

The Role Of Financial Reporting In The Sustainable Development Of Society

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Abstract

Sustainable development is a form of economic growth that takes environmental, social, and economic aspects into account and ensures the well-being of society. The role of financial reporting is extremely important for the sustainable development of society. The timeliness of reporting is directly related to the development of capital markets and increased access to finance.

In a competitive market environment where pricing mechanisms are in place, a business's successful operation largely depends on the level and structure of its management, the effective implementation of management functions and methods, and the transparency and reliability of financial reporting for external stakeholders. Ensuring this requires comprehensive regulation in the fields of accounting and financial auditing.

Excessively strict regulations can create additional barriers for businesses, while excessive liberalization may lead to a decline in professional standards. It is essential to maintain a balance that supports both the protection of professionals' rights and economic growth.

Regulating professions in the context of business globalization is a relevant and multifaceted issue, closely tied to labor market dynamics, technological advancements, and international standards. As economic ties between countries become more intensive, professional regulation plays a crucial role in both protecting employees' rights and ensuring business competitiveness. The paper discusses the challenges that exist in Georgia in this direction.

Keywords: Accounting, Financial institutions, financial reporting, Sustainable development.

INTRODUCTION

Private sector accounting and financial reporting in Georgia is governed by the Georgian Law on "Accounting, Reporting, and Auditing." These practices must align with international accounting and financial reporting standards.

The development of foreign economic relations has created the need for a unified approach to accounting

information processing, leading to the establishment of international financial reporting standards (IFRS). Accounting information prepared in accordance with the legislation of individual countries has been a certain obstacle to foreign economic relations. In order to harmonize accounting standards and policies across different countries, the International Accounting Standards Committee (IASC) was established on June 29, 1973, as a result of an agreement between the professional associations of accountants from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland, and the United States. The agreement and charter were amended and signed in November 1982.

MATERIALS AND METHODS

The International Financial Reporting Interpretations Committee (IFRIC) is represented by fourteen voting members and a non-voting Chairman. Members of the International Federation of Accountants (IFAC) are not automatically members of IFRIC, but they may participate in the process. The Georgian Federation of Professional Accountants and Auditors represents IFRIC in Georgia (as well as globally). Currently, IFRIC, along with the International Federation of Accountants (IFAC), includes about 180 professional accounting organizations from more than 135 countries¹. Accounting standards are divided into public sector and private sector accounting standards. The Government of Georgia has the authority to mandate certain categories of public sector institutions to adopt private sector accounting standards, based on the nature of their activities.

Private sector accounting standards consist of:

- International Financial Reporting Standards (IFRS);
- International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs);
- Local (national) standards for financial reporting of non-entrepreneurial (non-commercial) legal entities;
- Financial reporting standards for enterprises of the fourth category.

International Financial Reporting Standards (IFRS) refer to the standards and interpretations adopted by the International Accounting Standards Board (IASB), which include:

- International Financial Reporting Standards (IFRS);
- International Accounting Standards (IAS);
- Interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC).

International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) are a set of simplified accounting standards specifically designed for small and medium-sized entities, approved by the International Accounting Standards Board (IASB).

Local standards for financial reporting of non-profit (non-commercial) legal entities are recommended based on international practices and experience.

The Financial Reporting Standard for Non-Profit Legal Entities is based on the Law of Georgia “On Accounting, Reporting, and Auditing”. This standard was developed by considering both the experience gained in Georgia's private sector accounting and auditing practices, as well as international accounting practices in the non-governmental sector.

The Accounting, Reporting, and Audit Supervision Service ensures that International Financial Reporting Standards (IFRS) and IFRS for Small and Medium-sized Enterprises (IFRS for SMEs) are available in the Georgian official language. Organizations involved in projects (including in the preparatory stage) defined by international agreements can use international accounting standards if stated in the agreement, but they must also follow Georgia's laws [9].

Financial Reporting in the Private Sector

The process for registering users, submitting reports, and submitting audit reports in electronic form to the Accounting, Reporting, and Audit Supervision Service is regulated by the website www.reportal.ge. Under Georgia's Law on “Accounting, Reporting, and Auditing” there is a Public Interest Entity (PIE) and four categories of enterprises: first, second, third, and fourth.

¹ <https://www.ifac.org/who-we-are/membership>

- Public Interest Entity (PIE): A PIE is any of the following entities:
 - ✓ A reporting company with securities traded on the stock exchange (under the "Securities Market Law of Georgia");
 - ✓ A commercial bank (under the "National Bank of Georgia Law");
 - ✓ A microfinance organization (under the "Microfinance Organizations Law of Georgia");
 - ✓ An insurance company (under the "Insurance Law of Georgia");
 - ✓ A non-state pension scheme founder (under the "Non-state Pension Insurance Law");
 - ✓ An investment fund (under the "Investment Funds Law of Georgia");
 - ✓ A non-bank depository institution – credit union (under the "Non-bank Depository Institutions Law");
 - ✓ An entity recognized by the Service based on criteria set by the Government of Georgia (except for the National Bank of Georgia).

Enterprise Categories

- First Category Enterprise: An entity that meets at least two of these three criteria at the end of the reporting period:
 - ✓ Total assets exceed 50 million GEL;
 - ✓ Revenue exceeds 100 million GEL;
 - ✓ Average number of employees is 250 or more.
- Second Category Enterprise: An entity that does not fall into the third or fourth category and meets at least two of the following three criteria:
 - ✓ Total assets do not exceed 50 million GEL;
 - ✓ Revenue does not exceed 100 million GEL;
 - ✓ Average number of employees is 250 or more.
- Third Category Enterprise: An entity that is not a fourth-category enterprise and meets at least two of the following three criteria:
 - ✓ Total assets do not exceed 10 million GEL;
 - ✓ Revenue does not exceed 20 million GEL;
 - ✓ Average number of employees does not exceed 50.
- Fourth Category Enterprise: An entity that meets at least two of the following three criteria:
 - ✓ Total assets do not exceed 1 million GEL;
 - ✓ Revenue does not exceed 2 million GEL;
 - ✓ Average number of employees does not exceed 10.

Regulatory Acts for Public Sector Organizations

To understand what organizations belong to the public sector, it's important to know how the country's economy is divided into sectors for government finance statistics (GFS) [2].

The organizations that make up the public sector are defined in the "Georgian Budget Classification", approved by the Ministry of Finance of Georgia, which is based on the 2014 GFS. The budget classification was developed under the Budget Code of Georgia, the main law regulating public sector activities [3].

The public sector includes all government bodies and all non-market, non-profit organizations controlled by the government. The state government sector includes all government units and non-market, non-profit organizations that are under government control and primarily funded by the government [4].

In Georgia's public finance system, ministries, subordinated institutions, local government bodies, and other budget organizations are part of the public sector. Non-market, non-commercial organizations (such as LEPLs and AIPs) are under government control and funded mainly by the government. Although legally non-state organizations, they are considered to carry out state policy and function as part of the state governance system. (see Fig. 1).

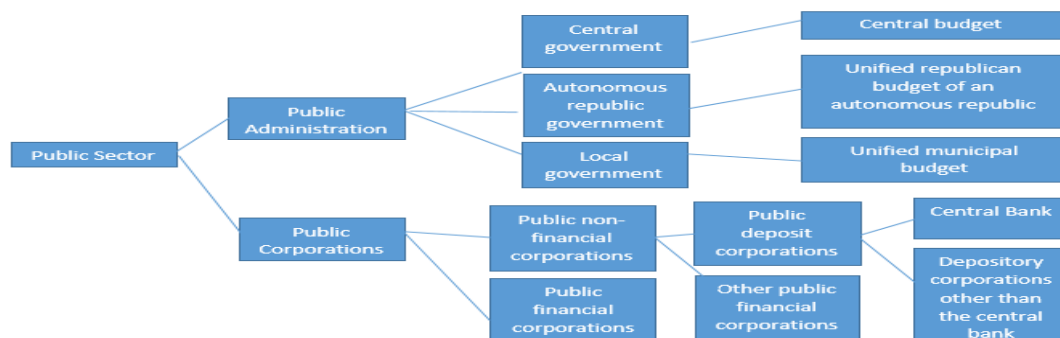


Fig. 1. Public Sector Structure

One of the key legal acts that governs the budgetary and financial activities of budgetary organizations is the “Budget Classification of Georgia.” There are six types of classifications in total, but only four are currently used in accounting [5].

The Budget Classification of Georgia includes classifications for: Revenues; Expenses (both economic and operational, including non-financial assets); Financial assets and liabilities (and their related operations); Program classification [6].

The accounting and financial reporting for budgetary organizations are governed by the Budget Code of Georgia.

In the era of economic globalization, the free movement of capital is one of the key factors in global economic development and poverty reduction. However, managing these processes would be impossible without common rules and harmonization in accounting and auditing regulations [7].

That is why almost every country in the world, regardless of the specifics and level of regulation in their accounting and auditing systems, relies on International Financial Reporting Standards (IFRS) for accounting and International Standards on Auditing (ISA) for auditing. Each country’s regulatory framework is, to some extent, aligned with these standards [8].

In the age of globalization, the reliability of economic information is closely linked to the concept of financial statement audits. A financial audit is the only recognized and accessible tool that ensures the highest-quality, reliable financial information for all interested parties—investors (shareholders), creditors, government agencies, regulatory bodies, as well as corporate consumers of products and services.

Digital technologies have radically transformed business processes, financial operations, and information management methods. In these conditions, auditing is shifting from traditional approaches to modern, technology-enhanced systems. Digital auditing is no longer just about reviewing financial documents—it is becoming a mechanism for assessing the entire ecosystem of a company.

Digital auditing is not a concept of the future—it is already essential in today’s business environment. It ensures transparency, efficiency, security, and compliance for companies. Modern auditing is evolving to become more predictive, analytical, and technology-driven [10].

The standards for conducting audits in digital environments include compliance with international auditing standards (ISA 200 – Fundamental Principles and Responsibilities of an Audit, ISA 315 – Understanding the Business and IT Environment and Assessing Risks, ISA 330 – Performing Audit Procedures Responsive to Risks, ISA 500 – Obtaining Audit Evidence, ISA 530 – Testing Digital Data) and general best practices based on modern technologies and digital processes. The main advantages of a digital audit are efficiency, high accuracy and real-time monitoring. Automated processes during a digital audit reduce time and resource consumption; data analytics reduce the likelihood of errors, and continuous auditing allows companies to avoid risks. Data analytics tools, artificial intelligence (AI) and machine learning should be used for data analytics and automation [11].

From a certain set of standards and methodologies on information technology management issues, we will single out one of its representatives, COBIT (Control Objectives for Information and Related Technology), which was created in 1969 by the ISACA (Information Systems Audit and Control Association) organization in the United States of America, for the purpose of controlling information technologies for financial audits [13]. Currently, this organization has one of the world's leading roles in the development of information technology audit standards [14]. The audit development plan includes

obtaining licensed versions of COBIT (Control Objectives for Information and Related Technologies) and CAATs (Computer Assisted Audit Techniques (CAATs)) audit programs, in addition, it is planned to create the necessary software base for IT audits, work with IDEA Data Analysis Software and other databases [15]. COBIT ensures the implementation of control through information technologies [16]. The integration of modern technological achievements in the organization will contribute to the timely identification of mismanagement issues in public sector electronic systems [17].

Financial reporting in digital conditions implies the digital transformation of the process of creating, processing and distributing financial information. The use of modern technologies improves the accuracy, efficiency and transparency of reporting. The universal format of digital financial reporting promotes data standardization and automated processing. The GDPR regulates the processing of personal data in Europe. The GDPR (General Data Protection Regulation) is a European Union data protection regulation that, since 2018, defines the rules for the processing of personal data in the European Union and beyond, if the data processor is related to EU citizens.

It is important for Georgia to strengthen data protection regulations and comply with the principles of the GDPR in order to ensure a high standard of data protection and approximation with Europe [18].

In Georgia, the Law on Personal Data Protection (2012) already contains principles similar to the GDPR, but needs to be strengthened in the following areas: Legal grounds for processing – clear integration of the principles of the GDPR; Data subject rights – strong rights similar to the GDPR (deletion, portability, restriction of data); Transparency of processing – obligation of organizations to inform users about data processing; Cybersecurity and sanctions – stricter rules and penalties for violations.

The digital era has fundamentally reshaped organizational governance, financial reporting, and internal control systems. The growth of data, technological complexity, and new security challenges create a demand for the transformation of the audit function. In this context, the role of auditing is no longer limited to the verification of traditional financial data—it is transforming into a complex process that includes a comprehensive analysis of technological infrastructure, data security, and process efficiency [20]. Business globalization increases international migration, which requires effective mechanisms for recognizing professional qualifications. Many countries implement professional licensing systems that set specific requirements for foreign specialists [21].

For example in the:

United States

- Many professions require licensing, such as doctors, lawyers, engineers, teachers, and others.
- Foreign specialists are often required to pass additional exams.

United Kingdom

Professional licensing is required in fields such as Medicine (General Medical Council - GMC), Law (Solicitors Regulation Authority - SRA), Architecture (Architects Registration Board - ARB), and others. Foreign specialists often need to pass exams and provide proof of professional experience.

Germany

In Germany, certain professions (e.g., doctors, lawyers, engineers, teachers) require state regulation. Foreign specialists must have their qualifications recognized (Anerkennung) and, in some cases, pass additional exams.

Knowledge of the German language is often mandatory. (see Fig. 2)

Canada

- In Canada, professional licensing requirements depend on the province.
 - Foreign specialists often have to undergo qualification recognition by various authorities (e.g., for doctors – Medical Council of Canada, for engineers – Engineers Canada).
- In some professions, language proficiency exams are required (e.g., IELTS or CELPIP).

Australia

- Foreign specialists, such as doctors, engineers, and teachers, must go through a qualification recognition process.
- For example, for doctors, the Australian Medical Council (AMC) sets examinations and requirements.
 - In some professions, the National Accreditation Authority for Translators and Interpreters (NAATI) certification is required for language specialists.

United Arab Emirates (UAE)

- Strict licensing requirements apply to doctors, lawyers, engineers, and teachers.
 - For example, specialists in the medical field must obtain certification from DHA (Dubai Health Authority) or HAAD (Health Authority - Abu Dhabi). (see Fig. 3).

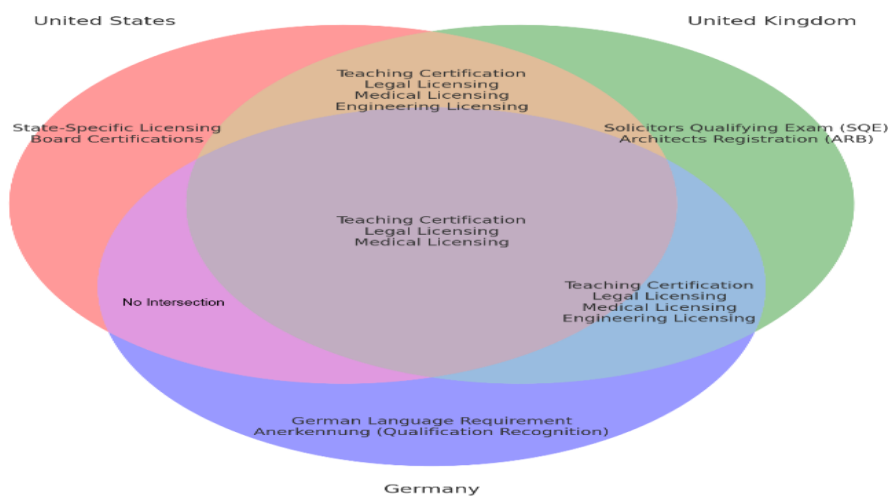


Fig. 2. Professional Licensing Systems in the United States, United Kingdom, and Germany: A Comparative Overview

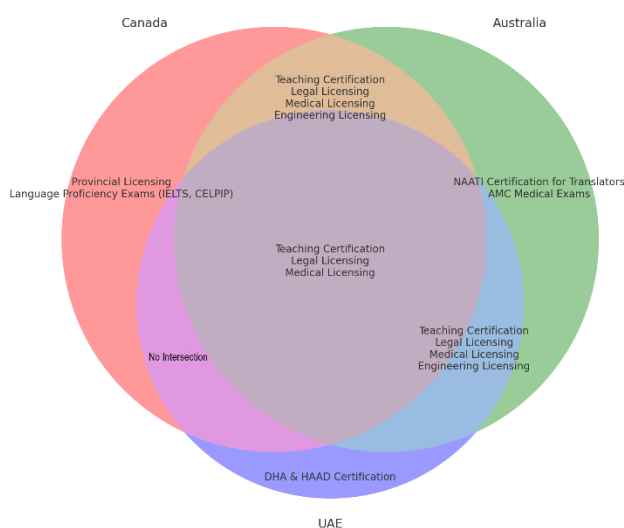


Fig. 3. Licensing and Accreditation Across Canada, Australia, and the United Arab Emirates: Standards and Requirements

These countries claim that licensing is necessary to ensure compliance with professional standards and to provide high-quality services to the local population. In Georgia, professional licensing is mandatory for certain professions, particularly in fields that require state regulation, adherence to ethical standards, and the provision of high qualifications.

In EU Architectural business the role of financial reporting obtains promotion of Key Trends such as Green Buildings & Energy Efficiency, Circular Economy in Construction, Smart Cities & Digital Twins, Heritage Conservation & Sustainable Adaptation (Balancing modern sustainability standards with historic preservation) [22];

Financial reporting makes possible to Regulate Impacting of the Industry to the sustainability of EU economical environment. Financial reporting aligns firms with green bonds, sustainable loans, and EU recovery funds, Help architectural firms compete for Horizon Europe and European Investment Bank (EIB) funding. Provides Investors prioritize ESG (Environmental, Social, and Governance) compliance

[23].

The architectural sector in the EU is increasingly influenced by financial reporting and sustainability regulations. Firms that integrate transparent financial practices, digital technologies, and green architecture are better positioned for long-term success. The EU's regulatory framework creates both challenges and opportunities, shaping the future of sustainable urban development. This position is fixed in EU Financial, Taxonomy Regulations, EU Budgetary Framework, Corporate Sustainability Reporting Directive (CSRD), European Investment Bank (EIB) Funding and other activities [24].

These approach, regulations and standards collectively ensure that architectural firms adhere to financial responsibilities and contribute to the EU's sustainable development objectives [25].

The regulation of professions presents significant challenges and opportunities in the context of business globalization. Globalization requires businesses to access new markets, strengthen international competition, and harmonize various regulations. (see Fig. 4).

The main aspects of the regulation of professions in the context of globalization can be formulated as follows:

Harmonization of international standards

1. International recognition of professional certification and licensing;
2. Unified systems for the assessment of qualifications and competences;
3. Enhanced role of ISO and other international standards.

Technological development and professional requirements

1. The need for digital skills
2. Opportunities and challenges of remote work
3. The impact of artificial intelligence and automation on professional regulation
4. Differences in labor market regulation between countries
5. Issues of intellectual property protection

The role of education and lifelong learning

1. Expansion of international programs and exchange programs
2. Modernization of education and popularization of digital learning
3. The need for continuous retraining and professional development
4. Problems with recognition of qualifications

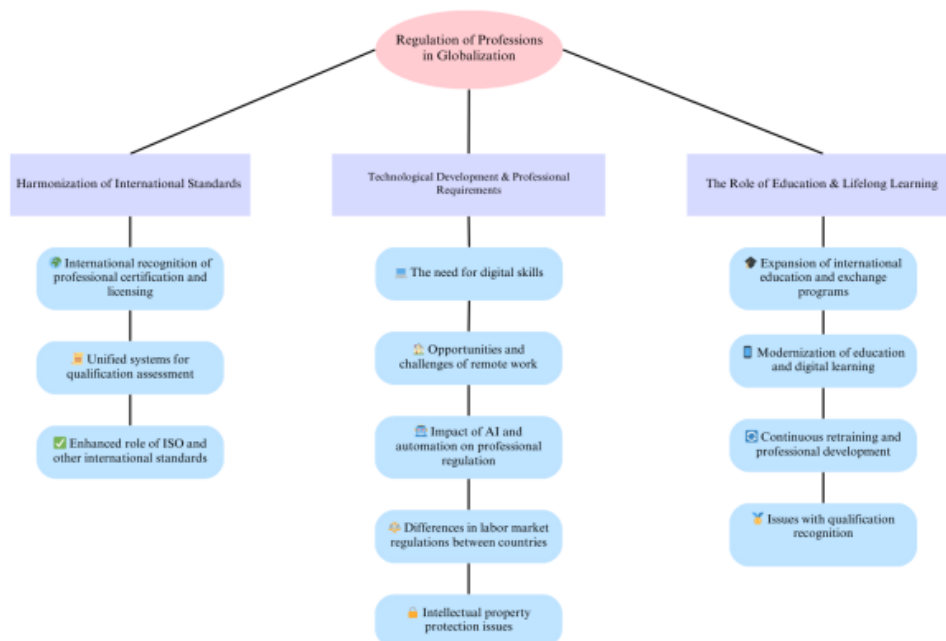


Fig. 4. Regulation of Professions in Globalization and its Key Drivers

Business globalization involves the economic, cultural, and technological integration of different countries, which leads to the transformation of the labor market and the necessity of harmonizing professional standards. In this process, mechanisms for regulating professions become important to adapt them to international standards [26].

As a result of research, the challenges related to the regulation of professions can be considered as differences in regulations between countries, bureaucratic barriers, and cultural and linguistic differences.

Conclusion

With digital transformation, new professional fields are emerging, requiring constant updates to regulations. As a result, the regulation of specialists is becoming increasingly relevant.

Professional regulation in the context of globalization must find a balance between local needs and global standards. For the success of this process, international agreements on qualification recognition, digital platforms for professional certification, the development of hybrid professional roles, technological support, and continuous education are important. In the context of globalization, professional regulation must become flexible and dynamic in order to comply with modern requirements. International cooperation, technological progress, and the right regulatory framework will contribute to the development of global business and the improvement of professional standards. Digital reality requires the development of auditing in a new direction. Organizations must recognize auditing as a part of strategic management that ensures not only legal compliance but also data-driven decision-making and long-term business sustainability. Accordingly, in digital conditions, the audit function serves as a vital mechanism for the success of modern organizations.

In accordance with international practices and the requirements of relevant EU directives, the regulation of accounting and auditing activities in Georgia is essential to promote the development of the investment and business environment, which is a key element in stimulating economic growth. It is also aligned with the country's declared political and economic course—to become a member of the European Union. The existing challenges in this direction in Georgia have a significant impact on all sectors of the economy.

Georgia faces certain challenges in this regard, which significantly affect all sectors of the economy.

To enhance its competitiveness, Georgia should actively participate in international initiatives, such as EU research and innovation programs like Horizon Europe.

Financial institutions and companies should be responsible for promoting sustainable development. The government should focus on supporting innovative startups in IT and green technologies, training qualified personnel for international investors, and fostering international cooperation. Human resources and education play an important role in a country's economic development and in attracting investors. Education and the presence of a qualified workforce are critical factors that determine a country's competitiveness at the regional and global levels. Employees should have financial literacy, the ability to analyze financial statements, and relevant financial experience.

Sharing European data protection practices, support from the EU for improving regulations, training of EU experts for the public and private sectors will support Georgia's integration with the EU. Businesses and organizations should strengthen cybersecurity, transparency and protection of consumer rights in order to comply with international standards. International auditing harmonization—one approach for all countries—requires compatibility between IFRS and GAAP. Specifically, the United States uses GAAP (Generally Accepted Accounting Principles), while Georgia and other countries use IFRS (International Financial Reporting Standards). Moving towards unified standards (integration of IFRS and GAAP) will facilitate the collaboration of Georgian and foreign auditors.

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