted by a working group and opinions made for drafting engagement report in an objective manner.
4. Engagement partner shall be held liable for quality of that audit engagement for which he/she is appointed. Quality control reviewer is not responsible for that audit opinion the evaluation of which he/she is conducting.

Article 14. Types of monitoring

1. Monitoring types shall be full (comprehensive) and limited scope monitoring.
2. Full (comprehensive) monitoring covers all elements of quality control system, selected engagements and the other areas of activities, which may affect the quality assurance.
3. Limited – scope monitoring covers specific elements of quality control system, selected engagements and the other activity areas which the Service has identified as risk-bearing. The control over activities to be fulfilled by an auditor/ audit firm/ engagement partner as a result of monitoring shall be exercised through limited-scope monitoring except for the case when the basis for conducting full monitoring is revealed by risk-based approach.
4. Due to risk substance and its potential negative impact on limited-scope audit, monitoring working group in agreement with the Service may decide to conduct the full monitoring.

Article 15. Monitoring Stages

1. Monitoring shall include the following stages:
 - a) Pre-monitoring analysis;
 - b) Compiling monitoring plan;
 - c) Main monitoring procedures;
 - d) Preparation of preliminary results based on main monitoring procedures and submission to an auditor/ audit firm;
 - e) Review of comments/ proposals on preliminary results of auditor/ audit firm, including improvement plan and recommendations and drafting the final report;
 - f) Approve the final monitoring report.

2. In the course of monitoring, if there arises a risk of misleading an entity or the third party, or making a mistake or/ and of potential misunderstanding, the Service shall submit the information related to potential risks to the interested body/ government agency.

Article 16. Pre-monitoring Analysis

1. Within the scope of pre-monitoring analysis, the Service shall analyze information and circumstances which it is going to obtain from:
 - a) Public information sources;
 - b) Investigation activities;
 - c) Auditor /audit firm (including from interview with representatives);
 - d) Registration (including renewable) documents/ information;
 - e) Diagnostic report, quality control review within the network or the latest monitoring results (if any);
2. Based on pre-monitoring analysis, the Service shall make decision on full (comprehensive) or limited-scope monitoring of an auditor/ audit firm and prepare a monitoring plan.

Article 17. Monitoring Plan

1. Monitoring plan shall define the identity of an inspector, monitoring commencement date, monitoring stages, engagements subject to monitoring and advance schedule of procedures.
2. Based on the information obtained at pre-monitoring, stage given respective criteria and risk-factors, the Service shall analyze all engagements submitted by an auditor/ audit firm to the Service and define the list of engagements to be included in the list. At the monitoring stage the Service is entitled to introduce amendments to the monitoring plan.
3. At least one engagement shall be included in the monitoring plan with respect to each engagement partner of auditor and audit firm, while at least two engagements are to be included with respect to an audit firm.
4. The criteria for selection of engagements for monitoring shall be:
 - a) Involvement of engagement partners;
 - b) The relations with PIEs;
 - c) Ethical risks and other circumstances related to engagement;
 - d) Risks of particular industry or specific situation;
 - e) Number of those persons and circle, who make respective decision based on an engagement fulfilled by an auditor;

- f) Legislative basis, which envisages monitoring with respect to specific engagements.

Article 18. Major Monitoring Procedures

1. Monitoring procedures include collection and analysis of that information and documents, which ascertain compliance of auditor/ engagement partner /audit firm quality control system, implemented engagements with law requirements, professional standards, registration rules and the *Law of Georgia on Facilitating Prevention of Illicit Income Legalization*.
2. The Service shall exercise monitoring at:
 - a) Firm level (in proportion to a firm and risk in case of an auditor) – with respect to compliance with ISQC 1, registration rules;
 - b) Engagement level (in case of an engagement partner and auditor) – with respect to compliance with ISA.
3. Monitoring group shall determine at what extent monitoring can rely on internal processes of current quality control system monitoring and review.
4. Duration of monitoring procedures for an audit firm depends on the number of audit firm's engagement partners, provided audit services and risk factors, identified in the service, based on available information.
5. Monitoring shall be implemented through review of engagements provided in the monitoring plan and additionally selected documents. Selection of engagements reflected in monitoring plan and the additional engagements shall be done based on risks or/ and by applying random principle.
6. Auditor/ audit firm shall provide inspector with respective work conditions including an office. Auditor/ audit firm shall designate a person responsible for relations with an inspector.
7. The Service shall be entitled to engage experts of the respective industry and supporting staff at any stage of the monitoring process. Also, when necessary, for the purpose of exercising effective supervision, the Service shall cooperate with international and local organizations, including regulatory/ supervision bodies.
8. Monitoring process shall include exchange of opinion between the monitoring working group and an auditor/audit firm, as well as entity, when necessary. For this purpose, the Service shall ensure involvement of any interested party at all monitoring stages. Refusal of an interested party to participate in review, shall not suspend actions undertaken by the Service. An interested party and persons

involved in monitoring process on behalf of audit firm shall be given an opportunity to present their opinion regarding all monitoring related circumstances.

9. Monitoring procedures shall be performed by means of questionnaires, analytical forms and the other mechanisms developed by a monitoring working group and coordinated with the Head of the Service.
10. Minutes of the session are drafted by person involved in the monitoring working group and monitoring process, which is to state:
 - a) Venue and time of the session;
 - b) Identities of attendees;
 - c) Subject of review;
 - d) Discussions of attendees
 - e) Expressed comments /proposals.
11. Collected information and documents are kept in the electronic filing system determined by the Service.

Article 19. Preliminary Monitoring Results

1. Based on analysis of information and explanations received in the course of monitoring and from the other interested persons, monitoring working group shall prepare preliminary results and present to auditor/ audit firm.
2. Preliminary results of the monitoring shall be submitted within a month following receipt of information requested by the Service. Receipt of full information shall be documented by a protocol to be signed by the head of the monitoring group and a person subject to monitoring.
3. The report on preliminary results shall reflect the facts identified in the course of monitoring, recommendations and preliminary final evaluation (category), as well as expressed comments, proposals and actions to be taken.
4. An auditor/ audit firm/ or/and a certified accountant working in it, auditor or engagement partner shall be entitled in person or/ and through a representative to participate in review of preliminary results of monitoring and present explanations (including verbally).
5. Auditor and audit firm, within 10 calendar days, shall present their positions in writing with respect to preliminary results, which, if any, reflect their own comments and proposals. Failure to present auditor's/ audit firm's position within a

period, provided for in this paragraph, shall be deemed a consent to preliminary results.

6. Within 10 calendar days following receipt of comments, the submission time for which is defined in Paragraph 5 of this article, monitoring working group shall introduce all agreed changes in the monitoring report and reflect those in final results.

Article 20. Final Results of Monitoring (Monitoring Report)

1. Final monitoring report shall include all changes introduced after drafting the preliminary report, including the position submitted by an auditor/ audit firm to the Service (comments and proposals), within the set timeframe in case it is considered by the Service.
2. In the event of completing the preliminary results review stage or auditor's/ audit firm's failure to submit its position to the Service within the set timeframe, the Service shall make decision on drafting the final monitoring report. Final results shall be reflected in the monitoring report prepared by the Service in the set form.
3. The Service shall review monitoring report and take decision on establishing requirements for an auditor/ audit firm or/ and engagement partner or/ and meeting those or/ and imposing responsibility.
4. Decision of the Service (including recommendation) shall define the activities to be performed by an auditor/ audit firm.
5. Decision of the Service shall reflect identities of those engagement partners who are authorized to continue provision of auditing services on behalf of the audit firm (including auditing financial statements).
6. The Service shall be entitled to define the requirements provided through recommendations to be met by auditor/ audit firm (inter alia based on industry specifics or size category).
7. Fulfillment of requirements to be met by Auditor/ Audit Firm shall not become the ground for changing the issued final assessment (category) until the next monitoring is conducted.
8. The Service for the purpose of observing quality control systems and related processes in the course of monitoring shall retain compiled and used, electronic and hard copies of documents for at least 6 years following end of monitoring. After

expiry of the term specified in this paragraph, the Service shall place the documents in the archive.

9. Monitoring results shall be public, which within 5 working days following the decision date shall be reflected in the register. The Service shall be entitled to limit publication of full information on an entity if disclosure of such information threatens financial stability of the respective industry.

Article 21. Final Evaluation of Monitoring Results (Category) and Recommendation

1. Final Decision made by the Service with respect to conclusive evaluation of monitoring results shall be proportionate to risk and facilitate fair auditing and professional practices.
2. The final evaluation of monitoring results for an auditor/ audit firm shall be one of the following six categories:
 - a) First category – auditor /audit firm undergoes monitoring without comments or only with insignificant non-systemic comments on evidence, main audit judgments (strategy) and respective fundamental decisions with respect to specific engagement or/ and with only minor non-systemic (isolated) comments with respect to current audit methodology and quality control system;
 - b) Second category – non-systemic (isolated) weaknesses are revealed with respect to audit evidence, major audit judgements (strategy) and respective fundamental decisions for specific engagement, which individually or in aggregated form are more than insignificant and less than substantial/ significant weaknesses or/ and comments are made with respect to current audit methodology and quality control system, which are more than insignificant and less than substantial/ significant comments;
 - c) Third category – non-systemic (isolated) weaknesses are revealed with respect to audit evidence, major audit judgements (strategy) and respective fundamental decisions for specific engagement, which individually or in an aggregated form are more than insignificant and may be substantial/ significant comments. At the same time, the number of substantial/ significant comments is high, given the size and complexity of monitored engagement, or/ and comments are made on the current audit methodology and quality control system, which are more than significant and less than substantial/ significant comments. Qualification of an auditor and audit firm’s engagement partners and staff is adequate and they are focused on improving their own qualification/ audit firm’s quality. Auditor/ engagement partner has not significantly violated professional code of ethics.

- d) Fourth category – non-systemic and possibly systemic weaknesses are identified with respect to evidence, main audit judgements (strategy) and respective fundamental decisions for specific engagement, which individually or in an aggregated form are substantial and significant, or/ and substantial/ significant though not comprehensive comments are made on current audit methodology and quality control system, which can be rectified without prohibiting to pursue the activity. Qualification of an auditor and audit firm's engagement partners and staff is adequate and they are focused on improving their own qualification/ audit firm's quality. Auditor/ engagement partner has not violated professional code of ethics significantly.
 - e) Fifth category – if based on auditor's/ audit firm's competence there is a need to prohibit an auditor/ audit firm/ engagement partner to pursue auditing for a certain period of time, or/ and deprive the authority to sign an audit opinion, or/ and weaknesses identified in the quality control system are so significant that they may affect the public confidence against auditing profession negatively, or/ and if deprivation of the authority to sign an audit opinion is essential for protecting public interests, or if identified weaknesses are especially serious though the Service deems that these deficiencies can be corrected within a reasonable timeframe by auditor/ engagement partner/ audit firm;
 - f) Sixth category – if an auditor/ engagement partner/ audit firm systematically fails to meet the fundamental requirements of the legislation or/ and deliberately misleads an entity or the public or/ and when the services rendered by an auditor/ audit firm/ engagement partner represent the threat for the community and operations of entities.
3. Auditing service for PIEs shall be provided by that audit firm and engagement partner, for which the Service issued the assessment of the first, second or third category.
 4. Pursuant to Article 9 (4) of this Regulation, the Service shall issue a recommendation to an auditor/ engagement partner/ audit firm to avoid engagements with those entities, for which rendering of auditing service goes beyond capacity of an auditor/ engagement partner/ audit firm prior to meeting the adequate requirements recommended by the Service.
 5. The Service shall be entitled to assign an auditor/ audit firm, who received an evaluation of the third or fourth category, to engage additional highly qualified specialists (including partner) for audit quality review to complete current transactions. In such a case, auditor/ audit firm shall be held liable for damages inflicted to an entity based on an audit engagement in accordance with the Georgian legislation.

6. Monitoring results may become the ground for amending audit opinion by an auditor/ audit firm or requesting repeated audit of an entity. In case provided for in this paragraph, the information is submitted to an interested party/ agency.
7. If a decision is made on issuance of the opinion of fifth category for an auditor/ audit firm, it shall not be entitled to apply to the Service with request to conduct repeated monitoring during the period it is prohibited to sign an opinion.
8. In the event of issuance of an opinion of the fifth category, the Service retains the right to allow the auditor/ engagement partner/ audit firm to complete the service within the scope of the current engagement. In such event, the Service shall ensure systematic monitoring of the process.
9. Decision shall be sent to an auditor/ audit firm within 2 working days following the decision date.
10. Information on prohibiting an auditor/ audit firm/ engagement partner to conduct auditing or/ and sign an audit opinion or on terminating its authority shall be sent to an entity for the purpose of regulating legal relations emerged under an agreement with an auditor/ audit firm.

Article 22. Liability

1. The Service shall be held liable for decisions (including recommendations) on monitoring and their enforcement.
2. Failure to meet requirements with respect to quality control system or system monitoring shall entail the liability of an auditor/ audit firm or/ and respective engagement partner, according to the procedure set under the Law.
3. The Service shall be entitled to apply the following sanctions altogether or/ and separately in sequence in case of the opinions of the second, third and fourth category, while in case of violations, and based on the risk severity, without sequence:
 - a) Written warning;
 - b) Public warning (by recording in register);
 - c) Pecuniary penalty.
4. In the event of issuance of the opinion of the fifth category, the Service shall limit the right of an auditor /audit firm /engagement partner to conduct auditor/ and sign audit opinion and to exercise functions for audit firm partners/ shareholders for maximum 3 years.

5. Length of the period during which auditor /audit firm /engagement partner is prohibited to conduct auditor/ and sign audit opinion and audit firm partners/ shareholders are prohibited to exercise their functions shall be defined by the Service in accordance with identified weaknesses and period required for improvement.
6. In the event of issuance of the opinion of the sixth category, the Service shall terminate registration of an auditor / audit firm.
7. An auditor shall be held personally responsible for identified violations. Audit firm or/ an engagement partner shall be held liable for violations identified as a result of monitoring of an audit firm.
8. If an auditor/ audit firm or an engagement partner fails to meet instructions reflected in the improvement plan with respect to measures to be undertaken or/ and does not take into account recommendations, the Service shall undertake measures against such auditor/ audit firm or/ and respective engagement partner in case of a specific audit opinion according to legislation.
9. If the Service reveals involvement of an engagement partner in auditing of financial statements of such company, for auditing which the auditor or its employer audit firm was imposed restriction, the service shall be entitled to make decision on deregistering such an auditor/ audit firm.
10. For purposes of maintaining public register of auditors/ audit firms, decision taken against audit firm and engagement partner may become the ground for examining activity of an auditor employed in an audit firm.

Article 23. Appeal Procedure

Decision made by the Service may be appealed in the Council and the Court in accordance with the Georgian legislation.

Article 24. Transitional Provisions

1. Monitoring shall cover those audit engagements, which were completed after the effective date of the law, except for the case when an audit firm/ auditor had not completed audit engagement in 2016 and in the following period.
2. Those audit firms, which are assigned a temporary right to audit financial statements based on Order N 37 (November 11, 2016) of the Head of SARAS on approving the Regulation on Granting Temporary Authority to Audit Financial Statements of

PIEs, shall submit the latest results of quality control system examination conducted within the network, while those audit firms who are not network members shall be exempt of filing a diagnostic report defined under Article 8 of this Regulation.

3. The Service shall complete quality control system monitoring for an audit firm holding temporary authority defined under Article 28 (9), which applied to the Service prior to October 1 with monitoring request and reflect respective results in the register prior to January 1, 2018.
4. Prior to recognition of continuous education programs of professional organizations by the Service, auditor/ audit firm shall be entitled to fill (apart from the professional organization) the course covered by an auditor within the audit firm in the continuous education box of the annex. The information provided for in this paragraph shall include the course taken after effective date of the law.