



The World Bank Centre for Financial Reporting Reform



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ROSC : Findings and Next Steps

ROSC Dissemination event
under FRTAP in the Czech Republic

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Pascal Frerejacque, Senior Operation Officer, Centre for Financial Reporting Reform



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Introduction

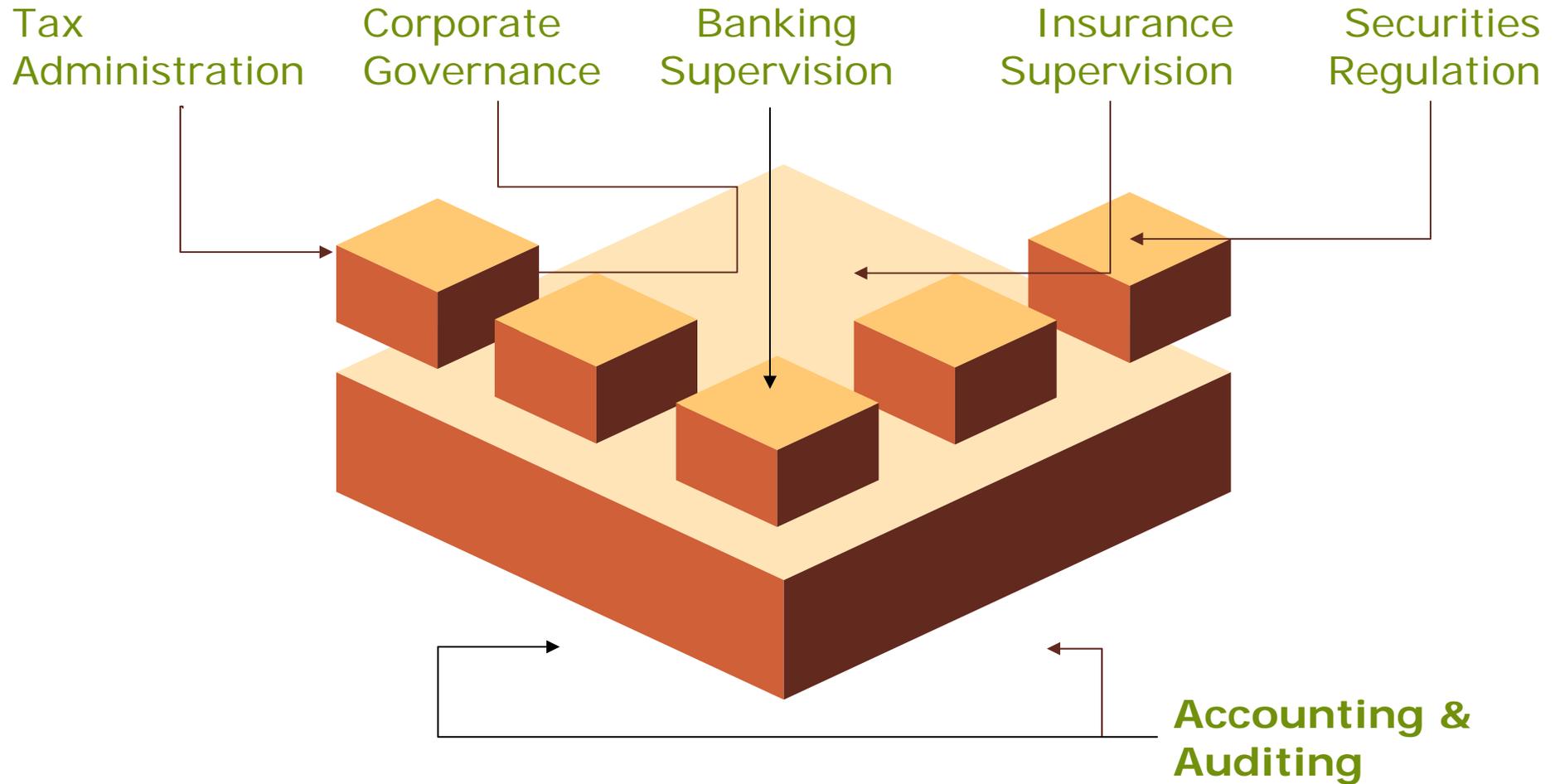
The simple logic

“No transparency, no trust;
no trust, no credit;
no credit, no investment;
no investment, no growth!

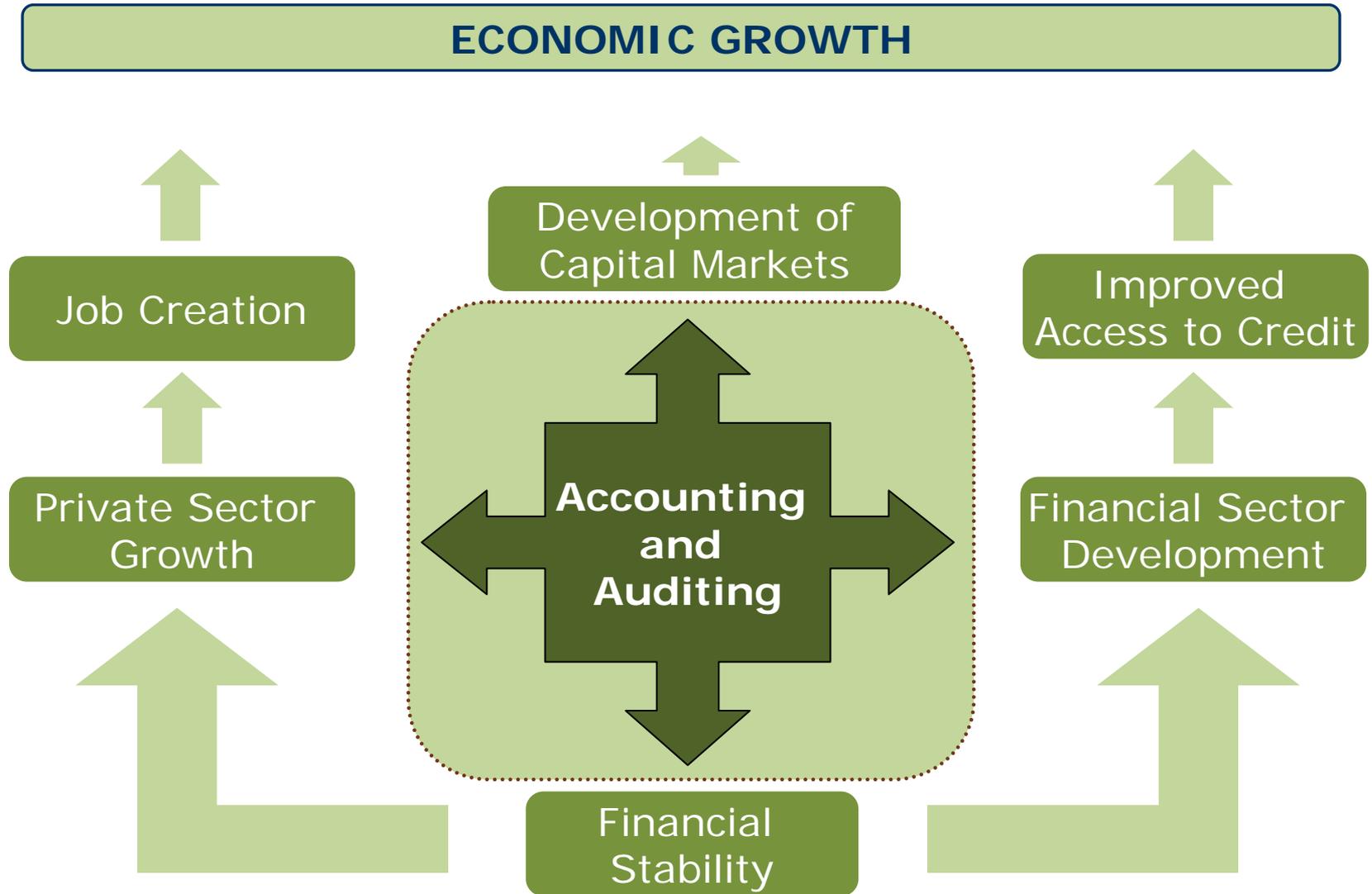
So there is a simple logic: financial reporting is an essential building block for financial intermediation, foreign investment, and sustainable economic development.”

*Martin Gruell
Raiffeisen International*

Financial Reporting: a fundamental foundation



Financial Reporting: a central role in the financial systems



Objectives for updating the ROSC A&A

» The 2013 ROSC A&A for Czech Republic :

1. provides an updated view on A&A in Czech Republic to international users (foreign investors, banks and IFIs)
2. gives credit to Czech Republic for progress achieved and implementation of most 2003 ROSC recommendations
3. highlights areas for policy consideration or further implementation
4. is used as a baseline for the FRTAP program
5. updates the 2003 ROSC A&A for Czech Republic which was undertaken prior to EU accession and therefore outdated

The A&A ROSC Process

Assessing the Quality of the A&A Framework





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Key findings

1. Accounting and Auditing statutory framework

- » Czech Republic's legal framework for accounting and auditing is now fully aligned with the EU *acquis*
 - Fully aligned with the 1st, 2nd, 4th, 7th and 8th company law Directives;
 - Implements the IAS regulation for listed companies issuing securities on the regulated segment of the Prague Stock Exchange;
 - Takes advantage of MS options for extending application of IFRS to legal entity financial statements for listed companies and groups that publish IFRS-based financial statements (as an option).

2. Accounting Standards

» Czech GAAP:

- are issued by the Ministry of Finance (MoF), after consultation with professional bodies responsible for accounting and auditing and the assistance of an Advisory Council for the Development of Accounting and Auditing;
 - are closely linked with tax rules, but typical adjustments are mandated for calculating the income tax base;
 - reflect a legalistic view of transactions over their substance: try to avoid tax arbitrage, but not always showing the economic substance of a specific transaction.
- » A National Accounting Council (NAC) created by academics and professional bodies provides guidance on the application of the standards to professionals independently of the MoF.

2. Auditing Standards

- » International Standards on Auditing (ISAs) are mandated by law since 2006 and represent an important progress over the previous regime
- » The process for translation and publication for ISAs is continuous and is performed by the Chamber of Auditors, KACR
- » KACR has published a SME guide to help small practices to apply ISAs
- » KACR retrained most auditors with *clarified ISAs* with the assistance of the FRTAP program

3. Accounting and Auditing Education

- » KACR strengthened its education program in line with EU requirements and international standards (IESs)
- » The Union of Accountants assisted the development of the Chamber of Certified Accountants, which provides professional education based on the ACCA program
- » The university of Prague is very active, and participated in several initiatives: creation of the NAC, cooperation with KACR and the Union of Accountants, agreement with ACCA on exemptions (3 to 5)

Exemptions Granted	By KACR	By ACCA	By UOA
For KACR exams	-	3	10
For ACCA exams	4	-	all
For CCA exams	4	8	-

4. Filing and Publication Requirements

For all companies:

»Electronic filing

»Commercial registers enable third parties to access on line financial statements of companies together with other information

»A review of financial statements at the registry of Prague found poor filing practices; filing requirements not properly enforced

For companies under the supervision of the CNB:

»The Czech National Bank (CNB) maintains a single registry for financial statements of regulated companies; that includes all their financial statements and interim financial statements

5. Quality of financial statements

- » The ROSC team reviewed a sample of IFRS-based financial statements. The following elements were noticed :
 - Listed companies IFRS-based financial statements are generally of high quality;
 - A substantive effort was made by most of these companies to link disclosures to their transactions;
 - Financial statements of non-listed companies prepared under Czech GAAP and filed at the Commercial Register are of uneven quality;
 - The Czech SME sector seems to be very sensitive to disclosing financial information.

5. Quality of financial statements

- » Auditing is the sole mechanism that reviews the quality of implementation of IFRS
- » The CNB is not directly responsible for monitoring and enforcing the application of accounting standards
- » Since 2010, the CNB has started performing off-site reviews of IFRS financial statements for 6-7 listed companies on a yearly basis.
- » The tax authority may review financial statements and supporting documentation but has no role in enforcing Czech GAAP

6. Audit Oversight and Quality Assurance

- » An Audit Public Oversight Council (APOC) was established in 2009. It oversees all the activities of the KACR, including quality assurance
- » The Czech Republic has yet to fully implement the EC recommendation on quality assurance, but members of the Council actively participate in some audit firm reviews
- » KACR made significant efforts in order to enhance its quality assurance systems
- » First cycle of review finds that bigger audit firms carry out the higher quality audits, but small audit firms and sole practitioners face more difficulties in applying ISAs



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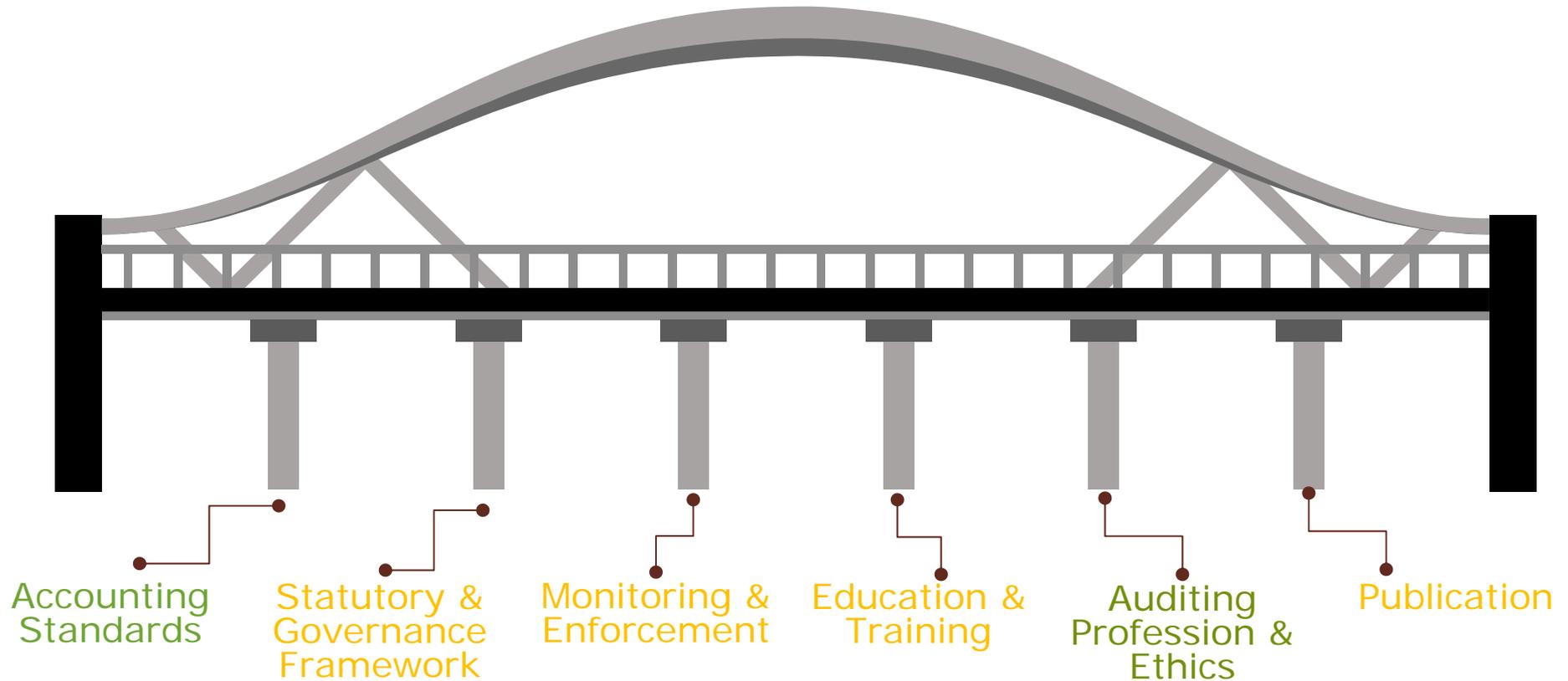


Main areas for consideration

Areas for Government's consideration

- » No recommendations made by the World Bank to the government of Czech Republic
- » The WB team considers that Czech Republic can develop those on their own based on the findings of the report
- » For the convenience of the MoF the report points to 5 areas where further efforts could improve the quality of financial reporting and its impact on economic growth that are:
 1. Alleviating the burden of financial reporting on smaller companies
 2. Enhancing availability of financial information at the commercial registry
 3. Recycling findings of the QA reviews in CPD offerings
 4. Strengthening Audit Public Oversight capacity
 5. Broadening the role of CNB on IFRS enforcement

Financial reporting infrastructure is important



1. Accounting and Auditing Framework

- » Small companies and micro-entities are constrained by limited resources and face difficulties to comply with reporting requirements.

- » Thus the Czech Republic may consider :
 - Modifying the thresholds for small entities to exempt more companies from auditing requirements and allow them to prepare simpler financial statements.
 - Using the option offered to the EU members-states to introduce simplified accounting for micro-entities which also allows harmonization of accounting requirements at EU level.

2. Filing of financial statements

- » The ROSC team found a lack of availability of financial statements at the commercial register in Prague
- » According to a study published by Union of Accountants, less than 30% of the companies actually filled their financial statements at the commercial register
- » Thus the Ministry of Finance may consider enhancing its enforcement of the filing requirements by imposing progressive fines
- » This would create incentives for companies and their managers to file financial statements on time and arrange for their timely publication

3. Education and Training

- » The quality control review conducted by KACR Supervisory Committee found instances of poor compliance with ISAs in all areas of auditing, primarily among small practices

- » This call for further training of auditors to improve their practices:
 - Systematically including key findings stemming from the quality assurance reviews in the auditors' CPD Program

 - Encourage auditors whose performance has been found substandard to develop their skills through participation to specific training

4. Public Oversight and Quality Assurance

- » The APOC's role is to approve KACR's plan for quality control and supervise its execution
- » APOC may want to strengthen its capacity because the current arrangement will not comply with the provisions of the new EU audit regulation
- » APOC may also consider enhancing the quality of the annual report by making its report more effective in order to allow a better understanding by the reader

5. CNB's Monitoring and Enforcement

- » CNB to be given enforcement capacity over IFRS for the entities they supervise
- » Intensify the CNB's initiative regarding the annual review of IFRS financial statements, and include more depth-focus on specific topics following a risk-based approach
- » The CNB may also consider extending the scope of these reviews to banks and insurance companies that use IFRS for the preparation of their financial statements

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Thank you
Q&A