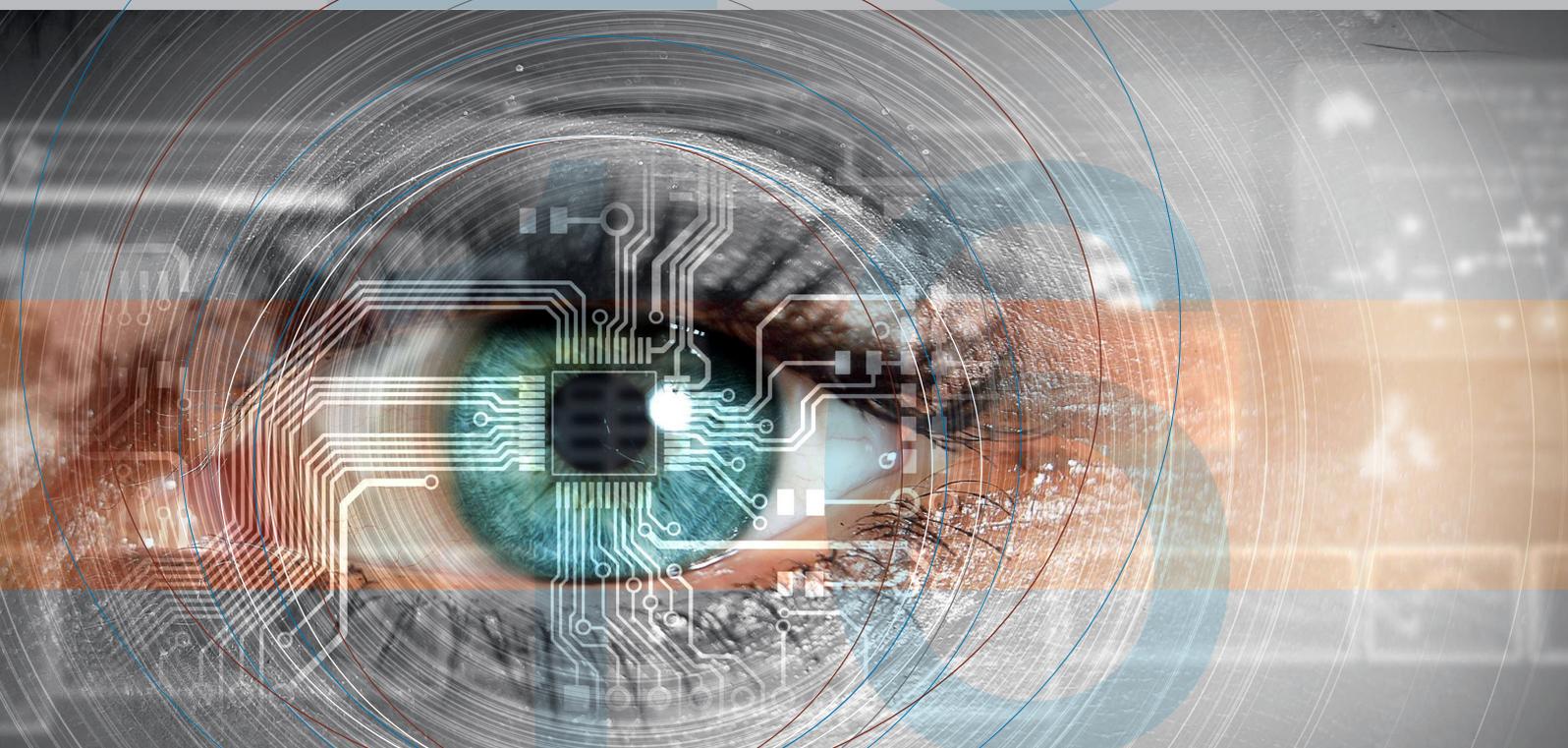




RADA PRO VEŘEJNÝ DOHLED
NAD AUDITEM

REPORT ON THE ACTIVITIES OF THE PUBLIC AUDIT OVERSIGHT BOARD FOR 2016





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The Report on the Activities of the Public Audit Oversight Board and its Changes in 2016 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”).

Its content adheres to the requirements arising from the Act on Auditors in respect of the reporting obligations of the Public Audit Oversight Board stipulated in Sections 24 and 38 of the Act.

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1. OPENING STATEMENT OF THE BOARD'S PRESIDENT

Ladies and Gentlemen,

The year 2016 was full of changes. EU legal regulations were transposed into the Czech legislation and the amendment to the Act on Auditors, which took effect on 1 October 2016, introduced new and more detailed requirements for the Public Audit Oversight Board. Its principal task involves conducting public oversight, performing quality inspections of auditors and audit firms that have public interest entities in their client portfolios, and engaging in other activities stipulated by the Act.

Throughout the year, the Czech audit market of public interest entities was analysed in terms of its risks and shortcomings. As of 31 December 2016, there were 150 public interest entities in the Czech Republic in line with the definition applicable since 1 January 2016, of which the highest percentage are issuers of investment securities accepted for trading on the European regulated market.

In respect of new tasks, both practical issues related to personnel and financial operations of the Public Audit Oversight Board and search for appropriate premises in which this supervisory body could have its seat, were dealt with.

Quality inspections were initiated with the objective of investigating whether an auditor proceeds in line with the Act on Auditors, standards on auditing, code of ethics and internal guidelines of the Czech Chamber of Auditors and the Regulation in conducting his/her audit activities. All auditors are subject to these inspections. As of 31 December 2016, 1,258 statutory auditors and 359 audit firms were registered. Quality inspections of auditors of public interest entities are managed by the Control Committee, or by the Supervisory Committee for auditors who do not audit public interest entities, and are carried out, based on a risk analysis, by quality inspectors.

A total of 11 oversight inspections over audit activities and activities of the Czech Chamber of Auditors, including the oversight over the educational system, were performed.

One of the new obligations of the Public Audit Oversight Board is to evaluate the activities of audit committees. In an effort to aid newly established, starting audit committees, or newly elected members of these committees, two publications were prepared. The first of them "Practical Manual for Audit Committees – Examples of Good Practice" is intended for newly established or starting audit committees; the second one entitled "Audit Committee Activity Report" provides methodological support and uniform template for its preparation. The standalone template of the Audit Committee Activity Report in MS Excel in Czech and English is available on our website.

We actively worked with key organisations in audit regulation and oversight over the profession with the objective of benefiting from their knowledge and experience to the maximum extent.

We are aware of the challenging tasks set out for us by the legislation that are ahead of us; however, I believe that we will accomplish them with honour and we will act as a reliable partner for the public that can be addressed whenever needed, as we have a professional team with extensive, diverse and long-term experience in auditing, accounting and control.

Jiří Nekovář
President
Public Audit Oversight Board

2. BOARD'S PROFILE

The Public Audit Oversight Board (the "Board") was formed in 2009 by the Act on Auditors. 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.

3. SUMMARY OF PRINCIPAL ACTIVITIES OF THE BOARD, ITS STAFF, PUBLIC INTEREST ENTITIES, AUDITORS AND AUDIT FIRMS

As a result of the requirements of the Act on Auditors into which EU legal regulations were transposed, the role of the Board significantly moved forward in 2016 primarily in relation to public oversight and quality inspections. The extension of activities is also reflected in the number of planned quality inspections and oversights.

The Board's principal activities:

AREA		ACTUAL STATUS 2016	PLAN 2017	APPROVED FOR THE FIRST SIX MONTHS OF 2017
Public oversight (over the implementation of quality inspections)		5	18	9
Public oversight (over the educational system implemented by the Chamber)		5	6	3
Public oversight (over the organisation of disciplinary activities and application of disciplinary measures by the Chamber)		2	1	1
Quality inspections Note: it is not possible to conclude on the effectiveness of the Board from the absolute number of performed and planned inspections, due to different requirements of individual inspections		1	15	6
International cooperation (total number of participations in international conferences)	IFIAR EAIG CEAOB EGAOB	12	18	3
Representation in international work groups (total number of persons)		6	18	
Total number of organised and planned seminars and training sessions		3	3	4

Employees and members of bodies:

AREA		IN ACCORDANCE WITH THE ACT	ACTUAL STATUS 2016	OUTLOOK 2017
Average recalculated number of the Board's employees	Total Quality inspectors		7.8 2.8	9.5 5
Average recalculated number of members of bodies	Total	16	15	16

Public interest entities:

AREA		ACTUAL STATUS 2016	NOTE
Number of public interest entities under responsibility of the Board	Total	150	The number of public interest entities changes depending on the following, e.g.: ✓ Entity enters the regulated market ✓ Entity redeems bonds ✓ Entity obtains a licence ✓ Entity loses the licence
	Banks	22	
	Cooperative credit unions	11	
	Issuers	73	
	Pension companies	8	
	Insurers	28	
	Reinsurers	1	
Health insurers	7		
Public interest entities	Assets Turnover Employees	CZK 5,974 billion CZK 526 billion 92 thousand	It applies only to selected public interest entities with assets exceeding CZK500 million, annual total net turnover exceeding CZK 1 billion and average number of employees exceeding 250

Auditors, audit firms and revenues from audit activities:

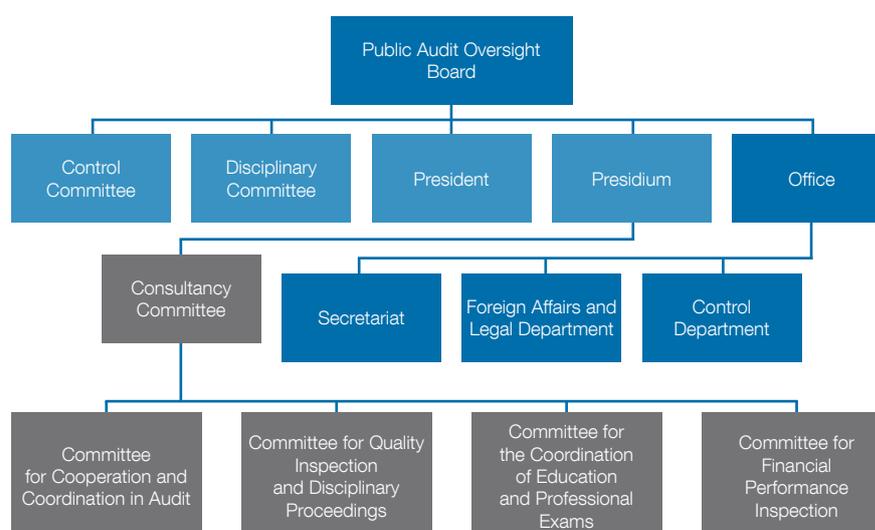
AREA		ACTUAL STATUS 2016
Number of registered auditors	Total under the oversight of the Board	1,258 207
Number of audit firms	Total under the oversight of the Board	359 29
Revenues from all audit activities (based on transparency reports)	Total for statutory audit	CZK 4.4 billion CZK 2.3 billion

4. BODIES AND ORGANISATIONAL STRUCTURE OF THE BOARD

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

4.1 Organisational Structure of the Board

Organisational structure since 1 October 2016:



Personnel:

SEGMENT	NAME	NUMBER OF PERSONS
Bodies	Presidium (including the President of the Board)	6
	President of the Board	1
	Disciplinary Committee	4
	Control Committee	5
Internal divisions	Office (Head of the Office)	1
	Secretariat	2
	Control department	5
	Foreign affairs and legal department	2
Consultancy committees	Committee for cooperation and coordination in audit	13
	Committee for quality inspection and disciplinary proceedings	2
	Committee for the coordination of education and professional exams	5
	Committee for financial performance inspection	2
TOTAL		48

In relation to broader responsibilities and authorities of the Board, the Control Committee was extended by two members to the required total number of 5 members, the Disciplinary Committee has one position vacant.

The Control Department was established for quality inspections of auditors auditing public interest entities.

4.2 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 rights do 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.

Compositions of the Presidium

POSITION	NAME	MEMBER FROM	MEMBER TO
President	Jiří Nekovář	1 August 2013	31 July 2019
Member	Marie Karfíková	15 May 2009	15 May 2019
Member	Evžen Kočenda	16 May 2011	15 May 2017
Member	Zdeněk Liška	15 May 2009	15 May 2017
Member	Věra Mazánková	25 June 2015	24 June 2021
Member	Bohuslav Poduška	25 June 2015	24 June 2021

During 2016, there were no personnel changes. All members of the Presidium adhere to the requirements stipulated by the Act on Auditors.



Jiří Nekovář

The economist and tax advisor was the president of the Chamber of Tax Advisors in 1996–2011. He is a court-appointed expert in economics. In 2008, he was appointed Vice-president of Confédération Fiscale Européenne and held the position of president of the organisation in 2013 and 2014. In 2014 he founded the Global Tax Advisory Cooperation Forum. In 2015, he was appointed Advisor of AOTCA. In 2010, he was appointed by the prime minister a member of the National Economic Council of the Government. Since 2011 he has been a member of the working committee of the Legislative Council of the Czech Government for regulatory impact assessment (RIA). He is a member of the committee for social and economic development of the Government Council for Sustainable Development. He is Chairman of the tax expert team of the Czech Confederation of Industry and Transportation. He is Vice-chairman of the administrative board of the University of Economics, a member of the administration board of the Technical University in Brno and a member of the scientific board of the Department of Finance and Accounting at the University of Economics.



prof. JUDr. Marie Karfíková, CSc.

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, Pojistné rozpravy, Daně 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 and from 2016 a chairwoman 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, and a member of the Managing Board of the foundation Nadání Josefa, Marie a Zdeňky Hlávkových (Foundation of Talents of Josef, Marie and Zdeňka Hlávka).



Evžen Kočenda

Expert in economics and finance. Professor of Economics at Charles University in Prague. He obtained his Ph.D. in Economics in 1996 after his studies at the University of Houston, Texas. He gives lectures at domestic and foreign universities. He is a member of editorial boards of several specialised journals and a collaborator of research institutes in the USA and Germany. His research covers financial markets, corporate performance, and European integration.



Zdeněk Liška

An expert with long-term practical experience in accounting and economics. Between 1975 and 1990, he held various economic positions and the position of Head of the Accounting Department and Economic Section at ČKD Praha. He was the General Manager of the Confederation of Industry of the Czech Republic until 30 September 2014. He is a member of the Managing Board of the National Educational Fund.



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.



Bohuslav Poduška

Between 1987 and 1993 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 been the Director of the Internal Audit Section of Česká spořitelna, a.s. since 1994. 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. group. 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 the 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 in the area of development of the IA profession with the Institute of Internal Auditors (IIA). At present, he is an honourable member of the ČIIA and a member of the IIA. Bohuslav Poduška is a holder of the globally recognised certifications CIA and CRMA.

Election and recall of the Presidium

The Presidium elects and recalls the President of the Board from among its members at the founding meeting of the Board and always upon the appointment of more than one member of the Presidium, or if the position of a member of the Presidium expires for the President of the Board. The President of the Board is the statutory body of the Board.

Meetings of the Presidium

The Presidium meets as needed, no less than once in 3 months. In 2016, there were six meetings: 18 February 2016, 28 April 2016, 16 June 2016, 21 September 2016, 15 November 2016 and 7 December 2016.



List of principal activities in 2016:

PRINCIPAL POINTS OF THE MEETING

All meetings have stable points on the agenda, relating to the activities of:

- The Control Committee (before 30 September 2016 Committee for Quality Inspection);
- The Disciplinary Committee; and
- Consultancy committees of the Board.

In addition, current issues relating to the activities of the Board and obligations of the Presidium are addressed. In 2016, primarily the following key issues were discussed at the meetings of the Presidium:

1. PERSONNEL ISSUES

V průběhu roku 2016 byly řešeny otázky týkající se personálního obsazení kontrolorů kvality a Kontrolního a Disciplinárního výboru, a to v návaznosti na požadavky novely zákona o auditorech.

2. PERSONNEL ISSUES

At its meetings, the Presidium assessed and approved new regulations of the Board which responded to the amendment to the Act on Auditors.

These primarily included the following internal regulations:

- Statute of the Board;
- Rules of quality inspections;
- Disciplinary rules;
- Organisational rules;
- Signing rules;
- Rules of procedure;
- Filing and shredding rules;
- Guideline for key operations of the Board; and
- Methodological guidance to quality inspections.

3. RELOCATION OF THE BOARD

In 2016, a great deal of time was spent on the approval of the project relating to the relocation of the Board from the premises of the Czech Ministry of Transportation to other appropriate premises, including the selection of these premises and the relocation process itself.

Since September 2016, the Board has held its registered office at a new address: Vodičkova 38/1935, Prague 1, 110 00.

The new premises include a conference room where meetings of the Board's bodies and work committees are held (in prior years, they were held in the premises of Česká spořitelna, a.s.) as well as training sessions of the Board, internal discussions, etc.

4. ANNUAL REPORT FOR 2015

On an annual basis, the Board publishes a summary report on its activities (for 2015 entitled Annual Report) in line with the information obligations stipulated by the Act on Auditors. The Presidium approved the Annual Report for 2015 for publication. The Annual Report is published on the website of the Board both in the Czech and English version. The English version of the Annual Report was provided to selected partner oversight bodies and international organisations.

5. INTERNAL REGULATIONS Of The CHAMBER

In accordance with Section 38, par. 2, letter g, of the Act on Auditors, the Presidium discussed the proposed changes to internal regulations of the Chamber due to the amendment to the Act on Auditors. The comments of the Board were discussed with the Chamber. Proposals and changes in internal regulations were approved at the assembly of the Chamber on 21 November 2016 which was summoned by the Executive Committee in line with the Chamber's rules of procedure.

6. PUBLIC INTEREST ENTITIES – INFORMATION

Using information letters, the Board informed statutory auditors of public interest entities on new requirements for auditors of these entities. The Presidium regularly discussed the results of responses at its meetings.

7. ENTITIES WITH The STATE'S EQUITY INVESTMENT

The President of the Board used information letters to address regional governors (14 regions, including the Capital City of Prague) to remind them of the obligation relating to entities with the equity investment of the state and establishment of audit committees. The responses of the regions indicate that the Board's initiative is very welcome, primarily given that certain regions did not know about the obligation to establish audit committees for entities with the state's equity investment (under the conditions stipulated by the Act).

8. OPINIONS Of The BOARD

The amendment to the Act on Auditors and the Regulation covers numerous issues on which no clear opinion and clear interpretation exist. For this reason, the Board cooperates with the Czech Ministry of Finance, the Chamber, and the European Commission. The Presidium regularly discusses adopted opinions and their results at its meetings.

9. DOCUMENT MANAGEMENT SYSTEM

In 2016, a tender was organised to select a new document management system. One of the possibilities was the proposal from Státní pokladna centrum sdílených služeb, s.p. ("SP CSS"). The availability of this service in relation to the Board's financial possibilities resulting from the dependence on allocated funds from the state budget was discussed at the meetings. Following a thorough consideration of these circumstances, the Presidium decided that the proposal of SP CSS would not be accepted due to its high price and the document management system would be provided by a different supplier.

Since the beginning of 2017, the Board has used a new electronic document management system which adheres to the requirements of the applicable legislation, specifically Act No. 300/2008 Coll., on Electronic Acts and Authorised Conversion of Documents, and amendment to Act No. 499/2004 Coll. – on Archiving and Document Management Systems.

10. INSPECTION Of The BOARD'S FINANCIAL PERFORMANCE

The financial performance of the Board is inspected on a quarterly basis by the Committee for Financial Performance Inspection which is responsible for organising and inspecting the correctness, effectiveness and efficiency of the costs incurred by the Board. Reports from these inspections are presented to the Presidium which acknowledges them.

11. PLAN Of INSPECTIONS

In accordance with Section 24b of the Act on Auditors, the Chamber prepared a plan of quality inspections that was presented to the Board. The Board prepared a plan of quality inspections of the Control Committee and the Supervisory Committee.

The Control Committee presented the draft plan of quality inspections for the end of 2016 and the plan for the first half of 2017 to the Presidium for approval. The plan was approved by the Presidium.

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. The body of appeal is the Presidium. The Disciplinary Committee acts in the capacity of the Board in investigation in accordance with Section 40b of the Act on Auditors. Before 30 September 2016, its authorities were limited to decision-making on a very small group of administrative delicts. A significant change was made as a result of the amendment to the Act on Auditors which changed the institutional and competence framework of its activities with effect from 1 October 2016.

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 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.

POSITION	NEW COMPOSITION OF THE COMMITTEE	ORIGINAL COMPOSITION OF THE COMMITTEE
Chairman of the Committee	Radek Neužil	Ivo Středa (resigned in February 2016)
Members of the Committee	Jan Bárta Ladislav Minčič Petra Nováková	Jan Bárta Radek Neužil

At present, the Disciplinary Committee has four members. During 2017, the last vacant position will be filled. This fact has no impact on the practical operations of the Disciplinary Committee and its quorum.

In the course of its activities, the Disciplinary Committee uses the lawyer of the Board who acts as its secretary.

Activities

In 2016, five meetings were held: 9 February 2016, 25 May 2016, 7 October 2016, 13 November 2016 and 16 December 2016 (conference call).

After the amendment to the Act on Auditors took effect, the Disciplinary Committee has met regularly, on a monthly basis. This is fully aligned with the needs involving the preparation for the discharging of competences relating to discussions of offences and administrative delicts and performance of 'investigations' in accordance with Section 40b of the Act on Auditors. Individual cases for discussion and decision-making will be coming up gradually during 2017 and the following years, (i) depending on the performance of the control activities of auditors of public interest entities and (ii) with respect to the adherence to the ban of the retrospective effectiveness of criminal law norms.

List of activities in 2016:

AREA	DESCRIPTION OF ACTIVITIES
Preparation of the Board's disciplinary rules	In accordance with Section 39b, par. 2, of the Act on Auditors, the Disciplinary Committee adheres to disciplinary rules of the Board which are its internal regulation. In 2016, this regulation was prepared by the secretary of the committee, commented on by the Disciplinary Committee and approved by the Presidium. It is a regulation setting out (in respect of relevant legal standards) the rules of the initiation and conducting of the proceedings on administrative delicts and offences, it primarily reflects conclusions from individual court rulings on legal actions filed against the resolutions of the Board's Presidium as the body of appeal. Disciplinary rules are published on the Board's website.

AREA	DESCRIPTION OF ACTIVITIES – continued
Dealing with process issues relating to the application of the Act on Auditors	The Disciplinary Committee dealt in detail with the process aspects relating to the decision making on administrative delicts. In this context, letter ref. no. RVDA-191/2016 was sent to the Ministry of Finance which described in detail the shortcomings relating to the allocation of responsibilities and different positions of statutory auditors who have public interest entities in their client portfolio and those who are sanctioned directly by the disciplinary committee of the Chamber.
Dealing with process issues relating to the application of the Act on Auditors	<p>These issues closely relate to another topic to which the Disciplinary Committee paid significant attention, specifically the retrospective application of facts of administrative delicts listed in Title XI. of the Act on Auditors.</p> <p>Given the ban on the retrospective application and the relating absence of facts of offences of statutory auditors, it is apparent that it will be possible to sanction numerous activities only provided they were committed after 1 October 2016. This significantly complicates the situation in cases where the quality inspection performed by the Board identified shortcomings in the activities of the auditor in the period before the amendment to the Act on Auditors took effect.</p>
Dealing with competence issues in relation to the Disciplinary Committee of the Chamber	The Disciplinary Committee dealt with a competence issue relating to the conduct of the administrative proceedings in cases when shortcomings are identified in the activities of an auditor of a public interest entity rather than in relation to the obligatory audit of the financial statements. The Disciplinary Committee stated in this respect that its authority focuses solely on the sanctions of the facts of administrative delicts that are listed in Title XI. of the Act on Auditors while the impact of individual facts cannot be further extended or an analogy used in their interpretation against the perpetrator of the administrative offence. For this reason, the Disciplinary Committee may discuss and decide only the cases when the standards of auditing are violated in any audit activities in accordance with Section 2, letter c), of the Act on Auditors, but solely as part of one sub-group of these activities, i.e. in the obligatory audit of the financial statements of a public interest entity. In other cases, the factual competence of the Disciplinary Committee of the Chamber is respected.
Dealing with the issues of independence in the membership in the Disciplinary Committee and audit committees	Given the need for independence in the decision-making, the Disciplinary Committee discussed the cases of concurrent membership in the Disciplinary Committee and an audit committee. In this respect, it concluded, following a legal analysis of the situation, that individual cases will be assessed on an individual basis as follows if a member of the Disciplinary Committee is concurrently a member of an audit committee of the public interest entity which is (i) a client of the auditor who is subject to administrative proceedings, and (ii) the file on this client was part of a control sample, it will be necessary to always consider whether there are reasons for bias defined by the administrative rules (Section 14).
Participation of the representatives of the Disciplinary Committee in the regular inspection of the activities of the Chamber's disciplinary committee	In February 2016, members of the Disciplinary Committee, Messrs Středa and Neužil, participated in the inspection of the activities of the Chamber's Disciplinary Committee. Effectively, this represents the performance of the Board's oversight authorisation resulting from Section 38, par. 1, letter d), of the Act on Auditors. The inspection highlighted major shortcomings of an organisational and process nature in the activities of the disciplinary committee resulting in the need of strengthening the personnel of the legal service and consistently adhering to the administrative rules in the conduct of proceedings on administrative disciplinary offences. A repeated inspection held in September 2016 primarily highlighted persisting shortcomings in relation to the obligation to deal with individual cases on a timely basis in accordance with Section 71 of administrative rules. To address the situation, the Chamber hired another lawyer.
Preparation of a manual for proceedings in verbal discussions	<p>In relation to the conduct of proceedings in individual cases, the Disciplinary Committee analyses the obligation of holding a verbal discussion, an appropriate form of its recording (recording in the protocol) and proceeded to prepare a manual to outline processes to cover the procedure of the Disciplinary Committee in verbal discussion and evidence-taking in the cases to adhere to all process requirements set out by the administrative rules.</p> <p>The Disciplinary Committee studied the conclusions of court rulings in legal actions against resolutions of the Board as a body of appeal. The point of these activities is to set such procedures that will prevent the repeating of shortcomings in the administrative process and reduce the risk of administrative resolutions being revoked by the court for formal process reasons.</p>

AREA	DESCRIPTION OF ACTIVITIES – continued
Involvement in the preparation of control rules of the Board	In addition to the disciplinary rules, the Disciplinary Committee prepared control rules that are the Board's internal regulation in accordance with Section 24a, par. 3 of the Act on Auditors. Both regulations are appropriately interconnected in issues that relate to relationships between the Disciplinary Committee and the Control Committee (primarily the manner of the delivery of findings from controls for further resolution by the Disciplinary Committee and use of the control apparatus of the Board for the organisation of an investigation in accordance with Section 40b of the Act on Auditors). The objective is to avoid doubt regarding the cooperation of both bodies, if necessary. To maintain the independence of the Disciplinary Committee, the principle was consistently followed that the definitive resolution on the initiation of the proceedings ex officio will be made exclusively by the Disciplinary Committee which shall bear responsibility for their course, including the issued resolution in the case itself.
Participation in the work group of the CEAOB (Committee of European Auditing Oversight Bodies)	The secretary of the Disciplinary Committee represents the Board/Disciplinary Committee in the work group in the Subgroup for Enforcement established by the CEACB (Committee of European Auditing Oversight Bodies). Given the formation of the work group and its staffing during the second half of 2016, principal part of its activities is anticipated for 2017.
Presentation of the Disciplinary Committee in the Auditor journal	<p>In December 2016, two professional articles were prepared for the Auditor journal introducing the organisation and activities of the Disciplinary Committee (anticipated publication in March and April 2017). The point of these activities is to inform the auditors in detail on the authorities of the Disciplinary Committee, its opinions on problematic legal issues and overall approach to the sanctioning of administrative offences.</p> <p>In this way, it is possible to contribute to the transparency of its activities and prevention among the group of potential participants in the proceedings on administrative delicts</p>

4.4 Control Committee (before 30 September 2016 Committee for Quality Inspection)

Committee for Quality Inspection

The Committee for Quality Inspection performed oversight until the end of its mandate, i.e. 30 September 2016, over the activities of:

- a) The Chamber, in the area of performed inspections of the quality of audit activities; and
- b) The Supervisory Committee of the Chamber and the Disciplinary Committee of the Chamber.

Composition:

POSITION	NAME
Chairman of the Committee	Monika Vítová
Members of the Committee	Dalibor Vaigert, Pavel Umínský, Josef Staša, Helena Vojáčková (membership until 18 June 2016)

In 2016, four meetings were held: 18 February 2016, 28 April 2016, 16 June 2016 and 14 September 2016. The mandate of the Committee for Quality Inspection expired on 30 September 2016.

List of activities in 2016:

AREA	DESCRIPTION OF ACTIVITIES
Inspections of quality	In the period between 1 January and 30 September 2016, the committee performed oversight over 6 inspections of quality performed by the Chamber, primarily in companies that audit public interest entities. In all cases, the Committee stated that the inspections of quality were planned, performed and concluded in accordance with internal regulations of the Chamber.
Inspection of the activities of the Supervisory and Disciplinary Committees	<p>In February 2016, an inspection of the activities of the Supervisory and Disciplinary Committees of the Chamber was performed. During the inspection of the activities of the Disciplinary Committee, the Chamber received reproaches primarily relating to an insufficient capacity for formal preparation of resolutions and consequent delay in their preparation. In this respect, it is necessary to state that the number of petitions for the initiation of disciplinary proceedings significantly increased in 2016 (approximately a 140% increase as compared to the 2013–2014 period), primarily due to the increasing number of petitions filed by the Supervisory Committee.</p> <p>In its activities, the Committee for Quality Inspection stated that there was an inappropriate delay in the preparation of resolutions due to a significant number of disciplinary proceedings and consequently the effect of a disciplinary sanction, if any, declines.</p> <p>In relation to the conclusions from the oversight over the activities of the Disciplinary Committee of the Chamber, the Committee performed another inspection of its activities in September 2016 and stated that the Chamber undertook measures, based on the recommendation by the Board, taking the form of an increased budget and partial strengthening of the capacity of the office, primarily in the legal profession. As part of its oversight activities, the Board shall continue to monitor this matter.</p>
Appeals of auditors	The Committee for Quality Inspection discussed four appeals of auditors against the resolution of the Chamber. In one case, the resolution of the Chamber was upheld, in three cases it was cancelled (in one case the proceedings were discontinued, in two cases it was returned for new discussion to the Disciplinary Committee).

Control Committee

In accordance with the amendment to the Act on Auditors, i.e. since 1 October 2016, the Control Committee:

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

The activities of a member of the Control Committee involve holding a public office. The Control Committee has five members.

Composition:

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

Activities

The meeting of the Control Committee was held on 23 November 2016.

The rules for decision-making are set out in the statute of the Board. In its activities, the Control Committee adheres to the rules on quality inspections which is the Board's internal regulation.

List of activities in 2016:

AREA	DESCRIPTION OF ACTIVITIES
Organisation and management of quality inspections	<p>Following their appointment, members of the Control Committee started the organisation and management of quality inspections. A plan of quality inspection of auditors of public interest entities was prepared and by the end of 2016 the first inspection of quality organised and managed by the Control Committee was initiated. In addition, a plan of inspections for the first half of 2017 was prepared, independence of members of inspection teams, members of the Control Committee, and adherence to all statutory requirements for these inspections was verified.</p> <p>Although the activities of the Control Committee were officially launched in October 2016, it was necessary to create conditions for its future activities already starting from the beginning of 2016. A major part of this preparatory work was done by both members of the Committee for Quality Inspection and the forming and increasing staff of the Board's office.</p> <p>It was necessary to clarify the competences in respect of the inspection of quality of audits between the public oversight body and the Chamber. The setting of competences in quality inspections of audit firms, on behalf of which statutory auditors – employees conduct audits of public interest entities, appears problematic and complicated in practice. The debate and clarification of sustainable procedures have been ongoing till the present day.</p> <p>In cooperation with the Chamber, discussions were held regarding the practical impacts of the amendment to the Act on Auditors, organisational steps leading to the possibility to comply with the requirements for preparation of a joint plan of quality inspections and consideration of the needs by the Chamber and the Board, primarily the need for frequent updates of the plan of inspections prepared by the Chamber. In view of the number of quality inspections performed by the Chamber and concurrently the requirement of the Act on Auditors relating to the preparation of the joint plan of inspections, it was necessary to establish mechanisms that will allow to flexibly reflect the required changes in the plan of inspections, their discussion by the Control Committee and the Presidium while maintaining the process requirements and public interest protection.</p>

AREA	DESCRIPTION OF ACTIVITIES – continued
Internal regulations	<p>During 2016, internal regulations of the Board were prepared (primarily the Rules for Quality Inspections) according to which quality inspections are organised and managed. This is methodological guidance that aims to describe and set specific processes relating to the performance of quality controls, either in relation to Act No. 255/2012 Coll., on Inspection (Inspection Code), the Act on Auditors or Act No. 500/2004 Coll., Code of Administrative Procedure. With a view to establishing a sustainable environment, the processes of which cannot be disputed, it was necessary to subject the proposed documents to extensive debate at the level of individual bodies of the Board in the presence of legal experts with experience in inspections.</p> <p>Following the change in the scope of the Board's authorities, and the obligation to perform quality inspections of auditors of public interest entities, it was necessary to create a process environment for internal communication, responsibilities and obligations of the Control Committee, quality assurance department, Disciplinary Committee and Presidium. For this reason, an internal guidance note was developed in respect of the organisation of quality inspections, establishment of inspection teams, appointment of a reporter for the Control Committee and definition of responsibilities of individual items of the control mechanism during quality inspections with the objective of ensuring due performance of quality inspections, while respecting the rights of the audited entities and independence and pursuing procedurally – appropriate collection of evidence on potential failures of auditors to comply with their obligations for potential corrective and disciplinary proceedings.</p>
Template documents	<p>A set of template documents required for the process management of quality inspections and their conclusions was prepared to comply with the obligations in quality inspections.</p> <p>These documents include for example:</p> <ul style="list-style-type: none"> • Affidavit in line with Section 24c, par. 3, letter a) of the Act on Auditors • Authorisation for a quality inspection • Announcement of the date of a quality inspection • Appendices to the announcement of the date of the quality inspection <ul style="list-style-type: none"> o Appendix no. 1 – list of clients – auditors o Appendix no. 2 – documents required for quality inspection purposes • Protocol on the quality inspection • Addressing objections • Addendum to the Protocol on the quality inspection in accordance with Section 21, par. 1, of Act No. 255/2012 Coll., on Inspection (Inspection Code) • Internal communication, etc.

The Control Committee has initiated a dialogue with large audit firms, which primarily include the “Big 4” (Deloitte, PwC, E&Y, KPMG), Mazars and BDO. The audit portfolios of these companies include most of the public interest entities.

4.5 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.

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.

Chairwoman of the committee	Eva Racková
Members of the committee	Martin Burjánek, Marie Karfíková, Petr Koblíček, Vladimír Koniček, Stanislav Koucký, Petr Kříž, Irena Liškařová, Věra Mazánková, Jiří Nekovář, Radek Neužil, Tomáš Pivoňka, Bohuslav Poduška

Committee for Quality Inspection and Disciplinary Proceedings

The Committee for Quality Inspection and Disciplinary Proceedings is responsible for the preparation of underlying documents for the Presidium in the filing of appeals against the resolution of the disciplinary committee of the Czech Chamber of Auditors or resolutions of the Disciplinary Committee, assesses proposals of internal regulations of the Chamber or their changes before their approval by the assembly or the Executive Committee of the Chamber, participates in the oversight over the organisation, management and performance of inspections of quality organised and managed by the Supervisory Committee of the Chamber, participates in the oversight over the application of corrective and other measures by the Chamber in proceedings against auditors, is appropriately involved in the activities of the Control and Disciplinary Committee, primarily in relation to expert activities, participates in the preparation of recommendations for public oversight purposes, provides suggestions to the Presidium to order the Chamber to perform a quality inspection of an auditor who is not subject to the inspection organised and managed by the Control Committee, participates in the preparation of the list of all measures that were assigned to auditors in accordance with Section 25 of the Act and title XI. of the Act on Auditors, completes other tasks commissioned by the Board's bodies.

Chairman of the committee	Has not yet been appointed
Members of the committee	Pavel Uminský, Helena Vojáčková

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 ongoing 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	Zdeněk Grygar, Evžen Kočenda, Bohumil Král, Libuše Müllerová

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
Members of the committee	Zdeněk Liška

4.6 Office

Head of the Office

The head of the Office manages operations of the Board, prepares the meetings of the Presidium, is the chairwoman of the Committee for Cooperation and Coordination in Audit, 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 the quality inspector and provides for the activities of the Control Department.

Control Department

The Control Department was established as part of the internal organisation in order 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 – EAIG (European Audit Inspection Group).

During 2016, the Board agreed on employing five employees on the quality inspector positions so as to ensure that the Board is able to meet the statutory obligations after the Act on Auditors takes effect, i.e. starting from 1 October 2016.

Summary of hiring of quality inspectors in 2016:

NUMBER	START OF EMPLOYMENT
1 employee	January 2016
1 employee	May 2016
1 employee	July 2016
1 employee	September 2016
1 employee	November 2016

Software for the documentation of quality inspections

The quality inspectors use software during quality inspections and for their documentation that serves for the processing of individual inspections performed in an audit firm and statutory auditor on the level of:

- Internal control system – ISQC 1 (Quality Controls for Firms that Performs Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements); and
- File (application of the Act on Auditors, ISA and the code of ethics),

and for the evaluation of identified findings and risk analysis.

Underlying documentation – body of evidence to individual findings may be entered in the system. The system generates a Protocol on Quality Inspections. The software is used by numerous partner oversight organisations in Europe (e.g. Germany, Luxembourg, the United Kingdom and Slovakia).

A two-day workshop was organised for the training of quality inspectors in 2016.

Scope of quality inspection

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

Foreign Affairs and Legal Department

In 2016, the Foreign Affairs and Legal Department prepared all legal administrative work, including opinions on questions relating to the interpretation of the Act on Auditors, provided ongoing services to internal units and bodies of the Board, provided 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 prepared opinions on proposed changes in internal regulations of the Chamber.

The employees of the department participated in oversight activities of the Board in respect of the inspection of quality of audit activities, in education and professional exams and meetings of professional committees and Committees of the Board as and when needed.

Foreign activities in 2016:

DATE	MEETING
February	Workshop of the IFIAR on the methodology of quality inspections held in Abu Dhabi.
March and April	Meeting of the preparatory committee for the establishment of the CEAOB in Brussels. A preliminary structure was agreed and rules of discussions of the oversight body were presented subsequently for approval of the plenary meeting of the CEAOB in July 2016.
April	Conference on oversight over auditing organised in Podgorica by the World Bank and the Ministry of Finance on the opportunity of ten years of Montenegro's independence. The representative of the department hosted the section on the relation between the oversight and audit profession and presented certain observations relating to the establishment of the control department at the oversight body level.
September	Workshop held in Warsaw on the implementation of the EU reform of audit in individual member states. The workshop involved the presentation of the progress of legislative work in the Czech Republic.

5. PUBLIC OVERSIGHT

AREA OF PUBLIC OVERSIGHT	NOTE
<p>In accordance with the Act on Auditors, the public oversight is the oversight over:</p> <ul style="list-style-type: none"> • Inspection of the adherence to provisions of the Act on Auditors, standards on auditing, code of ethics and internal regulations of the Chamber and bodies of the Chamber 	<ul style="list-style-type: none"> • Bodies of the Chamber in accordance of the Act on Auditors are as follows: Assembly, Executive Committee and President of the Chamber, Supervisory Committee and Disciplinary Committee
<ul style="list-style-type: none"> • Organisation, management and performance of quality inspections organised and managed by the Supervisory Committee 	<ul style="list-style-type: none"> • The Supervisory Committee is the inspection body of the Chamber • It has currently 9 members • It observes supervisory rules in its activities • It checks the quality of auditors' activities, adherence to the Act on Auditors, other legal regulations, internal regulations of the Chamber and adherence to the resolutions of the Assembly • Investigates initiatives and complaints delivered to the Chamber
<ul style="list-style-type: none"> • Organisation and operations of the system of continuous education of statutory auditors by the Chamber 	<ul style="list-style-type: none"> • The Continuous Professional Education Committee of statutory auditors of the Chamber prepares topics and content of education for auditors and professional public, proposes appropriate lecturers, cooperates in the preparation of professional conferences. The Committee provides a suggestion in line with internal regulations of the Chamber, for an initiation of the corrective proceedings with auditors who repeatedly fail to meet the obligations arising from the internal regulation of the Committee and do not meet the determined scope of the Committee in the long-term.
<ul style="list-style-type: none"> • Application of corrective and other measures by the Chamber in proceedings against auditors or entities registered in accordance with Section 47 of the Act on Auditors 	<ul style="list-style-type: none"> • Section 47 – registration for the purposes of the obligatory audit of the company with its registered office in a third country

Summary of oversight activities in 2016:

AREA	DESCRIPTION
Oversight over personnel and professional coverage of quality inspections	<ul style="list-style-type: none"> • Participation in tenders for quality inspector positions • Additional interviews with participants who were shortlisted
Oversight over processes of quality inspections	<ul style="list-style-type: none"> • In 2016, employees of the Board participated in 5 oversights. In selecting the inspections that will be subject to oversight, the Board focused on auditors of public interest entities and large audit firms.
Oversight over the organisation of disciplinary activities and implementation of corrective measures by the Chamber	<ul style="list-style-type: none"> • Regular oversights over the activities of the Supervisory Committee are performed on an annual basis • Regular oversights over the activities of the Disciplinary Committee are also performed on an annual basis, in 2016 there was an extraordinary oversight in September 2016 • Personnel and professional coverage of disciplinary proceedings, oversight over the activities of the Supervisory Committee of the Chamber and the Disciplinary Committee of the Chamber • Dealing with the appeal against the resolutions of the Disciplinary Committee of the Chamber. <p>In 2016, the Board dealt with nine appeals against the resolution of the Disciplinary Committee of the Chamber.</p>

AREA	DESCRIPTION – continued
Oversight over the system of education of the Chamber	<ul style="list-style-type: none"> • Content and course of preparatory courses for the audit exam; • Course of individual parts of the audit exam; • Courses of continuous professional education of auditors; • Dealing with the appeal against the resolution of the Chamber relating to various aspects of audit education, exams and profession; • Regular oversights over educational events for entry in the profession and as part of continuous education <p>Initiation of the discussion with the Chamber on specific steps of how to improve the educational system to positively impact the quality of work of auditors (changes in the content of courses, changes in lecturers)</p>

In respect of oversight of the system for quality assurance by the Chamber, the Board monitors the preparation, adherence to and regular updates to the plan of quality inspections of statutory auditors.

Oversight of the educational system of the Chamber:

AREA	DESCRIPTION
Comments	<p>In 2016, the Committee for the Coordination of Education and Professional Exams:</p> <ul style="list-style-type: none"> • Prepared several opinions on the proposed Methodological Manual for members of audit committees relating primarily to the position and authority of the audit committee and professional competencies of members of the audit committee. • Sent comments on the draft of the control rules to the Presidium.
Oversight over the content and course of preparatory courses for the audit exam	<p>Inspection of the content and course of preparatory courses for the audit exam was performed in five preparatory courses under the supervision of members of the Committee for Coordination of Education and Professional Exams. It assessed the content in relation to the requirements for a professional profile of auditors and the link of the course content to part of the audit exam.</p> <p>In addition, the Committee for Coordination of Education and Professional Exams was provided with feedback from the course participants.</p> <p>The inspection was performed in the following courses:</p> <ul style="list-style-type: none"> • Macro-Microeconomics • Consolidation and Business Combinations • Statistics • Information Technology • Financial Accounting I. <p>Reports from oversight together with specific recommendations were delivered to the Chamber.</p>
Oversight over the course of individual parts of the audit exam	<p>As part of oversight over individual parts of the audit exam, the Committee for the Coordination of Education and Professional Exams assessed the assignment of five individual parts of the audit exam held pursuant to the above preparatory courses. The difficulty of the exam content and time for its preparation were assessed and the relation between the preparatory course and exam assignment was evaluated. Identically, specific recommendations were delivered to the Chamber.</p>
Oversight over the content and course of preparatory courses organised as part of continuous professional education of auditors	<p>Four reports from oversight were discussed and approved. Results of these reports were discussed with the Chamber.</p>
Continuous professional education of auditors	<p>The Committee for Coordination of Education and Professional Exams actively cooperates with the Continuous Professional Education Committee of the Chamber and monitors the adherence to proposed recommendations on a continuous basis.</p>

Other activities of public oversight:

AREA	DESCRIPTION
Cooperation with the Chamber in the termination of the audit certification	In 2016, there were 36 applications of auditors for the termination of the audit certification and two applications by audit firms. In all 38 cases the Board granted approval with the termination of audit certifications.
Complaints filed to the Board regarding the activities of the Chamber, statutory auditors and audit firms	During 2016, the Board did not receive any complaint regarding the procedure of the Chamber or audit firms.
Deals with the resolutions on appeals filed against the resolution of the Chamber in the disciplinary or another proceedings and proceedings dealt with by the court	In 2016, the Board issued one resolution which cancelled the resolution of the Chamber's Disciplinary Committee in respect of the imposed disciplinary proceedings to a statutory auditor for a mistake in the conduct of audit in an audit firm when it found the resolution issued by the Chamber to be insufficiently justified and incomplete in respect of the definition of the subject of the proceedings. The matter was presented by the Board to the Disciplinary Committee for new discussion. The Disciplinary Committee performed new proceedings and issued a new resolution which the accused auditor appealed repeatedly. The appeal was delivered to the Board at the end of 2016 and its resolution will be contained in the Report on the Activities of the Board for 2017.
Resolution of the Board	In October 2016, ruling of the Municipal Court in Prague no. 8A 63/2013 regarding the legal action of the statutory auditor against resolution of the Board no. RVDA-65/2013 which confirmed the resolution of the Chamber's Disciplinary Committee on the imposition of a disciplinary measure was delivered to the Board. The ruling of the Municipal Court in Prague cancelled the resolution of the Board and the case was returned for new proceedings. As a result, the Board is working on a new resolution in the case that will be contained in the Report on the Activities of the Board for 2017.

6. QUALITY INSPECTION

Quality inspections of auditors identify whether auditors proceed in line with the Act on Auditors, standards on auditing, code of ethics and internal regulations of the Chamber and the Regulation in audit activities. **All auditors** are subject to the quality assurance system.

Quality Assurance System

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

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

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;
- d) The performance of the inspection of quality is determined pursuant to a risk analysis in respect of:

- a.i. An auditor conducting an obligatory audit of at least one public interest entity, no less than once in three years; and
- a.ii. An auditor who does not conduct an obligatory audit in any public interest entity, no less than once in six years.

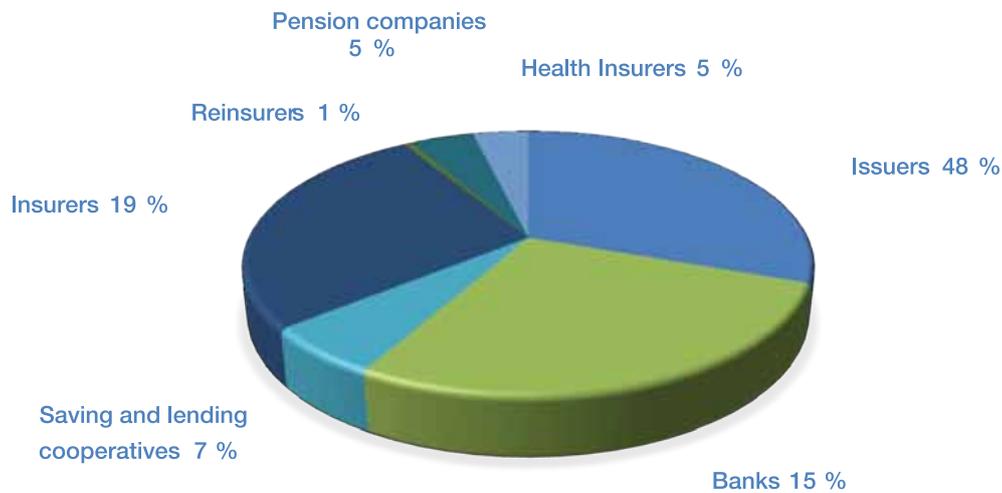
6.1 Public Interest Entities

In accordance with Act No. 563/1991 Coll., on Accounting, as amended (the “Act on Accounting”), public interest entities have 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. Business entity and issuer of investment securities accepted for trading on the European regulated market;
	b. Bank in accordance with the act defining activities of banks or a savings and lending cooperative in accordance with act defining activities of savings and lending cooperatives;
	c. Insurer or reinsurer in accordance with act defining activities of insurers and reinsurers;
	d. Pension companies in accordance with the act defining pension savings schemes or additional pension savings;
	e. Health insurer.

As of 31 December 2016, there were **150 public interest entities** in the Czech Republic in accordance with the definition applicable since 1 January 2016 (as of 31 December 2015, there were 428 public interest entities in the Czech Republic in accordance with the definition applicable in 2015).

Structure of public interest entities in accordance with the definition of the Act on Accounting:



In relation to public interest entities, the Board prepared:

- A detailed database of public interest entities containing for example: general identification information, contact information, information on why and since when they meet the definition of public interest entities (e.g. issuer, bank, etc.), inclusion in the sub-group of companies in accordance with the Act on Accounting and Directive of the European Parliament and of the Council 2013/34/EU 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, information on the determination of the reporting period, name of the auditor and responsible partner for audit for the past 20 years and information relating to the audit committee (establishment, number of members, etc.);
- List of auditors of public interest entities with the information from individual reports on transparency including e.g. the number of audited public interest entities since 2012, information on audit and non-audit services provided by auditors, etc.

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

- Assets totalling CZK 500 million;
- Annual sum of net turnover of CZK 1,000 million; and
- Average number of employees during the reporting period of 250.

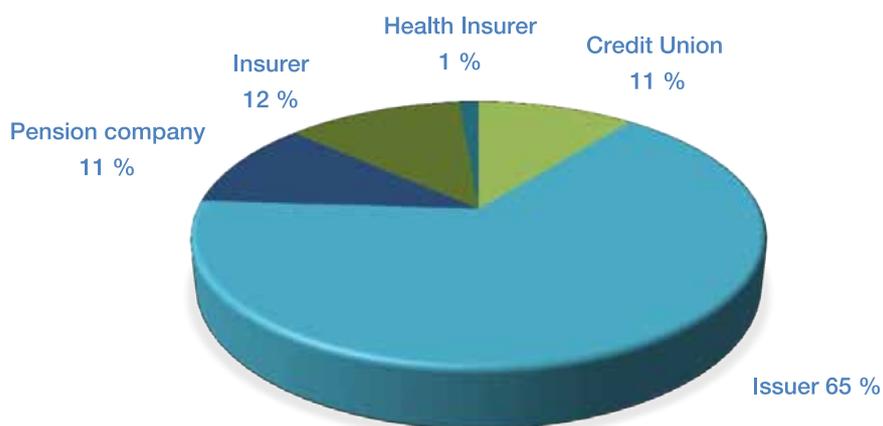
Categories of Entities

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 ENTITIES

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:

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



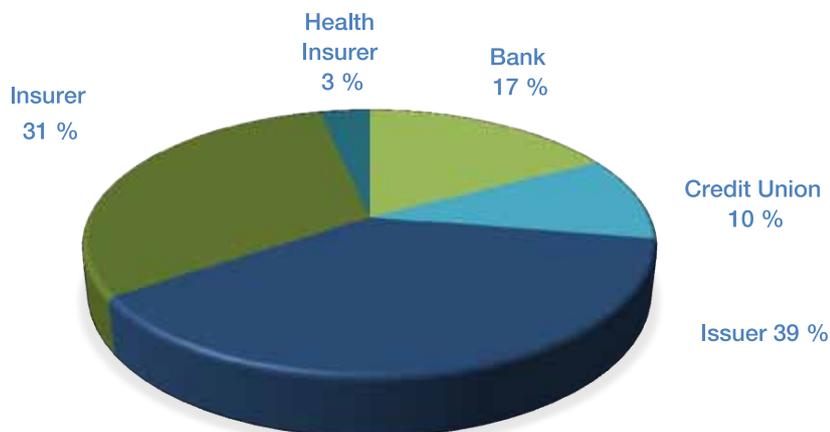
The “small entity” category primarily includes issuers of listed securities which include qualified investors funds managing significant investments.

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 ENTITIES

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

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

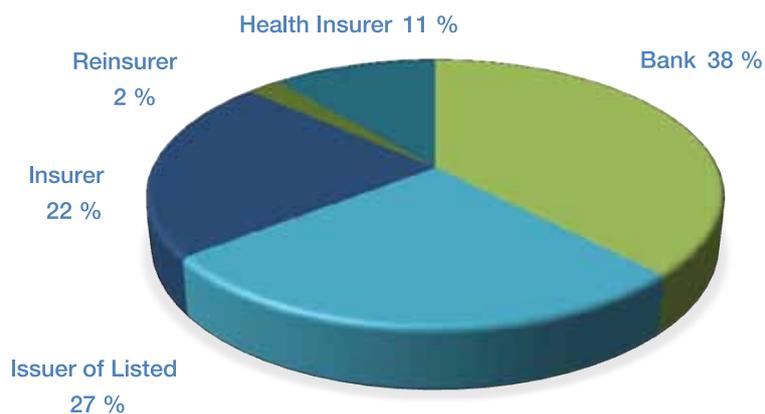


The “medium-sized entity” category includes issuers of listed securities and insurers.

LARGE ENTITIES

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

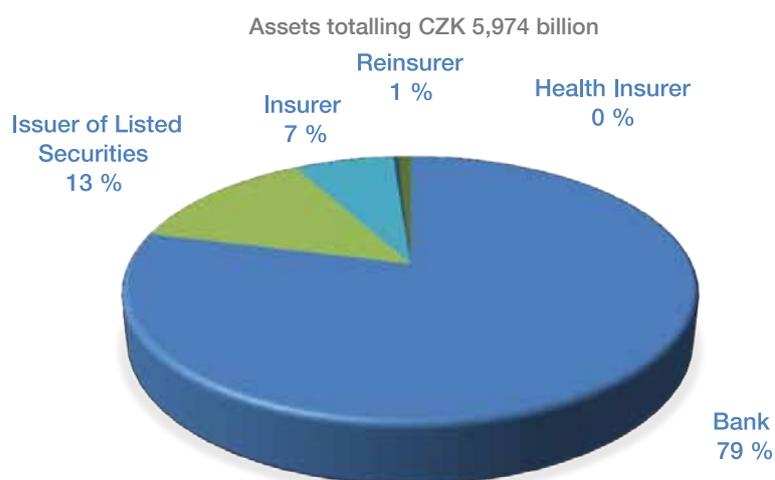
- Assets totalling CZK 500 million;
- Annual sum of net turnover of CZK 1,000 million; and
- Average number of employees in the reporting period of 250.



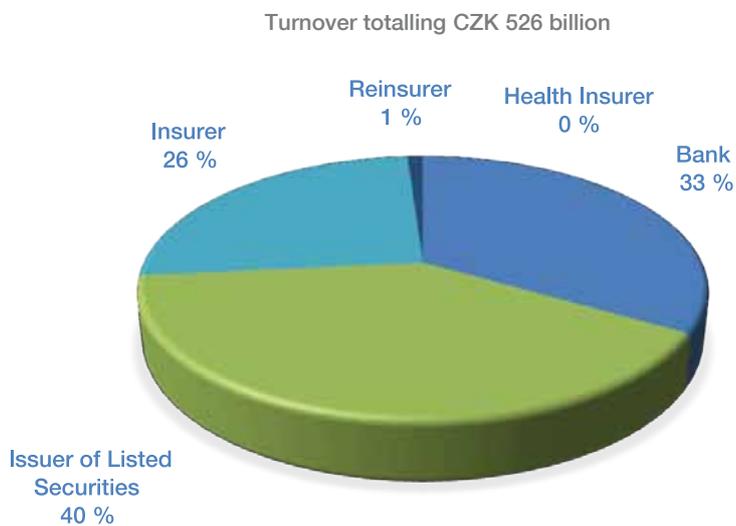
The “large entity” category includes banks, insurers and issuers of listed securities.

With regard to these public interest entities listed in the “large entity” category, total assets as of 31 December 2015 amounted to CZK 5,974 billion, total annual sum of net turnover amounted to CZK 526 billion and the total number of employees was approximately 92 thousand.

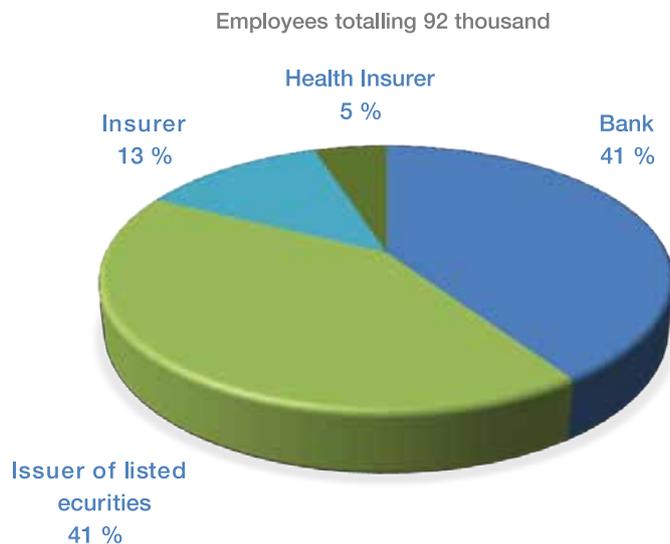
Public interest entities with assets exceeding CZK 500 million:



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



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



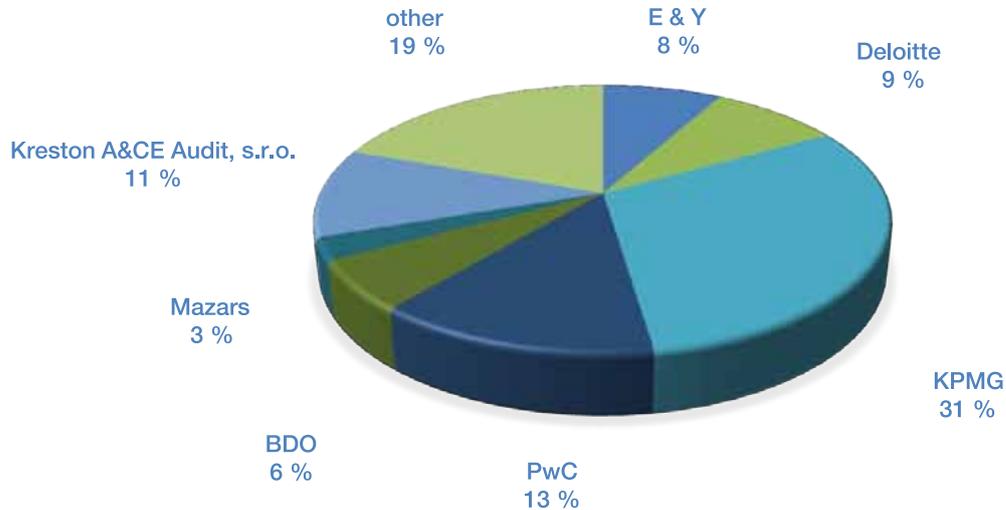
6.2 Auditors of Public Interest Entities

Auditors of public interest entities include 7 out of 10 largest audit firms which are as follows:

	NAME OF THE ENTITY	TOTAL NUMBER OF STATUTORY AUDITORS	NOTE
1	Baker Tilly Czech Republic, spol. s r.o.	3	Does not have public interest entities in its portfolio
2	BDO Audit s.r.o. ("BDO")	33	
3	Deloitte Audit s.r.o. ("Deloitte")	24	
4	Ernst & Young, s.r.o. ("E&Y")	26	
5	IB Grant Thornton Audit s.r.o.	6	Does not have public interest entities in its portfolio
6	KPMG Česká republika Audit, s.r.o. ("KPMG")	24	
7	Mazars Audit s.r.o. ("Mazars")	5	
8	Moore Stephens s.r.o.	5	Does not have public interest entities in its portfolio
9	NEXIA AP a.s.	6	
10	PricewaterhouseCoopers Audit, s.r.o. ("PwC")	31	
	TOTAL	163	

In relation to the audit of public interest entities, the scope of the Board's authority covers 29 audit firms and 6 auditors who provide services as sole practitioners. These 29 audit firms employ a total of 207 auditors.

The distribution of public interest entities among auditors and audit firms in the Czech Republic as of 31 December 2016:



Total revenues from all activities provided by auditors

Auditors of public interest entities in accordance with the definition as of 1 January 2016 reported **total revenues from all provided activities of CZK 4.4 billion for 2015**, of which revenues from statutory audits amounted to CZK 2.3 billion.

List of Key Public Interest Entities as of 31 December 2015 and Key Audit Partners

BANKS

	Name	Auditor/audit firm	Key audit partner
1	Komerční banka, a.s.	Deloitte	David Batal
2	Modrá pyramida stavební spořitelna, a.s.		David Batal
3	Raiffeisenbank a.s.		Diana Radl Rogerová
4	UniCredit Bank Czech Republic and Slovakia, a.s.		Diana Radl Rogerová
5	Česká spořitelna a.s.	E&Y	Roman Hauptfleisch
6	Českomoravská stavební spořitelna, a.s.		Jan Zedník
7	Československá obchodní banka, a.s.		Jan Zedník
8	Hypoteční banka, a.s.		Jan Zedník
9	Sberbank CZ, a.s.		Lenka Bízková
10	Stavební spořitelna České spořitelny, a.s.		Roman Hauptfleisch
11	Air bank a.s.	KPMG	Jindřich Vašina
12	Equa bank a.s.		Veronika Strolená
13	J&T BANKA, a.s.		Vladimír Dvořáček
14	MONETA Money Bank, a.s.		Vladimír Dvořáček
15	PPF banka a.s.		Jindřich Vašina
16	Raiffeisen stavební spořitelna a.s.		Veronika Strolená
17	Wüstenrot – stavební spořitelna a.s.		Jindřich Vašina

REINSURERS

	Name	Auditor/audit firm	Key audit partner
1	VIG RE zajišťovna, a.s.	KPMG	Jindřich Vašina

INSURERS

	Name	Auditor/audit firm	Key audit partner
1	Česká pojišťovna a.s.	E&Y	Jakub Kolář
2	ČSOB Pojišťovna, a.s. člen holdingu ČSOB		Jan Zedník
3	Generali Pojišťovna a.s.		Jakub Kolář
4	Komerční pojišťovna, a.s.		Lenka Bízková
5	Allianz pojišťovna, a.s.	KPMG	Romana Benešová
6	Česká podnikatelská pojišťovna, a.s. Vienna Insurance Group		Jindřich Vašina
7	Kooperativa pojišťovna, a.s. Vienna Insurance Group		Jindřich Vašina
8	Pojišťovna České spořitelny, a.s., Vienna Insurance Group	PwC	Romana Benešová
9	AEGON Pojišťovna, a.s.		Kristina Vančurová
10	Exportní garanční a pojišťovací společnost, a.s.		Marek Richter
11	UNIQA Pojišťovna, a.s.		Marek Richter

HEALTH INSURERS

	Name	Auditor/audit firm	Key audit partner
1	Česká průmyslová zdravotní pojišťovna	BDO	Jan Doležal
2	Oborová zdravotní pojišťovna zaměstnanců bank, pojišťoven a stavebnictví		Petr Slaviček
3	Vojenská zdravotní pojišťovna České republiky		Jan Doležal Lukáš Hendrych
4	Zdravotní pojišťovna ministerstva vnitra České republiky	KPMG	Lukáš Hendrych Petr Slaviček
5	Všeobecná zdravotní pojišťovna České republiky		Jindřich Vašina
		PwC	Marek Richter

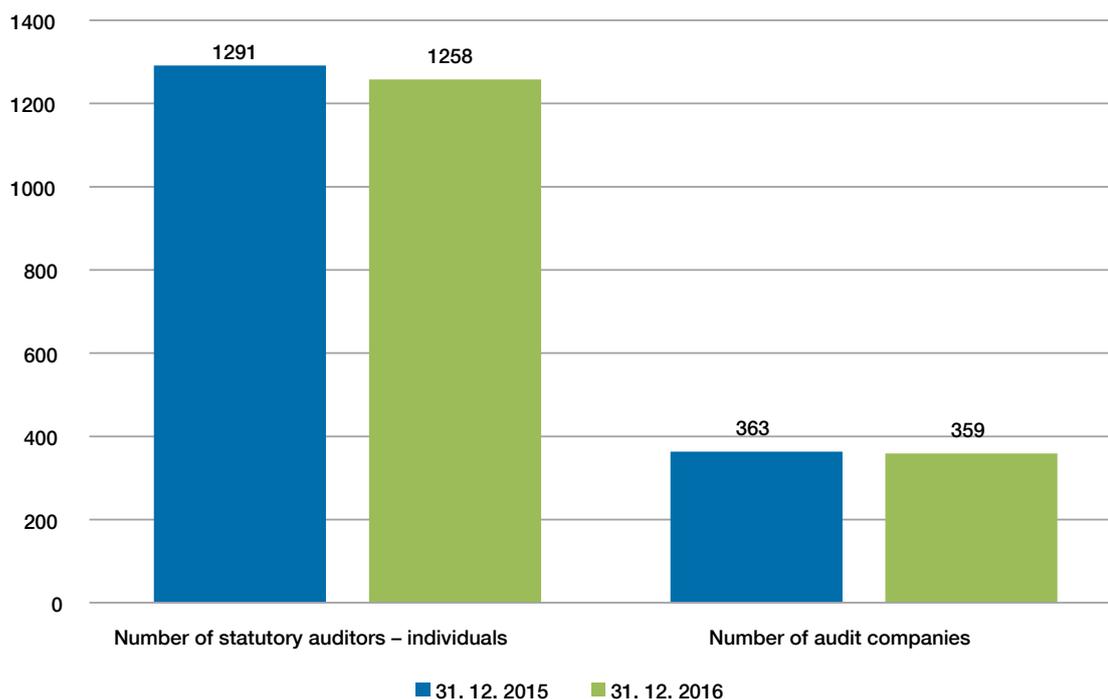
ISSUERS

	Name	Auditor/audit firm	Key audit partner
1	Pražské služby, a.s.	BDO	Vlastimil Hokr Petr Slavíček
2	ČD Cargo, a.s.	Deloitte	Václav Loubek
3	ČEPS, a.s.		Václav Loubek
4	Česká zbrojovka a.s.		Petr Michalík
5	České dráhy, a.s.		Václav Loubek
6	Severomoravské vodovody a kanalizace Ostrava a.s.		Petr Michalík
7	ČEZ a. s.		E&Y
8	ČEZ OZ uzavřený investiční fond a.s.	Martin Skácelík	
9	O2 Czech Republic a.s.	KPMG	Petr Škoda
10	ŠKODA TRANSPORTATION a.s.		Petr Sikora
11	NET4GAS, s.r.o.	PwC	Milan Zelený
12	Philip Morris ČR a.s.		Petra Bočáková

Total number of auditors registered by the Chamber

The Chamber maintains a list of auditors which includes the information on both statutory auditors and audit firms.

Number of auditors and audit firms:



6.3 Quality Inspections in 2016

Control Committee

Since 1 October 2016, i.e. since the amendment to the Act on Auditors took effect, inspections of auditors and audit firms which have public interest entities in their portfolio have started.

The first planned inspection of an audit firm and statutory auditor who is its statutory executive was announced and started immediately when the amendment to the Act on Auditors took effect. As of 31 December 2016, the dealing with objections in accordance with Act No. 255/2012 Coll., on Inspection (Inspection Code), as amended, relating to inspection findings listed in the Protocol on the Quality Inspection submitted to the control body by the controlled auditor started.

Supervisory Committee of the Chamber

List of quality inspections organised and managed by the Supervisory Committee:

INSPECTION OF QUALITY	FIRST HALF OF 2016	SECOND HALF OF 2016
Planned	150	100
Completed	137 (including inspections of quality that were not performed due to the lack of cooperation of the auditor)	94
Not performed	13	6

In the second half of 2016, 8 inspections were completed (of a total of 16) in auditors or audit firms that had a public interest entity in their portfolio in accordance with the definition applicable before 31 December 2015 and consequently were subject to three-year periodicity of inspections of quality by the Chamber. In the second half of 2016, no other inspections of quality were initiated in these auditors given the anticipated amendment to the Act on Auditors.

The most frequently identified shortcomings in quality inspections according to ISAs:

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

6.4 Disciplinary Proceedings

Disciplinary Committee

For more information on the activities of the Disciplinary Committee in 2016 refer to Chapter 4 – BODIES AND ORGANISATIONAL STRUCTURE Of The BOARD, point 4.3 – Disciplinary Committee.

Disciplinary Committee

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.

In 2016, the Disciplinary Committee received 50 petitions for an initiation of disciplinary proceedings from the Supervisory Committee and one petition from the Czech National Bank against three statutory auditors and one audit firm. In 2016, a total of 51 petitions for an initiation of disciplinary proceedings were received.

Issued Resolutions

In 2016, the Disciplinary Committee issued 54 resolutions, of which 43 resolutions related to petitions of the Supervisory Committee of 2016, another 10 resolutions to petitions of the Supervisory Committee of 2015 and 1 resolution to the petition of the Czech National Bank. In total, 27 proposed disciplinary proceedings were completed conclusively in which 40 entities featured (of which 15 audit firms and 25 statutory auditors).

Disciplinary Measures

In 2016, the Disciplinary Committee imposed a total of 86 disciplinary measures, of which 55 are effective. The most frequent disciplinary measures include a reprimand (in 10 cases), public reprimands (in 14 cases) and fines (in 26 cases).

External Suggestions

In 2014, a total of 14 external suggestions were received, of which 12 suggestions were dealt with, in 1 case disciplinary proceedings were initiated ex officio, 11 suggestions were found to lack merit and 2 suggestions are in the phase of the affected entity providing its statement.

Continuous Professional Education

It was decided to initiate disciplinary proceedings in two cases and a reprimand was given in both cases that did not yet take effect at the end of the year.

7. INTERNATIONAL COOPERATION

The Board actively cooperates with key organisations in audit regulations and oversight over 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
EGAOB (European Group of Auditors' Oversight Bodies)	In 2016, employees of the Board took part in the activities of the European Group of Auditors' Oversight Bodies which resulted in the formation of the CEAOB. The preparatory work group in which we were members created the draft of the organisational structure, discussion rules and work groups. These documents were discussed on an ongoing basis on plenary meetings of the EGAOB.
CEAOB (Committee of European Auditing Oversight Bodies)	In July 2016, the constitutive meeting of the CEAOB was held. At this meeting, chairman of the committee was appointed and principal documents for the operations of the committee were approved. The Board successfully nominated its representatives in key work groups of the CEAOB, primarily the consultative group of the CEAOB's Chairman, Inspection Group, Standards Group, Enforcement Group, Monitoring Group and CAIM Steering Group. The participation in work groups allows the small team of the Board to benefit from the experience of larger and longer operating oversight bodies and to discuss issues in these groups that we encounter in our day-to-day activities.
EAIG (European Audit Inspection Group)	<p>2016 was the last year of operations of the EAIG which was the principal professional platform in the past for sharing experience of oversight bodies in the EU. Principal projects of the EAIG were as follows:</p> <ul style="list-style-type: none"> Preparation and development of methodology for inspections of auditors <p>As part of this project, the CAIM (Common Audit Inspection Methodology) is gradually being prepared. So far, the part covering the internal control system and system of auditor quality assurance and two parts relating to the inspections of individual files methodology for the inspection of compliance with ISA 540 and ISA 600 were prepared.</p> <ul style="list-style-type: none"> Preparation and maintenance of the European database of inspection findings <p>In this project, a database was created in which individual oversight bodies enter findings relating to ten largest audit firms in the EU. These findings are consequently analysed and discussed with the management of individual firms at the EU level. Conclusions from these discussions were regularly presented at meetings of the EAIG together with the presentations of management of the affected firms on quality management and projects that should result in the remedy of potential shortcomings. The Board actively contributed to the database and concurrently used the findings of partner oversight bodies for improvement of its work.</p> <p>These projects will be transferred to the activities of the CEAOB and its work groups.</p> <p>Note: There were work groups in the EAIG for four largest audit firms that collected and analysed findings from the database of findings and subsequently discussed them with the representatives of audit firms at the European level. Each of the firms then had a presentation at regular meetings of the EAIG once in 16 months. Representatives of individual oversight bodies had an opportunity to ask questions relating to the solution of identified issues and quality of audit in general.</p>
IFIAR (International Forum of Independent Audit Regulators)	<p>In 2016, the active participation of the Board in the activities of the IFIAR continued.</p> <p>In February 2016, two employees participated in the IFIAR Inspection Workshop, a two-day event of the IFIAR which offers very intensive sharing of experience among oversight bodies from around the world in very specific issues of inspections. In April 2016, a plenary meeting of the IFIAR was held with the participation of Board members which significantly impacted further direction of the organisation to ensure it is as beneficial for its members as possible. In addition, members of the Board participate in the activities of work groups of the IFIAR, primarily the Enforcement Group and the Small Regulators Working Group.</p> <p>Employees of the Board intensively cooperated with responsible persons of the IFIAR on the application of the Board for accession to a multilateral agreement among members of the oversight bodies around the world in the cooperation in the oversight organisation – Multilateral Memorandum of Understanding.</p>
World Bank	Representatives of the Board participated in the workshop organised by the World Bank on 28 and 29 September 2016 in Warsaw. The topic was the implementation of the European reform of audit in selected EU countries.

8. REPORTING OBLIGATIONS OF THE BOARD

Reporting obligations of the Board in this Report on the Activities of the Board for 2016 in accordance with the Act on Auditors (Sections 24 and 38) include the preparation of the following reports:

Other reporting obligations of the Board include:

AREA	DESCRIPTION
Summary report on the quality assurance system (Section 24, paragraph 7)	<ul style="list-style-type: none"> On an annual basis, the Board publishes a summary report on the quality assurance system in which it outlines summary findings, primarily repeated shortcomings in the internal quality assurance system of auditors that result from the completed quality inspections.
Report of the public oversight over audit (Section 38, paragraph 3)	<ul style="list-style-type: none"> The Board publishes a report on public oversight over audit for the prior calendar year on an annual basis, by 30 June at the latest, The report contains, for example, information on activities, annual programmes of activities, total results of the quality assurance system and summary information on findings and conclusions
Financial statements (Section 38, paragraph 4)	<ul style="list-style-type: none"> The Board publishes the financial statements of the Board for the prior reporting period at its website by 30 June at the latest and information in accordance with Article 28 of the Regulation (transparency of relevant bodies) This information must be published on the website for no less than 5 years from its publication, including potential corrections

8.1 Information in accordance with Act No. 106/1999 Coll., on Free Access To Information

Report on the development on the market of the provision of obligatory audit services to public interest entities (Article 27 of the Regulation)	<ul style="list-style-type: none"> The Board prepares the report on the development on the market of obligatory audit services to public interest entities <p>The Board assesses primarily the following facts</p> <ol style="list-style-type: none"> Risks arising from a high frequency of shortcomings in the quality of work of a statutory auditor or audit firm, including system shortcomings in the network of audit firms that may result in the dissolution of any audit firm, interruption in the provisions of obligatory audit services in specific sectors and across the sectors, further accumulation of risks which consist in shortcomings of audits, and an impact on the overall stability of the financial sector; Level of the market concentration, including the level of concentration in specific sectors; Activities of audit committees; and Need to adopt measures for the mitigation of the risks listed in point a). <p>By 17 July 2016 and subsequently no less than once in three years, each relevant body and the ECN network will prepare a report on the development on the market of obligatory audit services to public interest entities and will present it to the CEAOB, ESMAEBA and EIOPA and the Commission.</p> <p>Pursuant to the consultation with the CEAOB and the ESMA EBA and EIOPA, the Commission will use these reports on the development in the preparation of the common report on the situation at the EU level. This common report will be presented to the Board, the European Central Bank and the European Systemic Risk Board, and potentially to the European Parliament.</p>
Notice of terminating a contractual obligation	<ul style="list-style-type: none"> The Board shall inform the Czech National Bank about a notice of terminating an obligation from the contract on the obligatory audit or withdrawal from the contract on obligatory audit, if one of the contractual parties is an entity subject to oversight by the Czech National Bank
Information in accordance with Act No. 106/1999 Coll., on Free Access to Information	<ul style="list-style-type: none"> Number of filed applications, issued resolutions and filed remonstrances Provided exclusive licences Dealing with complaints filed in accordance with Section 16a of the Information Act Further information relating to the application of 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, issued resolutions and filed remonstrances	In 2016, the Board received one application from the District Court in Olomouc which was notified as an application for the provision of information in accordance with Act No.106/1999 Coll., on Free Access to Information; however, the application indicates that it involved the provision of information on the activities of a statutory auditor. This information was provided.
B	Number of issued resolutions on the rejection of the application for information	In 2016, the Board did not issue any resolution on the rejection of an application for the provision of information.
C	Number of filed appeals against the resolution of rejected applications	No appeal was filed to the Board.
D	Legal proceedings in the re-examination of the legality of the resolution upon the rejection of the applications	In 2016, the Board received no judgments regarding the re-examination of the legality of resolutions on the rejection of application (or partial rejection of the application). There could not be any legal proceedings, as the Board did not issue any resolution on the rejection of an application (refer to part B).
E	List of provided exclusive licences	The Board issued no exclusive licences
F	Number of complaints filed in accordance with Section 16a of the Information Act	The Board received no complaints in 2016.

Conferences

In 2016, the Board organised two conferences for the general audit public and followed up on the set tradition. Principal topics that were presented and subsequently discussed:

- **Reform of audit in practice** primarily focusing on issues of audit committees. The key guest of the conference was the president of the international Institute of Internal Auditors.
- **New concept of the auditor's report.** Key guests included the representatives from the United Kingdom and the president of the FEE (The Federation of European Accountants).

Meeting with the Representatives of Internal Auditors

On 29 November 2016, representatives of the Board participated in a meeting of internal auditors organised by the Banking Association. Principal topics were activities of the Board and obligations of Audit Committees in relation to the Board.



Publications of the Board

One of the new obligations of the Board, in accordance with Article 27 of the Regulation, is to assess the activities of Audit Committees. In an effort to help newly established, starting Audit Committees, or newly appointed members of these committees, the Board issued two publications focusing on the issues of Audit Committees.



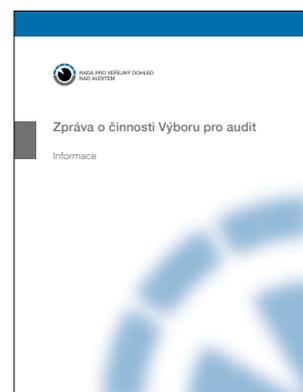
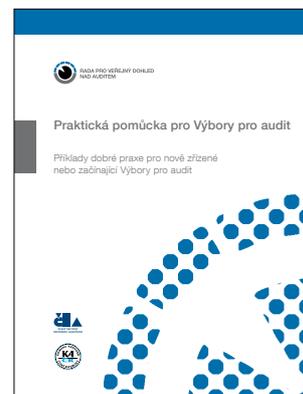
The first publication is **The Practical Manual for Audit Committees – Examples of Good Practice for Newly Established or Starting Audit Committees**, which is divided into ten chapters. Some of them have appendices.

The objective of this publication is to provide a practically focused list of issues of Audit Committees so that the Audit Committees could contribute to the mitigation of risks and provide correct information both inside and outside the entity.

The second publication is the **Audit Committee Activity Report**. One of the new requirements for Audit Committees is the preparation of a report on activities in accordance with Section 44aa, paragraph 3, of the Act on Auditors, in which it assesses its activities in relation to the activities listed in Section 44a, paragraph 1, of the Act on Auditors. This Audit Committee report is intended for the Board.

In an effort to provide methodological support and appropriately align the approach to preparing the Audit Committee Activity Report intended for the Board, the Board prepared a template of the “Audit Committee Activity Report”.

The electronic version of both publications (MS Word), including the standalone template of the Audit Committee Activity Report (MS Excel) is available both in Czech and English on the website of the Board at www.rvda.cz/metodika.



Lecturing Activities

During 2016, employees of the Board gave lectures, for example, for the Institute for the Public Administration of the Ministry of the Interior, the Chamber, etc. Principal topics of lectures included the audit methodology, the Act on Auditors and financial accounting of entities in the public sector.

Publication Activities

The employees of the Board regularly contribute to professional magazines – Auditor, ÚNES Účetnictví nevýdělečných organizací a obcí, etc.

Monitoring Report

In 2016, the Czech Republic participated in the preparation of the Monitoring Report which maps the condition of the audit market and oversight over audit activities in the Czech Republic. This report will be part of the report for the assessment of this issue at the European level.

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

Financial Resources

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.

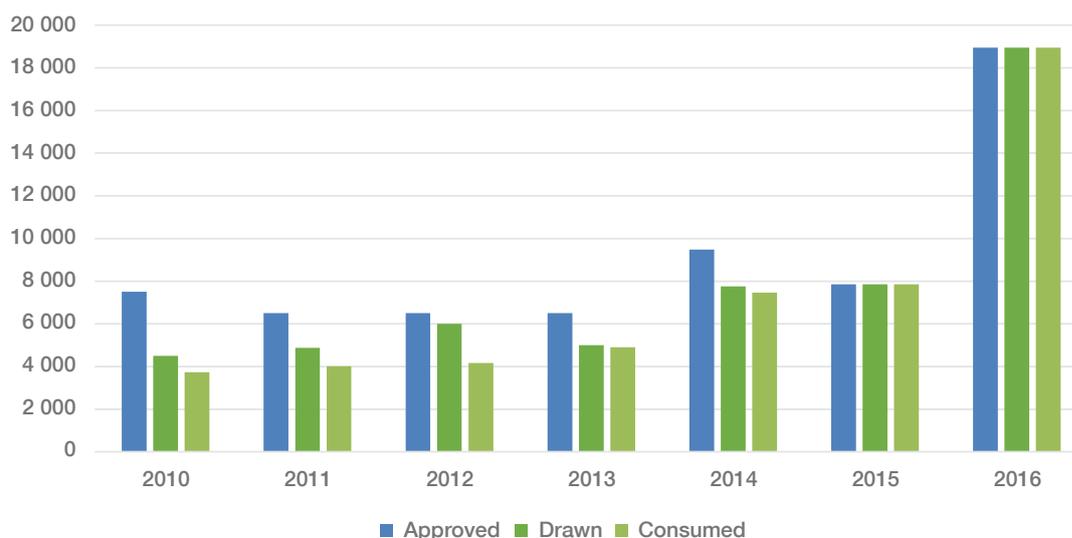
The subsidy is provided in accordance with Act No. 218/2000 Coll., on Budgetary Rules and Change in Certain Relating Acts (Budgetary Rules), as amended. It is an annual non-investment non-refundable subsidy provided pursuant to an application by the recipient (the Board) for the provision of a subsidy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

After the amendment to the Act on Auditors took effect, 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).

List of provided subsidies, their drawing and use:

Subsidies for the Board from the state budget (in CZK thousand)



11. OUTLOOK OF KEY ACTIVITIES OF THE BOARD FOR 2017

In 2017, the Board will continue all the activities stipulated by the Act on Auditors. Key issues include public oversight and quality inspections.

Public Oversight

A **total of 9 oversights** were planned for the first half of 2017, of which 4 are ongoing. A similar number of oversights are planned for the second half of the year.

Quality Inspections

A **total of 13 quality inspections of audit firms** are planned, of which the first two were initiated. From May 2017 throughout the rest of the year, quality inspections of the largest audit firms on the market will be performed.

Audit Committee

The information listed in the Audit Committee Activity Reports intended for the Board provided by both public interest entities and entities with an equity investment of the state 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

A significant part of the Board's activities will involve further enhancing the cooperation with international oversight bodies focused on increasing the quality of audit work on the Czech market. The Board will host the meeting of the Inspection Group of the CEAOB that will be held between 6 June and 9 June 2017. This meeting will be attended by 70-80 representatives of oversight bodies from all EU countries.

Lecturing

During 2017, as in prior years, employees of the Board will give lectures, e.g. for the Institute for the Public Administration of the Ministry of the Interior, the Chamber and other organisations. Principal topics of their lectures will be issues of audit methodology, the Act on Auditors and financial accounting of entities in the public sector.

Publications

The employees of the Board will publish contributions in professional magazines – Auditor, ÚNES, Účetnictví nevýdělečných organizací a obcí, etc. in 2017.

Staffing

All **activities in 2017 will be provided by the current number of employees and members of bodies** of the Board.

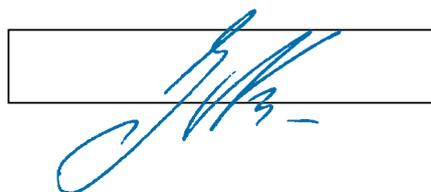
Financial Statements

This report includes the financial statements comprising the balance sheet, profit and loss account and notes prepared as of the balance sheet date of 31 December 2016.

BALANCE SHEET		Public Audit Oversight Board	
As of 31 December 2016		Vodičkova 1935/38, 110 00 Prague 1	
(CZK thousand)		720 38 080	
Note		2016	
		Opening balance	Closing balance
A.	Total fixed assets	729	2 222
I.	Total intangible fixed assets	598	788
2.	Software		788
6.	Intangible fixed assets under construction	598	
II.	Total tangible fixed assets	131	999
4.	Tangible movable assets and sets of tangible movable assets	131	999
IV.	Total accumulated depreciation on fixed assets		435
2.	Accumulated amortisation on software		183
7.	Accumulated depreciation on tangible movable assets and sets of tangible movable assets		252
B.	Total current assets	923	2 467
II.	Total receivables		5
4.	Operating prepayments made		5
III.	Current financial assets	923	2 462
1.	Cash on hand	3	8
3.	Cash at bank	920	2 454
	TOTAL ASSETS	1 652	4 689

Prepared on:
10 February 2017

Signature of the statutory body of the entity or
signature of an individual who is an entity:



BALANCE SHEET		Public Audit Oversight Board	
As of 31 December 2016		Vodičkova 1935/38, 110 00 Prague 1	
(CZK thousand)		720 38 080	
Note	LIABILITIES	2016	
		Opening balance	Closing balance
A.	Total equity	729	1 386
I.	Total equity	729	1 386
1.	Equity	729	1 386
B.	Total liabilities	923	3 303
III.	Total short-term payables	923	1 438
1.	Suppliers	122	236
5.	Employees	407	1 056
7.	Payables to social security and health insurance institutions	270	145
9.	Other direct taxes	124	1
IV.	Total other liabilities		1 865
1.	Accrued expenses		1 865
	TOTAL LIABILITIES	1 652	4 689

Prepared on: 10 February 2017	Signature of the statutory body of the entity or signature of an individual who is an entity:
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PROFIT AND LOSS ACCOUNT Year ended 31 December 2016 (CZK thousand)		Public Audit Oversight Board Vodičkova 1935/38, 110 00 Prague 1 720 38 080	
Note	TEXT	Principal activities	Economic activities
A.	Costs	18 954	
I.	Purchased consumables and services	6 142	
1.	Consumed material, energy and other non-storable supplies	533	
2.	Goods sold		
3.	Repairs, maintenance		
4.	Travel costs	1 305	
5.	Representation costs	36	
6.	Other services	4 268	
II.	Changes in internally produced inventory and own work capitalised		
7.	Change in internally produced inventory		
8.	Capitalisation of material, goods and intracompany services		
9.	Capitalisation of fixed assets		
III.	Staff costs	11 135	
10.	Payroll costs	8 293	
11.	Statutory social security	2 735	
12.	Other social security		
13.	Statutory social costs	107	
14.	Other social costs		
IV.	Taxes and fees		
15.	Taxes and fees		
V.	Other costs	19	
16.	Contractual fines, default interest, other fines and penalties		
17.	Write-off of bad receivable		
18.	Interest expense		
19.	Foreign exchange rate losses		
20.	Donations		
21.	Deficits and damage		
22.	Sundry costs	19	
VI.	Depreciation, sold assets, recognition and use of reserves, provisions	1 658	
23.	Depreciation of fixed assets	435	
24.	Sold fixed assets		
25.	Sold securities and equity investments		
26.	Sold material		
27.	Recognition and use of reserves and provisions	1 223	
VII.	Contributions made		
28.	Membership contributions made and contributions settled between organisational units		
VIII.	Income taxation		
29.	Income taxation		
B.	Income	18 954	
I.	Operating subsidies	18 950	
1.	Operating subsidies	18 950	
II.	Received contributions		
2.	Received contributions settled between organisational units		
3.	Received contributions (donations)		
4.	Received membership contributions		
III.	Sales of own work and goods		
IV.	Other income	4	

PROFIT AND LOSS ACCOUNTAs of 31 December 2016
(CZK thousand)

Public Audit Oversight Board

Vodičkova 1935/38, 110 00 Prague 1
720 38 080

Note	TEXT	Principal activities	Economic activities
5.	Contractual fines, default interest, other fines and penalties		
6.	Payments for written off receivables		
7.	Interest income	4	
8.	Foreign exchange rate gains		
9.	Settlement of funds		
10.	Sundry income		
V.	Sales of assets		
11.	Sales of intangible and tangible assets		
12.	Sales of securities and equity investments		
13.	Sales of material		
14.	Income from current financial assets		
15.	Income from non-current financial assets		
C.	Profit or loss before tax		
D.	Profit or loss after tax		

Prepared on:
10 February 2017Signature of the statutory body of the entity or
signature of an individual who is an entity:


PUBLIC AUDIT OVERSIGHT BOARD

Vodičkova 1935/38, 110 00 Prague 1

Notes to the Financial Statements for 2016

(in accordance with Section 19, paragraph 1, letter c), of Act No. 563/1991 Coll.)

1. General Information:

Name:	Public Audit Oversight Board
Registered office:	Prague 1, Vodičkova 1935/38
Legal status:	Board (Act No. 93/2009 Coll., on Auditors)
Principal activities:	public audit oversight
Corporate ID:	720 38 080

Name and surname:	Members of statutory bodies:
Jiří Nekovář	Board's President
Marie Karfíková	Member of the Presidium
Evžen Kočenda	Member of the Presidium
Zdeněk Liška	Member of the Presidium
Věra Mazánková	Member of the Presidium
Bohuslav Poduška	Member of the Presidium

Average number of employees:	20
– of which managers:	6

Staff costs:	CZK 8,293 thousand
– of which relating to managers:	CZK 1,174 thousand

2. Applied Accounting Principles and Policies, Valuation Methods:

Bookkeeping:	given the specification of the organisation, bookkeeping for non-state non-profit organisations was used
Valuation method:	Inventory – none Tangible and intangible fixed assets – CZK 1,650 thousand Securities: the entity has no securities Equity investments: none Increase in breeding animals: the entity records no increases in breeding animals

3. Additional information:

3.1 Tangible and intangible fixed assets, except for receivables:

Pledged (encumbered) tangible fixed assets: 0

3.2 Receivables:

Total receivables past their due dates: 0

3.3 Payables:

Total payables past their due dates: 0

Due social security and state employment policy payables: 0

Due public health insurance payables: CZK 145 thousand

Tax payables: CZK 1 thousand

Income from business activities (by principal activities): 0

The summarised settlement of the special purpose subsidy from the Ministry of Finance for the operations of the Board is included.

Total research and development costs (for the reporting period): 0

In Prague on 10 February 2017



