



**AUDIT PUBLIC OVERSIGHT
COUNCIL**

**REPORT ON ACTIVITIES
OF THE AUDIT PUBLIC OVERSIGHT
COUNCIL
IN 2010**

Introduction

The Audit Public Oversight Council (hereinafter “the Council”) was established in May 2009 in accordance with Act No. 93/2009 Coll., on Auditors, and the amendment of certain other legislation (hereinafter “Auditor Act”).

The Council is a body for public oversight of proper performance of audit activities, which is superior to all statutory auditors and audit companies. It is also in charge of supervising the activities of the Chamber of Auditors in the Czech Republic (hereinafter “the Chamber”) and works independently of the auditor profession. The purpose of the Council is to improve credibility about the auditor profession, thus increasing confidence among accounting entities, whose final accounts are verified by auditors, towards both domestic and foreign investors as well as the general public and state institutions. This objective is achieved through improvement of transparency, comfort and, above all, the clients’ confidence in the quality of auditors’ services. Another purpose of this public oversight body is to increase confidence and security among individuals working in the auditor profession. Another task is to ensure efficient cooperation between the bodies supervising auditors’ activities in other EU countries (hereinafter “EU”) as well as outside of the EU.

Evaluation of Activities in 2010

Presidium

In 2010, the Council's Presidium held five meetings, one of which (October 12) took place off site:

3. 2., 13. 4., 12. 7., 12.10, a 16.12.

During the **fifth** meeting of the Presidium, members were informed about new members within individual Committees; at the same time, the level and method of their remuneration was agreed. The Council's Presidium came to a decision that membership to any Council's committee will be limited to a 4-year period – all terms will end on April 30, 2013.

The Chairman of the Committee for Observance of the Quality Check System and for Disciplinary Procedures, Ing. Ficbauer, CSc., MBA, informed the Presidium of the last Committee meeting held on January 12, 2010, where the President of the Audit Public Oversight Council, Ing. Rusnok, nominated new members as follows: Ing. Ivo Středa, JUDr. Stanislav Kadečka Ph.D., JUDr. Alena Kohoutková and Ing. Pavel Uminský. He also, informed them about checks planned by the Committee during 2010. Ing. Ficbauer informed of the check carried out by the Committee for Observance of the Quality Check System at the Chamber of Auditors in the Czech Republic in November 2009.

Ing. Neužil, LL. M. introduced the members nominated to form the Committee for Cooperation and Coordination in the area of the Audit: Ing. Petr Šobotník, Ing. Jiří Nekovář and Ing. Petr Kříž. Ing. Martin Šabo, who had initially been nominated, resigned his membership to the Committee citing as his reason possible conflict of interest, and stating that he would attend meeting as a guest. The Presidium agreed that the fourth member of the Committee should be an individual from the Czech National Bank and that they should be nominated at the next Presidium's meeting. Further, Ing. Neužil, LL. M. informed the Presidium of the Council of the proposed changes in the Act No. 93/2009 Coll., on Auditors. The document in question was a draft act and it was to be discussed at the first committee meeting for Cooperation and Coordination in the area of the Audit. The Presidium members agreed that the Ministry of Finance should, after extensive cooperation with the Committee, receive comments on proposals in a form that deemed acceptable.

Prof. Ing. Múllerová introduced members nominated to the Committee for Coordination of Education and Professional Examinations: JUDr. Miroslav Kocián and prof. Ing. Bohumil Král.

Members of the Check Committee had so far not been selected; the Presidium recommended nomination of 2 members and the Committee's Chairman, Ing. Liška concurred.

The Presidium acknowledged the new wording of the Chamber's internal regulations and the bi-annual report of the Chamber's Supervisory Committee (hereinafter "SC"). At the same time, the necessity to amend several internal rules within the Council– File Handling Code, Document Disposal Code resp. Signature Code – in relation to legislation changes effective as of 01 January 2010, was discussed.

At the **sixth** meeting, the Presidium discussed one auditor's complaint, two notifications to terminate audit contracts, two reports on quality checks performed, as well as a company suggestion for the verification of quality check), procedure performance as well as fulfilment of duties and quality check processes and the meeting of Chamber-related tasks. The SC report from the second half of 2009 was discussed; the report implied a relatively high percentage of poor quality in terms of auditors' work and ambiguous ways selected to evaluate the subjects of the audit. The Presidium expressed concerns as to whether the Chamber would be able, in technical, organizational and professional terms, to manage such a large number of checks planned due to the low standard of quality. Present members agreed that SC would receive a letter expressing these concerns and asking the Chamber to produce a report on the provision of quality checks within a set timeframe.

Another discussed topic were proposed changes to the Auditor Act in relation to prepared implementation of criminal liability of corporate bodies into legislation within the Czech Republic; these changes are related to the concurrence of various forms of auditor activities, auditors from third countries and registration to PCAOB and auditors from third countries. Ing. Neužil, LL. M. informed the Presidium of the establishment of the Departmental Coordination Subgroup of the Ministry of Finance in the area of accounting and audit, into which he was delegated by the Council.

Prof. Ing. Müllerová, CSc. notified them about a Committee meeting held under her governance, which discussed an auditor's appeal against the Chamber's decision concerning exemption from an intermediate part of the auditing examination "Consolidation and Enterprise Combinations"; the Committee upheld the Chamber's decision. Another discussed topic was an auditor's appeal against the Chamber's decision concerning exemption from an intermediate part of the auditing examination "Financial Accounting" and "Business Legislation"; again, the Committee upheld the Chamber's decision.

The Committee Chairman, Ing. Zdeněk Liška, nominated 2 candidates to the Check Committee: Ing. Tomáš Barták and Ing. Ludmila Nutilová.

The Presidium agreed on the development of software that would monitor the Chamber's check activities for the Council.

The **seventh meeting** of the Presidium dealt with the report of the Committee for Coordination of Education and Professional Examinations of an auditor's appeal concerning the performance of an intermediate part of an auditing examination "Auditing 2". The next topic discussed was the linkage between workshops and examinations in 9 subjects which were going to be monitored. Members of the Committee took charge of this monitoring.

Ing. Neužil, LL. M., informed Presidium members about communication regarding evidence from audit companies in third countries and suggestions submitted by the departmental coordination subgroup of the Ministry of Finance for an accounting and statutory audit. By request of EGAOB, a summary of audited subjects as well as audit companies performing company audits from third countries, whose securities are accepted for trading in the regulated market of the Czech Republic, was prepared and sent. The discussion held by the Presidium focused on finding a solution to this situation and taking a standpoint on the suggestion provided by the Ministry of Finance received by the Council. The Presidium agreed that a Committee meeting for Cooperation and Coordination in the area of the Audit would be summoned, to which representatives of the Ministry of Finance, the Czech National Bank and Chamber of Auditors of the Czech Republic would be invited with the aim of finding a practical solution.

Ing. Neužil, LL. M. informed about an ongoing discussion concerning a change to EGAOB's structure and the intention of the European Commission to separate more strictly the direct interconnection between public oversight bodies and the European Commission, which would, apart from other benefits, enhance autonomy and independence of supervision. The proposal for this essential change was discussed in detail. For most countries, it was considered too ambitious to be implemented over the short term; some objections pointed out that the public oversight system is only just underway in many countries and oversight bodies in a number of countries are not fully prepared for such a change in terms of organization and finance.

Ing. Neužil, LL. M. also informed the group about his participation at the ACCA conference, which had taken place in Prague and at which he had presented and introduced the Council.

At this reunion, the Presidium approved JUDr. Jan Bárta, CSc. to be nominated as a member of the Committee for Cooperation and Coordination of Audit.

The Presidium members discussed and acknowledged the SC report on quality check. Further, the Presidium informed the group about an amendment to terminate an audit contract by one part of a company. Based on a recommendation by the Committee for Observance of the Quality Check System and for Disciplinary Procedures, the Presidium acknowledged information about reversing a decision made by the Disciplinary Committee of the Chamber

(hereinafter "DC") on imposing a disciplinary punishment on an auditor due to the lack of necessary documents.

Other discussed matters included the minutes from completed checks, a citizen's complaint that had only been delivered via electronic mail and subsequently by post and a notification to terminate one auditor's contracts.

Ing. Ficbauer, CSc., MBA informed the Presidium about his participation (together with prof. Ing. Müllerová, CSc.) at a conference held on auditing small and medium-sized businesses in Venice. Presidium members were informed about the results of public oversight activities in Malta and in the United Kingdom.

The Presidium acknowledged SC's and DC's reports. It also discussed proposed changes of the Chamber's internal rules as they were submitted for discussion by the Chamber; these documents were approved.

The **eighth** meeting of the Presidium took place in Bukovany. Among other topics, its agenda included check of subjects and their scope in relation to individual written intermediate examinations and preparatory courses, an amendment to the act on the recognition of professional qualifications that implements the new competence of professional chambers to impose sanctions for violation of this act and two-stage sanction procedures making the Council the body of appeal in these matters. The so-called Green Paper on Audit Policy was then discussed; the Paper should summarize current problems and trends in the area of audit regulation and open a discussion between interested parties across the EU on a given topic, where each of the parties will express its view. The matter of registering auditors and audit companies from third countries according to §47 of the Auditor Act was reopened.

The Presidium suggested sending a letter to the Section Director for Supervision of Capital Market at CNB pointing out potential conflict in this area, which can primarily be related to Act No. 256/2004 Coll., on Business Activities on the Capital Market, particularly the emitent's duty to submit an auditor's report according to §118 of this Act.

A decision was also made that check Council economic management checks will be carried out by the Check Committee by the end of 2010.

The Presidium members acknowledged a report on two checks carried out by the Chamber in the presence of the Council's representatives and a company's written notification to terminate a contract in accordance with §17 of the Auditor Act and the involvement of members of the Council's Committees in training quality controllers. They discussed the SC's

Report, changes to the Chamber's internal rules and invitation to the 20th Congress of the Chamber.

The last, **ninth** meeting during this year dealt with information concerning performed checks on educational courses prior to entering the profession and contents of the Chamber's examinations and an amendment to the Auditor Act. While questions concerning the Green Paper on Audit Policy were also discussed; the Council's opinion of the Book was sent to the European Commission on December 6 2010; at the same time, it was made available on the Council's website.

The Presidium members acknowledged information of the meeting in Brussels on November 24 2010,

which was summoned for the purpose of discussing the Green Paper on Audit Policy and explaining the European Commission's stance towards this document. In connection to this, the Presidium also discussed the question of the scope of auditors' work namely in cases of auditing small companies.

A decision was made to create a so-called "internal zone" on the Council's website, which would support activities of the Council's bodies, and shorten the Council's domain name used in e-mail addresses from xx@radaproaudit.cz to xx@rvda.cz.

The Presidium members were informed about economic management check on the Council, which was carried out by the Council's Check Committee in November. No faults were found in terms of economic management; the Presidium approved the submitted check report.

The Committee for Observing the Quality Check System and for Disciplinary Procedures prepared a directive for receiving complaints and notifications and submitted it for objections procedure. The Council's Office presented information concerning software being developed for checking of the quality system and disciplinary procedures.

The President of the Council summarized the activities of the Council's Committees and Office; he agreed with the Presidium Members that the plan of activities set for this year was fully accomplished.

Committee for Observing the Quality Check System and for disciplinary Procedures

In 2010, the Committee constituted the following members:

Chairman: Ing. Jiří Ficbauer, CSc., MBA
Deputy Chairman: Prof. JUDr. Marie Karfíková, CSc.

Members: JUDr. Alena Kohoutková
Ing. Ivo Středa
Ing. Pavel Umínský
JUDr. Stanislav Kadečka, PhD.

During the year 2010, five regular Committee meetings took place on January 12, April 7, July 12, September 15 and November 24.

Checking the organization, management and operation of a quality check system monitoring auditors' activities by the Chamber of Auditors in the Czech Republic

Methodology for performing quality checks

This area of the Committee's activities can be divided into the following areas:

- In the area of organizing a quality check system, public oversight activities focused in particular on the following:
 - Organization of quality check on behalf of auditors and audit companies verifying final accounts and the consolidated final accounts of subjects of public interest
 - Organization of quality check on behalf of auditors and audit companies verifying final accounts and the consolidated final accounts of other subjects

Within this check, the following system aspects were monitored in particular:

- In the area of the plan of check activities performed by the Chamber:
 - Preparation and regular update of relevant plan of check activities in such a manner that these activities are performed at an appropriate quality level at least once every three years in case of auditors and audit companies verifying the final accounts and consolidated final accounts of subjects of public interest and once every six years in other cases
 - Process implementation of these checks, i. e. their progress from a decision about the checking of selected subjects until discussing its conclusion

- System for making decisions about exceptional checks; such decisions are conditioned by the submission of a suggestion for conducting checks, by information gathered from monitoring mass media etc. including linkage to the previously approved plan of check activities
- In the area of ensuring human resource for checks:
 - The Chamber’s method of selection of controllers to be authorized by the Presidium for the purposes of quality check
 - Regular training of quality controllers
- In the area of ensuring checks in terms of material and technology:
 - Providing quality controllers with the appropriate operational, technical and IS/IT background

In this area, the Committee carried out regular bi-annual checks of the following:

- In the area of management and operation of the quality check system, the public oversight activities focused on the following in particular:
 - Assessment of relevant internal rules of the Chamber for the quality check of auditors’ activities and for carrying out other check functions of SC as set by law
 - Assessment of check methodologies including manuals for checks issued by the Chamber
 - Method of nomination of controllers for individual checks including submission of proposals for their nomination in justified cases
 - Practical implementation of quality check on the part of auditors and audit companies, in particular:
 - Observance of law
 - Observance of applicable international auditor standards, auditor standards issued by the Chamber¹ and the Ethics Code²
 - Fulfilment of requirements for independence³, quantity and quality of spent resources
 - Level of auditors’ remuneration
 - Internal quality assurance system on the part of auditor and audit company
 - Observance of the Chamber’s internal rules
 - Observance of other legislation, e.g. the act on selected measures against legitimization of proceeds of crime and the financing of terrorism⁴

¹ § 24 par. 5 of the Act

² § 13 of the Act

³ § 24 par. 5 of the Act

⁴ § 13 of the Act

- Auditor’s insurance, fulfilment of member’s duties, e. g. paying membership fees and other liabilities to the Chamber, education, observance of the requirements of the Act that condition issuing auditor licenses
- Appropriate method of evaluation of conclusions of quality checks of auditors and audit companies
- Implementation of check of measures taken to improve the quality of work of auditors and audit companies
- Administration of relevant documentation of all processes related to performance of quality check including appropriate manner of their archiving
- Implementation of safe financial security of quality checks that cannot be influenced by auditors
- Ensuring independence of controllers performing quality check of given auditor or audit company
- Submission of proposals for changes or reversal of check conclusions in exceptional cases

Checking of management and implementation of a quality check system was checked by the Committee in the following manner:

- In case of quality check of auditors and audit companies verifying the final accounts and consolidated final accounts of subjects of public interest, the check took place four times a year In case of these subjects, the Council’s Presidium can also decide to perform continuous checks
- In case of quality check of auditors and audit companies verifying the final accounts and consolidated final accounts of other subjects, the check took place twice a year
- In cases of quality check of auditors and audit companies verifying the final accounts and consolidated final accounts of subjects, whose activity is supervised by CNB, the check took place at CNB’s request or four times a year In case of these subjects, the Council’s Presidium can also decide to perform continuous checks
- In cases of quality check of auditors and audit companies verifying final accounts and consolidated final accounts of subjects holding significant economical, organizational or a strategically important position with considerable impact on the interests of the general public, which do not have to be subjects of public interest, the check can be carried out continuously based on the Council’s Presidium’s decision.

In cases of complaints of the activities of an auditor or audit company filed to the Council, the Committee has prepared all the background documentation related to the submission of a proposal for performing a quality check on the auditor. In such cases, the quality check of a given auditor or audit company has been performed continuously.

The annual plan of activities included stipulation of specific deadlines of performing individual checks. Furthermore, the January meeting of the Committee designated the members of individual check teams in the first half of 2010; the July meeting designated the members of individual check teams in the second half of 2010.

Monitoring of organization of quality check system by the Chamber of Auditors in the Czech Republic

In this area, the Committee carried out two checks during 2010:

On April 8, 2010, the check focused on:

- Conclusion of checking other Opencard project
- Conclusion of controllers on a company checked
- Assessment of SC's report for the second half of 2009
- SC's work plan
- Check of fulfilment of tasks implied by the check carried out on November 18, 2009

On October 20, 2010, the check focused on:

- The area of the plan of check activities performed by the Chamber, in particular:
 - Checks carried out and concluded at selected auditor subjects
 - Preparation and regular update of plan of check activities
 - Quality of assessment of checked auditor subjects
- The area of ensuring human resources for checks, in particular:
 - Training of quality controllers
 - Ensuring sufficient human resources
- The area of ensuring checks in terms of material and technical background:
 - Providing quality controllers with appropriate operational, technical and IS/IT background

Check carried out on April 8, 2010

During the check of Opencard project, it was found that the Act No. 93/2009 Coll., on Auditors does not apply to the implementation of this service. To be specific, the service in question was forensic investigation. Nevertheless,

certain faults were found in the contract for this investigation. These faults included namely stating the Auditor Act as one of the legislative regulations, on which the investigation was based, and some minor faults.

During the quality check in the company, no major faults were found.

In case of evaluation of the SC's report from the second half of 2009, it was stated that a very high percentage of low quality level was found. It is necessary to file proposals for disciplinary procedures in case of auditor subjects, where some essential faults or a large number of essential faults were detected. Moreover, in cases where such faults are found, it is unacceptable to plan quality checks as late as for 2012. It was recommended to the Chamber to unequivocally specify the quality evaluation as well as carry out repeated checks in shorter intervals. It can be concluded from the check activities that there were 94 quality checks. Repeated check after the period set by law (6 resp. 3 years) is assumed for 21 of the checked subjects; for 71 subjects, repeated check is planned earlier due to found faults; for 2 subjects, repeated check is not planned as the subjects terminated their activity.

SC's work plan for the 2nd half of 2010 was prepared in such a way that it stipulates quality checks in 3-year resp. 6-year intervals, taking into account the conclusions of previous checks. In this area, no faults were found.

By the date of this check, two of the five tasks set during the check on November 18, 2010 were fulfilled and the other three tasks, for which the deadline had not expired yet, were in progress.

Check carried out on October 20, 2010

During the quality check of the auditor, no major faults were found. On the contrary, during the quality check at the audit company, some essential faults were found that require prompt correction.

In this respect, the Chamber was asked if the reports on conclusions of quality checks could also include, beside the figures already stated, the following information:

- Information whether the faults were found repeatedly
- Information on the number of auditors and audit companies, where the quality check was carried out for the first time
- The reason of not filing a proposal for disciplinary procedure in cases of subjects, where some essential faults or a large number of essential faults were found
- Reasons for filing proposals for disciplinary procedures in cases of auditors and audit companies, where no essential faults were found

Furthermore, the requirement for unequivocal quality evaluation of auditors was repeatedly raised. All these requirements were also communicated in writing from the level of the President of the Council towards the President of the Chamber.

The preliminary plan of checking activities for the 1st half of 2011 was presented. Its final version was finished at the end of the year to be presented to the Committee at the beginning of 2011. Proposed plan was prepared so as to ensure performance of quality checks in 3-year

resp. 6-year intervals, taking into account the conclusions from previous checks. In this area, no faults were found.

During 2010, two trainings of quality controllers took place: as part of the one-day training carried out on June 28, 2010, and two-day training held on October 11-12, 2010. Three Committee members participated in the second training: Ing. Ficbauer, CSc., MBA, Ing. Středa and Ing. Uminský.

By decision of the Executive Committee of the Chamber, the oversight of auditors' activities was reinforced by two non-practicing auditors. Furthermore, improvement of the level of operational, technical and IS/IT background available for quality controllers was ensured.

By the deadline of this check, all five tasks initially set during check carried out on November 18, 2010 were fulfilled. From the check carried out on April 8, 2010, the task of unequivocal evaluation of auditors' quality remained unrealized. This task was ordered again. The President of the Chamber was asked to supervise the fulfilment of this task by a separate letter (see above).

In 2011, it will be necessary to focus on finishing the methodology of quality check in relation to verification of requirements for independence, quantity and quality of used resources and level of auditors' remuneration.

Check of application of disciplinary punishments and sanctions by the Chamber

Methodology of securing auditors' discipline and imposing sanctions

In this field, the check was focused on the following areas of the Chamber's activities:

- The area of organizational securing of discipline and sanctions, which namely includes check of the following:
 - Corresponding internal regulation of the Chamber in the area of disciplinary punishments and disciplinary procedure set by law, preparation and approval of relevant internal regulation of the Chamber
 - Check of DC's work plan
 - Check of observance of process standards during disciplinary procedures and application of disciplinary punishments
- Area of practical implementation of disciplinary procedure in cases of auditors and audit companies that have intentionally violated their duties according to §25 par. 1 of the Act, namely:
 - Check of acceptance of suggestions and procedure of their assessment and subsequent processing

- Check of procedure of the Disciplinary Committee in case the suggestion is assessed as justified
- Check of procedure before the DC from its initiation through check of observance of rights and duties of all involved parties up to the final decision
- Check of proper documentation for the decision, process time limits, method of their notification and delivery
- Check of proper administration of the disciplinary file
- Check of observance of duties in the area of imposed disciplinary punishments (e. g. public admonition, temporary or permanent prohibition of performance of audit activities, payment of fines etc.)
- Observance of duties in the area of appeal procedure from the receipt of the appeal up to the appeal's body final decision

The annual plan of activities included stipulation of specific deadlines of performing individual checks. Furthermore, the January meeting of the Committee decided on the members of individual check teams in the 1st half of 2010; the July meeting decided on the members of individual check teams in the 2nd half of 2010.

Monitoring of securing auditors' discipline and imposing sanctions

In this area, the Committee carried out two checks during the year 2010:

On April 8, 2010, the check focused on:

- Disciplinary Code and internal regulations related to disciplinary procedure
- DC's work plan
- Observance of process standards during disciplinary procedures and application of disciplinary punishments
- Fulfilment of tasks implied by the Administrative Code
 - Suggestions from the CPD
 - External suggestions
 - SC's suggestions
- Types of suggestions
 - Suggestion of a company to investigate quality check at another company
 - Complaint of an auditor's work filed by a citizen
- Suggestion to perform a quality check of an auditor
- Problematic communication of certain auditors with the Chamber
- Amount and enforceability of fines imposed by the DC

On October 20, 2010, check focused on:

- Disciplinary Code and internal regulations related to disciplinary procedure
- DC's work plan
- Observance of process standards during disciplinary procedures and application of disciplinary punishments
- Fulfilment of tasks implied by the Administrative Code
- Amount and enforceability of fines imposed by the DC

Check carried out on April 8, 2010

During the check of the effective Disciplinary Code and internal regulation – methodology manual for issuing DC's decisions, no essential faults were found. The check only pointed out some faults regarding the use of legislative abbreviations in the decisions.

DC' work plan is based on the number of resolved cases and time periods of their processing. The Committee holds regular monthly meetings. In this area of activity, no faults were found.

The process standards for disciplinary procedures were checked in selected cases; no faults were found. Furthermore, procedures regarding discussions on individual types of suggestions were verified. Again, no faults were found in this case. To be specific, resolution of suggestions filed companies, citizens and the Council regarding contract termination by an auditor was monitored. The check also included the procedure of the DC in cases of difficult communication with certain auditors. In this relation, strict legal procedure was recommended.

A request was raised for adopting more restrictive disciplinary punishments so that low quality level or non-observance of duties was economically disadvantageous for auditors.

Check carried out on October 20, 2010

During the check of the Disciplinary Code, no faults in conflict with the law were found.

Due to the time limitations of DC and the quantity of suggestions regarding CPD, all disciplinary sanctions could not be imposed for all these suggestions and their resolution will be delegated to the newly elected Committee.

Observance of process standards related to the disciplinary procedure was monitored in two cases of auditor's disciplinary procedure. Process regulations were observed. The only problem to be resolved is the monitoring of solvency in cases of financial disciplinary punishments. Furthermore, procedures regarding discussions on individual types of suggestions were verified. No faults were found.

Based on the performed check, the following was recommended:

- Considering enhancement of DC's capacity so that the increasing number of processed disciplinary procedures can be fluently managed and the DC's members can be replaced in case of absence
- Preparation of an internal regulation that would resolve requisition of fines imposed during disciplinary procedures

Check activities performed by the Committee at selected auditor subjects

During 2010, the Committee performed six quality checks of audit subjects. Of this number, four checks were performed within the regular work plan, one check was performed based on information from mass media and one based on external complaint of quality of audit company's work. Of this number, five cases concerned auditor subjects exercising audit activities for subjects of public interest. This chapter of the submitted report provides information about checks carried out based on the regular work plan. The checks carried out based on information from mass media and based on external complaint are then discussed in separate chapters.

Monitoring of observance of the methodology of SC's check activities at auditor subjects

In all cases of performed checks, the Committee monitored observance of SC's methodology of check activities. To be specific, the check was focused on the following:

- Method of nomination of controllers for individual checks including submission of proposals for their nomination in justified cases
- Practical implementation of quality check on the part of auditors and audit companies, in particular:
 - Observance of law
 - Observance of applicable international auditor standards, auditor standards issued by the Chamber and the Ethics Code
 - Observance of requirements for independence, quantity and quality of spent resources
 - Level of auditors' remuneration
 - Internal quality assurance system on the part of auditor and audit company
 - Observance of the Chamber's internal rules
 - Observance of other legislation, e. g. act on selected measures against legitimization of proceeds of crime and financing of terrorism
 - Auditor's insurance, fulfilment of member's duties, e. g. paying membership fees and other liabilities to the Chamber, education, observance of the requirements of the Act that condition issuing auditor licenses

- Appropriate method of evaluation of conclusions of quality checks of auditors and audit companies
- Implementation of check of measures taken to improve the quality of work of auditors and audit companies
- Administration of relevant documentation of all processes related to performance of quality check including appropriate manner of their archiving
- Implementation of safe financial security of quality checks that cannot be influenced by auditors
- Ensuring independence of controllers performing quality check of given auditor or audit company
- Submission of proposals for changes or reversal of check conclusions in exceptional cases

The check of these duties did not find any faults. Nevertheless, it will be necessary to prepare a method of check regarding requirements for independence, quantity and quality of used resources and level of auditors' wages in more detail.

Results of the check carried out at an audit company between February 16 and April 12, 2010

In this case, the subject concerned was an audit company performing audit activities, among others, for subjects of public interest.

The check was divided into three stages; within the first stage, the following was checked:

- Method of nomination of controllers for individual checks including submission of proposals for their nomination in justified cases
- Auditor's insurance, fulfilment of member's duties, e. g. paying membership fees and other liabilities to the Chamber, education, observance of the requirements of the Act that condition issuing auditor licenses
- Implementation of safe financial security of quality checks that cannot be influenced by auditors
- Ensuring independence of controllers performing quality check of given auditor or audit company
- Submission of proposals for changes or reversal of check conclusions in exceptional cases

The check team performed the check of these duties on February 16, 2010, in the presence of SC representatives. The checking of all matters described above did not find any faults. SC proceeded in accordance with the effective Supervisory Code and methodology of quality checks in this check stage.

The second stage of the check consisted in the monitoring of the procedure of SC's check team at a selected audit subject. This check was particularly focused on the following:

- Practical implementation of quality check on the part of auditors and audit companies, in particular:
 - Observance of law
 - Observance of applicable international auditor standards, auditor standards issued by the Chamber and the Ethics Code
 - Observance of requirements for independence, quantity and quality of spent resources
 - Level of auditors' remuneration
 - Internal quality assurance system on the part of auditor and audit company
 - Observance of the Chamber's internal rules
 - Observance of other legislation, e. g. act on selected measures against legitimization of proceeds of crime and financing of terrorism
- Implementation of check of measures taken to improve the quality of work of auditors and audit companies
- Administration of relevant documentation of all processes related to performance of quality check including appropriate manner of their archiving

The check team performed the check of these duties on February 22-23, 2010, in the presence of representatives of SC and the checked audit company. The checking of all matters described above did not find any faults. SC proceeded in accordance with the effective Supervisory Code and methodology of quality checks in this check stage.

To be specific, the checked matter included fulfilment of quality level of auditor's work at 6 clients of given audit company. The Committee members were present at the initiation of check activities including selection of checked clients as well as its finalization, which included discussion of preliminary conclusions from the check of selected files of the auditor.

The third stage of the check consisted in approval of the report on the performed quality check, which was prepared in cooperation between SC and checked audit company. This check was carried out on April 8, 2010.

Results of a check carried out at an audit company between April 13 and June 1, 2010

In this case, the subject concerned was an audit company performing audit activities, among others, for subjects of public interest.

The check was divided into three stages in the same manner as has been described in another chapter within this report.

In the first stage, the controlling team performed checks on April 13, 2010, in the presence of SC representatives. The checking of all matters described above did not find any faults. SC proceeded in accordance with the effective Supervisory Code and methodology of quality checks in this check stage.

The team performing supervision carried out the second check stage on May 11, 2010, in the presence of SC's check group and a representative from the audit company being checked. The checking of all matters described above did not find any faults. SC proceeded in accordance with the effective Supervisory Code and methodology of quality checks in this check stage.

To be specific, the checked matter included fulfilment of quality level of auditor's work at 3 clients of given audit company. The members of the team performing the supervision were present during the second day of the check, when preliminary conclusions from the checking of selected files of the auditor were discussed.

The third stage of the supervision constituted approval of the Report on Results of Check Activities, signed by the members of the Chamber's controlling group and audit company being checked; the approval took place on June 1, 2010.

Results of checking a freelance auditor carried out between August 10 and October 8, 2010

In this case, the subject concerned was a freelance auditor not performing audit activities for subjects of public interest.

The check was divided into three stages in the same manner as has been described in another chapter within this report.

In the first stage, the controlling team carried out the check on August 10, 2010 in the presence of an employee of the Chamber's Supervision Department. The checking of all matters described above did not find any faults. SC proceeded in accordance with the effective Supervisory Code and methodology of quality checks in this check stage.

The team exercising supervision carried out the second check stage on August 13, 2010, in the presence of SC's controlling group and the auditor being checked. SC proceeded in accordance with the effective Supervisory Code and methodology of quality checks in this check stage.

To be specific, the scope of the check included observance of the required quality level of auditor's activity at 4 clients/jobs, of which 2 were mandatory audits, 1 was an economical review and 1 was a job of another type – verification of incomes and expenses of an individual. The members of the check body executing supervision were present during the second day of the check, when preliminary conclusions from the check of selected files of the auditor were discussed.

The third stage of the supervision constituted the approval of the Report on Results for Checking Activities, signed by the members of the Chamber's controlling group and the auditor being checked; the approval took place on October 8, 2010.

Results of a check carried out at an audit company between September 6 and October 22, 2010

In this case, the subject concerned was an audit company performing audit activities, among others, for subjects of public interest.

The check was divided into three stages in the same manner as has been described in another chapter within this report.

In the first stage, the controlling team performed the check on September 6, 2010, in the presence of an employee of the Chamber's Supervision Department. The checking of all matters described above did not find any faults. SC proceeded in accordance with the effective Supervisory Code and methodology of quality checks in this check stage.

The team performing the supervision carried out the second check stage on September 10, 2010, in the presence of SC's controlling group and a representative from the audit company being checked. The checking of all matters described above found faults related to violation of the Act No. 93/2009 Coll., on Auditors and modification to some legislation (Auditor Act) as well as the Ethics Code. These faults concerned the following facts:

- Performance of the auditor's activities for clients based on mandate contracts, which is a direct violation of the auditor's independence and objectivity
- Performance of the auditor's activities for a company, where the responsible auditor is also the Vice-Chairman of the Supervisory Board, which is also a direct violation of auditor's independence and objectivity

SC proceeded in accordance with the effective Supervisory Code and methodology of quality checks in this check stage.

To be specific, the checked matter included fulfilment of quality level of auditor's work at 4 clients of given audit company. The members of the check body executing supervision were present during the second day of the check, when preliminary conclusions from the check of selected files of the auditor were discussed.

The third stage of the supervision consisted in the approval of the Report on Results of Check Activities according to §24 and §35 of the Act No. 93/2009 Coll., resp. Act No. 254/200 Coll., on Auditors, and the Supervisory Code of the Chamber; the Report was signed by the members of the Chamber's check group and the audit company being checked on September 22, 2010.

During the supervision of a proper performance to quality checks at the auditing company, a fault was found in the method of evaluation of violation of auditor's independence and objectivity when executing audit activities for subjects, where this activity is carried out based on mandate contracts.

The mentioned "Report on Results of Check Activities", in the section "Conclusion of the Check Group" under par. B., states that "the check group did not find any faults concerning fulfilment of requirements set by regulations (Auditor Act, Ethic Code, internal rules of the Chamber, ISQC 1...) for performance of auditor's activities, with the exception of possible impairment of the auditor's independence (membership in Supervisory Boards of subjects, whose final accounts the auditor verifies)". The same conclusion was discussed between the auditor and members of the check group as well as members of the Chamber's check body in relation to violation of the independence and objectivity during the performance of auditor's activities for subjects, where these activities are carried out based on mandate contracts. It does not matter whether these contracts are of long-term or short-term nature. The significant fact is that the auditor had already been warned during the previous quality check, which was concluded by the report from June 3, 2008 and required resolution of this finding. The fact that this serious fault had not been resolved should be adequately evaluated, which means taking into account it was maintained deliberately.

Another fault comprises the manner of assessment to the risk of impairing the auditor's independence in of the case of auditing these subjects, where the auditor is the Vice-Chairman of the Supervisory Board. In this case, the impairment of the auditor's independence is not just potential but real. Audits carried out in given companies do not correspond to one of the basic principles of auditor's ethics. In the event recurrent faults in the auditor's and audit company's activity are found, they should be pointed out in the Report on the Result of Checked Activities making it quite clear that the auditor has not resolved them. This fault was discussed with the Chamber President and approved by members of the controlling group in the check report.

Resolution of appeals against Chamber decisions

In 2010, the Committee processed seven appeals; for four of them, the administrative time limit expired in a given year.

Two of the appeals concerned disciplinary punishments imposed in connection with findings of essential faults in the quality level of auditors' activities. In one case, a fine had been charged and the Chamber's decision was upheld by the Council; another case concerned the temporary prohibition of performing audit activities, which was reversed by the Council during the first appeal procedure and returned for repeat hearing due to insufficient justification of the merit of the auditor's wrongful act. In the second appeal procedure, the disciplinary punishment was upheld. The fourth appeal concerned a fine imposed for preventing a quality check on behalf of an auditor. Considering that, in this case, the merit of the auditor's act was

insufficiently justified, the Disciplinary Committee's decision was reversed and the matter was returned for repeat hearing.

The two remaining appeals, which were not concluded by the end of 2010, concerned disciplinary punishments imposed in connection with findings of essential faults in the quality level of an auditor's or audit company's activities. These appeals were concluded in January 2011. In one case, the DC's decision was reversed and the matter was returned for repeat hearing; in the other case, the Disciplinary Committee's decision was upheld.

One appeal, not concluded by the end of 2010, concerned a decision by the DC in relation to insufficient justification for not imposing disciplinary punishment on an audit company, although essential faults in its activities were detected. In this case, the DC's decision was reversed and the matter was returned for repeat hearing.

In total, three DC decisions were upheld; in four cases, the DC's decision was reversed and returned for repeat hearing.

Termination of contractual relationships concerning mandatory audit

During 2010, the Council received two new notifications to terminate contracts for mandatory audit. One of these notifications concerned a single contract and was filed by an accounting entity. The second notification also concerned a single contract and was filed by an auditor. Furthermore, processing of a notification filed by an auditor at the end of December 2009, concerning six contracts, was finished.

In the case of the notification filed by an accounting entity, the Committee asked this accounting entity to amend the notification as it did not correspond to the wording of §17 par. 3 of the Act. In the subsequently submitted explanation, the accounting entity provided sufficient clarification of reasons for terminating the contract; these reasons were acknowledged.

In the case of the notification submitted by an auditor, the reasons for termination corresponded to §17 par. 3 of the Act and as such were acknowledged.

In case of the notification submitted by an auditor at the end of December 2009, the Committee discussed this notification at its January meeting, i. e. on January 12, 2010; in some of the cases, the Committee asked the notifying auditor to provide proper justification for termination according to §17, par. 3 of the Act No. 93/2009 Coll., on Auditors. This auditor provided the required explanation in a letter dated January 27, 2010. After the amendment, the Committee acknowledged the notification. At the same time, it suggested to carry out a quality check on the mentioned auditor.

Resolution of complaints of auditors' quality

During 2010, the Committee received two complaints on quality auditors' work. One of the complaints concerned a freelance auditor and the other one concerned an audit company. In both cases, the Committee proceeded so as to observe the interests and duties of persons involved protected by law.

In case of the freelance auditor, the Council did not receive any properly signed complaint. The complaint was only sent via electronic mail. The Committee replied to this complaint in the form of a letter sent by the President of the Council asking the complaining party to file a proper complaint to DC, sending a copy to the Council. It was also promised to the complaining party that the Council would ensure proper investigation of the properly filed complaint. This correspondence was also handed over to DC and DC began to act. After proper investigation of the complaint, it was rejected as unsubstantial.

In case of the audit company, the Committee carried out a quality check all areas of the complaint. These checks included examination of auditors' procedures related to the audit of final accounts and the consolidated final accounts of a trading company. The complaint concerned the following:

- Consumption tax from beer and alcohol
- Returnable packages and creation of reserves for their mandatory buy-out
- Creation of reserves related to the settlement of legal disputes
- Creation of corrective items for receivables

A quality check on the auditor was carried out in the scope of the complaint mentioned above in terms of provisions set in §37 and §38 par. 2 i) of the Act and provisions set in Art 3. par. 2 e) of the Status of the Council. Based on the previous examination of all the background documentation and facts, the Council stated that the audit company in question had adhered to the Auditor Act as well as subsequent International Auditor Standards and the Ethics Code in the versions that were effective in the time when the audit of the mentioned trading company was carried out.

Resolution of suggestions based on information from mass media

In 2010, the Committee responded to information from the mass media in relation to an audit on the OpenCard project. Based on these reports, a check was carried out in the audit company that performed the mentioned audit.

The supervision was purely focused on checking the "Forensic Audit of Current Implementation of OpenCard Project" (hereinafter "the OC project"), ordered and submitted by the Capital City of Prague. The investigation verified that this project did not involve the

auditor's activities in terms of the Auditor Act. Nevertheless, it was recommended to the Chamber to point out to all auditors in an appropriate way that they should properly state the distinction of auditor and non-auditor projects in the contractual documentation as well as in final reports of a similar nature.

Activity within the Inspection Subgroup of the European Group of Auditors' Oversight Bodies

Furthermore, activities within mentioned subgroup of the European body for oversight of auditors were also initiated during the course of 2010. The Committee's Chairman was nominated as the representative for the work within this subgroup. Activities in mentioned area in 2010 included activities related to identification and subsequent collection of information for a questionnaire survey concerning control findings in the area of quality of auditors' activities including its amendment concerning control findings at audit companies within so-called BIG 4.

The subgroup's activities continuously concern problems in relation to the following:

- Cooperation between auditors and internal auditors
- Utilization of expert work, namely in relation to better mapping of specific areas including corresponding determination of test procedures
- Cooperation between individual oversight bodies within the EU
- Cooperation with oversight bodies of third countries

Discussion on proposed changes of the Chamber's Disciplinary and Supervisory Codes

The Committee discussed proposed changes of mentioned internal regulations at its meeting on July 12, 2010; the changes were acknowledged. In principle, the changes involved minor adjustments of an administrative and technical nature. changed regulations were approved at the auditors' congress on November 22, 2010 in Prague.

Discussion on reports of the Supervisory Committee of the Chamber on the results of its activities in the 2nd half of 2009 and 1st half of 2010

Both reports were sent at the level of the SC Chairman. The Committee discussed the report submitted for the 2nd half of 2009 at its meeting on April 7, 2010 and stated that the percentage of low quality level auditor' activities is very high and that suggestions for disciplinary procedures should already be filed in cases of auditor subjects, where some essential faults or a large number of essential faults had been detected. Further, it is

unacceptable that the next quality check in case of assessment of quality of an auditor subject, where some essential faults or a large number of essential faults were found,

should be planned as late as 2012. The Chamber was recommended to unequivocally specify the quality assessment and carry out repeat checks at shorter intervals. Subsequently, the report was discussed by the Council's Presidium. After these discussions, a letter was sent to the Chamber's President at the level of the Council's President, stating that the high percentage of the low standard is alarming. Moreover, a requirement was raised for determining an unequivocal evaluation. The Council's Presidium expressed the opinion that if the low quality level corresponding to a large number of essential faults is found in the case of an auditor, it is not possible to use higher ratings in such cases. The Presidium recommended the possible extension of the evaluation scale. Furthermore, the Council's Presidium expressed concerns as to whether the SC will be able to manage such a large number of checks in technical, organizational and professional terms, not only in connection with the low standard, which has been detected, but also in relation to the necessity for performing quality checks of auditors, whereby this check has not yet been carried out.

The report for the 1st half of 2010 was discussed by the Committee per rollam. Subsequently, the report was discussed by the Council's Presidium. After these discussions, a concern about the persisting high percentage of low standard work was stated in the form of a letter sent by the Council's President to the Chamber's President. In this respect, the Presidium stated that it had already sent a letter to the Council's President requiring that the SC selected an unequivocally lower rating in border-line cases between some essential faults and a large number of essential faults. Since unequivocal evaluation persists in the report for the 1st half of 2010, the Council's Presidium requires that its request is discussed by responsible bodies within the Chamber and that a correction is made for the forthcoming period. The Presidium continues to recommend a possible extension to the evaluation scale currently used. Furthermore, the Council's Presidium considers it would be appropriate that, in case some essential faults among individual auditors and audit companies persist, appropriate disciplinary procedures be initiated taking into account the negative impact of not implementing corrective measures.

Further, the Council's Presidium discussed the SC's decisions on filing suggestions for initiation of disciplinary procedure in more detail. The submitted report implies that in nine cases, where the rating "large number of essential faults" is stated in the report, no suggestion for initiation of disciplinary procedure has been filed. Based on these facts, the Presidium requested of the Chamber's President that the report on quality checking of auditor activities and audit companies for the 2nd half of 2010 contain, besides the requirements mentioned above, the following items for the results of each individual quality check:

- Information whether the faults were found repeatedly

- Information on the number of auditors and audit companies, where the quality check was carried out for the first time
- Reason for not filing a suggestion for disciplinary procedure for subject rated “large number of essential faults“
- Reasons for filing suggestions for disciplinary procedure in cases of the auditors and audit companies, whose quality rating was higher, i. e. no essential faults were found

The Committee will supervise the fulfilment of these requirements.

Discussion on the Chamber’s summary annual report on quality check for 2009

The Committee discussed the summary report on the quality check for 2009 at its meeting on July 12, 2010, stating that the report is sufficient. The Chamber’s President Ing. Petr Šobotník also participated in this meeting; he announced that the Executive Committee of the Chamber decided to increase the number of quality controllers by another 2 people on June 21, 2010. The SC’s Chairman informed the Council, among other topics, of provision for quality check in the summary check plan approved by the Council on July 8, 2010.

Committee for Coordination of Education and Professional Examinations

In 2010, the Committee constituted the following members:

Chairman: prof. Ing. Libuše Müllerová, CSc.
Members: JUDr. Miroslav Kocián
 prof. Ing. Bohumil Král, CSc.
 Ing. Jiří Pelák, Ph.D.
 Ing. Jana Skálová

In 2010, Committee activities included the following:

- Appeals against the Chamber's decision regarding the non-recognition of an intermediate part of auditors examination
- Supervision of the content and progress of preparatory courses for the auditing examination
- Supervision of the progress of intermediate parts of the auditing examination
- Monitoring of conditions for entering the profession

Appeals against decisions of the Chamber of Auditors of the Czech Republic regarding non-recognition of an intermediate part of auditors examination

During the year, the Committee resolved the appeals of three applicants against the Chamber's decisions regarding recognition of an intermediate part of the auditing examination. The first of the applicants appealed against non-recognition of the "Financial Accounting and Law in Trade Business" part of auditors examination; the second applicant appealed against non-recognition of the "Consolidation and Enterprise Combinations" part of auditors examination and the third applicant appealed against non-recognition of the "Auditing 2" part of the auditing examination.

The Committee examined documents submitted regarding the contents of university or professional examinations passed. The documents were compared to the requirements for given intermediate parts of the auditing examination of the Chamber. In all mentioned cases, the Committee came to the conclusion that the decisive part of the content of passed university examinations is not identical to the content of the given part of the auditing examination of the Chamber. For this reason, the Committee upheld the Chamber's decisions.

Supervision of the content and progress of preparatory courses for the auditing examination

The check of content and progress of preparatory courses for the auditing examination was carried out for three subjects – Financial Accounting, Consolidation and Enterprise Combinations and Enterprise Finance. The Committee assessed the contents of courses in relation to the requirements for an auditor’s professional profile as well linkage of the course to given part of the auditing examination. Further, feedback was collated from course students. In case of the course “Consolidation and Enterprise Combinations”, the Committee recommended replacement of one of the instructors. In case of the course “Enterprise Combinations”, it recommended a change in terms of the ordering of topics taught so that they were interconnected in terms of contents, not according to the needs of instructors without any system. In case of “Financial Accounting”, the Committee recommended enhancing the topic of “international standards of accounting reporting and the non-profit sector”, which becomes a field of activity for most auditors, and, on the other hand, shorten the time reserved for the area of accounting banks and insurance companies, a field of activity namely for auditors from the Big 4, who are trained by their own companies.

Supervision of the progress of intermediate parts of the auditing examination

Within the supervision of the progress of intermediate parts of the auditing examination, the Committee assessed tasks included in three intermediate parts. In September 2010, the examinations concerned were “Consolidation and Enterprise Finance” and “Information Technology and Statistics”; in December 2010 it was “Financial Accounting”. Committee members, who assessed the examinations, evaluated the difficulty of contents of those examinations and the time reserved for developing them. In all three cases, they came to the conclusion that in terms of contents, the tasks of the examination corresponded to the requirements for intermediate parts of the auditing examination and that the time limit is appropriate for the difficulty of the tasks. Further, they assessed the linkage between the preparatory course for the auditing examination and the examination tasks. In this case, they recommended that sponsors of individual examinations maintain closer contact with instructors from the preparatory courses.

Monitoring of conditions for entering the profession

As part of monitoring conditions for entering the profession, the Committee members came to the conclusion that the new act considerably lowered the requirements for entering the profession. This fact is a consequence of namely two aspects: the relatively widespread recognition of university and professional examinations (particularly for graduates from ACCA and the Educational Institute of the Association of Accountants) and cancellation of the final oral part of the examination. The seven year time limit for recognition of examinations is too long for most subjects, which means that – without a requirement for documenting further continuous education – the professional knowledge cannot be up-to-date. Moreover, by

cancellation of the final oral auditing examination, the possibility of verifying this knowledge was abandoned. The Committee prepared for the Council's Presidium a letter for the Ministry of Finance with the requirement of pointing out this fact and, at the same time, offered its help in preparation of such an amendment to the Act that would remove some gaps verified in the course of time and made entering the profession more difficult.

Committee for Cooperation and Coordination of Audit

In 2010, the Committee constituted the following members:

Chairman: Ing. Radek Neužil, LL. M.

Members: Ing. Jiří Nekovář
Ing. Pert Šobotník
Ing. Petr Kříž
JUDr. Jan Bárta, CSc.

In 2010, the Committee for Cooperation and Coordination of Audit held four meetings: on February 3, April 23, September 15 and November 18.

The activity of the Committee focused on two main areas. The first of them was **to establish regulation of the auditor profession in the Czech Republic** and discussions on the prepared amendment of the Act No. 93/2009 Coll., on Auditors. The second area was **international cooperation** and topics based on the activities of the European Commission and its advisory body EGAOB (European Group of Auditors' Oversight Bodies), which associates public oversight bodies within Europe. Further, a new Committee member was designated in 2010; it was JUDr. Jan Bárta, CSc.

Within the role of the Council as a body cooperating with the Ministry of Finance in preparation of legislation related to mandatory audit of final accounts and consolidated final accounts, the Committee discussed the first proposal of amending Act No. 93/2009 Coll., for Auditors, prepared by the Ministry of Finance. Within this area, many topics were discussed such as the area of examinations including the necessity of adjustment and unification of time limits and discussion about the oral examination, delimitation of subject of public interest, determination of rules and competence for quality checking, Committees for Audit as bodies of subjects of public interest, the manner and formal determination of fees paid to the Chamber, temporary and permanent prohibition of activity, among others in relation to persons, who terminate their activity e. g. due to retirement, some relationships between disciplinary punishments and limits in relation to the periodicity of checks. However, an essential and conceptual question was the discussion on the statutory definition of the profession in terms of its contents as well as its scope in relation to professional standards, or e. g. the problem of concurrence of various forms of activities. The activity of an auditor has to be assessed in a comprehensive manner, including reference to their public position and duty to observe, among other rules, the Ethic Code during all activities. Another important matter is the decision on the manner in which the amendment of the Act will reflect recommendations of the European Commission to restrict the civil responsibility of statutory auditors and audit companies and the recommendation regarding external guarantees of quality of statutory

auditors and audit companies performing audits of subjects of public interest. These questions also were discussed by Committee members; members suggested possible solutions.

The necessity of an amendment of the Act is also linked to other legal regulations that will influence the regulation of an audit. The first of these regulations is the amendment of Act No. 18/2004, on the Recognition of Professional Qualification, which proposes new responsibilities of the Chamber and Council for imposing sanctions for violation of this Act. The second of these regulations is the currently prepared act on criminal liability of corporate bodies, which will have to be reflected in the amendment of the Auditor Act. Therefore the Committee discussed this area in terms of legal opinions as well as in terms of its practical implementation.

With respect to the Act, the Committee discussed a suggestion for an adjustment of the list of auditors and audit companies, which is administered by the Chamber, in such a way that it would be in full accordance with §12 of the Act, and stated that, although the list ensures basic registry of auditors and audit companies, it is not in full accordance with the Act, which is based on the requirements of the Directive; therefore it is necessary to amend missing data from the part of auditors and audit companies and the Chamber should be more active in requiring observance of legal duties in this respect.

Within international cooperation and areas of regulation of audit with respect to international relationships, Committee members discussed a number of topics. An essential topic was the area of registration of auditors and audit companies from third countries that submit an auditor's report regarding final accounts and consolidated final accounts of a company with a registered office outside the Communities, whose securities have been accepted for trading in regulated market in the Czech Republic by the balancing day, as specified in §47 of the Act No. 93/2009 Coll., on Auditors. From investigations carried, it can be concluded that, according to the Council's conclusions, a total of 6

audit subjects from third countries submitted an auditor's report on audited companies from third countries; therefore it is necessary to be prepared for future applications for registration.

In this respect, the Chamber was asked to prepare methodology for this registration and to be prepared for communication with potential applicants. The Committee also discussed the scope of provisions set forth in the Act itself as well as the implementation of relevant provisions directly in the Directive and in the Committee's Decision from July 28, 2008, regarding the transition period for the activity of auditors and audit subjects from some third countries.

Furthermore, the Committee discussed the question of the document Green Paper on Audit Policy: Lessons from the Crisis, issued by the European Commission on October 13, 2010. Apart from individual chapters and questions raised, the Committee members initially discussed the general topic of the mission of an audit and the role of auditors in the context of

their social role and protection of public interest. They agreed that it is not just the audited company who directly receives auditors' services; the audit also overlaps to other interested parties (stakeholders). This means that, in relation to audit, public interest is approached in a broader context and the role of auditor overreaches the needs and interests of the audited company including its owners, and as such has to be considered as a guarantee towards third persons. The proposal of the response to the Green Paper, prepared by the Committee, subsequently formed the basis for a reply which was sent to the European Commission on behalf of the Council and which is available on the Council's website.

Regarding the Green Paper, it was stated that in spite of the validity of some of the proposed measures, it is too early to assess the actual impact of the Directive 2006/43/EC, which was recently implemented into legislations within European countries. Therefore, there is the question of timing the discussion on essential changes in the area of audits. Efforts should be focused on explaining the purpose of an audit and providing more detailed analysis of the current situation rather than raising suggestions for measures, many of which are not sufficiently justified due to missing descriptions on the potential impact of their practical implementation. An auditor verifies the truthful and honest description of a current situation in reported data in final accounts and guarantees observance of stipulated accounting rules, thus providing credibility of these figures. The proposal to broaden the auditor's role to a position similar to rating agencies is not seen as correct by the Committee members. The same applies to the possible extension of auditors' activities to the area of assessing the behaviour and ethics of audited subjects, for example the area Corporate Social Responsibility mentioned in the Green Paper; these proposals do not seem to be advisable. On the other hand, discussion on more continuous system and partial evaluation as well as continuously reported figures could be beneficial rather than discussion on shorter periods between the end of fiscal period and auditor's statement. With regard to the matter of the legal liability of uniform ISA standards, the Committee expressed the opinion that it supports a unified legal environment and that this liability must be reflected in European law. However, proposed rotation (particularly in the case of a short time period) was considered as problematic. Similarly, joint audits carried out by auditors of various types can bring a number of problems related to responsibility, distribution of activities and appropriate determination of remuneration. Further, the Green Paper deals with proposals for greater liberalization of mobility in near border areas in the field of audit services. Here we must point out that this problem is linked to a number of other regulations. The most important of them is the system of recognition of qualifications as well as the directive for services. All discussions including the proposal for the establishment of a professional passport must be conducted in broader context and questions related to responsibility and guarantees of professional quality must be unequivocally answered. Undoubtedly, one of the most important topics was the problem of smaller scope of check of final accounts of small and medium enterprises. Here it was stated that specifications for smaller subjects must definitely be further discussed; however, the auditors' position must not be devaluated by lower demands for the quality of their work.

The Controlling Committee

In 2010, the Committee constituted the following members:

Chairman: Ing. Zdeněk Liška

Members: Ing. Ludmila Nutilová
 Ing. Tomáš Barták

During the year, the Controlling Committee continuously monitored and checked economic management within the Council.

In November, it carried out a check of accounting and utilization of expenses in the presence of all Committee members, Council's Secretary and an external manager of accounting; the check was performed in accordance with §39 par. 13 of the Act No. 93/2009 Coll., on Auditors. For verification of the matters mentioned above, a check of the Council's internal documents was carried out as well as document check of cash, invoices received and the bank account. The Controlling Committee's work was based on the Act No. 93/2009 Coll., on Auditors, Act No. 563/1991 Coll., on Accounting, Status of the Council from June 1, 2009, Report on the Council's Activities in 2009 and presented accounting reports and documents. The check did not find any faults.

Based on facts found out during the check, the Controlling Committee issued the following recommendations:

Formal:

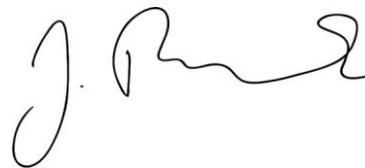
- Amend the Document Handling and Disposal Codes of the Council in accordance with effective legislation (electronic signature, data mailbox etc.)
- Implement a registry of utilization of expenses by individual Committees of the Council

Factual:

- Elaborate a summary of utilization of resources for travelling expenses
- Clarify and formally define the relationship between automobiles used for the needs of the Council members and companies owning these vehicles with the aim of clear definition of rules for any future cases in the form of an internal directive

This Report on Activities was prepared and issued in accordance with the Act No. 93/2009 Coll., on Auditors, §38 par. 3., as a report on the public oversight of audit in the Czech Republic in 2010.

In Prague, June 2011

A handwritten signature in black ink, consisting of a large, stylized 'J' followed by a series of connected loops and a final flourish.

Ing. Jiří Rusnok
President of the Council