



**AUDIT PUBLIC OVERSIGHT  
COUNCIL**

**THE REPORT ON ACTIVITIES OF THE  
COUNCIL FOR PUBLIC AUDIT OVERSIGHT  
IN THE YEAR 2009**

The Council for Public Audit Oversight (hereinafter only „The Council”) was established in May 2009 in accordance with the law No. 93/2009 Coll., of auditors and amendment of some laws (hereinafter only „Auditor Act”),

The Council is a public authority supervising the performance of auditing activities, which all statutory auditors and auditor firms are subject to. The Council is also authorized with supervision over the activities of the Chamber of Auditors of the Czech Republic and is independent on auditors’ profession. The objective of Council’s work is enhancing the credibility of auditor profession as well as of accounting units producing financial statements authorized by auditors and should also address domestic and foreign investors, wide public domain and state institutions. To achieve this objective means to improve transparency, comfort, and first of all, the confidence of clients in quality of auditor services. Similarly, the establishing of the body for public oversight should improve the certitude and convenience of people engaged in auditor’s profession. The next target is to secure effective cooperation between supervising authorities for public audit oversight activities in other countries of European Union (hereinafter only „EU”) and in countries outside EU.

The Council’s executive body consisting of six members is appointed by the Finance Minister in accordance with the Auditor Act and in cooperation with the Czech National Bank. The office term of the Presidium members is six years. Two members of the Presidium are nominated every second year.

The Presidium meetings take place as need be, however, minimum interval of meetings is once in 3 months. The Presidium meetings are held in private.

At May 15, 2009 the Finance Minister nominated the following Presidium members:

- Ing. Jiří Ficbauer, CSc., MBA
- Prof. JUDr. Marie Karfíková, CSc.
- Ing. Zdeněk Liška
- Prof. Ing. Libuše Müllerová, CSc.
- Ing Radek Neužil, LL.M.
- Ing. Jiří Rusnok

Establishing meeting of the Presidium was held on June 1, 2009 in the presence of Ing. Petr Chrenk, Deputy Finance Minister, Ing. Petr Plesnivý, Manager of Accounting & Audit Section, Ing. Martin Šabo, Deputy Manager of Accounting & Audit Section, and all members of the Presidium.

In accordance with provision No. 39, par.4 of the law No. 93/2009 Coll., of auditors and amendments of some laws, the establishing meeting of the Presidium elected **Ing. Jiří Rusnok the President of the Council.**

The following committees giving assistance to the Presidium are appointed by the Council and members of the committees are nominated by the President of the Council, on proposal of a committee chairman:

### **Committee for Observance of Quality Control System and for Disciplinary Procedure**

As a Chairman of the Committee for Observance of Quality Control System and for Disciplinary Procedure was appointed **Ing. Jiří Ficbauer, CSc., MBA**. As a Deputy Chairwoman was appointed **Prof. JUDr. Marie Karfíková, CSc.**

Members of the Committee: JUDr. Alena Kohoutková, Ing. Ivo Středa, Ing. Pavel Uminský, JUDr. Stanislav Kadečka, Ph.D.

The Committee is responsible especially for supervision over the organization, for control and operation of the Quality Control System performed by the Chamber and fulfills the function of appellate administration body in proceedings against decisions of the Chamber in relation to disciplinary measures imposed for failure to observe the quality of auditors' and auditor firms' work performance. In this connection the Committee cooperates with other EU supervising bodies, eventually with third countries under conditions provided by the law of auditors. Besides this, the Committee considers justification of reasons given in notification about withdrawal from contract on statutory audit. The Committee discusses with the Chamber the moves for alteration of internal regulations, for example, Ethical Codex, Disciplinary Rules, and Supervisory Rules.

### **Committee for Coordination of Education and Professional Examinations**

As a Chairwoman of the Committee for Coordination of Education and Professional Examinations, was appointed **Prof. Ing. Libuše Müllerová, CSc.**

Members of the Committee: Prof. Ing. Bohumil Král, CSc., Ing. Jana Skálová, JUDr. Miroslav Kocián, Ing. Jiří Pelák, PhD.

The Committee is responsible especially for supervision over the organization, control, and operation of the examination system and over the system of continuous education of statutory auditors performed by the Chamber. Further, the Committee fulfills the function of appellate administration body in appellate proceedings against decisions of the Chamber of Auditors in relation to passing of examinations within the framework of examination system and in relation to disciplinary measures imposed for failure to fulfill the duties of continuous education of statutory auditors performed by the Chamber. In this connection, the Committee cooperates with other EU supervising bodies, eventually third countries under conditions provided by the law of auditors. The Committee discusses with the Chamber the moves for alteration internal regulations in relevance to its sphere of interest, especially Examination Rules, Regulations for continuous professional education and Regulations for controlled practice of auditor's assistants.

### **Committee for Cooperation and Coordination in the Field of Audit**

As the Chairman of the Committee for Cooperation and Coordination of Audit, was appointed **Ing. Radek Neužil, LL.M.**

Members of the Committee: Ing. Jiří Nekovář, Ing. Petr Kříž, Ing. Petr Šobotník.

The Committee is responsible especially for preparation and coordination of work relevant to preparation of legal regulations in connection with statutory audit of financial

statements and consolidated financial statements including cooperation with the Ministry of Finance of the Czech Republic and other supervising authorities within EU and eventually of third countries under conditions provided by the law of auditors. The Committee is engaged in international cooperation, particularly, the Committee Representative cooperates with independent advisory group of European Group of Auditors' Oversight Bodies (EGAOB). The Committee fulfills the function of appellate administrative body in appellate proceedings against decisions of the Chamber in relation to disciplinary measures imposed for failure to pay membership dues or duty to inform. The Committee discusses with the Chamber the moves for alteration of internal rules, for example, the Statute, Electoral Regulations, Rules for Payment of Membership Dues, Rules of Procedure, and Information Rules.

### **Control Committee**

As the chairman of the Control Committee, was appointed **Ing. Zdeněk Liška**.

The Committee is responsible especially for organization and performance of accuracy control, economy and budgetary efficiency, and Council's budgetary expenditures of the Council. Final checks are discussed with chairmen of individual committees or with executive secretary. The Council's President receives information about shortcomings and accepted remedial measures. In this connection the Committee cooperates with other bodies authorized to perform inspection over Council's economy and also cooperates with other Council's committees.

## Evaluation of Activities in the year 2009

### Presidium

The Presidium of the Council held four meetings in the course of the year 2009 – On 1<sup>st</sup> June, 15<sup>th</sup> July, 2<sup>nd</sup> September and 12<sup>th</sup> November 2009

During the first meetings after the Council had been established, organization matters were primarily discussed.

It was necessary to secure:

- discussing Council's statute and motions for internal regulations
- securing suitable building for Council's seat
- funding Council's operation by means of state budget grants
- allocation of organization identification number
- opening the bank account
- staffing the position of executive secretary by means of tender competition.

These tasks have been fulfilled – since September 1, 2009 the Council found its seat in the building of the Finance Ministry of the Czech Republic in Prague 7, Janovského 438/2 – in those premises is also the secretariat with executive secretary and an assistant.

At the second meeting, among others, committees were established and chairmen of individual committees appointed. The President nominated persons authorized to inspect auditor's documents in order to control the quality according to §24 law of auditors. At the same time, the Chamber's President was asked to nominate examination commissioners with effect from July 15, 2009.

At this meeting, Ing. Radek Neužil, LL.M., who was charged with representing the Council in European Group of Auditors' Oversight Bodies (EGAOB) – consultative body of European Commission associating public audit oversight bodies of all EU member states - informed about the activity of this group and about the discussions he had participated in.

Third meeting took place in the Council's new seat in presence of newly nominated Council's executive secretary Mrs. Bc. Jana Kubrichtová and her assistant. Further tasks were set out to secure Council's operation, including technical equipment, opening of web pages, design of firm's documents, etc.

During this meeting, the Council's Presidium also discussed Chamber's internal regulations and it was recommended to include legislative technical comments into above-mentioned documents.

At the fourth's Presidium meeting, Council's internal regulations were debated and commented. Presidium agreed on the necessity to recruit and select experts capable for membership in individual Council's committees. The members of Presidium approved internal regulations of the Council and internal regulations of the Chamber. Issues of firm's logo were solved together with the shape of Council's web pages and using of round seal. Presidium members approved Council's budget estimate for the year 2010 submitted by the Executive Secretary.

In November, Council's representatives participated in Chamber's Assembly, during which Ing. Jiří Rusnok, the President, specified reasons for the establishment of this body. According to his words, the objective of the Council does not lie in aspiration to rivalry with the Chamber, but in effort to bring more transparency and independence into cooperation of these institutions in relevance to auditors' profession. At the same time, he emphasized that for successful future activity of the Council, it is necessary to cooperate with expert outside the Council's Presidium.

## Activity of the Committee for Observance of Quality and Disciplinary Procedure

In the course of the year 2009 three regular meetings of the Committee were held:

October 9, 2009. Following agenda matters were discussed:

- discussion about the draft of Council's Organization Rules
- information on negotiations of Committee Chairman with Supervisory and Disciplinary Commission of the Chamber
- Quality Control System program prepared by the Chamber
- issue of possibility of using the State Coat of Arms in the Council's round seal
- securing personal activities.

November 12, 2009. Following agenda matters were discussed:

- discussion about half-year report submitted by the Chamber's Supervisory Commission
- discussion about auditor's appeal against decision of Chamber's Disciplinary Commission regarding serious breach of §14, par.1 of law of auditors No. 254/2000 Coll.
- Quality Control System program prepared by the Chamber
- Discussion about "Notice of contract termination" with OSP České Budějovice a.s.

November 18, 2009. Following agenda matters were discussed:

- repeated discussion about auditor's appeal against decision of Chamber's Disciplinary Commission regarding serious breach of §14, par.1 of law of auditors No. 254/2000 Coll
- hearing an appeal re the Chamber's decision on exemption from partial part of auditor's examination.

In the year 2009 one inspection was realized on November 18. The purpose of the discussion was as follows:

- plan area of inspection activities realized by the Chamber
- area of inspection safeguarding by human resources
- area of material and technical safeguarding for inspections
- prevention area.

The inspection was implemented by the team in following setup:

Ing. Jiří Ficbauer, CSc., MBA - Chairman of the Council's Committee for Quality Control and Disciplinary Procedure,

Prof. JUDr. Marie Karfíková, CSc. – Deputy Chairwoman of the Council's Committee for Quality Control and Disciplinary Procedure,

Bc. Jana Kubrichová – Council's Executive Secretary.

On the basis of the inspection the following tasks were set:

- to submit detailed information to the Council on Chamber's capability to secure quality control at all auditor entities in terms provided by the law and simultaneously to report on creation of corresponding reserves for implementation appropriate extraordinary control
- To secure quality control implementation at all auditors (self-employed persons – OSVČ) where this control has not yet been performed
- To inform Council's Presidium, adequately ahead of time, about the term for quality control staff training, which will be realized in the year 2010
- To secure technical means for quality control inspectors to facilitate nationwide connection to internet in the Czech Republic
- To consider elaboration of independent solution of program design to build up complex basis for creating quality control draft plans at auditor entities in accordance with all necessary criteria for this purpose.

The control team also dealt with a number of essentials relevant to the law of auditors and together with this issue examined the possibilities of escaping or obscuring solutions in some practical situations.

The inspection included especially the following issues:

- possible dishonest practices of some auditors arising from unusually underrated prices, which do not correspond with claims for auditors' work of high quality standard. Council's representatives hold the view that joint effort should be concentrated on legislative regulation, for example, to determine minimum laboriousness for individual types of audit.
- §25 par. 5 - law of auditors, which determines the terms for possible commencement of discipline procedure – at the latest from the day when the breach of duty by the auditor occurred. The term is non-systemic, only taking account of terms for performance of quality control. In view of the fact that the law of auditors is of specific character, the representatives of the Council consider appropriate to deal with modification of the term quoted in §25 par. 5 – law of auditors and alter the term to six years.
- possible breach of Chamber's Information Rules - sometimes happens that not all auditors submit accurate information and this is very sensitive for auditing in the area of public interest entities. In relation to observing duties resulting from the Rules, the Council's representatives recommend more severe sanctions and, further, to consider compulsory introduction of the duty to report particular public interest entities in which individual authorized auditors perform their activity.

In the course of the year 2009 the Council solved an appeal, claiming acknowledgement of professional examinations to eliminate conflict of interests of a Presidium member and Chairwoman of the Committee for Coordination of Education and professional examination of Prof. Ing. Libuše Müllerová, CSc. In one case the appeal dealt with a disciplinary measure imposed on one auditor by the Chamber's Disciplinary Commission for non-fulfillment of the KA ČR Regulation for continuous professional education of auditors. After discussion the Committee recommended to the Council to confirm the decision of the Chamber's Disciplinary Commission. In three cases the appeal related to Chamber's decision on rejection the exemption from partial part of auditor's examination. After discussion the Committee recommended to the Council to confirm the Chamber's decision in all those cases.

In the course of the year 2009 the Council received two notices on termination of statutory audit contracts. One of these notes was submitted by an accounting unit included one contract. The other, submitted by an auditor, included six contracts. In the case submitted by the accounting unit the Committee had to state, in spite of repeated urgencies for specification of reasons for termination, that the note does not give adequate grounds for reasons within the intention of §17, par. 3 law of auditors. The reason for termination vested in the requirement for reducing price for statutory audit by limiting the scope of testing. The requirement of the organization was based on the change of activities related to its business. The Committee repeatedly asserted that the reason for termination of auditor's contract, though closed before the effect of the new law of auditors, based on the requirement for limitation of testing which results in reduction of price for performance of auditor's activities, is not justified in the meaning of the §17, par. 3 law of auditors. On the contrary, it may be the reason leading to deterioration of quality of provided auditor services with all negative aspects that could happen in such a case. The scope of work pertaining to audit performance is given by International auditor standards and ISQC 1 Standard – *Quality Control at Companies Performing Audits, Checks on Historical Financial Information, Other Verification Orders and Relevant Services*. In case of the note submitted by the auditor the termination of contractual relationship has not been discussed because the note was as late as at the end of the month of December 2009. General information will appear in the next annual report on Committee's activities.

### New draft of Chamber's Disciplinary Rules and Chamber's Supervisory Rules

The Committee has been discussing the Chamber's internal regulations per rollam and after proposal of modifications recommended to the Presidium to consider these regulations. The Presidium confirmed the comments put forward and agreed with wording of the mentioned internal regulations after their completion. The Chamber then completely included subsequent comments into wording of the above-mentioned internal regulations. The Supervisory Rules of the Chamber as well as the Disciplinary Rules of the Chamber were approved in the same wording by the meeting of Chamber's Assembly held on November 23, 2009 in Prague.

### Discussions about the report of Chamber's Supervisory Commission on results of its activities during the period of new law of auditors from the date of coming into effect until June 30, 2009.

The Committee discussed the submitted report at its meeting on November 12, 2009, including the complementary opinion sent by the Chairman of the Supervisory Commission, Ing. Stanislav Staněk. The Committee stated that the report is incomplete and corresponds rather to an outline of a report than to complete report. The Committee decided that the Presidium meeting will not recommend this report for approval, neither for acknowledgement, but the report should be remade. Subsequently, the Chamber's Supervisory Commission rewrote the report and the Committee dealt with it at its meeting on January 12, 2010. Generalized information will be given in the annual report on committee activities in the year 2010.

### **The activity of the Committee for Coordination of Education and Professional Examinations**

In the year 2009, the Committee operated only in representation of its Chairwoman, the remaining members of the Committee were nominated until at the end of the year.

The principal activity of the Committee in the year 2009 was the supervision over the division of the examination "Auditing" which should be the cardinal test in the examination system of the Chamber. The content was divided into two partial examinations Auditing I and Auditing II. The Committee Chairwoman participated in discussion with examiners in charge with these activities.

The next part of Committee activities was to check on the content and on time demand factor of other partial examinations, including the content and time demand factor of relevant preparatory examinations. The Committee Chairwoman participated in preparation work for a new collection of papers for auditor examination. The results and recommendations for individual partial examinations were discussed during the Committee meeting on March 8, 2010. Comments resulting from discussions were integrated into the plan of Chamber's Examination Committee for the second half of the year 2010. Besides this, the Committee continuously solves the appeals against Chamber's decision rejecting exemption from partial part of auditor's examination by the Chamber, eventually appeals in case of unsuccessful passing of exam.

### **The activity of Committee for Cooperation and Coordination of Audit**

In the framework of activities of the Committee for Cooperation and Coordination of Audit, a series of discussions was realized before nomination of individual members and the first regular meeting in representation of the Committee Chairman.

Addressing and nomination of committee members took place at the end of the year 2009. The actual nomination of members and letters of appointments were handed over to members at the first meeting of the Committee in February 2010.

The activities of the Committee for Cooperation and Coordination are divided into two basic parts:

- legislation and regulation of audit
- international cooperation.

The framework for adjusting the rules facilitating the exercise of profession is based on international legislation, however, for the actual adjustment of auditors' work, the basic adjustment under the conditions in the Czech Republic is obviously essential. The aspect of interleaving of national and international reference plane and miscellaneous levels from legislative and legal view necessitates in many cases the clarification of opinion and interpretations for practical application both on the level of audit performance and also from the viewpoint of supervision and regulation.

Current consultations and clarification of approaches proceeded especially in connection with the law of auditors but also, for example, on recommendation from European Commission regarding external safeguarding of quality at statutory auditors and auditor firms performing audit of public interest entities or recommendation about limitation of civil liability of statutory audits and auditor firms.

As for law of auditors, the discussions on eventual amendment have been topical all the time. With the exception of purely technical text modifications, some conceptual changes appeared with reference to, among others, definition of auditor activities, terms, examinations, etc. Some issues have opened in relevance with above-mentioned recommendations from European Commission, especially relating to transfer of some liabilities from the Chamber to the Council in the context of oversight function. Final decision has not been accepted to any of these areas, yet it is necessary to appraise interest in open dialogue of all concerned parties, i.e. Council for Public Audit Oversight, Auditors' Chamber, Ministry of Finance and also Czech National Bank.

As for activities abroad, the most important is the Council's engagement in consultative group of European Group of Auditors' Oversight Bodies (EAOB). On the platform the Council receives important information in the area of auditor profession regulation from the level of European Commission and no less important is the possibility of discussion and exchange of views with other European countries on topical issues in relevance to audit regulation.

Among areas this group dealt with under participation of the Czech Council, the following should be included:

- implementation of international accounting standards ISAs
- exchange of information with countries outside EU
- expected position of public oversight in regulation system of auditors' profession
- cooperation of public oversight bodies in the framework of European Union.

The Council represented by Ing. Radek Neužil, LL.M. participated in regular meetings of EAOB in Brussels on June 30, and November 9, 2009.

Worthwhile was the participation in work meeting of Public Auditors' Oversight Bodies of Central and East European countries organized by World Bank on December 15-16, 2009 in Vienna. The cardinal issue was the exchange of opinion to find optimum balance for direct or indirect oversight on the part of public oversight bodies.

**Council's conclusion to findings in the area of public oversight**

In this year the Council has received altogether 4 appeals from the auditors against decision of Chamber's Disciplinary Commission and in all cases the decisions of the Chamber's Disciplinary Commission were confirmed. Two delivered notes were about termination of contracts on statutory audit - in one case it was a contract submitted by an accounting unit, in the second case a noted lodged by an auditor - in all this concerned six contracts.

**Council's opinion on Chamber's activity, especially with view to §31 of the law**

With reference to §31, law of auditors where, among others, duty to cooperate with the Council is anchored, which encompasses all issues concerning public oversight and Council's cooperation with public oversight bodies in other member states and third countries according to §37, chapters VII and chapters IX, if such a cooperation is requested by the Council; it may be certified that this duty has been fulfilled in the course of the year 2009. The Chamber fulfills its duties resulting from the provision of cited law. The Council has the possibility to express its opinion and draw conclusions on matters resulting from Chamber's activities.

In spite of the fact that the Council launched its activities as late as in this year, the tasks and recommendations which resulted from the recent short cooperation as well as from inspections performed by the Chamber's Council are performed with maximum endeavour for improvement in the quality of public audit oversight system.

A handwritten signature in black ink, appearing to read 'J. Rusnok', with a stylized, flowing script.

Ing. Jiří Rusnok  
President of the Council