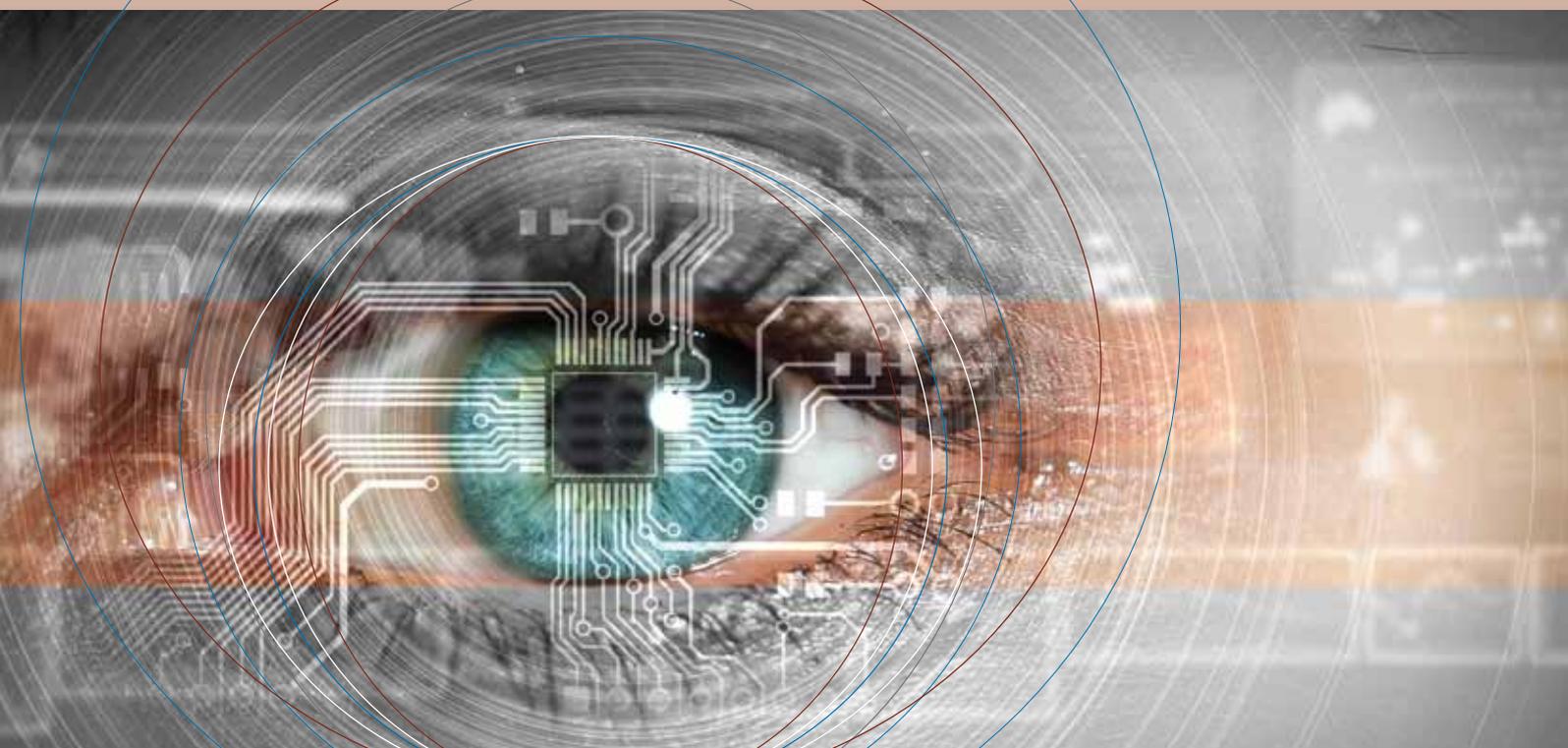


REPORT ON THE ACTIVITIES OF THE PUBLIC AUDIT OVERSIGHT BOARD FOR 2017



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The Report on the Activities of the Public Audit Oversight Board was prepared in accordance with Act No. 93/2009 Coll., on Auditors and Changes to Certain Acts (the "Act on Auditors"), as amended, into which the following European legal regulations were transposed:

- Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the "Regulation"); and
- Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (the "Directive").

The content of this Report on the Activities of the Board adheres to the requirements arising from the Act on Auditors in respect of the reporting obligations of the Public Audit Oversight Board stipulated in Section 24, par. 7 (summary report on the quality assurance system), Section 38, par. 3 (report on public oversight) and Section 38, par. 4 (financial statements) of the Act.

TABLE OF CONTENTS

1. OPENING STATEMENT OF THE BOARD'S PRESIDENT	4
2. BOARD'S PROFILE	6
3. ANNUAL PROGRAMME OF BOARD'S ACTIVITIES	7
4. BODIES AND ORGANISATIONAL STRUCTURE OF THE BOARD	8
5. PRINCIPAL ACTIVITIES OF THE PRESIDUM IN 2017	18
6. AUDITORS OF PUBLIC INTEREST ENTITIES	20
7. PUBLIC OVERSIGHT	22
8. QUALITY ASSURANCE SYSTEM	25
9. OTHER ACTIVITIES OF THE BOARD	30
10. INTERNATIONAL COOPERATION	36
11. INFORMATION IN ACCORDANCE WITH ACT NO. 106/1999 COLL.	38
12. FINANCIAL STATEMENTS	39
13. OUTLOOK OF ACTIVITIES OF THE BOARD FOR 2018	40
APPENDICES	41
APPENDIX 1 – PUBLIC INTEREST ENTITIES	42
APPENDIX 2 – PUBLIC INTEREST ENTITIES AND THEIR CATEGORIES AS DEFINED BY THE ACCOUNTING ACT	44
APPENDIX 3 – ASSESSMENT OF AUDIT COMMITTEE ACTIVITY REPORTS	48
APPENDIX 4 – FINANCIAL STATEMENTS	54

1 OPENING STATEMENT OF THE BOARD'S PRESIDENT



Ladies and Gentlemen,

The Public Audit Oversight Board has completed the first full year of its operations in accordance with the amendment to the Act on Auditors and the Regulation.

The amendment which came into effect in October 2016 significantly changed the position and role of the Board which is, according to the Regulation, the relevant body responsible for performing the tasks stipulated in the Regulation and for the application of the Regulation. This additionally involves significant executive authorities that relate primarily to the organisation and performance of quality inspections, authorisation of the Board to discuss administrative offences and imposition of sanctions in administrative proceedings. These changes relate to auditors that perform obligatory audits of at least one public interest entity. In other cases, the Chamber of Auditors, as an autonomous professional organisation, continues to keep its competences and authorities. Following the amendment to the Act, the Board assumed part of the tasks that had been performed by the Chamber before the amendment took effect.

Changes were made also to the bodies of the Board. The Control Committee and the Disciplinary Committee were newly established. The Control Committee is a body fully responsible for planning and organising quality inspections of an auditor performing an audit of at least one public interest entity. In addition, the Control Committee presents a draft of the summary report on the quality assurance system and a draft of the plan of quality inspections to the Presidium for approval. The Disciplinary Committee acts in the capacity of the Board at the first level in proceedings on sanctions and in conducting investigations in accordance with the Act on Auditors. The body of appeal in respect of resolutions issued by the Disciplinary Committee is the Presidium.

In 2017, the Board initiated 14 quality inspections which investigate whether the auditor, in the performance of audit activities, adheres to the Act, standards on auditing, code of ethics, internal regulations of the Chamber and the Regulation. All auditors are subject to these inspections. Quality inspections are performed by quality inspectors on the basis of a risk analysis.

In addition to quality inspections, the Board performs public oversight which involves oversight of the inspection of compliance with relevant legal regulations and over the bodies of the Chamber, oversight of the organisation, management and performance of quality inspections organised and managed by the Supervisory Committee of the Chamber, oversight of the organisation and operations of the continuous education system and oversight of the enforcement of disciplinary and other measures by the Chamber.

During 2017, the Board performed 14 oversights of the process implementation of quality inspections, 9 oversights of the educational system and 2 oversights of the enforcement of disciplinary and other measures.

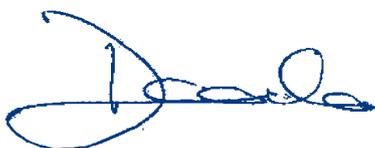
During 2017, the Czech market of public interest entities was analysed. At the end of 2017, 151 public interest entities operated in the Czech Republic, most of them being business companies – issuers of investment securities adopted for trading on the European regulated market. The act stipulates that public interest entities are obliged, provided they meet statutory requirements, to establish an audit committee. The audit committee prepares a report on its activities on an annual basis in which it assesses its activities and presents this report to the Board.

According to the Regulation, new obligations of the Board include the assessment of the audit committee activities, preparation of a report on the development on the market of the provision of services of obligatory audits to public interest entities no less than every three years and present it to the CEAOB, ESMA, EBA and EIOPA and to the Commission. The report on the development on the market was prepared for the first time for the Czech Republic and delivered in mid-2016. The second report is expected to be prepared and presented by mid-June 2019. Pursuant to the new obligations of audit committees and the Board and in an effort to provide methodological support and coordinated alignment of the approach to the preparation of the report on the audit committee activities for the Board, the Board prepared its template. By the end of 2017, the Board received 99 reports relating to the activities of audit committees for the 2016 reporting period.

In 2017, the Board worked together with key organisations in audit regulation and professional oversight with the objective of using their knowledge and experience to the maximum extent. Representatives of bodies and employees of the Board attended numerous seminars, conference and work meetings abroad.

I believe that the Board met its new obligations successfully. In spite of a number of partial obstacles relating not only to the implementation of new legislation, but also to the set-up of active cooperation with foreign oversight bodies and the Chamber of Auditors, the operations of the Board contribute to the strengthening of independent oversight of the audit profession.

You will find the details on individual activities of the Board and on all developments and changes in the Board during the past year in the following text.



Pavel Racoča
President
Public Audit Oversight Board

2. BOARD'S PROFILE

The Board was formed in 2009 by the Act on Auditors. Its principal task **is to perform public oversight** of audit activities and activities of the Czech Chamber of Auditors (the "Chamber") which is an autonomous professional organisation established by the Act for the audit profession administration in the Czech Republic, **to conduct**, in line with the requirements of EU law, **quality inspections** of auditors and audit firms that have public interest entities in their client portfolio and other activities stipulated by the Act on Auditors.

In performing its activities, the Board sees to the public interest protection. It is a corporate entity and has its registered office in Prague.

3. ANNUAL PROGRAMME OF BOARD'S ACTIVITIES

Principal activities of the Board

	CHAPTER 8.2	CHAPTER 7.1	CHAPTER 7.1	CHAPTER 7.1	CHAPTER 7.2
Activity	Quality inspections	Public oversight (over the organisation, management and performance of quality inspections organised by the Supervisory Committee of the Chamber)	Public oversight (over the organisation and operations of the system of continuous education of statutory auditors by the Chamber)	Public oversight (over the application of disciplinary and other measures by the Chamber in proceedings against auditors)	Public oversight (other activities – resolutions of the Board)
Approved for the first half of 2018	9	11	3	2	–
Actual status in 2017	14*	14	9 (3 oversights related to preparatory courses before the start of the profession and 6 oversights related to courses in continuous professional education)	2	11 (resolution on the appeal against decisions of the Chamber)
Actual status in 2016	1	5	5	2	1

*note – the absolute number of performed and planned inspections does not indicate the efficiency of the Board, given the varying demands of individual inspections

Given that the amendment to the Act on Auditors took effect on 1 October 2016, only one quality inspection was announced and initiated in 2016. This quality inspection was completed in 2017.

4. BODIES AND ORGANISATIONAL STRUCTURE OF THE BOARD

The bodies of the Board are as follows: Presidium, President of the Board, Control Committee and Disciplinary Committee. In addition, the Board may establish consultancy committees.

4.1 Presidium and President of the Board

The executive body of the Board is the Presidium which acts in the capacity of the Board in accordance with the Act on Auditors or the Regulation, when it does not pertain to other bodies of the Board. The Presidium has six members.

Members of the Presidium are appointed by the Minister of Finance after agreement with the Czech National Bank. The term of office of members of the Presidium is six years. The activities of a member of the Presidium represent holding public office.



Composition of the Presidium

POSITION	NAME	MEMBER FROM	MEMBER TO
President	Pavel Racoča	16 May 2017	5 May 2023
Member	Marie Karfíková	15 May 2009	15 May 2019
Member	Bohumil Král	16 May 2017	15 May 2023
Member	Věra Mazánková	25 June 2015	24 June 2021
Member	Jiří Nekovář	1 August 2013	31 July 2019
Member	Bohuslav Poduška	25 June 2015	24 June 2021

During 2017, the term of office of two members of the Presidium, Evžen Kočenda (member of the Presidium from 16 May 2011 to 15 May 2017) and Zdeněk Liška (member of the Presidium from 15 May 2009 to 15 May 2017) expired.

Pavel Racoča and Bohumil Král were appointed new members of the Presidium.

The Act on Auditors stipulates that the Presidium appoints President of the Board from among its members if more than one member is appointed.

Pavel Racoča was appointed new President of the Board in 2017, replacing Jiří Nekovář. The President of the Board is the statutory body of the Board.

All members of the Presidium adhere to the requirements stipulated by the Act on Auditors.



Pavel Racocha

He studied at the University of Economics (current Department of Finance and Accounting) and Columbia University in New York with the specialisation in international relations and economic policies management. In 1991, he started to work in the Czech National Bank where he was one of the founders of bank oversight and saw the beginnings of bank regulation in the Czech Republic. Between 1996 and 1997, he worked in the World Bank in Washington in the development of financial markets in member countries. He also occasionally participated in the work of the International Monetary Fund in developing financial markets in later years. Between 1999 and 2005, he was a member of the banking board of the Czech National Bank. From 2005 to 2014, he worked in internal audit of the Soci t  G n rale group, first having responsibility for Komer n  banka and then, starting in 2010, for all entities in the SG group in nine countries in the Central Europe region. Since 2014, he has been Chairman of the Board of Directors and CEO of KB Penzijn  spole nost, a.s. He was a member of the Committee of European Banking Supervisors (CEBS), Committee for Banking Oversight in the European Central Bank, numerous work groups in the Basel Committee for Banking Oversight. In 2008 – 2014 he acted as Chairman of the Commission for Internal Audit at the Czech Banking Association. Between 2012 and 2014, he was a member of the Board of the Czech Institute of Internal Auditors. Since 2013, he has been active in the Control Committee of the Czech Institute of Directors. He is a member of the Management Board of the Academy of Performing Arts.



Marie Karf kov 

Expert in the field of finance and tax law. Since 1975 she has been working at Charles University in Prague, Law School, and currently heads the Department of Financial Law and Financial Science. Between 1999 and 2006, she was a member of the Legislative Council of the Czech Government. She is currently a member of the Scientific Council at the Law Faculty of Charles University in Prague, a member of the Scientific Council at the Law Faculty of the University of West Bohemia in Plzeň, a member of the Scientific Council of the National Technical Museum in Prague, a member of the Refutation Committee of the Czech National Bank, a member of several editorial boards, such as of AUC IURIDICA, Pojistn  rozpravy, Dan  a finance, an arbitrator of the Arbitration Court attached to the Economic Chamber of the Czech Republic and the Agricultural Chamber of the Czech Republic, a member of the ethics committee of the Czech Association of Insurers, member of the Disciplinary Senate of the Supreme Administrative Court for proceedings concerning judges as an associate, and Vice-Chairwoman of the Managing Board of the foundation Nad n  Josefa, Marie a Zdeňky Hl vkov ch (Foundation of Talents of Josef, Marie and Zdeňka Hl vka).



Bohumil Kr l

He has worked at the Department of Management Accounting of the Faculty of Finance and Accounting at the University of Economics in the long-term, between 1991 and 2014 as Head of the department. In addition, he is the chairman of the Advisory Group to the rector of the University of Economics in Prague for finance and budget, as the chairman of the Academic Board, teacher and guarantor of the courses of financial and management accounting at the Prague International Management School, as a member of scientific boards of the University of Economics in Prague, Faculty of Finance and Accounting of the University of Economics in Prague, Faculty of Management and Economics at the Tom š Ba a University at Zl n and Faculty of Mechanical Engineering at the Czech Technical University in Prague and chairman of the academic board of the Czech Association of Financial Management (CAFIN). He significantly engages in scientific and publication activities, and extensive practical cooperation – primarily in the preparation of management administration projects or their parts in numerous companies. He is significantly involved in the professional education of accounting and financial specialists. From 1998 to 2017, he was a member of the Executive Committee and chairman of the Committee for Audit Exams in the Czech Chamber of Auditors, since 1997 in the Association of Accountants – as the chairman of the Committee for Certification and Education, since 2013 in the Public Audit Oversight Board – as a member for the Committee for the Coordination of Education and Professional Exams.



Věra Mazánková

An expert in regulation and supervision of the financial market, with long-term practical experience in the banking sector. Since 2000, she has been working for the Czech National Bank in the field of financial market regulation and international cooperation, including permanent representation of the Czech National Bank in the working group of the European Banking Authority (EBA) for audit and alternative representation in the Standing Committee of the EBA for regulation and policy. She has long been involved in the processes of preparation and implementation of laws and other regulatory outputs relating to business in the Czech financial market and its supervision. She occasionally gives lectures.



Jiří Nekovář

Majority owner and statutory executive of Euro-Trend, s.r.o. After graduating from the University of Economics in Prague, majoring in Economics and Industrial Management, he worked in various economic functions in the state administration. Since 1990, he has been a private entrepreneur. He is a tax advisor, reg. no. 002, and a certified advisor for research and development. From 1996 to 2011, he was President of the Czech Chamber of Tax Advisors. In 2006, he was appointed vice-president of Confédération Fiscale Européenne, between 2013 and 2014, he was president of Confédération Fiscale Européenne. He is Chairman of the Supervisory Board of Nadace ČEZ, vice-chairman of the Management Board of the University of Economics in Prague and a member of the scientific board at the Faculty of Finance and Accounting of the University of Economics in Prague. He is a member of the Management Board at the Technical University in Brno. In 2010, he was appointed chairman of the National Economic Board of the Government by the Prime Minister. Since 2010, he has been chairman of the Advisory Expert Group for issues of tax policy of the Czech Ministry of Finance. Since 2011, he has been a member of the work committee of the Legislative Board of the Government for Regulatory Impact Assessment (RIA). In February 2012, he was appointed a member of the Section for the Concept and Development of Accounting and FKSP by the Minister of Finance. He is Chairman of the tax expert team of the Czech Confederation of Industry and Transportation and a member of the committee of the Council for Sustainable Development (RVUR) of the Czech Government Office. He is an elected advisor of AOTCA. In January 2018, he defended his dissertation at the Faculty of Law of Charles University.



Bohuslav Poduška

He graduated from the University of Economics in Prague (Faculty of Economics – Economic Information and Control). For 13 years he worked in EZ-Praha as Director of the Division of Economic Information and Analyses. Subsequently, he worked in the state administration authorities as Director of the Economic Information and Analysis Department at FMEP and FMHSE and as Director of the Privatisation Department at the Ministry of Industry and Trade of the Czech Republic. He has worked at Česká spořitelna since 1993 where he originally worked as director of capital investments. He was Director of the Internal Audit Section of Česká spořitelna, a.s. from 1994 to 2016. He promotes the internal audit profession in line with the International Professional Practice Framework for internal auditing both in the bank and the entire Česká spořitelna, a.s. financial group. Currently, he works as an advisor. He is one of the founders of the auditing profession in the Czech Republic. Between 1989 and 1993 he held the position of the President of the Union of Auditors, as the predecessor of the Chamber. After the establishment of the Chamber of Auditors of the Czech Republic he held the office of Vice President until 1997. He, as President of the Czech Institute of Internal Auditors, participated intensively in the development of the internal audit profession in the Czech Republic between 1998 and 2002. He works closely with the Institute of Internal Auditors (IIA) in the area of development of the IA profession. At present, he is a member of the ČIIA honourable presidium and a member of the IIA. Bohuslav Poduška is a holder of the globally recognised certifications CIA and CRMA.

4.2 Control Committee

In accordance with Section 39c, par. 4, of the Act on Auditors, the Control Committee:

- a) Organises and manages quality inspections of auditors conducting obligatory audits of at least one public interest entity;
- b) Presents a draft of the summary report on the quality assurance system to the Presidium for approval; and
- c) Presents a draft of the plan of quality inspections to the Presidium for approval.

When performing the authorities of the Board, the Control Committee cooperates with the Control Department. Details of the cooperation are stipulated by the Quality Inspection Rules.

Composition

The Control Committee has five members. Its members are appointed by the President of the Board at the suggestion of the Presidium. The Committee is headed by the chairman appointed by the President of the Board at the suggestion of the Presidium. The term in office of the members of the Control Committee, manner of their recall, remuneration and decision-making policy are stipulated by the statute of the Board. In its activities, the Control Committee observes the Quality Inspection Rules which are an internal regulation of the Board. The activities of a member of the Control Committee involve holding public office.

POSITION	NAME
Chairwoman of the committee	Monika Vítová
Members of the committee	Zdeňka Drápalová, Dalibor Vaigert, Libor Vašek, Josef Staša

4.3 Disciplinary Committee

The Disciplinary Committee acts in the capacity of the Board at the first level in proceedings on sanctions in accordance with Title XI of the Act on Auditors and in the investigation in accordance with Section 40b of the Act on Auditors. The body of appeal is the Presidium. The Disciplinary Committee is headed by the chairman appointed by the President of the Board at the suggestion of the Presidium. To cover the organisational and professional aspects of his/her activities, he/she has a secretary who is an employee of the Board. If needed, the Disciplinary Committee cooperates with the Control Committee and Control Department in the organisation and provision of an extraordinary quality inspection or investigation in accordance with Section 40b of the Act on Auditors.

Composition

The Disciplinary Committee shall have five members in line with the applicable legislation. Members of the Disciplinary Committee are appointed by the President of the Board at the suggestion of the Presidium. The Disciplinary Committee is headed by the chairman appointed by the President of the Board at the suggestion of the Presidium. The term of office of members of the Disciplinary Committee, manner of their recall, remuneration and rules for decision-making are stipulated by the statute of the Board. In its activities, the Disciplinary Committee follows the disciplinary rules of the Board which are the Board's internal regulation. The activities of a member of the Disciplinary Committee involve holding public office. The Disciplinary Committee currently has four members.

POSITION	COMPOSITION OF THE COMMITTEE
Chairman of the committee	Radek Neužil
Members of the committee	Jan Bárta, Ladislav Minčíč, Petra Nováková

4.4 Consultancy Committees

The Board has established consultancy committees that have the consultancy role in respect of individual bodies of the Board. Each consultancy committee is headed by chairman appointed by the President of the Board at the suggestion of the Presidium. In 2017, the following committees were active: the Committee for Cooperation and Coordination in Audit, the Committee for the Coordination of Education and Professional Exams and the Committee for Financial Performance Inspection.

Committee for Cooperation and Coordination in Audit

The Committee for Cooperation and Coordination in Audit is responsible for the preparation and coordination of procedures of the Board in respect of legislative changes relating to the issues of audit activities, participates through its members in the international cooperation in public oversight over audit, discusses forms and manners of the involvement of the Board in educational activities for third parties and actively participates in formulating the vision of further direction of public oversight over audit.

Chairman of the committee	Pavel Racoča
Members of the committee	Irena Liškařová, Petr Kříž, Tomáš Pivoňka, Vladimír Koníček, Stanislav Koucký, Petr Koblík, Marcela Gronychová

Committee for the Coordination of Education and Professional Exams

The Committee for the Coordination of Education and Professional Exams is responsible for the preparation of underlying documents for the Presidium in the filing of appeals against the resolutions of the Chamber in accordance with Section 8, par. 5, of the Act, participates in the oversight over the organisation and continuous education of statutory auditors by the Chamber, participates in the cooperation with the Chamber, Committee of European Auditing Oversight Bodies and relevant bodies of other members states in order to align the requirements for theoretical education and professional practice and requirements for differential examinations, assesses proposed internal regulations of the Chamber or their changes before their approval by the assembly or the Executive Committee of the Chamber, if they are related to education and professional exams, participates in the preparation and organisation of training for quality inspectors in accordance with Section 24c, par. 2, of the Act, accomplishes other tasks commissioned by the Board's bodies.

Chairman of the committee	Josef Tyll
Members of the committee	Evžen Kočenda, Libuše Müllerová, Zdeněk Grygar, Jana Báčová

In April 2017, Bohumil Král resigned from his position as a member of the Committee for the Coordination of Education and Professional Exams, he became a member of the Presidium in May 2017.

Committee for Financial Performance Inspection

The Committee for Financial Performance Inspection is responsible for the organisation and inspection of the correctness, efficiency and effectiveness of the incurring of the Board's budget funds, informs the Presidium on the conclusions of the inspection, inspects the implementation of the adopted measures to remedy the identified shortcomings and cooperates with the Ministry of Finance in the financial inspection of the Board's financial performance.

Chairwoman of the Committee	Ludmila Nutilová
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In May 2017, Zdeněk Liška resigned from his position as a member of the Committee for Financial Performance Inspection.

4.5 Internal Divisions

Staffing

SEGMENT	NAME	NUMBER OF PERSONS
Internal divisions	Office, Head of the Office, Secretariat, Control Department and Foreign Affairs and Legal Department	10

Office



Eva Racková

The head of the Office manages operations of the Board, prepares the meetings of the Presidium, provides for the administrative activities of the Board and is a contact person for international organisations, primarily the CEAOB and IFAR. Concurrently, she is a member of several work groups of these international organisations, primarily the advisory group of the CEAOB's Chairman, monitoring group of the CEAOB, group for the CAIM methodology and work group for small regulators of IFIAR. She is qualified as a quality inspector.

Secretariat

The Secretariat performs the tasks assigned by the Board's management, provides for administrative, personnel and operational issues of the Board. Deals with upcoming administrative needs of the Board. Cooperates in the performance of organisational issues of the Board and in meetings of the Board's bodies. Provides for the preparation and update of principal documents, management and internal regulations of the Board.

Control Department

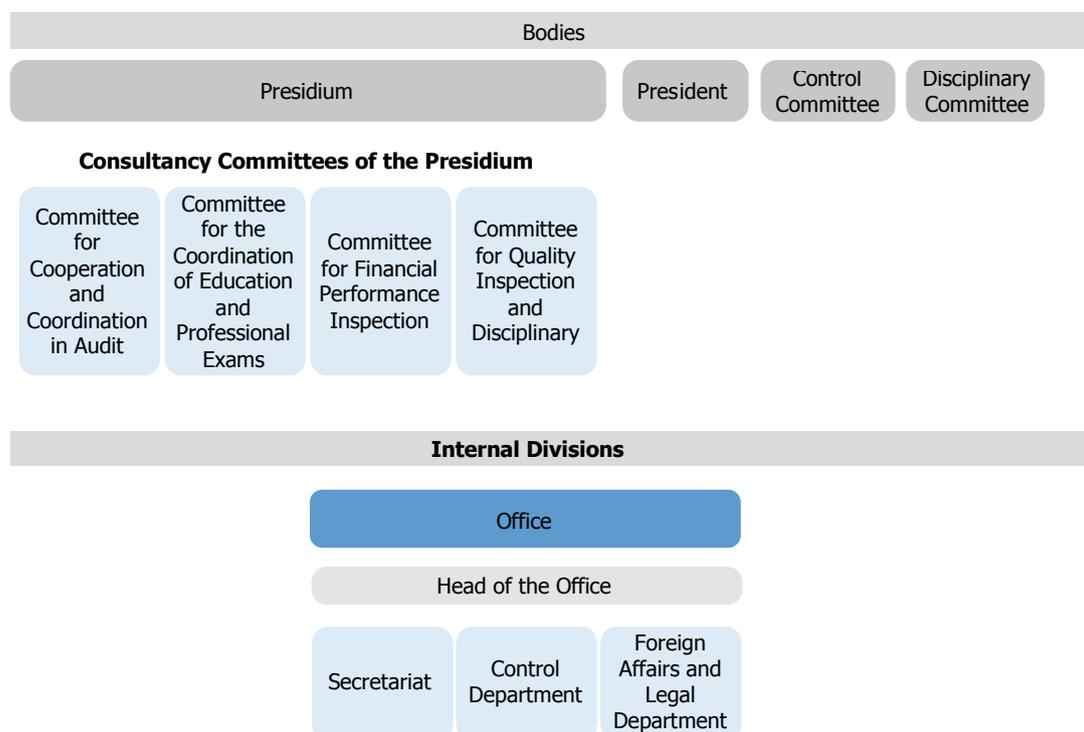
The Control Department was established as part of the internal organisation to provide for the inspection of quality of auditors conducting obligatory audits of public interest entities. Its employees/quality inspectors perform periodical inspections of quality of auditors of public interest entities determined pursuant to risk analyses using the CAIM methodology created on the European platform of oversight bodies. This methodology was adopted by the CEAOB.

The employees of the Control Department cooperate with key organisations in audit regulation and professional oversight with the objective of using their knowledge and experience to maximum. In 2017, representatives of the Control Department attended numerous foreign seminars, conferences and work meetings.

Foreign Affairs and Legal Department

The Foreign Affairs and Legal Department prepares all legal administrative work, including opinions on questions relating to the interpretation of the Act on Auditors, provides ongoing services to internal units and bodies of the Board, provides supporting documents for resolutions adopted by the Presidium in respect of resolutions on appeals against resolutions issued by the Chamber, including opinions required by the court for legal actions filed against the Board in respect of resolutions issued by the Board and prepares opinions on proposed changes in internal regulations of the Chamber.

4.6 Organisational Structure of the Board



4.7 Funding of the Board

The activities of the Board are largely funded from the state budget (budget funds of chapter 312 of the Czech Ministry of Finance) in accordance with the Act on Auditors.

Financial resources of the Board are as follows:

- Subsidies from the state budget;
- Interest on deposits, penalty, insurance benefits and other payments obtained in relation to the use of the Board's financial resources;
- Proceeds from the sale of the Board's assets; and
- Other proceeds from the activities of the Board.

The subsidy is provided in accordance with Act No. 218/2000 Coll., on Budgetary Rules and Change in Certain Relating Acts (Budgetary Rules), as amended. It is an annual non-investment non-refundable subsidy provided pursuant to an application by the recipient (the Board) for the provision of a subsidy and subsequent resolution of the provider, i.e. the Czech Ministry of Finance, on the subsidy provision. The subsidy is subject to annual financial settlement.

The Board is obliged to prepare a draft of its budget for each budget year and submit it to the Ministry of Finance for approval in the period determined for the preparation of the state budget of the Czech Republic and state closing account of the Czech Republic.

The purpose of the subsidy is to cover the costs relating to the administration and activities of the Board (including staff costs – salary of employees, social security and health insurance and remuneration to members of bodies and committees).

In 2017, the subsidy provided from the state budget amounted to CZK 21 million. The largest part of the subsidy is used to cover staff costs that account for 73% of the total subsidy. Other items include the costs of: travelling and registration fees (5%), other services (16%) and other costs (6%).

5. PRINCIPAL ACTIVITIES OF THE PRESIDIUM IN 2017

January

- Approval of the structure of the Report on the Activities of the Board for 2016 – in accordance with the Act on Auditors and the Regulation

March

- Approval of the financial statements for 2016
- Approval of two opinions relating to a rotation of the auditor of a public interest entity
- Approval of questions relating to the meeting of the work group of the Czech Ministry of Finance for the application of the Act on Auditors

April

- Appointment of Ms Báčová as a member of the Committee for Coordination of Education and Professional Exams
- Appointment of Ms Gronychová as a member of the Committee for Cooperation and Coordination in Audit
- Approval of criteria for the selection of quality inspections of the Chamber that will be subject to oversight activities
- Approval of the Report on Activities for 2016
- Approval of 1 resolution regarding an appeal against the resolution of the Chamber

May

- Approval of the report from the oversight of the activities of the Supervisory Committee of the Board
- Approval of 2 opinions relating to the discontinuation of an audit contract
- Appointment of new members of the Presidium
- Election of the President of the Board
- Approval of 1 resolution regarding the appeal against the resolution of the Chamber

June

- Approval of an update to internal regulation (Inspection Rules)
- Approval of 2 resolutions regarding the appeal against the result of an exam
- Approval of 2 resolutions regarding the appeal against the resolution of the Chamber
- Approval of the members of the examining committee

September

- Appointment of Mr Bárta as a member of the Disciplinary Committee
- Approval of 3 resolutions regarding an appeal against the resolution of the Chamber
- Approval of the update of internal regulations (Organisational Rules, Signature Rules)

October

- Approval of the internal regulation (Disciplinary Rules)
- Approval of the resolution on the appeal against the resolution of the Supervisory Committee of the Chamber
- Approval of the resolution regarding the request of the court for cooperation

November

- Approval of the organisation of a round table meeting with auditors of public interest entities in January 2018
- Approval of the preparation of a work meeting with colleagues from Slovakia
- Approval of the opinion of the Czech Ministry of Finance relating to selected issues of the Act on Auditors
- Approval of the structure of the report on activities for 2017

December

- Appointment of Data Protection Officer (GDPR)
- Appointment of members of the Control Committee and the Disciplinary Committee
- Resolution regarding the suggestion for an investigation of irregularity in the organisation of an individual part of the audit exam

Other Activities

- Regular approval of the plan of oversights and plan of quality inspections

6. AUDITORS OF PUBLIC INTEREST ENTITIES

For the purposes of the quality assurance system, auditors performing obligatory audits of at least one public interest entity are auditors that performed an obligatory audit of the public interest entity:

- in accordance with Article 26, par. 2, letter a), of the Regulation, for the period of 3 years from the beginning of the reporting period for which it performed the obligatory audit of the public interest entity;
- in accordance with Article 26, par. 2, letter b), over the period of 6 years from the beginning of the reporting period for which it performed the obligatory audit of the public interest entity.

Auditors, audit firms and revenues from audit activities

AREA	ACTUAL STATUS AS	
	OF 31 DECEMBER, 2016	OF 31 DECEMBER, 2017
Number of registered statutory auditors	Total	1,259
		1,225
Number of audit companies	Total	358
		353
	under the supervision of the Board	29
		31
Revenues from all audit activities (according to the transparency report)*	Total	CZK 4,4 billion
	for statutory audit	3,1 mld. Kč
		CZK 2,3 billion
		CZK 2 billion

*the above information is impacted by a change in the methodology according to the Regulation and various fiscal years of audit companies

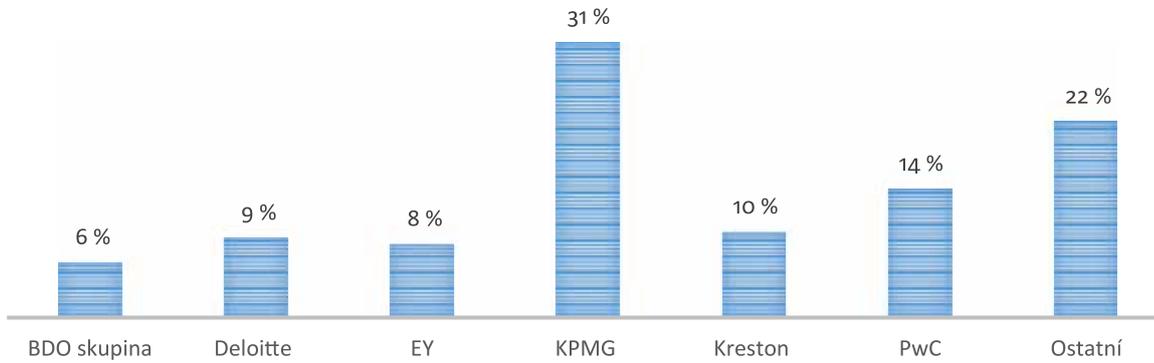
As of 31 December 2017, in relation to the audit of public interest entities, the scope of the Board's authority covers **31 audit firms** employing 213 statutory auditors (of which 77 statutory auditors under the supervision of the Board) and **6 auditors** who provide services as sole practitioners.

AT the European Union level, the CEAOB committee individually monitors 10 largest audit firms that are auditors of public interest entities. In the Czech Republic, there are 8 of 10 firms monitored at the EU level that are auditors of public interest entities. Audit firms in the Czech Republic that are the largest ones and monitored at the EU level and that do not have public interest entities in their client portfolio include: Grant Thornton Audit s.r.o. and Moore Stephens s.r.o.

List of 10 largest audit firms monitored by the European Union

AUDIT FIRM	NUMBER OF STATUTORY AUDITORS IN 2016	NUMBER OF STATUTORY AUDITORS IN 2017
BDO Audit s.r.o. („BDO“)	33	33
Crowe Advartis Audit s.r.o.	8	8
Deloitte Audit s.r.o. („Deloitte“)	24	28
Ernst & Young, s.r.o. („EY“)	26	24
IB Grant Thornton Audit s.r.o.	6	7
KPMG Česká republika Audit, s.r.o. („KPMG“)	24	24
Mazars Audit s.r.o. („Mazars“)	5	8
Moore Stephens s.r.o.	5	8
NEXIA AP a.s. („NEXIA“)	6	5
PricewaterhouseCoopers Audit, s.r.o. („PwC“)	31	31
TOTAL	168	178

Distribution of public interest entities among auditors as of 31 December 2017 (market share above 5 %)



More detailed information relating to public interest entities is provided in the APPENDICES (Appendix 1 – Public Interest Entities and Appendix 2 – Public Interest Entities and their Categories in accordance with the Act on Accounting).

7. PUBLIC OVERSIGHT

One of the tasks of the Board is to **perform public oversight** of the performance of audit activities and activities of the Chamber in the scope stipulated by the Act on Auditors.

7.1 Principal Activities of the Board in Public Oversight

In accordance with the Act on Auditors, the performance of public oversight involves the oversight of:

- **The inspection of compliance to the provisions of the Act on Auditors, standards on auditing, code of ethics and internal regulations of the Chamber of Auditors and bodies of the Chamber;**

Oversight of the inspection of compliance with the provisions of the Act on Auditors, standards on auditing, code of ethics and internal regulations of the Chamber of Auditors is performed by quality inspections described in standalone part 8. QUALITY ASSURANCE SYSTEM.

The oversight of bodies of the Chamber is performed as part of all oversight activities of the Board listed below.

- **Organisation, management and performance of quality inspections organised and managed by the Supervisory Committee;**

Activities in 2017

- Employees of the Board participated in 14 oversights in 2017. As of 31 December 2017, 11 oversights were completed.

In selecting the quality inspections that were subject to oversight, the Board focused, for example, on the auditors:

- a) that audit large companies, but not public interest entities;
- b) the quality of which is monitored at the EU or IFIAR levels;
- c) the assessment of which from the prior inspection was not good; and
- d) which perform audits of companies debated in the media.

List of oversights for 2017

PLANNED OVERSIGHTS	UNPERFORMED OVERSIGHTS	OVERSIGHTS IN PROCESS	OVERSIGHTS COMPLETED AS OF 31 DEC 2017	OVERSIGHTS WHICH IDENTIFIED FINDINGS (completed oversights)
15	1*	3	11	3

*the oversight over the quality inspection was not performed due to the transfer of the quality inspection to 2018

In oversight of the quality assurance system by the Chamber, the Board performs monitoring, preparation, adherence to and regular updates of the quality inspection plan in statutory auditors.

- **Organisation and operations of the system of continuous education of auditors by the Chamber;**

Activities 2017

- Content and course of preparatory courses for an audit exam;
- Course of individual parts of the audit exam;
- Courses of continuous professional education of auditors;
- Dealing with appeals against the resolution of the Chamber relating to various aspects of education of auditors, exams and the profession; and
- Regular oversights of educational events both for an entry into profession or as part of continuous education

Initiation of the discussion with the Chamber on specific steps of how to improve the educational system to positively impact the quality of auditors' work (e.g. changes in the content of courses, changes in lecturers). These issues are, in cooperation with the employees of the Board, professionally dealt with by the Committee for the Coordination of Education and Professional Exams that is responsible for the preparation of underlying documents for the Presidium in the filing of an appeal against the resolution of the Chamber, participates in the oversight of the organisation and operations of continuous education of statutory auditors organised by the Chamber.

Detailed list of activities

AREA	DESCRIPTION
Oversight of the content and course of preparatory courses for the auditor exam	<p>The inspection of the content and course of the preparatory courses for the auditor exam was performed in 3 preparatory courses with the oversight by members. It assessed the content in relation to the requirement for a professional profile of an auditor, relation of the content of the course to an individual part of the audit exam and level of lecturers.</p> <p>The inspection was performed in the following courses:</p> <ul style="list-style-type: none"> • Taxation • Corporate finance • Management accounting <p>Reports from the oversight, together with specific recommendations, were delivered to the Chamber.</p> <p>As part of the oversight of individual parts of the audit exam, the Committee assessed the assignment of 3 individual parts of the audit exam that were organised pursuant to the above preparatory courses. The Committee assessed the content requirements of the exams and allocated time for its completion and evaluated the relation between the preparatory course and assignment of the exam. Specific recommendations were delivered to the Chamber.</p>
Oversight of the content and course of the preparatory courses organised as part of the continuous professional education of auditors	<p>Six reports from oversight were discussed and approved. The results of these reports, including recommendations, were discussed with the Chamber.</p>
Continuous professional education of auditors	<p>The Committee actively cooperated with the Committee for Continuous Professional Education of the Chamber and continuously monitored the adherence to the proposed recommendations. A system of control over the training of auditors was introduced at the suggestion of the Committee.</p>
Other educational activities	<p>During 2017, topics for "Financial Accounting II" were prepared, including recommendations to modify and simplify the second part of the individual audit exam.</p> <p>During 2017, supporting documentation was prepared for the Presidium relating to the filing of an appeal against the resolutions of the Chamber in accordance with Section 8, par. 5, of the Act:</p> <p>The Committee:</p> <ul style="list-style-type: none"> • Dealt with 1 appeal against the resolution of the Chamber regarding the non-exemption from an individual part of the audit exam Macroeconomics – Microeconomics; and • Discussed a request for review of the assessment of the result of an individual part of the audit exam Financial Accounting <p>Representatives of the Committee discussed possible options of the system of control of managed practice of assistants to auditors with the representatives of the Chamber.</p>

- **Enforcing disciplinary and other measures by the Chamber in proceedings against the auditors, or entities registered in accordance with Section 47 of the Act on Auditors (registration for the purposes of the obligatory audit of a company having its registered office in a third country);**

Activities in 2017

- Regular oversights of the activities of the Supervisory Committee of the Chamber – 1x per year;
- Regular oversights of the activities of the Disciplinary Committee – 1x per year; and
- Dealing with an appeal against resolutions of the Disciplinary Committee.

In 2017, the Board dealt with 10 appeals against the resolution of the Disciplinary Committee.

7.2 Other Activities of the Board in Public Oversight

AREA	DESCRIPTION
Cooperation with the Chamber in respect of the expiry of the auditor's authorisation	In 2017, the Board received 82 requests for comments on the expiry of the auditor's authorisation of statutory auditors and audit firms. In none of these cases the Board found any obstacles preventing the expiry of authorisations.
Complaints or suggestions delivered to the Board in respect of the activities of the Chamber, statutory auditors and audit firms or public interest entities	The Board received a total of 2 complaints regarding the procedure of the Chamber and 2 suggestions regarding statutory auditors/audit firms and public interest entities. The suggestions and complaints were dealt with in accordance with the administration rules and the Act on Auditors.
Resolution on appeals filed against the resolution of the Chamber in disciplinary or other proceedings	In 2017, the Board issued a total of 11 resolutions on the appeal against the resolution of the Chamber; in 6 cases, the Chamber confirmed the resolution; in the remaining 5 cases, it changed or reversed the resolution or referred it back for new discussion.
Judicial administrative system	In 2017, auditors filed 2 statements of claim against the resolutions of the Board. In addition, the Board received 2 judgements on the statements of claim of 2013.

8. QUALITY ASSURANCE SYSTEM

8.1 Plan of Quality Inspections

The quality assurance system involves inspections of quality organised and managed by:

- a) **The Control Committee of the Board** (inspection of quality in auditors/audit firms which audit public interest entities); and
- b) **b) The Supervisory Committee of the Chamber** (inspection of quality of auditors/audit firms which do not audit public interest entities)

Plan of inspections

In each calendar half-year, the Chamber presents a proposed plan for the performance of quality inspections organised and managed by the Supervisory Committee to the Board. In the proposed plan, the Chamber lists the name of the auditor for which the quality inspection is planned, name or names of quality inspectors authorised to perform the quality inspection, name of the head of the control group and date of the commencement of the quality inspection.

The Board prepares the plan of quality inspections by the Control Committee and Supervisory Committee to meet the following criteria:

The quality assurance system shall meet the following criteria:

- a) Is independent from inspected auditors;
- b) Is subject to public oversight;
- c) The inspection of quality is performed by a quality inspector while meeting the conditions stipulated by the Act on Auditors; and
- d) The performance of the quality inspection is determined pursuant to a risk analysis

In preparing the plan of inspections, the Board takes into account the plan presented by the Chamber. The overall plan of quality inspections includes the auditor for which the quality inspection is planned, name or names of quality inspectors authorised to perform the quality inspection, name of the head of the control group and date of the commencement of the quality inspection. The Control Committee presents this plan to the Presidium for approval.

8.2 Quality Inspections Organised and Managed by the Board's Control Committee

A quality inspection in an auditor identifies whether the auditor proceeds in line with the Act on Auditors, standards on auditing, code of ethics and internal regulations of the Chamber and the Regulation in its audit activities. **All auditors** are subject to the quality assurance system.

Quality inspectors perform quality inspections in the scope necessary to achieve the purpose of quality inspections in accordance with Section 24, par. 1, of the Act on Auditors and document its conclusions by necessary underlying documentation. The scope of the quality inspection must be adequate and proportionate to the scope and complexity of the activities of the inspected auditor.

The quality inspection itself is divided into 3 principal parts focusing on:

- **Inspection of the management and control system** in relation to the Act on Auditors, ISQC 1 (Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements), ISA 220 (Quality control for an audit of Financial statements) and the Code of Ethics;
- **Auditor’s files;** and
- **Review of the report on transparency.**

During the quality inspection, the quality inspector proceeds in line with the Act on Auditors, Act No. 255/2012 Coll., on Inspection (Inspection Code), as amended, and Act No. 500/2004 Coll., Code of Administrative Procedure, as amended.

List of quality inspections as of 31 December 2017

PLANNED INSPECTIONS	INITIATED INSPECTIONS	COMPLETED INSPECTIONS	INSPECTION THAT IDENTIFIED FINDINGS (completed inspections)
14	14*	8	8

*one quality inspection was initiated by the announcement of its date, but the inspection itself will be performed in 2018

Process of quality inspections

The quality inspection is initiated on the date of the delivery of the announcement about the date of the inspection to the auditor that must be announced to the auditor no less than 30 days before the initiation of inspection activities. The inspection on site takes **2–4 weeks**, depending on the number of inspected auditors and complexity of inspected files. The result of the quality inspection is a protocol on the inspection that must be, in accordance with the applicable legislation, prepared within 30 days from the date of the last inspection activity, and within 60 days in particularly difficult cases.

The inspected auditor is entitled to file **objections** against findings from the inspection listed in the protocol on the inspection in **the period of 15 days** from the delivery of the protocol on the inspection. If the head of the inspection group does not respond to the objections within 7 days from the date of their delivery, the objections are dealt with by the Control Committee in the period of 30 days from the date of their delivery. In particularly complex cases the period may be extended by 30 days.

The inspection is brought to an end by or on:

- a) expiry of the period for the filing of objections or waiver of the right to file objections;
- b) day of delivery of clearance of objections to the inspected entity; or
- c) day on which the objections were transferred to the administrative body to be dealt with.

The process of quality inspections is very time consuming. When adhering to all periods stipulated by relevant legal regulations, it is not possible to complete all inspections initiated in a specific year.

Quality inspector’s file

During quality inspections and to document them, quality inspectors use software for both the processing of individual inspections on the internal control system and file level and an assessment of identified findings and risk analysis. Supporting documentation – e.g. evidence relating to individual findings, may also be entered in the system. The software is used by numerous partner oversight organisations in Europe (e.g. Germany, Luxembourg, United Kingdom and Slovakia).

Most frequently identified shortcomings in quality inspections

The shortcomings identified by quality inspections related to the non-adherence to the requirements of ISQC 1, the Act on Auditors, Code of Ethics and International Standards on Auditing.

In respect of ISQC 1 the findings relating, for example, to the following issues were identified:

- Relevant ethical requirements (independence);
- Performance of the engagement (consultations, engagement quality control, documentation of engagement quality control); and
- Monitoring.

Failure to comply with the Act on Auditors and Code of Ethics was identified, for example, in:

- Independence (written confirmation of annual independence, independence from the audit client in relation to the specific engagement);
- Active involvement of a key audit partner in the engagement (total time of a key audit partner on the engagement, distribution of the time to the time of the engagement, review and approval of the file by a key audit partner); and
- Archiving (failure to comply with the obligation to close the auditor's file by no later than 60 days from the date following the preparation of the auditor's report, failure to stipulate procedures for the completion and archiving of audit files so that no intervention may be done, i.e. change, amend or delete documents).

Failure to comply with the requirements of International Standards on Auditing was identified, for example, in respect of the following ISAs:

STANDARD	NAME
ISA 230	Audit Documentation
ISA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
ISA 300	Planning an Audit of Financial Statements
ISA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
ISA 330	The Auditor's Responses to Assessed Risks
ISA 500	Audit Evidence
ISA 505	External Confirmations
ISA 520	Analytical Procedures
ISA 530	Audit Sampling
ISA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures

8.3 Quality Inspections Organised and Managed by the Chamber's Supervisory Committee

The information in this chapter was taken from the half-year Reports of the Activities of the Chamber's Supervisory Committee for the period from 1 January to 30 June 2017 and 1 July to 31 December 2017.

List of quality inspections

QUALITY INSPECTION	FIRS HALF OF 2017	SECOND HALF OF 2017
Planned	136	86
Performed	127	74
Not performed	9	12
TOTAL	272	172

Most frequent shortcomings identified in quality inspections in accordance with ISA

STANDARD	NAME
ISA 230	Audit Documentation
ISA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
ISA 300	Planning an Audit of Financial Statements
ISA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
ISA 320	Audit Materiality
ISA 330	The Auditor's Responses to Assessed Risks
ISA 450	Evaluation of Misstatements
ISA 500	Audit Evidence
ISA 501	Audit Evidence – Additional Considerations for Specific Items
ISA 505	External Confirmations
ISA 520	Analytical Procedures
ISA 530	Audit Sampling

8.4 Board's Disciplinary Committee – Proceedings on Sanctions

Changes in the imposition of sanctions resulting from the amendment to the Act on Auditors in practice mean that the Disciplinary Committee may deal only with cases that arose after the amendment took effect. For this reason, the Disciplinary Committee paid most attention to issues relating to administrative punishments.

Amendment to the Board's Disciplinary Rules

Given that new Act No. 250/2016 Coll., on the Liability for Offences and Offences Procedure, took effect, the Board's disciplinary rules were amended so that their wording is in line with the current legal regulation in terms of terminology and processes. This brought about a change in the Act on Auditors – amendment no. 183/2017 Coll. aligned the *actus rei* in title XI. under one denomination – offence, the former terminology (administrative delicts) has been abandoned. For this reason, sanctions for offences are newly imposed on corporate entities and individuals – entrepreneurs.

Practical Issues of Evidence-Taking and Conduct of Proceedings

The Disciplinary Committee dealt with the area of evidence-taking, primarily in respect of the need for the due provision of underlying documentation for resolutions already as part of inspection activities. It examined the fair process rules in significant detail in relation to the interpretation of this term in the case law of the European Court of Human Rights in Strasbourg. This relates to the shift of the case law towards the common understanding of "criminal issues" irrespective of whether the sanction is imposed by an administrative body or a court.

Legal Basis of Investigation

The Disciplinary Committee took a stance to the legal basis of investigation in accordance with Section 40b of the Act on Auditors and concluded that an investigation is a separate legal institute different from quality inspections, primarily given the possibility of its application to other entities than auditors, and usually by a closer definition of its subject matter which will primarily focus on the verification of certain partial facts. For this reason, the objective is a relatively fast verification of the information from the media monitoring or from third parties and subsequent consideration of further process steps. The task, however, does not involve replacing quality inspection in auditors, be it in its due (planned) or extraordinary form.

Establishing Audit Committees

The Disciplinary Committee addressed a suggestion of the Czech National Bank made due to the failure of a public interest entity (issuer of securities on the regulated market) to establish an audit committee. The Disciplinary Committee assessed the arguments of the corporate entity in that specific case and called upon it to rectify the unlawful situation, including the provision of a reasonable period for doing so. In addition, it stated that a failure to deal with the situation in the required manner will constitute grounds for initiating offence proceedings.

8.5 Chamber's Disciplinary Committee – Disciplinary Proceedings

The information in this chapter was taken from half-year Reports on the Activities of the Chamber's Disciplinary Committee for the period from 1 January to 30 June 2017 and from 1 July to 31 December 2017.

Principal activities of the Disciplinary Committee include the decision-making on the imposition of measures in accordance with Section 25 of the Act on Auditors, in proceedings initiated ex officio or at a suggestion of entities stipulated by Section 26 of the Act on Auditors.

Petitions for the Initiation of Disciplinary Proceedings

In 2017, the Disciplinary Committee received 30 petitions for an initiation of disciplinary proceedings, of which 17 petitions in the first half of the year and 13 in the second half of the year.

PETITIONER	STATUTORY AUDITOR (SELF-EMPLOYED)	STATUTORY AUDITOR AND AUDIT FIRM	AUDIT FIRM	TOTAL
Chamber's Supervisory Committee	13	14	1	28
Board's Control Committee	-	1	-	1
Czech National Bank	-	-	1	1
TOTAL	13	15	2	30

Issued Resolutions

In 2017, the Disciplinary Committee issued 36 resolutions. 25 resolutions were completed with legal effect.

Disciplinary Measures

In 2017, the Disciplinary Committee imposed a total of 49 disciplinary measures, of which 36 are legally effective. The most frequent disciplinary measures include fines (in 21 cases) and public reprimands (in 13 cases).

Suggestions

In 2017, the Disciplinary Committee received 9 suggestions. It received 2 external suggestions and 1 internal suggestion filed by the Chamber's Executive Committee in the first half of the year, and 6 suggestions, of which 5 external and 1 internal in the second half of the year.

Continuous Professional Education

During the year, the Disciplinary Committee initiated 5 proceedings ex officio relating to the failure to adhere to the obligations of continuous professional education.

9. OTHER ACTIVITIES OF THE BOARD

9.1 Monitoring Market Quality and Competition

Other activities of the Board include, in accordance with Article 27 of the Regulation (monitoring market quality and competition), assessment of the activities of audit committees, preparation of a report on the development on the market of provision of obligatory audit services to public interest entities at least once in three years and present it to the **CEAOB** (Committee of European Auditing Oversight Bodies), bodies of **ESMA** (European Securities and Market Authority), **EBA** (European Banking Authority) and **EIOPA** (European Insurance and Occupational Pensions Authority) and to the **Commission**.

Pursuant to consultations with the CEAOB and bodies of ESMA, EBA and EIOPA, the Commission will use the reports on development to prepare a joint report in the situation in the European Union. This joint report is presented to the Board, the European Central Bank, European Systemic Risk Board, and possibly to the European Parliament.

The first Report on the development on the market of the provision of obligatory audit services to public interest entities was prepared by the Board and presented in mid-June 2016. The summary information relating to the development on the market of the provision of obligatory audit services to public interest entities is published at – https://ec.europa.eu/info/publications/170907-statutory-audit-services-report_en. https://ec.europa.eu/info/publications/170907-statutory-audit-services-report_en.



REPORT FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN SYSTEMIC RISK BOARD AND THE EUROPEAN PARLIAMENT

on monitoring developments in the EU market for providing statutory audit services to public-interest entities pursuant to Article 27 of Regulation (EU) 537/2014

The second report on the development on the market of the provision of obligatory audit services to public interest entities should be, in accordance with the Regulation, prepared and presented by mid-June 2019.

Report on the activities of the audit committee for the following period

At present, the CEAOB, in cooperation with EU members states, is preparing a new format of the report on the activities of the audit committee (including the content) that will be unified for all EU countries.

The Board anticipates that the electronic template of the report on the activities of the audit committee in MS Excel in Czech and English may be published at the Board's website immediately after its approval by the CEAOB's plenary meeting in **June 2018**.

The information that audit committees will provide will relate to the reporting **period of 2017**. The recommended deadline for the delivery of the completed electronic report on the activities of the audit committee to the Board was determined by the Presidium to be 31 December 2018.

The currently available information of the CEAOB suggests the following time schedule for EU member countries:

DEADLINE	DESCRIPTION
30 June 2018	Plenary meeting of the CEAOB – approval of the format and content of the report on the activities of the audit committee.
16 July 2018	Publication of the report on the activities of the audit committee approved by the plenary meeting of the CEAOB at the Board's website. The report will be published in Czech and English.
31 Dec 2018	The recommended deadline for the delivery of the completed report on the activities of the audit committee to the Board.
Period	The information on the activities of the audit committee relates to the audit of the financial statements for 2017 . <i>Example:</i> <ul style="list-style-type: none"> • <i>Audited entity has a reporting period ending always on 31 December.</i> • <i>The financial statements and the annual report relating to 2016 were approved by the relevant body on 30 June 2017.</i> • <i>The financial statements and the annual report relating to 2017 were approved by the relevant body on 25 June 2018.</i> • <i>The information contained in the report of the audit committee relates to the period from 30 June 2017 to 25 June 2018.</i> • <i>The audit committee approved and issued the report on the activities in September 2018.</i>

9.2 Obligations of the Audit Committee

The EU legal regulations and the amendment to the Act on Auditors that took effect on 1 October 2016 introduce detailed requirements for the obligatory audit of public interest entities. The objective of these legal regulations is to increase the quality of auditing and independence of auditors. This objective may be achieved by both the support of an open tender on the audit market and assuring that audit committees accept their role.

The establishing of audit committees should result in the strengthening of independent oversight of the preparation of the financial statements, or consolidated financial statements, the process of financial reporting, effectiveness of the risk management system, internal controls and internal audit, if established in the particular entity, and conducting of the obligatory audit.

The Act on Auditors imposes numerous requirements on audit committees, relating to the statutory auditor, obligatory audit, provision of non-audit services and monitoring of the financial statements or consolidated financial statements preparation procedure.

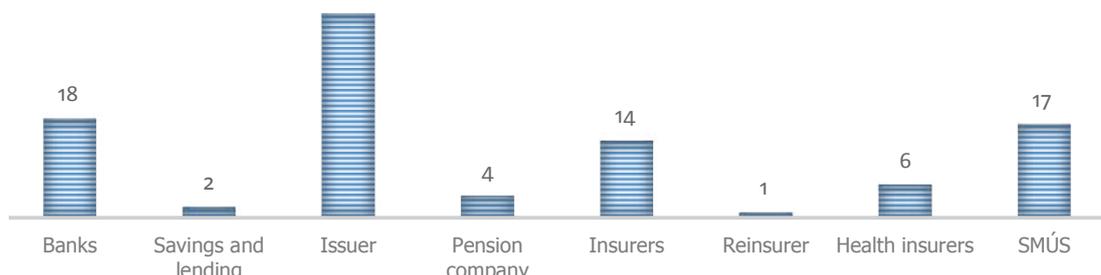
As a result, the objective of the audit committee is to contribute to the mitigation of risks and provide correct information both in and outside the entity. A strong and competent audit committee thus needs to be treated as an integral part of the corporate governance system.

In accordance with Section 44aa, par. 3, of the Act on Auditors, the audit committee prepares a report on its activities on an annual basis to assess its activities in relation to the activities listed in Section 44a, par. 1, of the Act on Auditors, and provides it to the Board.

Assessment of report on the activities of the audit committee

As of 31 December 2017, the Board received **a total of 99 reports on the activities of audit committees**, from both public interest entities and entities with an equity investment of the state (SMÚS).

Entities whose audit committees provided the report on the activities of the audit committee to the Board:



Detailed information relating to the assessment of reports on the activities of audit committees that were provided by audit committees to the Board is disclosed in APPENDICES (Appendix 3 – Assessment of reports on the activities of audit committees).

9.3 Conferences, Seminars and Lecturing Activities

Audit Committees

On 18 January 2017, the "Audit Committees" conference was held at the premises of the Supreme Auditing Office organised by the Czech Institute of Internal Auditors, the Chamber, the Czech Ministry of Finance, the Supreme Auditing Office and the Board. A representative of the Board made a presentation entitled "Publications Issued by the Board".

Meeting of the Subgroup for Inspections of the CEAOB

Between 6 and 9 June 2017, a meeting of the subgroup for inspections of the CEAOB was held at the premises of the University of Economics in Prague which was hosted by the Board. The meeting was held under the auspices of the deputy minister of finance responsible for the management of section 04 – Financial Management and Audit. This meeting was attended by approximately 80 representatives of oversight bodies from all EU member states. Principal topics of the meeting included a discussion with the European management of audit firms Deloitte, BDO and Grant Thornton, information on the findings identified during quality inspections and the work and focus of the CEAOB and sub-group for inspections.



National Conference of the Czech Institute of Internal Auditors

On 14 and 15 November 2017, a national conference of the Czech Institute of Internal Auditors entitled "Innovations and Regulation in Internal Audit" was held in Brno. Two representatives of the Board attended the conference, they made a presentation in section A – internal audit and regulation with topics on audit committees, with a focus on: Experience with the operations of audit committees and assessment of reports on the activities of these committees that were sent to the Board in 2017 by audit committees of public interest entities and entities with the equity investment of the state.

"Navigating the Labyrinth of Audit" Seminar

On 5 October 2017, a seminar was held in Brno, organised together with the Supreme Administrative Court and the Board.

Individual presentations of the representatives of the oversight body and professional autonomy were focused not only on the issues of the current legal regulation of the audit, but also on the clarification of basic principles and bases that are used (or should be used) in the work of every auditor. The discussion focused on a critical assessment of the EU audit reform, relationship of the autonomy and oversight, including a new competence framework following amendment No. 299/2016 Coll., and the issues of the organisation of the quality inspection system and following sanctions. The objective was to highlight the public interest in due performance of audit activities and relating necessity of preventive operations of both bodies both on the control and sanction levels.

Lecturing Activities

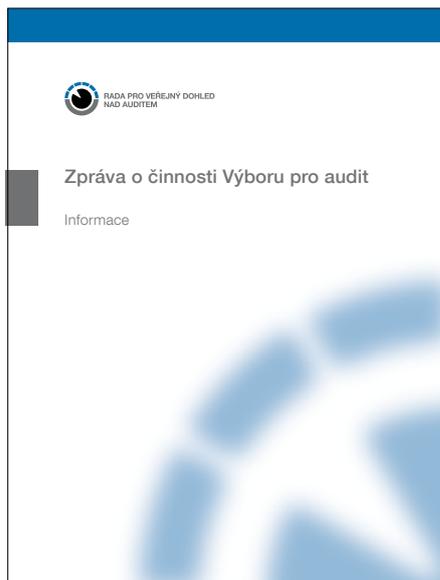
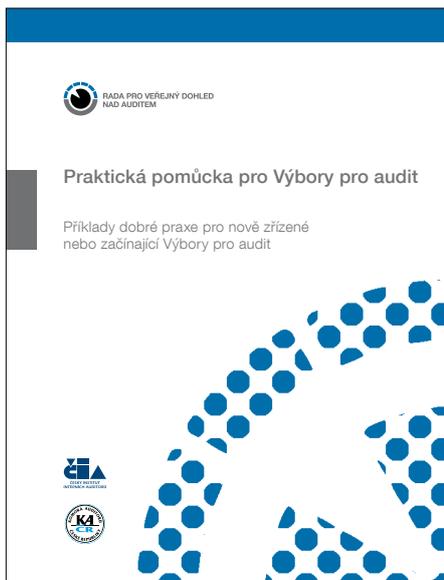
During 2017, employees of the Board and representatives of the Board bodies worked as lecturers and gave lectures, for example, for the Chamber. Principal topics of lectures included the audit methodology, public interest entities, Act on Auditors and financial accounting of entities in the public sector.

9.4 Publication Activities of the Board

Publications issued by the Board

The first publication is the **Practical Manual for Audit Committees – good practice examples for newly established or starting audit committees**. The objective of this publication is to provide a practically focused list of issues of audit committees so that audit committees could contribute to the mitigation of risks and provide correct information both in and outside the entity.

The second publication is the **Report on the Activities of the Audit Committee**. The objective of this publication is to provide audit committees with methodological support and further information for the preparation of the report on the activities in accordance with the Act on Auditors. The purpose is to provide the Board with information for the due performance of its obligations resulting from the Regulation.



Publication Activities

The employees of the Board regularly write for professional magazines – Auditor, ÚNES (účetnictví a daně pro územní samosprávné celky, příspěvkové organizace, organizační složky státu a nevýdělečné organizace), Účetnictví nevýdělečných organizací a obcí, etc.

9.5 Cooperation with the Czech Ministry of Finance

Work Group for the Application of the Act on Auditors

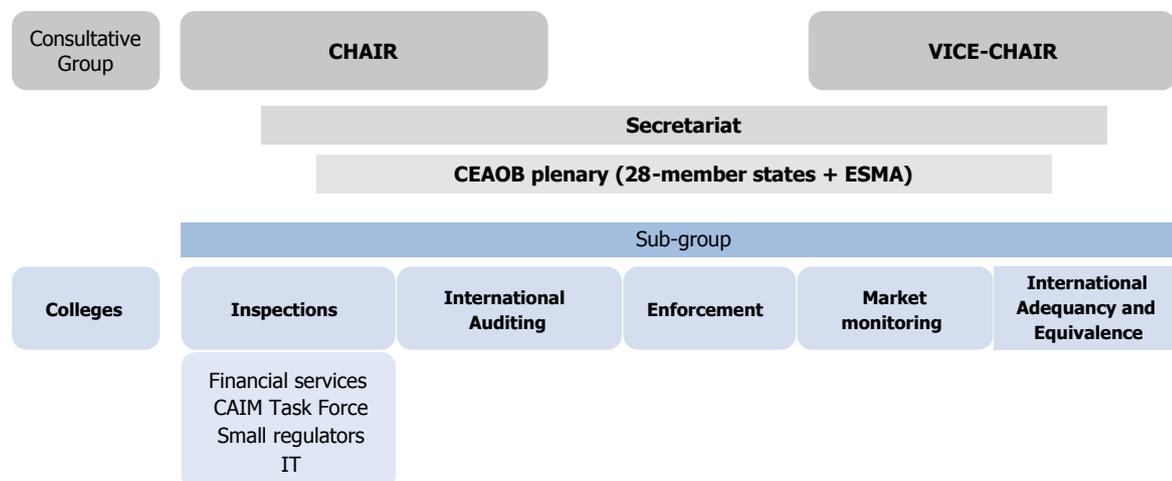
Selected representatives of the bodies and employees of the Board regularly attended meetings of the work group for the application of the Act on Auditors established by the Czech Ministry of Finance. The meeting discussed the topics such as audit committees, quality assurance legal regulations and transitional provisions of the Regulation and the Act on Auditors.

10. INTERNATIONAL COOPERATION

The Board actively cooperates with key organisations in audit regulations and oversight of the profession. The objective of this cooperation is to benefit from the observations and experience of international oversight organisations that have been active for many years and created appropriate procedures and methodologies for their needs. The membership in certain organisations is stipulated by the Regulation.

NAME OF THE ORGANISATION	DESCRIPTION OF ACTIVITIES
IFIAR (International Forum of Independent Audit Regulators)	<p>Work meetings In February 2017, representatives of the Board attended the work meeting with representatives of other oversight bodies. Key discussed topics were as follows: audit committees, data analytics, rotation, audits of insurers and key audit matters.</p> <p>Plenary meetings V dubnu 2017 se zástupci Rady účastnili Plenárního zasedání IFIAR, kde byly představeny výsledky práce jednotlivých pracovních skupin IFIAR. Velký prostor byl věnován aktivitám Pracovní skupiny pro investory a další stakeholdery.</p>

Organisational Structure of the CEAOB and its Sub-groups



Activities in 2017

NAME OF THE ORGANISATION	DESCRIPTION OF ACTIVITIES
IFIAR (International Forum of Independent Audit Regulators)	<p>Plenary meetings of the CEAOB Representatives of the Board regularly attend plenary meetings of the CEAOB.</p> <p>Consultative group of the CEAOB's chairman A representative of the Board was actively involved in the work of the consultative group of the CEAOB's chairman, the task of the group is to assist the CEAOB's chairman in the preparation of plenary meetings, selection of key issues and setting of processes in the CEAOB.</p>

CEAOB – SUBGROUPS AND INITIATIVES

NAME OF THE SUBGROUP	NAME OF THE INITIATIVE	DESCRIPTION OF ACTIVITIES
MARKET MONITORING		During 2017, we were actively involved in the work of the market monitoring subgroup, its activities primarily focus on the development of consistent methodology for data collection for the monitoring report preparation.
INSPECTIONS		<p>An important part of the Board's activities is the fostering of cooperation with international oversight bodies focused on increasing the quality of the audit work on the Czech market.</p> <p>Czech Republic – Prague</p> <p>The Board hosted a meeting of the Inspections sub-group of the CEAOB held in Prague from 6 to 9 June 2017. Approximately 80 representatives of oversight bodies from all EU countries attended the meeting.</p>
	Initiative for small regulators group	<p>The meeting of the CEAOB ISG in October 2017 adopted a resolution to form an initiative of the CEAOB for the "small regulators" group. The objective of this initiative is to develop a platform for the cooperation of oversight bodies with a lower number of inspectors to share experience from the oversight of these organisations over audit, and to use professional capacities of individual authorities as part of international cooperation and support for the harmonisation of procedures in dealing with various regulatory issues.</p> <p>The management group established at the end of 2017 includes Ireland, Cyprus, Lichtenstein, Hungary and Slovenia.</p>
	Common Audit Inspection Methodology initiative (CAIM)	In 2017, the management group for inspection methodology dealt with the completion and approval of other parts of common methodology (CAIM – Common Audit Inspection Methodology) in respect of ISA 540 and ISA 600.
INTERNATIONAL STANDARDS ON AUDITING		The meeting of the representatives of this sub-group with the presence of a Board representative was held in June 2017. The principal task is to foster cooperation and increase consistency of the audit oversight in the European Union in respect of the adoption and application of professional ethics standards, internal quality inspections of audit firms and audit, and contribute to the technical review of International Standards on Auditing, including the process of their preparation, with a view to initiating their adoption.
ENFORCEMENT		<p>In 2017, the Enforcement subgroup communicated on an ongoing basis using the form of conference calls and at the June meeting abroad.</p> <p>The principal task is the preparation of a questionnaire relating to the sanctioning issues and ensuring compliance with reporting obligations to the CEAOB, as a whole.</p>
COLLEGES		<p>Colleges of KPMG and EY</p> <p>Representatives of the Board attend the meetings of two colleges (KPMG and EY). The meetings of the colleges discuss findings identified during quality inspections in the "Big 4" audit companies and issues on which the oversight bodies should focus in next quality inspections.</p>

11. INFORMATION IN ACCORDANCE WITH ACT NO. 106/1999 COLL.

This chapter includes information relating to the provision of information in accordance with Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as amended (the "Information Act") for 2016, specifically the assessment of the number of received applications for the provision of information, their processing and further information relating to the provision of information in accordance with the Information Act.

PART	AREA	DESCRIPTION
A	Number of filed applications for information	In 2017, the Board received no application for information in accordance with the Information Act. The Board received only 1 requirement that did not comply with the required form according to Section 14, par. 4, and was included in exclusions listed in Section 2, par. 4, of the Information Act.
B	Number of issued resolutions on the rejection of the application	In 2017, the Board issued no resolution on the rejection of application.
C	Number of filed appeals against the resolution of rejected applications	In 2017, no such appeal was filed.
D	Legal proceedings in the re-examination of the legality of the resolution upon the rejection of the applications	In 2017, the Board received no judgements regarding the re-examination of the legality of the resolution upon the rejection of the applications (or partial rejection of the applications).
E	List of provided exclusive licences	In 2017, the Board issues no exclusive licences in accordance with Section 14a of the Information Act.
F	Number of complaints filed in accordance with Section 16a of the Information Act	In 2017, the Board received no such complaints.

12. FINANCIAL STATEMENTS

The Financial Statements in accordance with Section 18 of the Accounting Act comprising the balance sheet, profit and loss account and notes prepared which classify and expand the information contained in the balance sheet and profit and loss account, primarily through adherence to Section 7, par. 3 to 5, and Section 19, par. 5 and 6, are included in APPENDICES (Appendix 4 – Financial Statements).

13. OUTLOOK OF ACTIVITIES OF THE BOARD FOR 2018

In 2018, the Board will continue in all the activities stipulated by the Act on Auditors. Key issues include public oversight and quality inspections.

Quality Inspections

A total of 18 quality inspections of audit firms are planned for 2018. From May 2018 throughout the rest of the year, quality inspections of the largest audit firms on the market will be performed.

Public Oversight

A total of 10 oversights were planned for the first half of 2018. A similar number of oversights are planned for the second half of the year.

Audit Committees

The information listed in the Audit Committee Activity Reports intended for the Board provided by public interest entities for 2017 will be processed. The results of the information from these reports will be used in the preparation of the Report on the Development on the Market of Obligatory Audit Services to Public Interest Entities (refer to Article 27 of the Regulation).

International Cooperation

Representatives of the bodies and employees of the Board will continue to cooperate with foreign oversight bodies as described in part 10 INTERNATIONAL COOPERATION of this report.

Round Table

The Board is planning to organise regular round table meetings aiming to inform auditors on selected issues that resulted from quality inspections performed by the Board in 2017 with a focus on the internal control system of the auditor and auditor's file in small audit firms and auditors – sole practitioners and internal control system of the auditor and auditor's file with a focus on large audit firms.

Work Group for the Application of the Act on Auditors

Selected representatives of the Board's bodies and the Board's employees will continue to attend the meetings of the group for the application of the Act on Auditors established by the Czech Ministry of Finance in the following year.

Lecturing

During 2018, as in prior years, employees of the Board and representatives of the Board's bodies will give lectures. Principal topics of their lectures will include issues of audit methodology, the Act on Auditors and financial accounting of entities in the public sector, public interest entities, etc.

Publications

The employees of the Board will publish contributions in professional magazines – Auditor, ÚNES (účetnictví neziskového sektoru), Účetnictví nevýdělečných organizací a obcí, etc. in 2018.

Staffing

All activities in 2018 will be provided by the current number of employees and members of bodies of the Board.

APPENDICES

APPENDIX 1

Public interest entities

Article 2 of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC stipulates that public interest entities are entities which:

Issuers

- a) are governed by the legislation of a certain member state and their transferable securities are accepted for trading on the regulated market of any member state in accordance with Article 4, par. 1, point 14, of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments;

Credit institutions

- b) are credit institutions in accordance with Article 4, point 1, of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions, listed in Article 2 of that directive;

The website of the Czech National Bank states that a credit institution = corporate entity engaged in activities consisting in the acceptance of deposits from the public and provision of loans, or an entity authorised to issue electronic funds. In the Czech Republic, the credit institution term covers banks, savings and credit cooperatives (cooperative banks).

Insurers

- c) are insurers in accordance with Article 2, par. 1, of Council Directive 91/674/EEC of 19 December 1991, on the annual accounts and consolidated accounts of insurance undertakings.

In accordance with Act No. 563/1991 Coll., on Accounting, as amended (the "Act on Accounting"), public interest entities have additionally included the following entities starting from 1 January 2016:

Public interest entities include entities with their registered office in the Czech Republic which are:

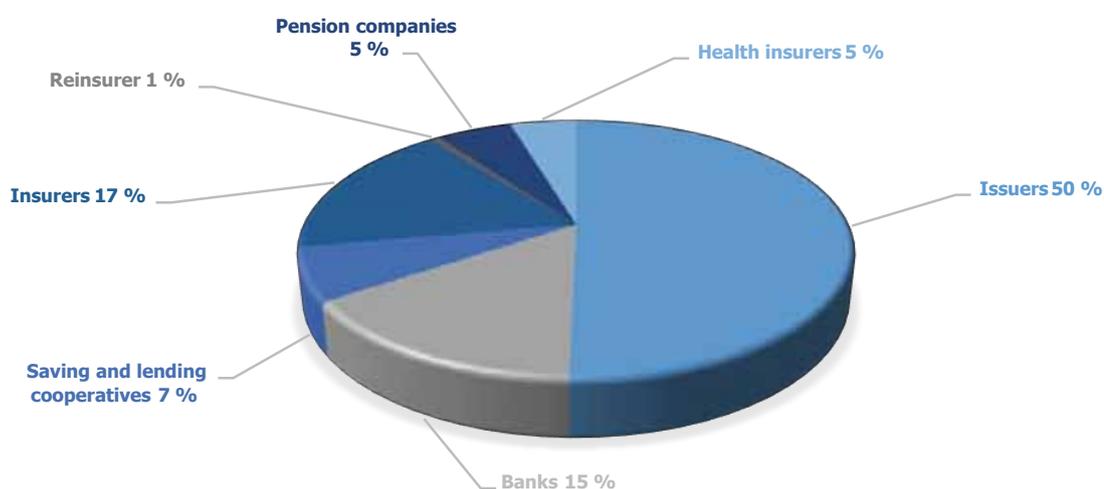
- a. Insurer or reinsurer in accordance with the act defining activities of insurers and reinsurers;
- b. Pension companies in accordance with the act defining pension savings schemes or additional pension savings;
- c. Health insurer.

Changes in public interest entities in 2017

PUBLIC INTEREST ENTITY	31 DEC 2016	ADDITIONS	DISPOSALS	31 DEC 2017
Credit institution – bank	22	1	-	23
Issuer	73	15	-12	76
Pension company	8	-	-	8
Insurer	28	-	-2	26
Credit institution – savings and lending cooperative	11	-	-1	10
Reinsurer	1	-	-	1
Health insurer	7	-	-	7
TOTAL	150	16	-15	151

As of 31 December 2017, there was a total of **151 of public interest entities** in the Czech Republic.

Structure of public interest entities as of 31 December 2017



The largest group includes entities that are business companies and issuers of investment securities accepted for trading on European regulated markets (a total of 49 % as of 31 December 2016), the second group includes insurers (a total of 19 % as of 31 December 2016), the third group includes banks (a total of 15 % as of 31 December 2016).

The number of public interest entities changes, for example depending on the following criteria: the entity entering the regulated market, repaying bonds, obtaining or losing a licence.

APPENDIX 2

Public interest entities and their categories as defined by the accounting act

The Accounting Act defines a public interest entity as a **large entity**, i.e. an entity that exceeds at least two threshold values as of the balance sheet date:

- Total assets of CZK 500 million;
- Annual sum of net turnover of CZK 1,000 million; and
- Average number of employees in the reporting period of 250.

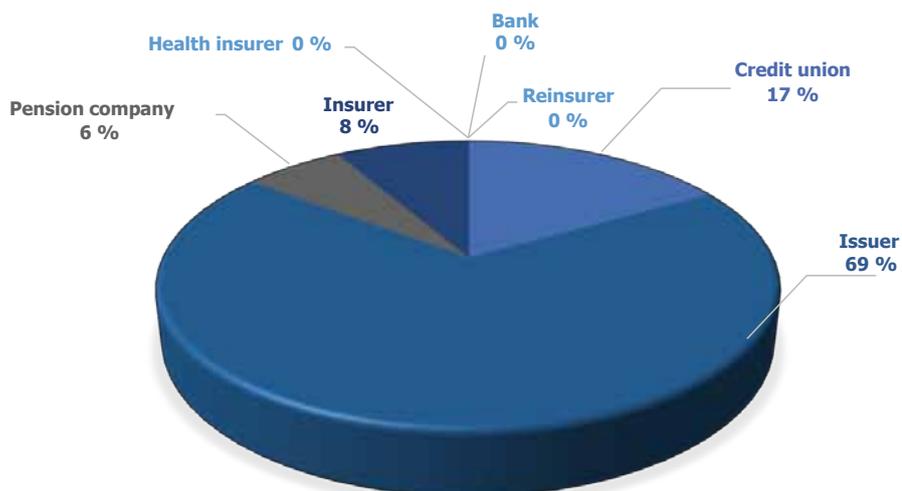
Categories of entities

If we use the categories of entities defined in the Accounting Act for the group of public interest entities (i.e. regardless of the fact that a public interest entity is always a large entity), it is possible to divide the entire group of these entities as follows:

Small Entity

A small entity is an entity which is not a micro entity and exceeds at least two threshold values as of the balance sheet date:

- Total assets of CZK 100 million;
- Annual sum of net turnover of CZK 200 million; and
- Average number of employees during the reporting period of 50.



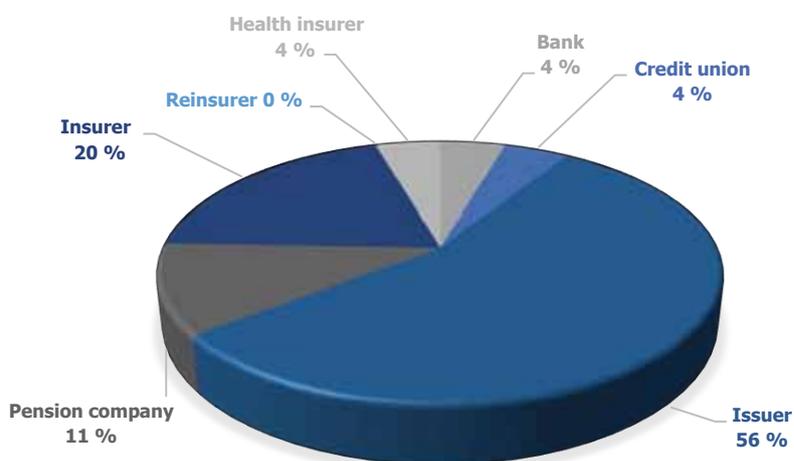
The “small entity” category primarily includes issuers of listed securities which include qualified investors funds managing significant investments.

Investment funds that issue investment shares typically belong to the “small entity” category as they do not meet two conditions at the same time, but they manage significant assets.

Medium-Sized Entity

Medium-sized entities include entities that are not micro entities and exceed at least two threshold values as of the balance sheet date:

- Total assets of CZK 500 million;
- Annual sum of net turnover of CZK 1,000 million; and
- Average number of employees in the reporting period of 250.

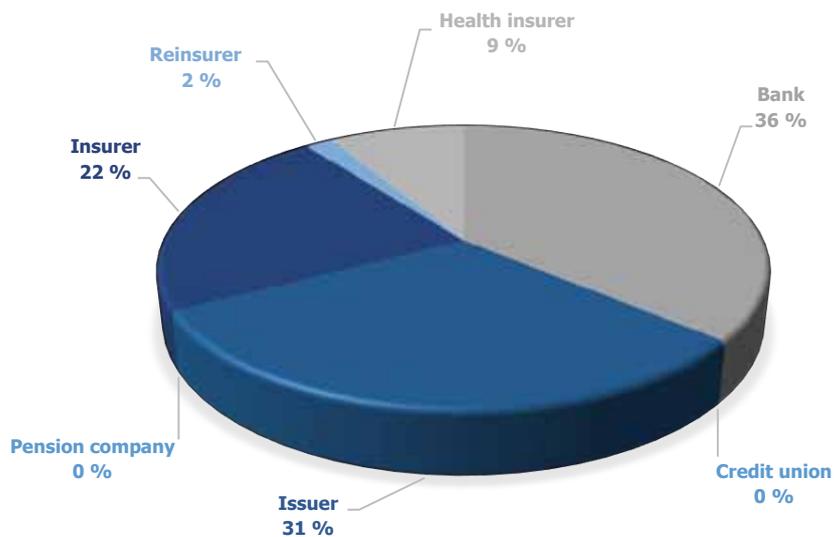


The “medium-sized entity” category includes issuers of listed securities and insurers.

Large Entity

Large entities include entities that exceed at least two threshold values as of the balance sheet date:

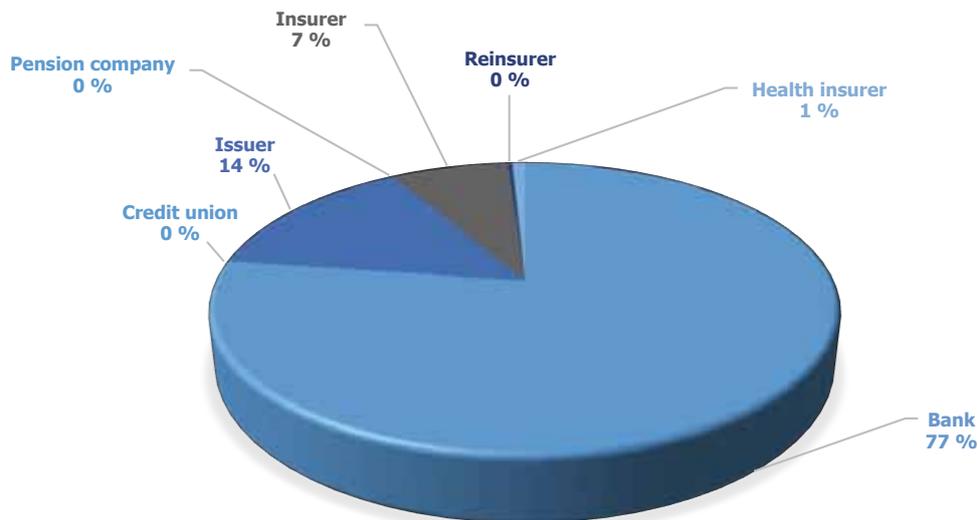
- Total assets of CZK 500 million;
- Annual sum of net turnover of CZK 1,000 million; and
- Average number of employees in the reporting period of 250.



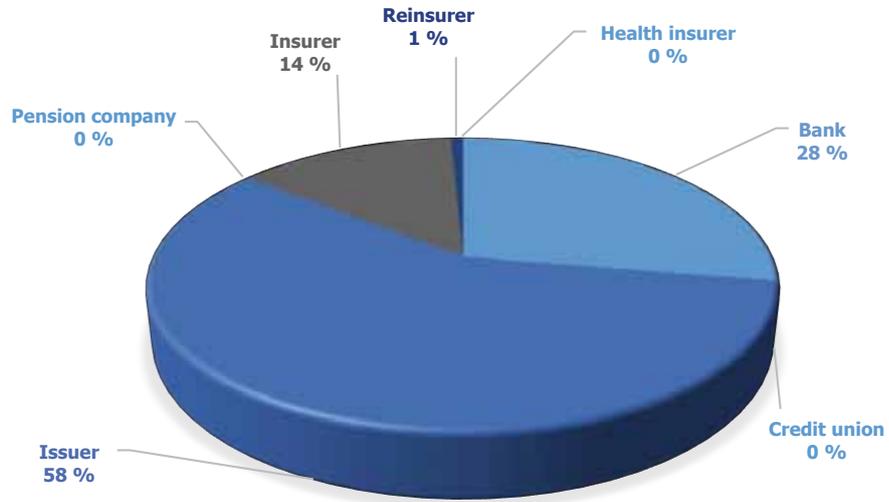
The "large entity" category includes banks, insurers and issuers of listed securities.

With regard to these public interest entities included in the "large entity" category, total assets as of 31 December 2017 amounted to approximately CZK 7,171 billion (as of 31 December 2016: CZK 5,974 billion), total annual sum of net turnover amounted to CZK 829 billion (as of 31 December 2016: CZK 526 billion) and the total number of employees was approximately 138 thousand (as of 31 December 2016: 92 thousand).

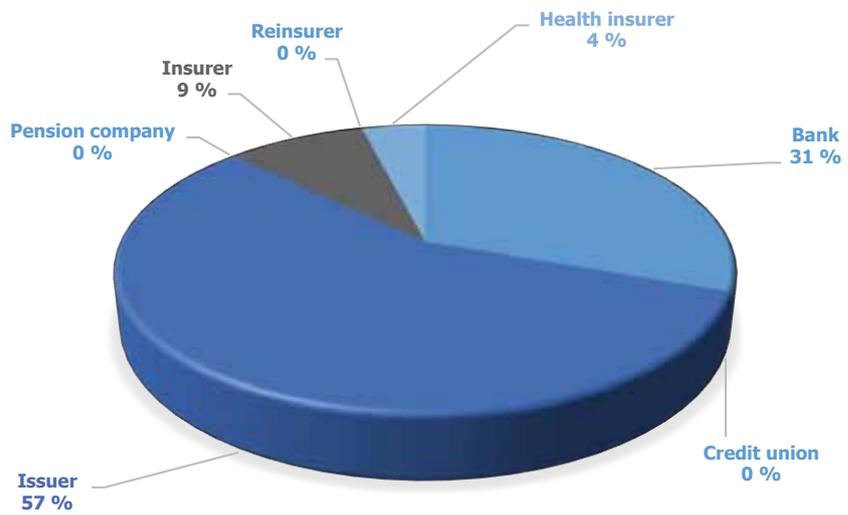
Public interest entities with assets exceeding CZK 500 million:



Public interest entities with the annual sum of net turnover exceeding CZK 1 billion:



Public interest entities with the average number of employees exceeding 250:



APPENDIX 3

Assessment of audit committee activity reports

Of the total number of delivered reports, 96 reports were provided in the template format designed by the Board and 3 reports were delivered in a different format (1 health insurer and 2 insurers). The reports that were provided in a different format did not include all the information listed in the format designed by the Board; for this reason, these reports were not included in the overall assessment.

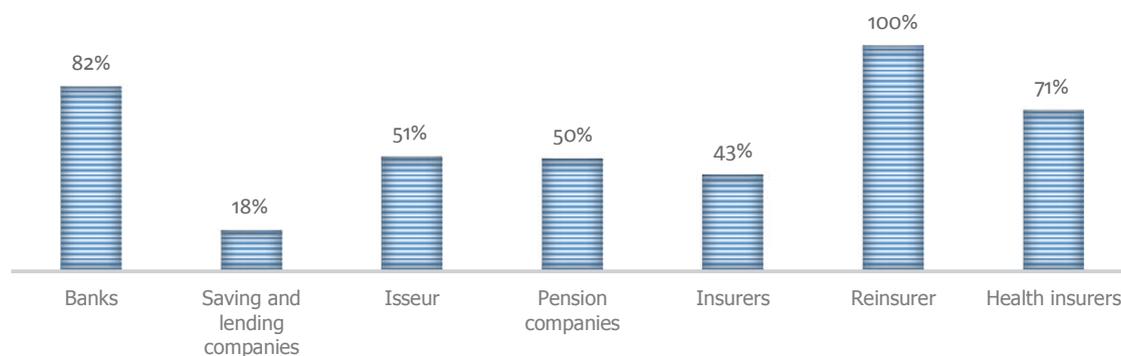
The information described below in the text consequently relates only to the information provided in 96 audit committee activity reports.

List of public interest entities as of 31 December 2016:



As of 31 December 2016, there was a total of 150 public interest entities in the Czech Republic. The largest group includes entities that are business companies and issuers of investment securities accepted for trading on European regulated markets. They are followed by insurers and banks.

Comparison of public interest entities with public interest entities whose audit committees provided audit committee activity reports to the Board:

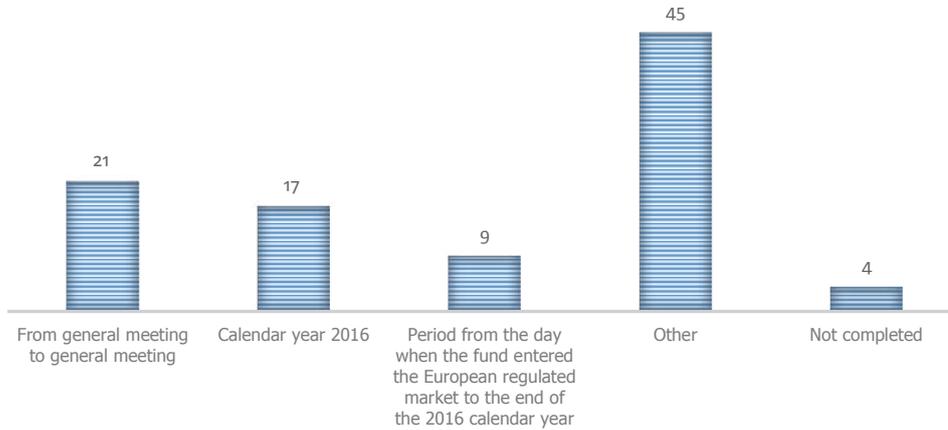


The above chart shows the comparison of public interest entities (refer to the chart "List of public interest entities as of 31 December 2016") with individual public interest entities whose audit committees provided the audit committee activity reports to the Board (excluding the entities with the state's equity investment).

Number of entities with the state's equity investment as of 31 December 2016:

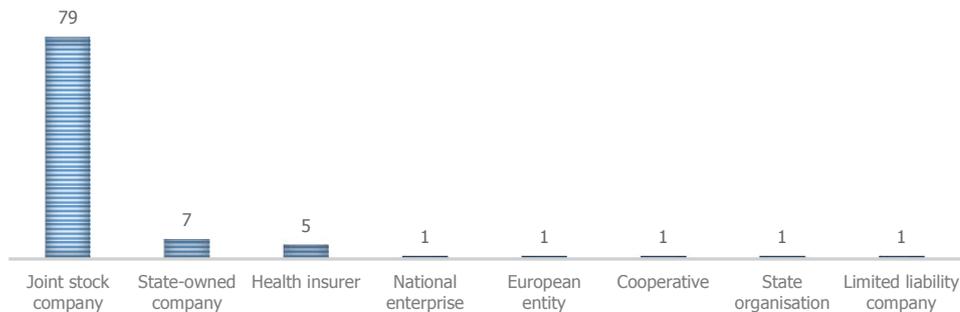
The Board has no information relating to the number of entities with the state's equity investment, or the number of audit committees that were established in these entities as of 31 December 2016.

The period that the audit committee report covers:



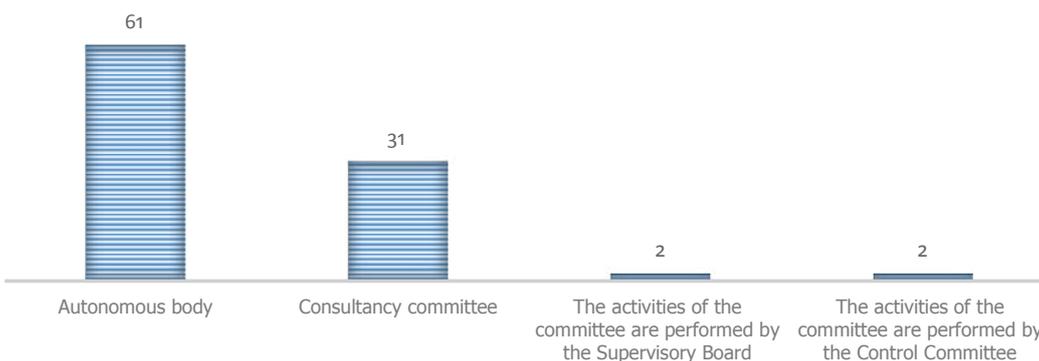
The "Other" category includes, among other things, the following periods: from the meeting of members approving the financial statements and annual report to the meeting of members approving the following financial statements and annual report, from the formation date to the date of the general meeting approving the annual report for 2016, from the establishment of the audit committee to the end of the financial statements monitoring process.

Legal status of entities whose audit committees provided the required information to the Board:



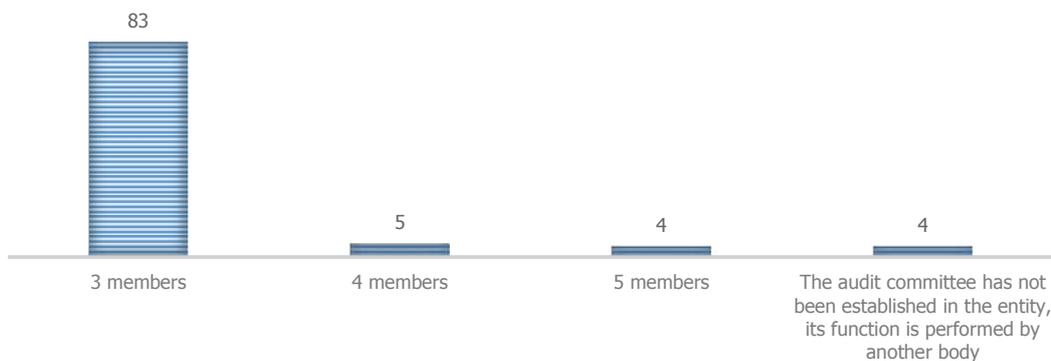
A total of 79 companies (82%) of the 96 processed reports stated that the entity in which the audit committee was established was a joint stock company.

Position of the audit committee in the entity:



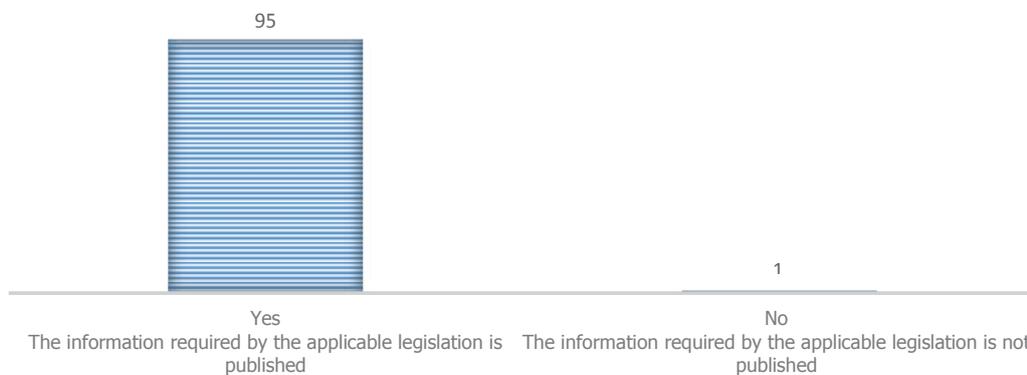
The Act on Auditors does not stipulate what position the audit committee should have in the organisational structure of a specific entity. For this reason, it is up to the entities to determine whether the audit committee is an autonomous body or a consultancy committee in the organisational structure. The provided audit committee activity reports indicate that in 61 entities (64%) the audit committee was an autonomous body and in 31 entities it was a consultancy committee (32%).

Number of audit committee members:



The Act on Auditors stipulates that the audit committee should have no fewer than 3 members. If the audit committee has not been established in the entity, its function is performed by another body of the entity, e.g. the Supervisory Board or the Control Committee. 83 entities (86%) of the total number of the 96 prepared reports stated that the audit committee has 3 members.

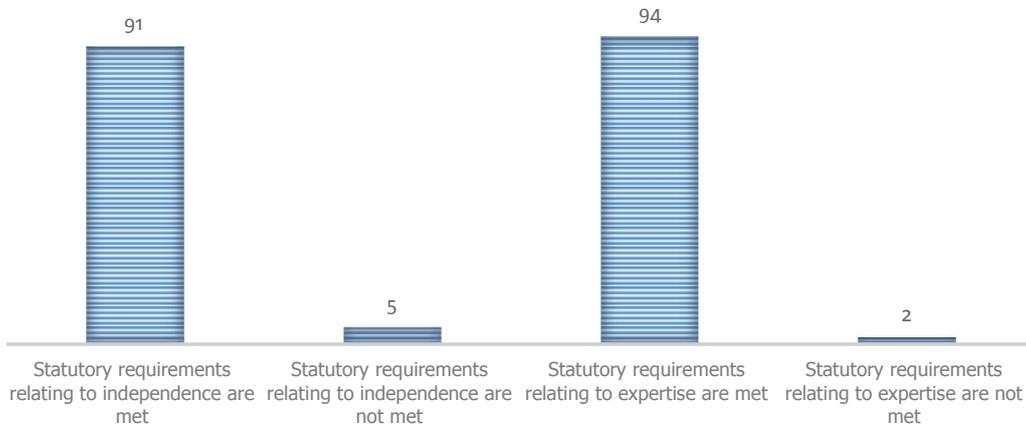
Publication of information on the website:



The Act on Auditors stipulates that one of the obligations of the entities is to publish the list of audit committee members on their websites. The entities must provide such information that is recorded in respect of members of the control body to the Register of Companies.

Public interest entities commit an offence by not publishing the list of audit committee members on their websites in violation of Section 44, par. 7, of the Act on Auditors, or do not publish the information that is recorded in respect of members of the control body in the Register of Companies. 95% (99%) of the total number of 96 processed reports stated that they complied with the statutory obligation to publish the required information.

Independence and expertise:



In accordance with the Act on Auditors, most audit committees must be independent and qualified. At least one audit committee member must be a person who is or was the statutory auditor or a person whose knowledge or existing work experience in accounting provide for due performance of the audit committee member’s office, in respect of the industry segment in which the entity operates; this member must be always independent.

Qualified are those that held an executive management function in an entity that operates in the same segment as the public interest entity or was responsible for the performance of the risk management function, assessment of compliance of the activities with legal regulations, internal audit or actuarial function or another similar function.

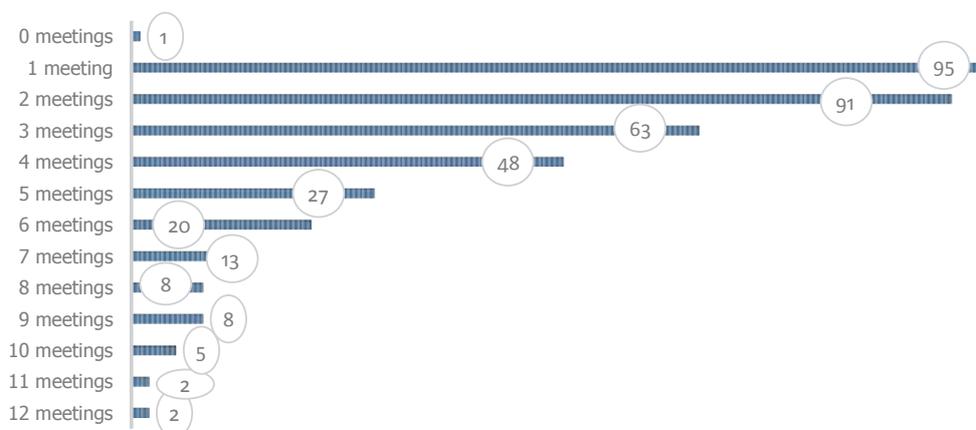
91 entities (95 %) of the total number of 96 processed reports stated that they complied with statutory requirements relating to independence, and 94% entities (98%) of the total number of 96 processed reports stated that they complied with statutory requirements relating to expertise.

Regulations stipulating the scope and activities of the audit committee:



The above list shows principal internal regulations that stipulate or relate to the activities of the audit committee. These include regulations relating to the entire company, if they have an influence on the activities of the audit committee, and internal regulations that the audit committee adopted for its activities. In the "Other" category, 18 entities (out of 44 entities) stated that its activities and scope are stipulated, for example, by "Audit committee rules".

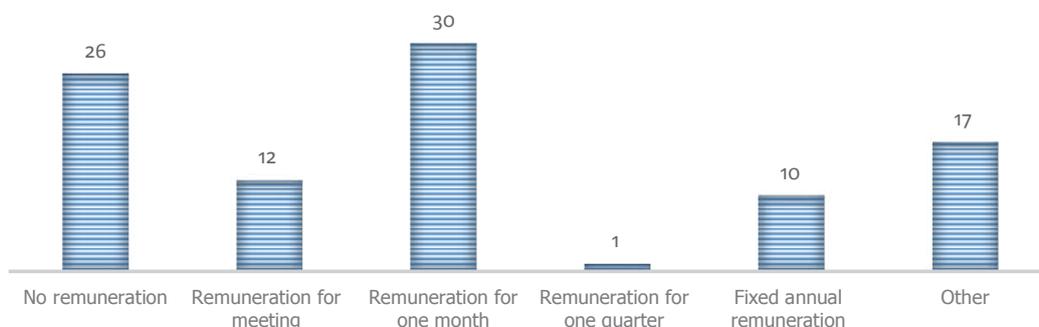
Number of meetings of the audit committee:



95 entities (99%) of the 96 processed reports stated that they held at least one meeting in the reporting period. 2 entities (2%) of the 96 processed reports, one entity with the state’s equity investment and one public interest entity stated that they met twelve times in the reporting period. In one case, the dates of meetings were not completed.

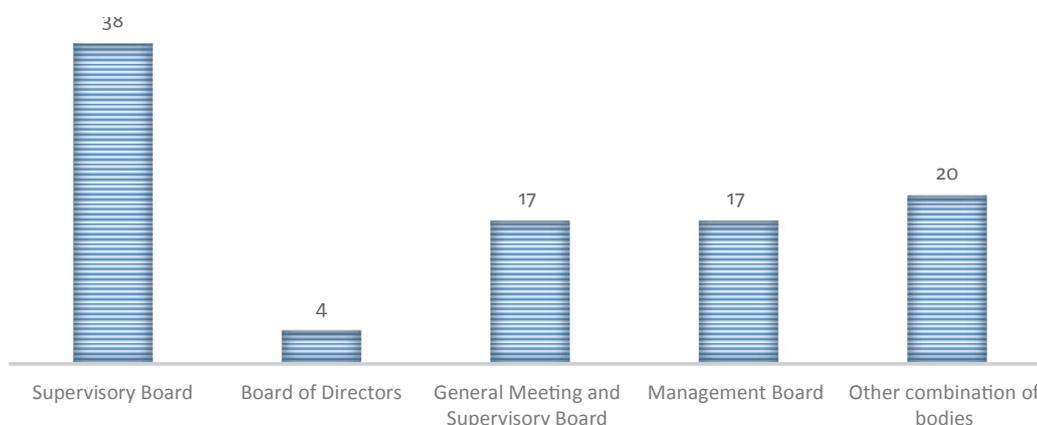
Principal topics of meetings included the following: presentation of an external auditor (including the course and timing of the financial statements audit), reporting of an internal auditor (including the plans of audits and reports from completed audits), report on risk management.

Method of remuneration for audit committee members (including the chairman, or vice-chairman):



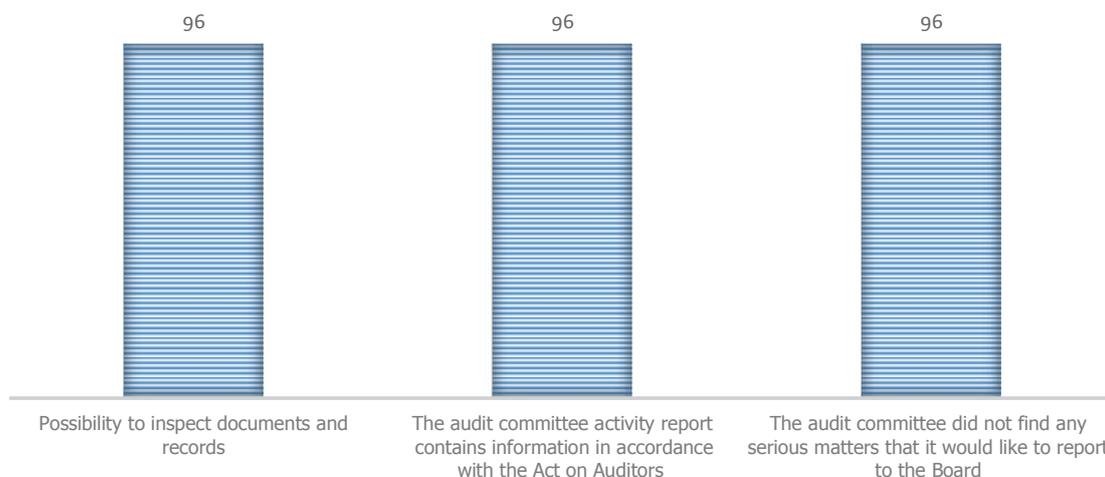
The remuneration for audit committee members (including the chairman) is relatively variable. The “Other” category includes various combinations of remuneration for audit committee members, for example: different remuneration for the chairman and vice-chairman and members of the audit committee, or remuneration only for the committee chairman, or chairman and vice-chairman remunerated only for meetings, members of the committee entitled to fixed annual remuneration. The largest group includes entities (31%) in which audit committee members receive monthly remuneration.

List of bodies that the audit committee informed on its activities and conclusions drawn from these activities:



38 entities (40%) out of the 96 processed reports stated that they regularly informed the Supervisory Board. The "Other combination of bodies" category includes, for example, the following groups of bodies: Control Committee, Supervisory Board and statutory body of the company, Management Board and Supervisory Board.

Other facts listed in the audit committee activity report:



In accordance with the Act on Auditors, the audit committee is authorised to inspect documents and records relating to the activities of an entity that established the committee, in the scope necessary for its activities. All reports stated that the audit committee had the possibility to inspect documents.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

BALANCE SHEET
as of 31 December 2017
(CZK thousand)

Public Audit Oversight Board
Vodičkova 1935/38, 110 00 Prague 1
720 38 080

Identification	ASSETS	2017	
		Opening balance	Closing balance
A.	Total fixed assets	1 351	864
I.	Total intangible fixed assets	787	787
2.	Software	787	787
II.	Total tangible fixed assets	999	1 218
4.	Tangible movable assets and sets of tangible movable assets	999	1 218
IV.	Total accumulated depreciation on fixed assets	-435	-1 141
2.	Accumulated amortisation on software	-183	-445
7.	Accumulated depreciation on tangible movable assets and sets of tangible movable assets	-252	-696
B.	Total current assets	2 614	428
II.	Total receivables	152	178
4.	Operating prepayments made	152	178
III.	Current financial assets	2 462	180
1.	Cash on hand	8	2
3.	Cash at bank	2 454	178
IV.	Total other assets	-	70
1.	Deferred expenses	-	70
	TOTAL ASSETS	3 965	1 292

Prepared on:

2 March 2018

Signature of the statutory body
of the entity:




BALANCE SHEET
as of 31 December 2017
(CZK thousand)

Public Audit Oversight Board
Vodičkova 1935/38, 110 00 Prague 1
720 38 080

Identification	LIABILITIES	2017	
		Opening balance	Closing balance
A.	Total equity	1 351	864
I.	Total equity	1 351	864
1.	Equity	1 351	864
B.	Total liabilities	2 614	428
III.	Total short-term payables	2 614	428
1.	Suppliers	2 029	247
5.	Employees	439	1
7.	Payables to social security and health insurance institutions	145	-
9.	Other direct taxes	1	
12.	Payables to the state budget	-	180
	TOTAL LIABILITIES	3 965	1 292

Prepared on:

2 March 2018

Signature of the statutory body
of the entity:




PROFIT AND LOSS ACCOUNT YEAR ENDED 31 December 2017 (CZK thousand)		Public Audit Oversight Board Vodičkova 1935/38 110 00 Prague 1 720 38 080		
Note	TEXT	Principal activities	Economic activities	Total
A.	Costs	21 243	-	21 243
I.	Purchased consumables and services	3 736	-	3 736
1.	Consumed material, energy and other non-storable supplies	244	-	244
4.	Travel costs	846	-	846
5.	Representation costs	374	-	374
6.	Other services	2 272	-	2 272
III.	Staff costs	16 743	-	16 743
10.	Payroll costs	12 481	-	12 481
11.	Statutory social security	4 102	-	4 102
13.	Statutory social costs	160	-	160
V.	Other costs	58	-	58
16.	Contractual fines, default interest, other fines and penalties	38	-	38
22.	Sundry costs	20	-	20
VI.	Depreciation, sold assets, recognition and use of reserves, provisions	706	-	706
23.	Depreciation of fixed assets	706	-	706
B.	Income	21 243	-	21 243
I.	Operating subsidies	20 537	-	20 537
1.	Operating subsidies	20 537	-	20 537
IV.	Other income	706	-	706
10.	Sundry income	706	-	706
C.	Profit or loss before tax	0	-	0
D.	Profit or loss after tax	0	-	0
Prepared on: 2 March 2018		Signature of the statutory body of the entity:		
				

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

Name of the entity:	Public Audit Oversight Board
Registered office:	Vodičkova 1935/38, Prague 1, 110 00
Legal status:	Public Law Entity
Corporate ID:	720 38 080

Notes to the Financial Statements for the Year Ended 31 December 2017

TABLE OF CONTENTS

1.	GENERAL INFORMATION.....	3
1.1	INCORPORATION AND DESCRIPTION OF THE BOARD.....	3
1.2	BODIES OF THE BOARD AS OF THE BALANCE SHEET DATE.....	3
2.	ACCOUNTING POLICIES	5
2.1	TANGIBLE AND INTANGIBLE FIXED ASSETS	5
2.2	RECEIVABLES	5
2.3	PAYABLES.....	5
2.4	PAYABLES TO THE STATE BUDGET	6
2.5	EQUITY	6
2.6	FOREIGN CURRENCY TRANSLATION	6
2.7	EXPENSES	6
2.8	OPERATING SUBSIDY.....	6
3.	ADDITIONAL INFORMATION	7
3.1	INTANGIBLE FIXED ASSETS (INTANGIBLE FA).....	7
3.2	TANGIBLE FIXED ASSETS (TANGIBLE FA).....	7
3.3	RECEIVABLES	7
3.4	DEFERRED EXPENSES.....	8
3.5	EQUITY	8
3.6	SHORT-TERM PAYABLES.....	8
3.7	OPERATING SUBSIDY.....	8
3.8	BODIES OF THE BOARD AND EMPLOYEES	8
3.9	SUNDRY INCOME	9
3.10	POST BALANCE SHEET EVENTS	9

1. GENERAL INFORMATION

1.1 Incorporation and Description of the Board

The Public Audit Oversight Board (hereinafter the "Board") was formed in 2009 following the adoption of Act No. 93/2009 Coll., on Auditors and the Changes to Certain Acts, as amended (the "Act on Auditors"). The Board is a public law entity.

Its principal task is to perform public oversight over audit activities and activities of the Czech Chamber of Auditors (the "Chamber") which is an autonomous professional organisation established by the Act for the audit profession administration in the Czech Republic, to conduct, in line with the requirements of EU law, quality inspections of auditors and audit firms that have public interest entities in their client portfolio and other activities stipulated by the Act on Auditors.

In performing its activities, the Board sees to the public interest protection. It is a corporate entity and has its registered office in Prague.

1.2 Bodies of the Board as of the Balance Sheet Date

	Position	Name
Presidium	President	Pavel Racoča
	Member	Marie Karfíková.
	Member	Bohumil Král
	Member	Věra Mazánková
	Member	Jiří Nekovář
	Member	Bohuslav Poduška
Control Committee	Chairwoman	Monika Vítová
	Member	Zdeňka Drápalová
	Member	Dalibor Vaigert
	Member	Libor Vašek
	Member	Josef Staša
Disciplinary Committee	Chairman	Radek Neužil
	Member	Jan Bárta
	Member	Ladislav Minčíč
	Member	Petra Nováková

Executive Body

The executive body of the Board is the Presidium which acts in the capacity of the Board in accordance with the Act on Auditors or Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, when it does not pertain to other bodies of the Board. The Presidium has six members.

Members of the Presidium are appointed by the Minister of Finance after agreement with the Czech National Bank. The term of office of members of the Presidium is six years. The activities of a member of the Presidium represent holding public office.

Changes made in 2017

During 2017 the term of office of two Presidium members, Evžen Kočenda (he was a member of the Presidium from 16 May 2011 to 15 May 2017) and Zdeněk Liška (he was a member of the Presidium from 15 May 2009 to 15 May 2017) expired.

Pavel Racoča and Bohumil Král were appointed as new members of the Presidium.

Election of the Board's President

The Act on Auditors stipulates that the Presidium appoints President of the Board from among their members if more than one member is appointed. Pavel Racoča was appointed new President of the Board in 2017, replacing Jiří Nekovář. The President of the Board is the statutory body of the Board.

All members of the Presidium adhere to the requirements stipulated by the Act on Auditors.

Control Committee

Members of the Control Committee are appointed by the President of the Board at the suggestion of the Presidium. The term in office of the members of the Control Committee, manner of their recall, remuneration and decision-making policy are stipulated by the statute of the Board. In its activities, the Control Committee observes the Quality Inspection Rules which are an internal regulation of the Board. The activities of a member of the Control Committee involve holding public office.

Disciplinary Committee

Members of the Disciplinary Committee are appointed by the President of the Board at the suggestion of the Presidium. The term of office of members of the Disciplinary Committee, manner of their recall, remuneration and rules for decision-making are stipulated by the statute of the Board. In its activities, the Disciplinary Committee follows the disciplinary rules of the Board which are the Board's internal regulation. The activities of a member of the Disciplinary Committee involve holding public office.

2. ACCOUNTING POLICIES

The Board's accounting books and records are maintained and the financial statements were prepared in accordance with Accounting Act 563/1991 Coll., as amended; Regulation 504/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are not principally engaged in business activities, if they maintain double-entry accounting records, as amended, and Czech Accounting Standards for entities that maintain accounting records in accordance with Regulation 504/2002 Coll., as amended.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis with certain exceptions (unless further stipulated otherwise), the accruals principle, the prudence concept and the going concern assumption.

Balance sheet items for the prior reporting period and the current reporting period and profit and loss account items amounting to zero are not presented.

As of the balance sheet date, the profit and loss account includes closing balances of ledger accounts of expenses and income divided by principal and economic activities. These partial results of operations are summarised for the entire entity.

The financial statements were prepared as of the balance sheet date of 31 December 2017 for the 2017 calendar year.

These financial statements are presented in thousands of Czech crowns ('CZK'), unless stated otherwise.

2.1 Tangible and Intangible Fixed Assets

Fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand in respect of tangible assets and CZK 60 thousand in respect of intangible assets on an individual basis.

Purchased tangible and intangible fixed assets are stated at cost less accumulated depreciation and provisions, if any.

The cost of fixed asset improvements exceeding CZK 40 thousand in respect of tangible assets and CZK 60 thousand in respect of intangible assets for the taxation period increases the acquisition cost of the related fixed asset.

Low value tangible and intangible fixed assets are expensed upon acquisition.

Depreciation is charged so as to write off the cost of tangible and intangible fixed assets over their estimated useful lives, using the straight-line method, on the following basis:

Type of assets	Depreciation method	Number of years
Software	straight-line	4
Tangible movable assets and sets of tangible movable assets	straight-line	3-4

2.2 Receivables

Upon origination, receivables are stated at their nominal value as subsequently reduced by appropriate provisions.

2.3 Payables

Payables are stated at their nominal value.

2.4 Payables to the State Budget

Payables to the state budget include the debt arising from the operating subsidy that has not been utilised in full.

2.5 Equity

Equity includes part of the operating subsidy provided to the Board from the state budget that was received as a source of funding for tangible and intangible fixed assets.

Equity is decreased by the amount of depreciation while sundry income is concurrently increased by this amount.

2.6 Foreign Currency Translation

Transactions denominated in foreign currencies during the year are translated using the exchange rate of the Czech National Bank prevailing on the date of the transaction.

At the balance sheet date, the relevant assets and liabilities are translated at the Czech National Bank's exchange rate prevailing as of that date.

As of the balance sheet date, the Board records no items reported in a foreign currency.

2.7 Expenses

Expenses relating to the activities of the Board are recognised on an accrual basis in the period to which they relate.

2.8 Operating Subsidy

The operating subsidy from the state budget intended for the principal activities of the Board is recognised when credited to the Board's bank account.

The subsidy is subject to annual financial settlement in line with Act No. 218/2000 Coll., on Budgetary Rules and Change in Some Relating Acts (Budgetary Rules), as amended.

3. ADDITIONAL INFORMATION**3.1 Intangible Fixed Assets (Intangible FA)**Cost

	(CZK thousand)			
	Opening balance	Additions	Disposals	Closing balance
Software	787	0	0	787
Total in 2017	787	0	0	787
Total in 2016	0	787	0	787

During quality inspections and to document them, the Board uses software for both the processing of individual inspections on the internal control system and file level and an assessment of identified findings and risk analysis. Supporting documentation – e.g. evidence relating to individual findings, may also be entered in the system. The software is used by numerous partner oversight organisations in Europe (e.g. Germany, Luxembourg, United Kingdom and Slovakia).

Accumulated Depreciation

	(CZK thousand)			
	Opening balance	Additions	Disposals	Closing balance
Software	183	262	0	445
Total in 2017	183	262	0	445
Total in 2016	0	183	0	183

3.2 Tangible Fixed Assets (Tangible FA)Cost

	(CZK thousand)			
	Opening balance	Additions	Disposals	Closing balance
Tangible movable assets and sets of tangible movable assets	999	219	0	1 218
Total in 2017	999	219	0	1 218
Total in 2016	131	868	0	999

Individual movable assets primarily include equipment of offices – furniture, printers and laptops.

Accumulated Depreciation

	(CZK thousand)			
	Opening balance	Additions	Disposals	Closing balance
Tangible movable assets and sets of tangible movable assets	252	444	0	696
Total in 2017	252	444	0	696
Total in 2016	0	252	0	252

3.3 Receivables

As of 31 December 2017, the Board records receivables before their due dates. For this reason, no provisions were recognised as of the balance sheet date.

In 2016, the Board paid a financial security of CZK 147 thousand to the lessor in relation to the lease of commercial premises in which it resides. The amount of the financial security is equal to two monthly rents.

Short-term receivables include, in addition to the financial security, prepayments for electricity.

3.4 Deferred Expenses

Deferred expenses include prepayments for the rent of offices, English lessons and services.

3.5 Equity

	(CZK thousand)			
	1 Jan 2017	Additions	Disposals	31 Dec 2017
Equity	1 351	219	706	864

	(CZK thousand)			
	1 Jan 2016	Additions	Disposals	31 Dec 2016
Equity	131	1 655	435	1 351

3.6 Short-Term Payables

As of 31 December 2017, the Board records no payables past their due dates. Payables to the state budget include the debt of the Board amounting to CZK 180 thousand arising from the operating subsidy provided in 2017 from the state budget that was not utilised in full. These funds were transferred to the Czech Ministry of Finance in January 2018.

3.7 Operating Subsidy

Pursuant to the Act on Auditors, the activities of the Board are financed mostly from the state budget (funds from the budget under chapter 312 of the Czech Ministry of Finance) in the form of a subsidy.

The subsidy is provided in accordance with Act No. 218/2000 Coll., on Budgetary Rules and Change in Certain Relating Acts (Budgetary Rules), as amended. It is an annual non-investment non-refundable subsidy provided pursuant to an application of the Board for the provision of a subsidy and a subsequent decision of the provider, i.e. the Czech Ministry of Finance, on the provision of the subsidy. The purpose of the provided subsidy is to cover the costs relating to the administration and activities of the Board, including the costs of acquiring tangible and intangible fixed assets.

In 2017, a subsidy of CZK 21 million was provided from the state budget. The predominant part of the subsidy is used to cover staff costs that account for 73% of the total subsidy. Other items include the costs of: travelling and registration fees (5%), other services (16%) and other costs (6%).

3.8 Bodies of the Board and Employees

The average recalculated headcount and number of members of bodies in 2017 was 25 persons (2016: 20 persons).

	(CZK thousand)	
	31 Dec 2016	31 Dec 2017
Payroll costs of the Presidium	1 174	1 262
Payroll costs of the Control Committee and Disciplinary Committee	813	2 376
Payroll costs of employees	6 306	8 843
Total	8 293	12 481

The Control Committee and the Disciplinary Committee were formed pursuant to an amendment to the Act on Auditors effective since 1 October 2016. The costs relating to the remuneration to members of these committees include only costs for three months in 2016.

During 2016, the number of employees of the Board was increased to 10.

3.9 Sundry Income

Sundry income includes the amount of depreciation by which equity was decreased in 2017.

3.10 Post Balance Sheet Events

No events occurred subsequent to the balance sheet date that would have a significant impact on the financial statements.



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Statutory body of the entity
Pavel Racocha
President of the Board