

Private Sector Views on Audit and Accounting Reform in Georgia

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ABSTRACT

This paper examines the perceptions and readiness of Georgia's private sector to meet the requirements of the ongoing Audit and Accounting Reform. It evaluates current progress and estimates long-term implications. The Reform introduces a regulatory framework that requires companies to disclose their accounting information, aiming to improve reporting quality and strengthen Georgia's investment environment. This regulatory change motivates an examination of how the Reform is unfolding and the progress made to date. The analysis is based on survey data and expert interviews collected since the start of the Reform in 2019 and compares them with more recent data to evaluate progress. Descriptive statistics are used to interpret the findings. Results show limited improvement in knowledge of accounting standards, a generally positive perception of the Reform despite limited understanding, and concerns that compliance will impose unavoidable costs on smaller companies. We conclude that the Reform's effectiveness depends on long-term developments, while immediate efforts are needed to address hindering factors.

Keywords: Accounting reform, financial reporting, Georgia's private sector, regulatory compliance, private sector readiness, perception analysis

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INTRODUCTION

With a population of 3.7 million and a GDP per capita of USD 9,141, Georgia is a developing country striving for rapid economic growth and closer ties with the European economy (Geostat, 2024). To support this vision, the Georgian government has been working to improve the business environment through better practices and policies.

The Government enacted the Law of Georgia on Accounting, Reporting, and Auditing in June 2016, which serves as the primary basis for the observed Accounting and Audit Reform. The declared purpose of the Reform is to achieve financial transparency and economic growth (Law of Georgia on Accounting, Reporting, and Auditing, 2016). Both the Reform and the Law are driven by obligations under the Association Agreement with the European Union (2014), and the successful implementation of the Reform is in the state's interest.

The Reform targets the entire Georgian private sector, introducing unprecedented requirements for companies to publicly disclose financial information in a regulated manner and frequency. The Reform introduced a structured classification of companies by size and activity, determining their financial reporting and audit obligations. Public Interest Entities and the largest firms (Category I) adopted full IFRS with mandatory audits starting from October 2018. Large and mid-size companies (Categories II and III) transitioned to IFRS for SMEs, with mandatory or voluntary audits phased in by 2019. The smallest micro entities (Category IV) were given until 2021 to begin mandatory reporting under Simplified IFRS, with audit requirements remaining optional (Pirveli & Shugliashvili, 2019).

Our study examines how prepared these companies were to meet the new requirements. We focus on their knowledge of the Reform's provisions and their attitudes toward it, providing an early indication of the Reform's short-term impact. To do this, we conducted three expert interviews and an online survey with accountants working in private companies, providing direct insight into perceptions and attitudes among private-sector representatives at the early stage of the Reform. In addition, we reviewed public data to provide a comprehensive picture of the Reform's progress from 2018 to 2024.

LITERATURE REVIEW

Many countries have sought to harmonize their financial disclosure regulations, especially in the age of globalization. Such reforms are frequently implemented by developing nations, which are influenced by their more developed counterparts (Pirveli & Shugliashvili, 2019). Even though these reforms are common, there is still a lack of empirical data and theoretical frameworks to explain the mechanisms that control their impact across nations (Pirveli & Shugliashvili, 2019; Pirveli, 2019, 2020, 2022).

Theoretically, private businesses in Georgia may be motivated by the State's attempts to standardize accounting procedures in line with the EU harmonization agenda. Institutional theory and agency theory (Eisenhardt, 1989) emphasize the necessity of ensuring regu-

latory compliance and overcoming information asymmetry. According to agency theory, regulatory mechanisms help close the information gap between shareholders and firm managers. These regulations strike a balance between their interests and foster confidence by increasing openness (Jensen, 1976; Fama & Jensen, 1983; Donaldson & Davis, 1991). In this context, public disclosure is crucial because it reduces information asymmetry and contributes to a more stable and reliable governance environment for stakeholders, including investors (Verrecchia, 2001; Healy & Palepu, 2001). Legitimacy theory, on the other hand, examines reform from a political and social perspective. It recommends that businesses adopt new procedures to meet public expectations and adhere to international standards, in addition to increasing efficiency (Suchman, 1995; DiMaggio & Powell, 2000; Deegan, 2002). From this perspective, businesses follow social expectations to earn public approval, remain competitive, and survive in the long run (Deephhouse & Suchman, 2008; Lara et al., 2009). In the context of accounting and audit reforms, this means companies often comply with the changes not just because the rules require it, but also because they want to be seen as trustworthy, professional, and responsible (Preston & Post, 1975; Deegan, 2002; Dowling & Pfeffer, 1975).

Combining the above theories suggests that businesses may have internal incentives to preserve legitimacy by complying with minimum regulatory requirements, as well as external incentives to provide more comprehensive information and reduce information asymmetry. While maintaining legitimacy may be a priority, companies can theoretically meet regulatory obligations without necessarily disclosing high-quality information. However, implementing the new standards also requires resources that many firms may not possess.

Prior literature in the field indicates that the Georgian private sector, including individuals directly involved in the Reform, such as accountants, auditors, and managers, lacks sufficient knowledge and competencies to fully meet the requirements of such reforms (Kharabadze & Mamukelashvili, 2016; Nijam & Jahfer, 2016). The 2015 World Bank Report highlights a list of issues that need to be addressed to develop Georgia's accounting sector, including education as a key priority. Specifically, it is stated that there is a need to create improved academic curricula in schools and require compulsory training for accountants (World Bank, 2015). Local researchers also point out the same issue and indicate the need for increased competencies of accountants and auditors. Studies suggest that the quality research institutes and university-industry collaboration would boost professionalism and have a significant impact on the implementation of audit and financial reporting standards in Georgia (Kharabadze & Mamukelashvili, 2016). Regarding enhancing auditors' competencies, it is considered that achieving quality teaching in this area requires both universities to develop appropriate curricula and instructors to be trained to fully meet market demands (Sabauri, 2018).

Thus, with prior literature highlighting low professional competencies and the Reform placing new demands on the sector, this moment warrants closer examination.

Once the implementation phase of the Reform began, a few studies were conducted by the State and private researchers to observe the Reform's progress. One of the first articles about the Reform, published in 2019, indicates that enforcement of the new accounting law

is quite efficient; however, it is not thoroughly timely, meaning that the percentage of companies complying with the submission requirement is good, but the submission deadlines are not always followed (Pirveli, 2019).

In the same year, 2019, the World Bank recognized Georgia's advancements in accounting. The World Bank (2019) reports improvements in state-owned enterprise governance, accounting and auditing quality control, small and medium accounting practices, and SME accounting frameworks. The effective implementation of the new accounting rule is also demonstrated by Pirveli (2022). However, in his works from 2019 onward, and in 2022, while highlighting the Reform's success in overall motivation and legal implementation, he also points out issues with accountants' and auditors' skills.

The academic literature also offers relevant insights from European reform experiences that can be used to assess the long-term perspective of the current Reform. When evaluating the reform of the same field, which began in 2000 in Romania and was also triggered by the EU integration process, the authors emphasize human perceptions and habits, local culture, and the possible inconsistency of these with new standards. Studies about the Romanian case argue that the local tradition of sector development influences the reform of the accounting sector. The reforming country must find a balance between local culture and global influence (Tudor & Mustata, 2005). The Romanian experience has shown that, at the regulatory level, international standards were quickly adopted. However, practical implementation proved difficult, as introducing rules rooted in other cultures and closely tied to human values has not been easy (Bebeșelea, 2014).

According to scholarly research, private businesses typically comply with disclosure laws at a technical level, thereby improving operational efficiency. However, further research is needed to determine the effectiveness, as measured by the quality of the information provided. This effectiveness is closely linked to social norms, national traits, and the cost of generating more quality information (Gray et al., 1995; Lara et al., 2009; Dye, 2001; Bushman & Smith, 2001; Verrecchia, 2001).

Georgia's Service for Accounting, Reporting, and Auditing Supervision (SARAS) has been instrumental in monitoring and reporting on the Reform's compliance rates, progress, and observed challenges. In its 2019–2024 publications, SARAS documented generally reasonable compliance rates, particularly among larger company categories in Georgia. In contrast, smaller companies continued to encounter challenges, with more moderate submission rates and a declining trend over this period. This paper presents a trend analysis based on SARAS reports in the Results section to show where the country stands in terms of public disclosure after five years of large-scale mandatory reporting.

In addition to the widely discussed issues in the prior literature, such as human competencies and attitudes, our primary focus of observation is to assess the private sector's awareness and perceptions of, and readiness for, the Reform. The combination of these factors can be used to determine the progress of the ongoing Reform, which is our main task under this study.

Hypothesis

Based on the reviewed literature, we have come up with the following hypothesis:

The private sector in Georgia faces challenges in meeting the requirements of the Audit and Accounting Reform due to limited readiness.

This hypothesis, which is supported by the literature research, serves as the basis for an empirical study of how Georgia's private sector assesses its readiness for the regulatory changes.

METHODS

Research Objective

This study examines the perceptions and readiness of private-sector representatives regarding the Reform. The opinions of corporate accountants are a key focus, with particular attention paid to their understanding of the Reform's needs, familiarity with relevant accounting standards, and attitudes towards the change.

Data Collection

Online Survey: To learn the views of private businesses, we conducted an online survey with 30 questions in the Georgian language using Google Forms. The survey was active from April to June 2019 and received responses from 74 individuals. Out of the thirty questions, eleven focused on respondents' knowledge of accounting standards and skills, thirteen explored company structures and the use of accounting/audit services, and six asked about their views on the business impact of the Reform.

Expert Interviews: Three experts were selected for the interviews: a Board Member of the Georgian Federation of Professional Accountants and Auditors, an accounting and auditing professor and acting auditor, and a lecturer/trainer of the Accounting Standards. The interviews were conducted in a semi-structured format, which allowed us to obtain new information and ideas from respondents.

Secondary Data: In addition to the primary data, we utilized secondary data available in public sources, comparing our findings with new data up to 2024 to ensure the results are relevant and comparable.

Sampling and Participant Selection: We used purposive sampling to reach respondents with financial reporting responsibilities. The online survey was distributed via professional networks, accounting associations, and social media groups targeting accountants and financial managers in Georgia. As participation was voluntary and disseminated through open online channels, the total number of recipients is unknown, preventing calculation of the response rate. In total, 74 completed responses were received from private sector accountants across diverse company sizes and industries. The expert interviewees were also purposively selected for their recognized expertise in accounting, auditing, and professional education within Georgia's financial sector, ensuring both academic and practical perspectives.

Ethical Considerations: The study was approved by the Council of the School of Business and Administrative Studies, The University of Georgia. The research was conducted in accordance with the ethical standards of the University of Georgia. Confidentiality of participant data was strictly maintained. The study posed minimal risk to participants, and any potential risks were clearly communicated during the consent process.

Data Analysis

We applied descriptive statistics and critical analysis. Combining survey results, expert opinions, and public data allowed us to capture perceptions about the Reform's implementation and readiness within the private sector. Cross-referencing with SARAS data helped identify trends and persistent challenges.

Research Limitations and Future Directions

While this study offers valuable insights, it relies on primary data collected in 2019. To address this, we supplemented our analysis with SARAS public data from 2018 to 2024. Although SARAS data tracks disclosure rates, our survey captures subjective attitudes, enabling a nuanced comparison between actual compliance and company perceptions.

The survey sample has some limitations. First, the relatively small sample size of 74 respondents limits the generalizability of the findings. While Tbilisi-based respondents comprise 77% of the survey, this closely mirrors Georgia's actual business distribution, as the majority of active registered entities are located in the capital. Nevertheless, broader regional participation would have further enhanced representativeness. In terms of company size, 41% of respondents were Category IV micro-entities. This is proportionally lower than their real-world prevalence, as Category IV firms make up over 90% of businesses in Georgia. Our sample also includes a meaningful representation from higher-category companies (22% Category I & II, 24% Category III), providing a more balanced perspective.

Additionally, due to practical constraints, no follow-up expert interviews were conducted after 2019. Future research should consider including updated expert perspectives to reflect changes in professional attitudes since the Reform's early implementation phase.

Future research should build on this by using longitudinal and more geographically diverse data to capture how readiness and attitudes evolve across different company sizes and regions. This would strengthen the generalizability of findings and clarify the Reform's long-term impact on Georgia's business environment.

RESULTS

Survey Findings: Effects of Accounting and Audit Reform on Georgian Private Sector (2019)

We analyzed survey data using descriptive statistics to identify patterns in company profiles, attitudes, and challenges. A comparative analysis was conducted against the SARAS 2018 survey results to identify changes over time.

Figure 1. According to the professional profiles of the 74 survey participants, most are seasoned professionals (35+ years old) in roles such as chief accountant, accountant, or finance manager. While most are knowledgeable about accounting standards, they believe additional training is still needed.

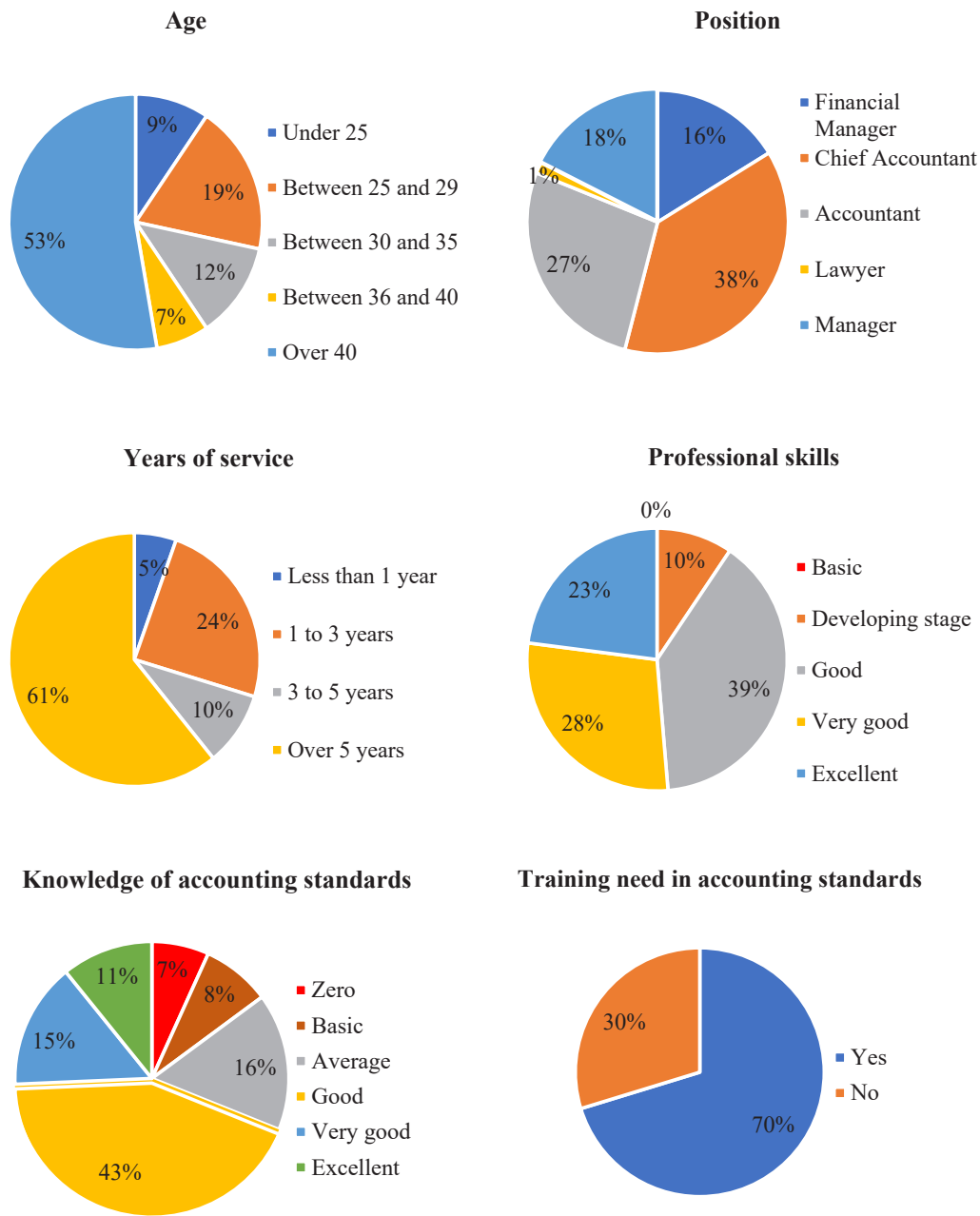


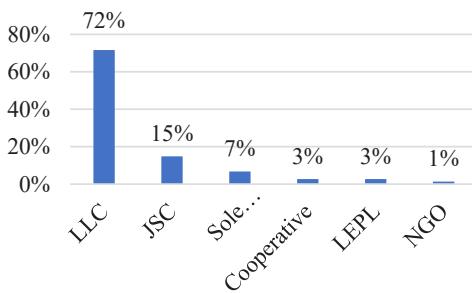
Figure 1. Professional profile of respondents.

Figure 2. Most of the surveyed companies are limited liability companies (LLCs), with 41% falling into Category IV under the accounting law. The sample also includes a good representation of larger firms, with 22% in Categories I and II and 24% in Category III.

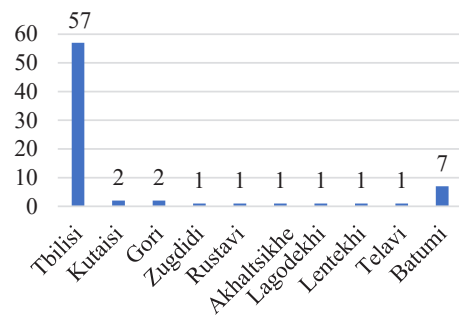
The survey also examines whether these companies use audit services, which indicates how many are likely to publish audited financial statements. Since nearly half of companies do not use audit services, we can expect a similar proportion of their reports to be unaudited, especially given that this is an optional requirement for businesses in categories III and IV.

Of the 74 surveyed businesses, 57 are based in Tbilisi, while only 17 (23%) operate in other cities across Georgia. This distribution may imply differences in awareness among regional businesses. However, because it mirrors the national distribution of active registered entities, which are predominantly concentrated in the capital, the sample still offers a reasonable basis for generalizing the findings.

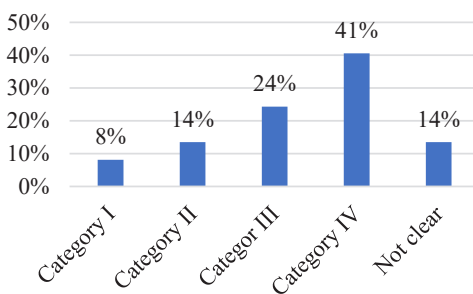
Distribution of legal forms in employer companies



Company location distribution



Company categorization by accounting law



Audit service duration chart

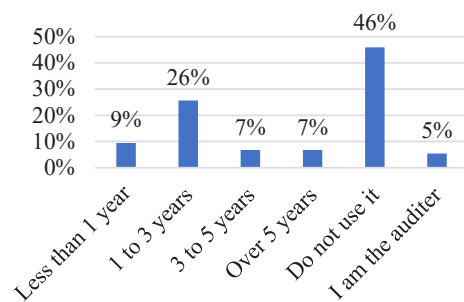


Figure 2. Profile of participating companies.

Figure 3. Respondents' expectations and their understanding of the Reform vary. 81% of respondents believe the Reform will have positive effects on companies, while only 42% understand it at a good or perfect level. Moreover, respondents do not provide a strong indication that companies are adequately prepared for the Reform. This reveals a clear gap between perceptions of the Reform and understanding of its requirements.

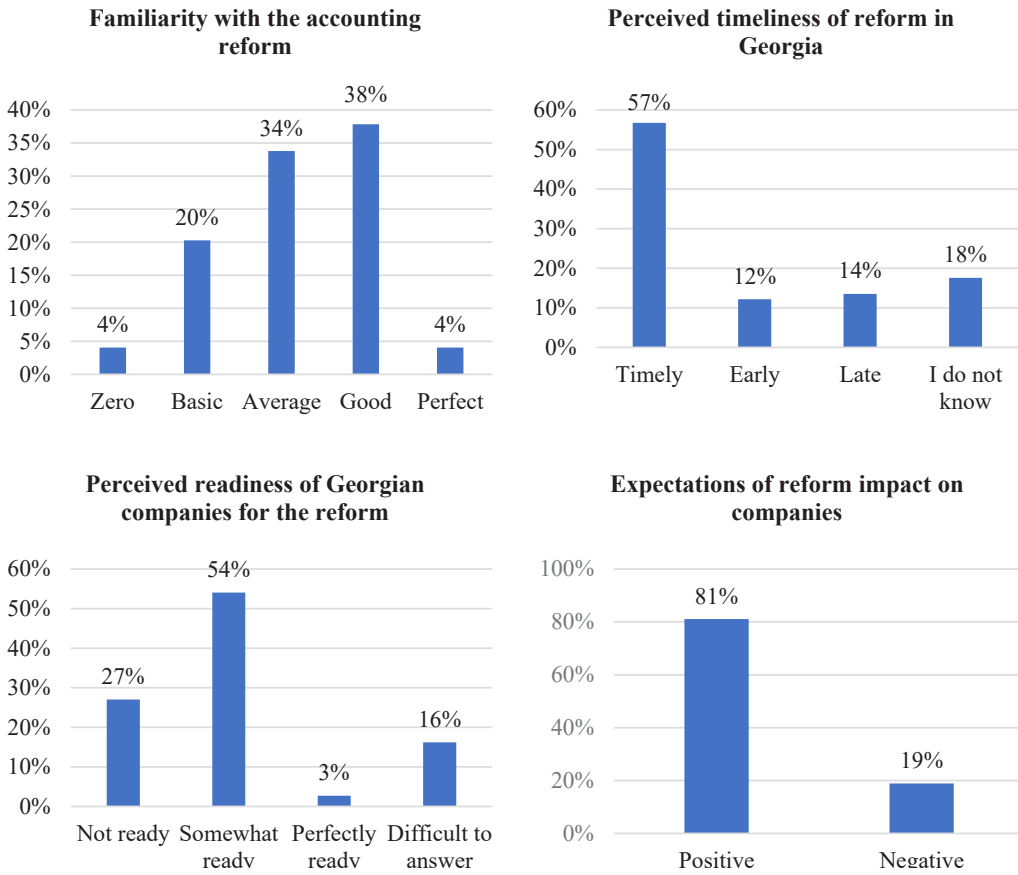
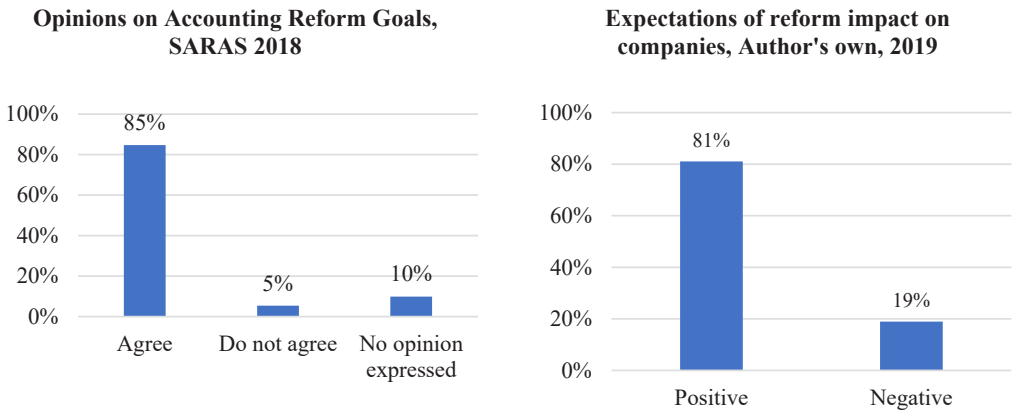


Figure 3. Expectations and Attitudes Toward the Reform

Figure 4. This figure compares results from the 2018 SARAS survey and our 2019 survey. It is evident that the competences remain a problem, while attitudes and perceptions of reform remain positive. The knowledge of accounting standards is reported as increased in 2019; however, Figure 1 of this paper shows a high need for training in these standards, suggesting that the competence gap persists.



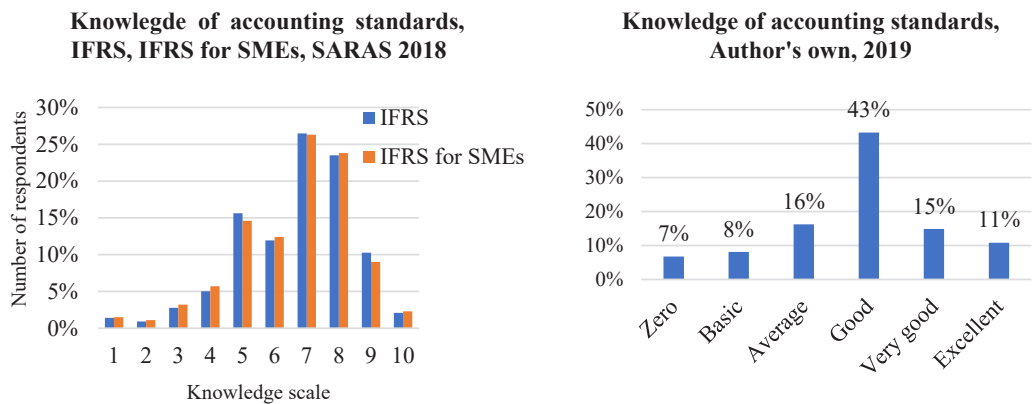


Figure 4. Comparative analysis: SARAS 2018, Author’s own 2019

Expert Interview Insights (2019)

The three experts interviewed raised several consistent concerns regarding the implementation of the Reform. Graph 1 summarizes the main themes and their frequency among the three interviewees.

Key Concern	Number of Mentions (out of 3)	Frequency
Slow progress in accountants’ competencies	3	High
Gap in understanding the Reform’s nuances	3	High
Potential additional costs for smaller companies	2	Medium

Graph 1: Key Concerns Raised by Expert Interviewees. (Author’s own)

Slow progress in accountants’ competencies: All three experts identified accountants’ competencies as a major problem; however, they see it as resolvable through appropriate capacity-building activities by the State and companies themselves.

Gap in understanding the Reform: All interviewees noted a lack of detail among private-sector companies, which could hinder the Reform’s goals.

Potential additional costs for smaller companies: 2 out of 3 experts suggested that implementing the Reform would be a financial burden for small companies. Increased salaries for accountants and auditors resulting from additional workload and responsibility, and the cost of acquiring accounting software, would be the unavoidable investment required to produce high-quality accounting information. The costs would increase significantly for companies that had been doing solely tax accounting and had not yet needed professional accounting services.

Public Disclosure and Reform Progress (2018–2024)

As secondary data, we reviewed information published by SARAS from 2019 to 2024. SARAS tracks disclosures by businesses, reports both successes and ongoing challenges,

and publishes a number of analytical reports describing the Reform’s progress. In addition to reporting submission rates and defects, SARAS has conducted surveys and published strategic plans outlining systemic weaknesses and goals for future development (SARAS, 2021, 2022, 2023, 2024).

Since 2018, SARAS has also implemented educational initiatives to address reform challenges and improve the professional skills of accountants and auditors. Between 2019 and 2022, SARAS successfully trained over 2,200 people, focusing on training for SMEs and reporting procedures. In 2020, it launched a register for certified accountants to boost professional credibility. Despite these interventions, SARAS’ 2022 annual report acknowledged continued struggles in improving report quality, highlighting a need for more effective educational strategies.

An analysis of compliance trends between 2018 and 2024 shows mixed progress: Submission rates remained consistently high among Category I–III companies, peaking at 95% in 2021 and slightly declining to 93% in 2023. In contrast, Category IV companies, representing micro-entities, exhibited substantially lower compliance, with submission rates decreasing from 80% in 2021 to 72% in 2023 (SARAS, 2023). This suggests that although larger entities have adjusted to the Reform’s technical reporting requirements, smaller companies continue to face persistent challenges, likely driven by resource constraints, limited professional capacity, and disproportionate financial burdens. These factors are also mentioned by survey participants and expert interviewees. Additionally, economic pressures and potentially weaker regulatory enforcement may contribute to lower compliance in this category and might be considered as alternative factors.

Graph 2 illustrates these submission trends across categories from 2018 to 2024, highlighting stable reporting among larger companies (Categories I–III) and a clear, sustained decline for micro-entities (Category IV) since 2021.

Year	Cat I–III (%)	Cat IV (%)	Notes
2018	96	–	IV not yet reporting
2019	90	–	IV not yet reporting
2020	94	–	IV not yet reporting
2021	95	80	All categories reporting
2022	94	77	Decline in Category IV compliance
2023	93	72	Decline in Category IV compliance
2024	↑ (I–III increased)	↓ (IV decreased)	Exact % not disclosed; total filings similar to 2023

Graph 2. *Submission Rates by Company Category: Total Expected vs. Actual Submissions (%) (2018–2024). SARAS’ 2018–2024 Annual Reports.*

Notably, while submission rates reflect formal compliance, there is no publicly available data that systematically assesses the quality, accuracy, or reliability of disclosed financial statements or audit reports. Although SARAS reports individual cases of identified flaws and deficiencies in its annual reports, these represent isolated cases and cannot be used to

assess the overall quality of financial reporting. This creates a significant knowledge gap in understanding the effectiveness of the reform beyond submission metrics. Future research should examine the accuracy of submitted reports, the extent to which stakeholders rely on disclosed financials, and the impact of SARAS' educational interventions on improving report quality.

Finally, SARAS' 2023–2026 strategy prioritizes capital market development, sustainability practices, and improving financial transparency. However, it continues to identify weaknesses in reporting reliability and insufficient professional competencies of accountants and auditors as key barriers to achieving reform objectives (SARAS, 2023). These strategic priorities and remaining challenges underscore the need for ongoing regulatory refinement and targeted capacity-building initiatives to support sustained reform success.

DISCUSSION

Synthesis of findings

The field literature and our research together present a clear picture of how Georgia's private sector is handling the accounting and audit reform, as well as the outlook for its progress.

A consistent theme across all data sources is the critical importance of education and professional development for accountants and auditors in ensuring the Reform's success. Despite the availability of state-sponsored training programs, the issue of insufficient capacity continues to be raised in both state reports and academic literature.

While the public data shows reasonable submission rates of financial statements, the quality and consistency of these disclosures remain questionable, particularly for small businesses that produce unaudited reports and do not usually use in-house audit services.

Submission rates are lower among the smallest Category IV companies, which, as our study revealed, may face financial and technical challenges in meeting the Reform requirements, including the cost of hiring professional accounting services. This is evident in the declining submission rates of Category IV companies in the SARAS data from 2021 to 2023. Additionally, this can discourage management from prioritizing the quality of disclosed financial information even in the future.

Finally, a clear gap exists between positive attitudes toward the Reform and actual understanding of its requirements. This gap poses a risk to the Reform's effectiveness, particularly due to a lack of clarity regarding companies' obligations. Evidence from SARAS data indicates that even as larger companies maintained stable reporting levels, micro-entities struggled to comply. Alternative explanations for this gap include factors such as organizational inertia, where firms resist operational changes due to internal routines and a preference for the status quo. Additionally, cultural attitudes toward regulation and financial disclosure, coupled with insufficient enforcement mechanisms, might further limit compliance incentives, particularly among micro and small businesses. A similar pattern has been observed in Romania's accounting reform, reinforcing the influence of cultural and institutional factors on implementation and suggesting that this may represent a comparable challenge for Georgia as well.

Link to theory and hypothesis

This study is grounded in two main theories: agency theory and institutional theory. Agency theory explains how regulations help close the gap between shareholder and management interests, promoting transparency. Institutional theory, on the other hand, suggests that organizations adjust to societal expectations to gain legitimacy and credibility. Such adaptation would be essential for the success of the Reform in Georgia, as businesses would align themselves with new norms.

In the Georgian context, the generally positive attitudes and willingness to comply with new norms support the expectations of both agency and institutional theory. However, despite this motivation there is doubt about whether companies possess the necessary capacity to contribute to the Reform's success. The findings show that knowledge gaps and high compliance costs are significant barriers.

Theoretically, Georgian companies are expected, and appear, to be motivated comply with new state regulations. However, in practice, knowledge deficit and financial burden might hinder the pace and effectiveness of the Reform implementation.

Hypothesis Discussion

This study confirms the hypothesis that Georgia's private sector faces challenges in meeting the requirements of the Audit and Accounting Reform due to limited readiness. Given the existing gaps in understanding and the need for improved accounting and audit competences, many companies might be currently unable to fully support the Reform's primary objective, achieving financial transparency in the country.

CONCLUSION

This study provides insights into how the private sector perceives and prepares for Georgia's accounting and audit reform. While businesses generally show a positive attitude, key barriers, such as limited technical competency and the financial burden on smaller firms, are impeding progress. Thus, greater support is needed, particularly for SMEs, to enable successful compliance and establish the foundation for the Reform's long-term goal of achieving financial transparency.

To this end, the study proposes several actionable recommendations. Priority should be given to SME capacity-building programs focused on enhancing financial reporting skills. Additionally, introducing co-financing schemes for accounting and audit services could help alleviate the financial burden on small businesses. These efforts should be complemented by targeted outreach campaigns to raise awareness of reporting obligations and the support services available to businesses.

As this study relies on primary data collected in 2019, which may not fully capture more recent developments, future research should explore sector-specific challenges to Reform compliance and conduct longitudinal follow-ups with larger and more diverse survey samples. Such studies would help assess whether improvements in education, enforcement, and

policy incentives lead to better compliance outcomes over time. Additionally, comparative research involving other post-Soviet or EU-associated economies could offer valuable benchmarks to inform and strengthen Georgia's ongoing reform efforts.

Ethics Approval and Conflict of Interest

This study was conducted in accordance with relevant ethical standards. The authors declare that there are no financial, personal, professional, or institutional conflicts of interest that could have influenced the design, conduct, interpretation, or publication of this work.

Financing

The research was carried out without financial aid.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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