

ACT

dated 26 March 2009

on auditors, and amending certain other legislation (the Auditors' Act).

The Parliament has enacted the following act of the Czech Republic:

TITLE ONE

ON AUDITORS

PART I

INITIAL PROVISIONS

Section 1

Subject Matter

The present Act reflects the relevant legislation of the European Communities¹⁾ and governs the position and activities of statutory auditors, audit firms and assistant auditors, the position and authority of the Chamber of Auditors of the Czech Republic (hereinafter the “Chamber”) and the Council for Public Supervision over Audit (hereinafter the “Council”).

Section 2

Definitions

For the purposes of the present Act, the following terms shall have the following meaning:

- (a) “statutory audit” means verification of annual and extraordinary annual accounts²⁾ or consolidated annual accounts³⁾, if such verification is required by another piece of legislation⁴⁾; and/or verification of interim annual accounts⁵⁾, if such verification is required by another piece of legislation;

¹ Directive 2006/43/EC of the European Parliament and of the Council dated 17 May 2006, on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.

Treaty on the establishment of the European Community.

The Fourth Council Directive dated 25 July 1978, based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of companies.

The Seventh Council Directive dated 13 June 1983, based on Article 54(3)(g) of the Treaty on consolidated accounts.

² Sections 18 and 19 of Act No. 563/1991 Coll., on accounting, as amended by Act No. 492/2000 Coll., Act No. 353/2001 Coll., Act No. 437/2003 Coll., Act No. 254/2004 Coll., and Act No. 179/2005 Coll.

³ Section 22 of Act No. 563/1991 Coll., as amended by Act No. 353/2001 Coll., and Act No. 437/2003 Coll.

⁴ Section 20 of Act No. 563/1991 Coll., as amended by Act No. 117/1994 Coll., Act No. 353/2001 Coll., and Act No. 437/2003 Coll.

⁵ Section 19 of Act No. 563/1991 Coll., as amended by Act No. 492/2000 Coll., Act No. 353/2001 Coll., Act No. 437/2003 Coll., and Act No. 257/2004 Coll.

- (b) “audit activity” means the performance of statutory audits, reviews of economic management pursuant to another piece of legislation⁶), if such reviews are performed by auditors, verification of accounting records, if so stipulated in another piece of legislation⁷), and verification of other economic information performed in keeping with auditors standards;
- (c) “statutory auditor” means a natural person issued a licence by the Chamber for the performance of audit activities (hereinafter the “Auditor’s Licence”);
- (d) “audit firm” means a legal entity issued an Auditor’s Licence by the Chamber;
- (e) “auditor” means either a statutory auditor or an audit firm;
- (f) “audit entity from a third country” means an entity irrespective of its legal form, which performs audits of annual accounts or consolidated annual accounts of a company with its registered office in a third country;
- (g) “auditor from a third country” means a natural person, which performs audits of annual accounts or consolidated annual accounts of a company with its registered office in a third country;
- (h) “group auditor” means one or more statutory auditors or one or more audit firms, which perform statutory audit of consolidated annual accounts;
- (i) “network” means an extensive structure of relations or persons comprising the auditor, aimed at cooperating and sharing of revenues or expenses, or with a common owner, common controlling entity or common management, common concepts and procedures applicable to quality control, common business strategy, or using a common trade mark or sharing a significant portion of professional capacity;
- (j) “entity associated with an audit firm” means an entity sharing a common owner with an audit firm, or jointly controlled or managed;
- (k) “international audit standards” means the International Standards on Audit (ISA) to such extent as they relate to statutory audits;
- (l) “international accounting standards” means the International Accounting Standards (IAS), the International Financial Reporting Standards (IFRS) and any associated interpretations (SIC-IFRIC interpretations), amendments to those standards and associated interpretations issued or adopted by the International Accounting Standards Board (IASB);
- (m) “entities of public interest” means legal entities founded pursuant to Czech law whose negotiable securities have been accepted for trading on regulated markets in any Member State of the European Union or any Contractual State of the Treaty on the European Economic Area (hereinafter the “Member State”), banks, insurers

⁶ Act No. 420/2004 Coll., on reviews of economic management of autonomous territorial units and voluntary unions of communities, as amended by further legislation.

⁷ For example, Act No. 256/2004 Coll., on trading on capital market, as amended by further legislation.

and assures, the General Health Insurance Company of the Czech Republic⁸), health insurers, pension funds, savings and credit cooperatives, security dealers, the central depository, the operator of the settlement system, investment companies, investment funds, and institutions dealing with electronic money. Entities of public interest also include commercial companies or cooperatives or consolidated accounting units, if the average converted number of employees of such commercial companies or cooperatives or consolidated units has exceeded 4,000 people over the immediately previous period;

- (n) “person outside the profession” means a natural person who has not performed audit activities for at least three years, does not hold the right to vote in an audit firm, is not a member of any statutory or management body of an audit firm, and has no employment relationship in any audit firm;
- (o) “key audit partner” means:
1. one or more statutory auditors appointed by an audit firm to be in charge of the performance of statutory audits on behalf of such audit firm;
 2. in the event of a group audit, one or more statutory auditors appointed by an audit firm to be in charge of the performance of statutory audits of a group, and one or more of statutory auditors appointed by an audit firm to be in charge of the performance of statutory audits of significant subsidiaries; or
 3. one or more statutory auditors authorised to execute the auditor’s report;
- (p) “third country” means a country, which does not constitute a Member State.

PART II

Section 3

Performance of Audit Activities

Statutory audits pursuant to the present Act shall be performed by auditors. Auditors may perform any other audit activities in keeping with the present Act.

Issuance of Auditor’s Licences

Section 4

- (1) The Chamber shall issue an Auditor’s Licence to a natural person who:
- (a) has completed university or college education within an accredited baccalaureate or magisterial study programme⁹) or has completed studies recognised by the relevant Member State as part of its university/college educational system and providing upon completion its students with university or college qualifications;
 - (b) is capable of legal acts;

⁸ Act No. 551/1991 Coll., on the General Health Insurance Company of the Czech Republic, as amended by further legislation.

⁹ Act No. 111/1998 Coll., on universities and colleges, and amending and complementing certain other legislation (the Universities and Colleges Act), as amended by further legislation.

- (c) is of integrity;
 - (d) has completed a special working experience session extending for the term of at least three year pursuant to Section 29, employed as an assistant auditor, or a special working experience on a similar work position in any other Member State, in the extent of at least 35 hours per week or for a terms equivalent to the period of three years if the sessions per week were shorter;
 - (e) is not involved in any activity subjected to restrictions pursuant to Section 23;
 - (f) has passed the auditor's examination;
 - (g) has not been de-listed from the List of Auditors in the course of the past 10 years or has not been deprived of his/her licence in connection with any disciplinary punishment or has been banned within an identical term from performing audit activities, with the exception of procedures pursuant to Section 7(1)(e);
 - (h) has paid the fees pursuant to Section 8(7);
 - (i) is not in default with the payment of any taxes or levies, charges, payments, considerations, fines and late charges, including any costs of proceedings, levied and enforced by any territorial tax authorities pursuant to special legislation¹⁰);
 - (j) is not in default with the payment of any insurance premiums and late charges in respect of the public health insurance, or any insurance premiums and late charges in respect of the social security insurance and the contribution to the state employment policy, with the exception of cases when such natural person has been allowed instalment payments and is not in default with such instalment payments;
 - (k) has taken the auditor's oath.
- (2) A person of integrity, for the purposes of the present Act, shall not be deemed whoever:
- (a) has been finally sentenced for an intentional criminal offence; or
 - (b) has been finally sentenced for a negligent criminal offence in connection with the performance of audit activities;
- unless they are considered as not convicted¹¹).
- Also, a person of integrity shall not be deemed whoever does not enjoy good professional reputation.
- (3) Compliance with the requirements:
- (a) pursuant to subsection 1(a) shall be evidenced by the applicant by submitting his or her university/college diploma, supplement to a diploma, or their certified copies,

¹⁰ Act No. 531/1990 Coll., on territorial financial authorities, as amended by further legislation.

¹¹ For example, Sections 60, 60a, 70 of Act No. 140/1961 Coll., of the Criminal Act, as amended by Act No. 56/1965 Coll., Act No. 175/1990 Coll., Act No. 253/1997 Coll., and Act No. 256/2001 Coll.

or by submitting any other similar documents confirming successful completion of university/college studies conducted abroad;

- (b) pursuant to subsection 1(b) shall be evidenced by the applicant by submitting his or her identity card, passport or any other similar document;
- (c) pursuant to subsection 1(d) shall be evidenced by the applicant, for example, by submitting an employment contract, employee's certificate or an extract from the List of Assistant Auditors;
- (d) pursuant to subsection 1(e) shall be evidenced by the applicant by submitting his or her statutory declaration.

In order to certify the applicant's integrity pursuant to subsection 1(c), the Chamber, pursuant to special legislation¹²), shall request an extract from the Criminal Register; the application for the extract from the Criminal Register and the extract from the Criminal Register shall be delivered in electronic format, in a manner allowing for remote access.

- (4) Within 30 days of the date of providing evidence of compliance with all requirements pursuant to subsections 1(a) to (h), the Chamber will allow the applicant to take also the auditor's oath. The auditor's oath shall be taken to the hands of the President or the Vice-President of the Chamber. The wording of the oath: "I pledge on my honour and faith to comply in the performance of audit activity with the law, internal regulations of the Chamber of Auditors of the Czech Republic and the auditors standards, to honour the ethics of the auditors profession and to abide by the confidentiality duty." Upon taking the oath, the Chamber shall issue the applicant without any delay with the Auditor's Licence and it shall enter his or her name in the List of Auditors.

Section 5

- (1) The Chamber shall also issue an Auditor's Licence upon request from a commercial company, which meets the following conditions:
 - (a) those natural persons who are supposed to perform statutory audits on its behalf are statutory auditors;
 - (b) a simple majority of votes in it is held by an audit firm or by statutory auditors who hold their Auditor's Licences or are authorised to perform statutory audits in any other Member State;
 - (c) a simple majority of the members of its authorised representative body is made up of statutory auditors or audit firms that hold their Auditor's Licence or are authorised to perform audits in any other Member State; if the authorised representative body of the relevant legal entities comprises two members, the above-described conditions shall be met by at least one of them;
 - (d) members of its authorised representative body are people of integrity; in assessing their integrity, Section 4(2) shall apply by analogy;

¹² Act No. 269/1994 Coll., on the Criminal Register, as amended by further legislation.

- (e) it is not in bankruptcy pursuant to a final ruling of a court of justice;
 - (f) it is not in default with the payment of any taxes or levies, charges, payments, considerations, fines and late charges, including any costs of proceedings, levied and enforced by territorial tax authorities pursuant to special legislation¹⁰);
 - (g) it is not in default with the payment of any insurance premiums and late charges in respect of the public health insurance, or any insurance premiums and late charges in respect of the social security insurance and the contribution to the state employment policy, with the exception of cases when such natural person has been allowed instalment payments and is not in default with such instalment payments;
 - (h) it enjoys good reputation.
- (2) If a legal entity that has been issued an Auditor's Licence should be wound up with a legal successor, the Auditor's Licence shall pass on to such legal successor so long as such legal successor complies with the conditions pursuant to subsection 1, if no other obstacle to such transfer exists.

Section 6

Temporary Prohibition of Performance of Audit Activities and Temporary Suspension of the Auditor's Licence

- (1) Statutory auditors shall be temporarily prohibited from the performance of audits, if:
- (a) disciplinary punishment of temporary prohibition of performance of audit activities has been imposed upon them, commencing on the date of legal force of such decision;
 - (b) they have been finally sentenced to a term in prison, commencing on the date of legal force of such judgement;
 - (c) they have been sentenced to a ban on activity consisting of prohibition of performance of audit activities, commencing on the date of legal force of such judgement;
 - (d) criminal proceeding has been commenced against them for criminal offences pursuant to Section 4(2), commencing on the date of launching of such proceeding until the date of legal force of a decision terminating such proceeding;
 - (e) proceeding was commenced to restrict their legal capacity or for their incapacitation, commencing on the date of launching such proceeding until the date of legal force of a decision terminating such proceeding;
 - (f) they are in default with the payment of their membership dues to the Chamber in excess of one year and the dues have not been paid even within one month of the delivery of a written invitation to pay it within an alternative term issued by the Chamber, including a notice of the consequences of further failure to pay, commencing on the first day next subsequent to the lapse with no effect of such alternative term, until the date of payment of such outstanding dues; or

- (g) they request it in writing, commencing on the date of delivery of such request to the Chamber, unless the request mentions any later date, until the date of delivery to the Chamber of a written request for the termination of such temporary prohibition of performance of audit activities, unless the request mentions any later date.
- (2) If such temporary prohibition of performance of audit activities pursuant to subsection 1 extends in excess of five subsequent years, and if the statutory auditors fail to participate in any programmes of continuous education pursuant to Section 9, such termination of the temporary prohibition of performance of audit activities shall be conditioned by successful passing of a written examination pursuant to Section 8; the extent of such examination shall be stipulated in the Examination Rules.
 - (3) Audit firms shall be temporarily prohibited from performing audit activities, provided
 - (a) a decision was issued prohibiting them temporarily from performing audit activities, commencing on the date of legal force of such decision;
 - (b) they are in default with the payment of membership dues to the Chamber in excess of one year and the dues have not been paid even within one month of the delivery of a written invitation to pay it within an alternative term issued by the Chamber, including a notice of the consequences of further failure to pay, commencing on the first day next subsequent to the lapse with no effect of such alternative term, until the date of payment of such outstanding dues; or
 - (c) they request it in writing, commencing on the date of delivery of such request to the Chamber, unless the request mentions any later date, until the date of delivery to the Chamber of a written request for the termination of such temporary prohibition of performance of audit activities, unless the request mentions any later date.
 - (4) In cases pursuant to subsections 1 and 3, auditors shall return any issued Auditor's Licences within the term of 30 days of the introduction of the temporary prohibition of performance of audit activities.
 - (5) For the term of the temporary prohibition of performance of audit activities:
 - (a) the statutory auditors shall also be suspended as regards the performance of any offices within the Chamber pursuant to Sections 32(1)(b) to (d);
 - (b) the statutory auditors shall not be elected to any bodies of the Chamber pursuant to Sections 32(1)(b) to (d);
 - (c) the auditors' duty to pay the statutory membership dues to the Chamber shall not be prejudiced; and
 - (d) the auditors' liability regarding decisions pursuant to Section 25 shall not be prejudiced.

- (6) The Chamber, upon request from the auditors, shall decide about the re-issuance of the Auditor's Licence to such auditors so long as the reason for the temporary prohibition of performance of audit activities has vanished, unless elsewhere stipulated otherwise.
- (7) Information about the temporary prohibition of performance imposed on such auditors shall be published by the Chamber without delay in the List of Auditors. The Chamber shall act by analogy in the cases of re-issuance of the temporarily suspended Auditor's Licences.

Section 7

Permanent Prohibition of Performance of Audit Activities and Permanent Suspension Auditor's Licence

- (1) Statutory auditors shall be permanently prohibited from performance of audit activities, provided:
 - (a) disciplinary punishment of temporary prohibition of performance of audit activities has been imposed upon them, commencing on the date of legal force of such decision,
 - (b) they have been incapacitated or their legal capacity has been restricted, commencing on the date of legal force of such judgement;
 - (c) they no longer meet the requirements of integrity pursuant to Section 4(1)(c), commencing on the date of occurrence such facts, which render them as lacking integrity;
 - (d) there is an obstacle to compliance with the requirement pursuant to Section 4(1)(e) and such obstacle has not been removed even after the expiration of a term determined in a written invitation issued by the Chamber, which extends to three months, as of the date of the lapse with no effect of the determined term; or
 - (e) they request it in writing, as of the date of the delivery of the request to the Chamber, unless the request mentions any later date; the effects of such permanent prohibition of performance of audit activities would not occur in this case, unless proceedings relating to quality control, disciplinary punishment and any similar proceedings associated with the performance of audits have been duly completed and unless the statutory auditors have implemented all obligations towards the Chamber and the Council.
- (2) Audit firms shall be permanently prohibited from performance of audit activities, provided:
 - (a) a decision was issued prohibiting them permanently from performing audits, commencing on the date of legal force of such decision;
 - (b) they no longer comply with any of the conditions pursuant to Sections 5(1)(a), (b) or (c) and they fail to correct this state within six months of the date of breaching of such condition, as of the date of expiration of such term;

- (c) there is an obstacle to compliance with the requirement pursuant to Sections 5(1)(d) to (g) and such obstacle has not been removed even after the expiration of a term determined in a written invitation issued by the Chamber, which extends to three months, as of the date of lapse with no effect of such term; or
 - (d) they request it in writing, as of the date of the delivery of the request to the Chamber, unless the request mentions any later date; the effect of permanent prohibition of performance of audit activities shall not occur in this case, unless proceedings relating to quality control, disciplinary punishment and any similar proceedings associated with the performance of audits have been duly completed and unless the statutory auditors have implemented all obligations towards the Chamber and the Council.
- (3) In cases pursuant to subsections 1 and 2, the auditors shall return any issued Auditor's Licences within the term of 30 days of the introduction of the permanent prohibition of performance of audit activities.
 - (4) The Chamber shall issue a decision banning permanently auditors from performing audit activities, provided:
 - (a) they performed audits at a time when they were temporarily prohibited from performing audit activities; or
 - (b) they were deprived of their good reputation.
 - (5) Information about permanent prohibition of performance of audit activities shall be published by the Chamber without delay in the List of Auditors. Also the Chamber shall inform about the permanent prohibition of performance of audit activities and its reasons the relevant authorities of the Member State where the auditors are authorised to perform audit activities.
 - (6) Auditors may be re-issued their Auditor's Licences upon a written request and upon meeting certain conditions as stipulated in the present Act, however, not before the expiration of 12 months of the date of the imposition of the permanent prohibition of performance of audit activities or of the date of re-issuance of the Auditor's Licence, if it was re-issued on a later date. This term shall not apply to cases of permanent prohibition of performance of audit activities resulting from proceedings conducted pursuant to Section 25.
 - (7) If such permanent prohibition of performance of audit activities pursuant to subsection 1 extends in excess of five subsequent years, and if the statutory auditor fails to participate in any programmes of continuous education pursuant to Section 9, such termination of the temporary prohibition of performance of audits shall be conditioned by successful passing of a written examination pursuant to Section 8; the extent of such examination shall be stipulated in the Examination Rules.

Section 8

Auditors Examination

- (1) The auditors examinations shall focus on the following areas:

- (a) general accounting theory and principles;
 - (b) legal requirements and standards relating to the drafting of annual accounts and consolidated annual accounts;
 - (c) the International Accounting Standards;
 - (d) financial analysis;
 - (e) cost accounting and management accounting;
 - (f) risk management and internal audit;
 - (g) performance of statutory audits and professional knowledge;
 - (h) legal requirements and professional standards relating to statutory audits and statutory auditors;
 - (i) international auditors standards, and/or other auditors standards issued by the Chamber;
 - (j) professional ethics and independence.
- (2) Furthermore, auditors examinations shall focus to the extent as required for the performance of audit activities also on testing knowledge in the following areas:
- (a) company law and administration and management of companies;
 - (b) bankruptcy law;
 - (c) financial law;
 - (d) civil law and commercial law;
 - (e) labour law and social security law;
 - (f) information systems and computers;
 - (g) corporate, general and financial economy,
 - (h) mathematics and statistics;
 - (i) principles of corporate financial management.
- (3) If a candidate has passed a university/college examination or any comparable professional qualification examination in any Member State in one or several areas pursuant to subsections 1 and 2, whose extent and content coincide in the decisive parts with the areas applicable to the auditors examination pursuant to subsections 1 and 2, and if such examination was passed not earlier than seven years prior to the date of the candidate's application for the auditors examination, such candidate shall be relieved upon request of such part or parts of the auditors examination covered by such examination. The decision about conformity of the extent and content of the

examination shall be vested with the Chamber. Any such decisions of the Chamber may be appealed against to the Council.

- (4) Auditors examinations shall consist of several partial examinations and they shall be deemed as passed upon the completion of all such partial examinations. Auditors examinations shall be made in the Czech language and in writing.
- (5) The Chamber shall determine at least one date in each calendar half-year for holding each partial examination. Auditors examinations shall be accomplished not later than within three years of the holding of the first partial examination; if such auditors examination is not accomplished within such term, any partial examinations already passed shall not be recognised if a new application for the execution of an auditors examination is submitted.
- (6) Partial examinations shall be evaluated by an examination board consisting of at least three members – statutory auditors and other professionals in economic and legal theory and practice, appointed and removed by the Council. The examination board shall evaluate the performance of the candidates by issuing statements to the effect of either “passed” or “passed not”. If the candidates disagree with the decision of the examination board, they may appeal it.
- (7) Details of both organisational and other support of auditors examination and differential examinations shall be determined in the Rules of Examinations, which constitute an internal regulation of the Chamber.
- (8) The Rules of Examinations shall contain, in particular, the following:
 - (a) details concerning the submission of applications for auditors examination and differential examinations;
 - (b) the procedures applicable to the assessment of qualifications pursuant to Section 4;
 - (c) the number and content of the partial examinations;
 - (d) the amount of the fee payable for the submission of applications for partial examinations and differential examinations and the payment date of such fee; the fee for applications for partial examinations or differential examinations shall not exceed CZK 6,000;
 - (e) the course and the manner of assessment of auditors examination and differential examinations;
 - (f) the manner of votes taken by the examination board; and
 - (g) procedures applied in case of a failure to turn up for an examination.

Section 9

Continuous Education

Statutory auditors shall participate in programmes of continuous education focused on improving their theoretical and professional knowledge. Programmes of continuous education

extending up to 60 hours per year shall be determined in an internal regulation of the Chamber.

Section 10

Auditors from Other Members States and Free Provision of Services

- (1) Audit activities pursuant to the present Act may be performed on the territory of the Czech Republic also by natural persons authorised to perform statutory audits in any other Member State or in Swiss Confederation, under the terms and conditions as stipulated in the present Act. The Chamber shall issue such natural person with his or her Auditor's Licence under the terms and conditions as stipulated in the present Act.
- (2) For the purposes of recognising qualifications, applications for the performance of audit activities on the territory of the Czech Republic submitted by such natural persons as described in subsection 1 shall be governed by the relevant act governing the recognising of qualifications¹³). The Chamber shall act in the capacity of the authority in charge recognising qualifications.
- (3) Natural persons pursuant to subsection 1 shall be required, by way of a compensation measure, to pass differential examinations, unless capable of evidencing with documents of formal qualification that they possess knowledge of all areas as described in Section 8. As a rule, differential examinations shall be held in the Czech language.
- (4) Audit activities, with the exception of statutory audits, may be performed on the territory of the Czech Republic temporarily or occasionally also by natural persons pursuant to subsection 1 subject to a written notification of their intention to perform such activity on the territory of the Czech Republic delivered to the Chamber prior to commencing such temporary or occasional auditors activity.
- (5) Notifications pursuant to subsection 4 shall contain the following information:
 - (a) name and surname of the auditor;
 - (b) address for delivery of documents on the territory of the Czech Republic;
 - (c) a copy of documents evidencing formal qualifications for the performance of audit activities;
 - (d) type of audit activities intended to be performed;
 - (e) place of performance of audit activities; and
 - (f) presumed duration of the performance of audit activities.
- (6) The Chamber may verify such professional qualifications of persons authorised to perform audit activities pursuant to subsections 1 and 4 in respect of reviews of economic management of autonomous territorial units and voluntary unions of

¹³ Act No. 18/2004 Coll., on recognising professional qualifications and other qualifications of the citizens of the Member State of the European Union, and amending certain other legislation, as amended by further legislation.

communities pursuant to another piece of legislation⁶); this activity shall be governed by the relevant act on the acknowledgement of qualifications¹³).

- (7) The Chamber shall keep records of persons authorised to perform audit activities pursuant to subsection 4. The records shall contain information pursuant to subsection 5. The record keeping shall be governed by analogy by the provisions governing the keeping of the List of Auditors.

List of Auditors

Section 11

- (1) The Chamber shall keep the List of Auditors, which will contain information about:
 - (a) statutory auditors;
 - (b) audit firms;
 - (c) registered auditors and audit entities from third countries pursuant to Section 48.

The List of Auditors shall also contain the addresses of the registered offices and contact details of the Chamber and of the Council, and/or their authorities in charge of quality control pursuant to Section 24 and disciplinary punishment pursuant to Sections 25(1)(b) to (e) and Sections 25(3) and (4).

- (2) The List of Auditors shall be maintained in an electronic format¹⁴).
- (3) The information in the List of Auditors shall be maintained in the Czech language.
- (4) The information carried in the List of Auditors, with the exception of the dates of birth and the date registration numbers (r.č.) shall constitute a public domain.
- (5) The information for the List of Auditors provided in the Czech language and duly signed shall be delivered to the Chamber without any undue delay by such person to which such information relates. If the information is delivered in an electronic format, it shall be signed with help of a guaranteed electronic signature pursuant to a qualified certificate issued by an accredited provider of certification services¹⁵).
- (6) Auditors shall report without delay to the Chamber any information entered in the List of Auditors, which concern compliance with the conditions pursuant to Sections 4 and 5, and further information or its modifications pursuant to Section 12.

Section 12

- (1) The List of Auditors shall contain the following information about statutory auditors:

¹⁴ Act No. 365/2000 Coll., on information systems used by the public administration authorities and amending certain other legislation, as amended by further legislation.

¹⁵ Act No. 227/2000 Coll., on electronic signature, and amending certain other legislation (the Electronic Signature Act).

- (a) name and surname of the statutory auditor; birth registration number or date of birth, if no birth registration number has been allocated; permanent address; address of business; business name if different from the name and surname of the statutory auditor; and company number, if applicable;
 - (b) date of issue and number of the Auditor's Licence;
 - (c) information of whether the statutory auditor performs audit activities in his/her own name and on his/her own account or in the name of an audit firm or in the name of any other auditor;
 - (d) business name, business address, company number and electronic address, if applicable, the name of the audit firm or firms where the statutory auditor has been employed or where he/she acts as a partner or otherwise, if applicable, and company number, if applicable;
 - (e) information concerning all and any other registrations in the capacity of a statutory auditor with any relevant authorities in other Member States and in the capacity of an auditor from a third countries, including the name of the registration authority or authorities and the registration number or numbers, if applicable;
 - (f) date of temporary prohibition of performance of audit activities, date of permanent prohibition of performance of audit activities, and date of legal force of a decision imposing any disciplinary punishments, including the type of such disciplinary punishments, with the exception of admonitions.
- (2) The List of Auditors shall contain the following information about audit firms:
- (a) business name, business address, legal form and company number;
 - (b) name, surname, birth registration number, date of birth, permanent address or place of sojourn or residence outside the territory of the Czech Republic of persons acting as their authorised representative, management or supervisory authorities;
 - (c) names and addresses of places of business or business names, addresses of the registered offices, and legal forms of all partners, including the scope of their voting rights;
 - (d) information about contact places, name, surname and address of the contact persons, electronic address, if applicable, and addresses of all operations on the territory of the Czech Republic;
 - (e) date of issue of the Auditor's Licence and the number of the Auditor's Licence;
 - (f) name, surname and registration numbers of statutory auditors performing statutory audits in the name of an audit firm, employed by an audit firm or associated with an audit firm as partners or otherwise;
 - (g) potential membership of a network and a list of names and addresses of the member firms and any associated persons or specification of places where such information is available to public;

- (h) all and any other registrations of the audit firm with the relevant authorities in other Member States and auditors from third countries, including the name of the registration authority or authorities and the registration number or numbers, if applicable;
 - (i) date of temporary prohibition of performance of audit activities, date of permanent prohibition of performance of audit activities, and date of legal force of a decision imposing measures pursuant to Section 25, including the type of such measures, with the exception of admonitions.
- (3) In the case of registered auditors and audit entities from third countries, the List of Auditors shall contain information pursuant to subsections 1 and 2, so long as registered in respect of such entities abroad. Such entities shall notify without any undue delay the Chamber about any changes of such registered information. The Chamber, in the event of a failure to report such changes, may commence proceedings pursuant to Section 25 if such failure to make such report would have a material impact.

Section 13 **Code of Ethics**

The auditors, in performing their activities, shall abide by the Code of Ethics, which represents minimum standards of professional ethics of auditors. The Code of Ethics shall contain, in particular, the following details concerning compliance with the principle of integrity, independence, impartiality, professional qualifications and due care in the performance of audit activities as activity executed in public interest. The Code of Ethics shall be issued by the Chamber as its internal regulation. In drafting it, it shall respect international ethical requirements, in particular, the Code of Ethics of the International Federation of Accountants.

Section 14 **Auditors Independence**

- (1) Auditors, in performing audit activities, shall act independently of the audited entities and shall not take any part whatsoever in their decision making. In performing audit activities, auditors shall be bound by legislation and shall also abide by auditors standards pursuant to Section 18, the Code of Ethics, and other internal regulations of the Chamber.
- (2) In the event of any direct or indirect financial, commercial, employment or any other relationship, including provision of non-audit services, between the auditor or persons forming the network, and the audited accounting unit, which would indicate a threat to auditor's independence, the auditor shall not perform such statutory audits.
- (3) In the event of any threats to auditor's independence in relation to the audited accounting unit in such ways as control of the auditor's own services, existence of the auditor's own interests, preferential treatment extended to certain persons, asset management or any other facts as stipulated in the Code of Ethics, the auditor shall adopt such measures, which would mitigate such threat. If the extent of such threat as

compared to the applied measures still represents a threat to auditor's independence, the auditor shall not perform such statutory audits.

- (4) Auditors shall not perform audit activities in respect of any accounting units if they have persistently depended on income for services rendered to such accounting units.
- (5) If a statutory auditor performs audit activities in the name of an audit firm, the partners or managers of such audit firm, members of its authorised bodies, management and supervisory bodies of such firm or any associated entities, shall not interfere in the performance of such audit activities in any manner in breach of independence and impartiality of the statutory auditor in performing such audit.
- (6) In the event of performing checks of the auditor's own services or existence of the auditor's own interests in performing audit activities in an entity of public interest, if so required in order to ensure independence of the statutory auditor and the audit firm, the auditor shall not perform any such activities.
- (7) Auditors shall mention in the auditors' file all and any significant threats to their independence, as well as any measures adopted in order to mitigate them.

Section 15 **Confidentiality Duty**

- (1) Unless stipulated otherwise in the present Act or in another piece of legislation, auditors shall keep confidential any facts that do not constitute public domain and that relate to the audited accounting unit, and/or any other facts that do not constitute public domain and that relate to any other accounting units, which they can access in their capacity of the auditors of the group. This duty shall also extend to auditors who no longer work on any such audit, to auditors who have been subjected to a temporary or permanent prohibition of performance of audit activities, or who have otherwise terminated performance of audit activities, and also to persons appointed by the Chamber or by the Council who have or used to have access to such information, employees of the auditor, and partners as well as members of steering bodies of audit firms.
- (2) Auditors and any other persons mentioned in subsection 1 may be relieved of their confidentiality duty concerning any facts that do not constitute public domain by the accounting unit or by the Chamber.
- (3) In the event of replacement of an auditor by another auditor, the former shall provide the new auditor with access to all accumulated material information relating to the audited accounting unit.
- (4) The following cases shall not be considered in breach of the confidentiality duty:
 - (a) information rendered to the Czech National Bank in the area of its supervisory activity on the financial markets¹⁶) or to any relevant authorities pursuant to another piece of legislation concerning certain measures against legalisation of proceeds from criminal activity and financing of terrorism, or any other legislation

¹⁶ Section 44(1) of Act No. 6/1993 Coll., on Czech National Bank, as amended by further legislation.

on the execution of international sanctions aimed at the preservation of international peace and security, protection of the fundamental human rights and the struggle against terrorism;

- (b) information rendered to new auditors pursuant to subsection 3 or to auditors of the group in the event of performance of audits of consolidated annual accounts pursuant to Section 19;
- (c) compliance with obligations pursuant to Sections 21(3) to (5);
- (d) documents relating to statutory audits provided by the Council, and by auditors of a public supervision authority of another Member State, and/or a third country, pursuant to Sections 42 and 49;
- (e) information rendered to the relevant law enforcement authorities concerning facts indicating potential commitment of the offence of bribery; or
- (f) information rendered to a court of justice or information rendered to law enforcement authorities, so long as such criminal proceeding relates to the statutory auditor.

Section 16

The price payable for the performance of statutory audits shall not be:

- (a) affected by provision of any auxiliary services to the audited person or determined on the basis thereof; or
- (b) conditioned by any other facts jeopardising independence, impartiality or quality of statutory audits.

Section 17

Nomination of Auditors and Statutory Audit Contracts

- (1) If an accounting unit-legal entity is required to have its annual accounts or consolidated annual accounts audited, the relevant auditor shall be nominated by the supreme body of such accounting unit. If the accounting unit does not possess any such supreme body or such body fails to nominate such auditor, then it shall be nominated by the supervisory authority of such accounting unit. An authorised representative body shall enter into a Statutory Audit Contract exclusively with such nominated auditor.
- (2) An accounting unit may unilaterally terminate such relationship pursuant to the Statutory Audit Contract solely if the auditor fails to perform the statutory audits in keeping with the legislation, internal regulations or the Code of Ethics. Differences in opinions regarding any accounting solutions or audit procedures shall not be considered as reasons for terminating such contractual relationship.
- (3) Any withdrawals from the Statutory Audit Contract by the accounting unit or by the auditor shall be notified by the withdrawing contracting party without delay to the Council, including giving the reasons therefore; this procedure shall apply by analogy

also in the event of termination of the contractual relation prior to the performance of statutory audits in any other manner.

Section 18

International Auditors Standards and Auditors Standards Issued by the Chamber

Auditors shall proceed in performing audit activities in keeping with international audit standards as stipulated in the laws of the European Communities¹⁷⁾ and with auditors standards issued by the Chamber, which shall govern procedures applied by auditors in performing audit activities not specified in international audit standards. The list of such international auditors standards and auditors standards issued by the Chamber and their current wordings shall be published by the Chamber in a manner allowing for remote access.

Section 19

Statutory Audits of Consolidated Annual Accounts

- (1) In performing statutory audit of consolidated annual accounts, the consolidated accounting units shall determine the auditor of the group who shall bear full responsibility for the issuance of the auditor's report. The auditor of the group, for the purposes of statutory audits of consolidated annual accounts, shall also review the extent and manner of performance of the audit activities executed by one or more auditors and audit entities and audit firms approved for the performance of statutory audit in the other Member States, and auditors or audit entities from third countries, and they shall keep any documentation about such review for an identical period of time as described in Section 20(6), namely, to such extent as to allow the relevant authority to review duly the activities performed by the auditor of the group.
- (2) If any portion of the group has been submitted to statutory audits by one or more auditors or audit entities from third countries, without the due conclusion of work arrangements pursuant to Section 49, the auditor of the group, upon request from the Council, shall have submitted documentation about audits performed by one or more auditors or audit entities from third countries, including working materials relevant for audits of consolidated annual accounts.
- (3) In order to comply with the duty of submitting documentation pursuant to subsection 2, the auditor of the group further shall:
 - (a) ensure a copy of such documentation;
 - (b) ensure upon request and on a contractual basis unlimited access to such documentation; or
 - (c) adopt any other suitable measures.
- (4) In the event of any legal or any other obstacle to delivery of such audit documentation from third countries to the auditor of the group, the documentation maintained by the auditor of the group shall also contain evidence about performance of any due acts in order to gain access to the documentation to the audit, and in the event of any other

¹⁷ Article 26 of Directive 2006/43/EC of the European Parliament and of the Council.

than legal obstacles ensuing from the legislation of the relevant country, evidence of the existence of such obstacle.

Section 20 **Auditor's Report**

- (1) Auditors shall produce their auditors' report about statutory audits. Such auditors' report shall contain the following information:
- (a) an introduction, in which the statutory auditor shall provide:
 - 1. the name and surname, permanent address or place of business if different from the place of permanent sojourn or residence in respect of the audited accounting units, which constitute a natural person or an international natural persons, or the business name or name and registered office of the audited accounting units, which constitute legal entities, or the name and place of business of subsidiaries or branches¹⁸) in respect of audited accounting units, which constitute international legal entities, the company number, if allocated to such accounting unit, the legal form of the accounting unit; and
 - 2. identification of annual accounts or consolidated annual accounts of accounting units pursuant to item 1, including the determination of the balance sheet date or any other moment as of which the annual accounts or the consolidated annual accounts have been drafted, and identification of the financial year for which it has been drafted;
 - (b) the scope of the performed statutory audits, including references to the auditors standards pursuant to Section 18, in keeping with which the statutory audits was executed;
 - (c) the auditor's opinion, which must clearly state the position of the auditor, whether the annual accounts or the consolidated annual accounts offer a faithful and honest picture of the object of the accounting in keeping with the applied legislation and accounting standards; the auditor's opinion shall be issued either unqualified or qualified, or negative, or the issuance of an auditor's opinion may be refused so long as the auditor is unable to issue an auditor's opinion;
 - (d) description of all facts, which have not been contained in the auditor's opinion pursuant to paragraph (c) and which the auditor considers suitable to be presented, in particular, some significant uncertainties and facts with impact on the presumption of the unlimited in time life of the accounting unit due to the financial position of the accounting unit.
- (2) If the auditor issues a report on the verification of an annual report or a consolidated annual report, he or she shall express their opinion concerning conformity of the annual report with the annual accounts or conformity of the consolidated annual report with the consolidated annual accounts.

¹⁸ Section 7 of Act No. 531/1991 Coll., the Commercial Code, as amended by Act No. 30/2000 Coll., Act No. 367/2000 Coll., Act No. 370/2000 Coll., Act No. 501/2001 Coll., Act No. 476/2002 Coll., Act No. 87/2003 Coll., and Act No. 88/2003 Coll.

- (3) Statutory auditors shall issue the auditor's report complete with their name, surname and number and date of issue of their Auditor's Licence, and signature. Audit firms shall issue their auditor's reports complete with their business name, number, number of their Auditor's Licence and the names and surnames of the statutory auditors who produced the auditor's report on behalf of the audit firm, numbers and dates of issue of their Auditor's Licences, and their signatures.
- (4) Auditors shall review the auditor's report with the authorised representative body of the audited accounting unit. Any potential comments offered by that body in respect of the auditor's report shall be responded to by the statutory auditor in writing.
- (5) Auditor shall keep files about the course of statutory audits, which contain information in keeping with the auditing standards pursuant to Section 18.
- (6) Auditors shall keep such files for the term of at least 10 years from the date of issue of the auditor's report on the outcome of the statutory audits.
- (7) The following persons shall be entitled to inspect the file:
 - (a) the auditor of the group pursuant to Section 19;
 - (b) the Supervisory Board and the Disciplinary Committee of the Chamber;
 - (c) members of the Presidium and any persons appointed by them, for the purposes of quality control pursuant to Section 24;
 - (d) courts of justice; and
 - (e) law enforcement authorities, so long as such criminal proceeding relates to the statutory auditor.

Section 21

Rights and Duties of Auditors

- (1) Beside other duties pursuant to the present Act, auditors shall:
 - (a) observe the internal regulations of the Chamber;
 - (b) observe international auditors standards and auditors standards issue by the Chamber;
 - (c) refrain from ordering any modifications and corrections of information reported by accounting units; and
 - (d) pay the statutory membership dues to the Chamber in the amount as stipulated in an internal regulation of the Chamber;
 - (e) cooperate with the Council in the performance of public supervision over audits.
- (2) Accounting units shall offer to auditors reasonable cooperation. Auditors may require that the accounting units should, provide them with all required and any other

documents, which are essential for the due performance of audit activities; furthermore, information and explanations as required for the due performance of audit activities. Auditors and their appointed persons shall be entitled to attend any stock-taking of assets and liabilities of the accounting unit, and/or the statutory auditors may require in justified cases the execution of an extraordinary stock-taking. Statutory auditors may request the issuance of a written authorisation to access information maintained about the accounting unit with banks, debtors and creditors. Accounting units shall meet the requirements of the statutory auditors. Auditors may request the payment of a fee for the performance of audit activities.

- (3) If the auditor performing audit activities of any accounting unit, which is subjected to state supervision or to supervision of the Czech National Bank in keeping with other legislation, identifies any facts, which
- (a) may indicate any breaches of the legislation governing its activities;
 - (b) have a material negative impact on its economy;
 - (c) may jeopardise its duration unlimited in time; or
 - (d) may result in the issuance of a qualified opinion, negative opinion or refusal to issue an opinion pursuant to Section 20(1)(c);

they shall inform without delay and in writing the relevant state supervision authorities or the Czech National Bank, as regards the accounting unit subjected to such supervision.

- (4) Auditors shall also be obliged, pursuant to subsection 3, if he or she identifies any facts as described in subsection 3 in respect of any accounting units in respect of which the accounting unit as described in subsection 3 holds 20 percent or more of the voting rights or holds a commercial stake in the amount 20 percent or more in the registered capital or in respect of the controlling or controlled entity¹⁹).
- (5) If the auditor performing audit activities in respect of any accounting unit identifies any facts pursuant to subsection 3 or any facts, which can be reasonably deemed to be able to accomplish the state of facts of an economic criminal offence, criminal offences of bribery or criminal offences against property, they shall inform without delay and in writing the authorised representative body as well as the supervisory board of the accounting unit or the local authority of a territorial autonomous unit or of the relevant quarter of the Capital City of Prague if the accounting unit represents a territorial autonomous unit or a quarter of the Capital City of Prague.
- (6) Auditors shall provide, upon request, for the purposes of the execution of supervision, to the Czech National Bank information and explanations regarding the course of statutory audits and findings obtained from such statutory audits performed in respect of any accounting units subjected to supervision of the Czech National Bank.

¹⁹ Section 66a of the Commercial Code, as amended by Act No. 142/1996 Coll., Act No. 15/1998 Coll., Act No. 30/2000 Coll., Act No. 367/2000 Coll., Act No. 370/2000 Coll., Act No. 501/2001 Coll., and Act No. 476/2002 Coll.

- (7) Audit firms shall appoint one or more statutory auditors who are persons in charge of the performance of statutory audits on behalf of the audit firm, in respect of each accounting unit or group where the statutory audits have been performed.

Section 22

Loss Liability Insurance

Statutory auditors and audit firms shall be insured against liability for losses caused in connection with the performance of audit activities so that the sum of all insured amounts corresponds to any potential losses, which can be reasonably presumed.

Section 23

Restriction on Business Activities of Auditors

- (1) Auditors shall not perform any additional profit-making activity of the nature of a business, unless stipulated in the present Act otherwise.
- (2) The following items shall not constitute obstacle to performance of audit activities by an auditor:
- (a) management of the auditor's own property;
 - (b) membership of the Supervisory Board of an accounting unit;
 - (c) scientific, educational, publicity, literary or artistic activities;
 - (d) book keeping or provision of economic, advisory and organisational services pursuant to another piece of legislation;
 - (e) tax advisory pursuant to another piece of legislation;
 - (f) the performance of the tasks of bankruptcy administrators, guest bankruptcy administrators, assistant bankruptcy administrators, separated bankruptcy administrators, special bankruptcy administrators or liquidators pursuant to other legislation;
 - (g) expert's work.

Section 24

Quality Control

- (1) Statutory auditors and audit firms are subjected to a quality control system focusing on controlling the auditors' compliance with procedures in performing audit activities in keeping with the international auditors standards, auditors standards issued by the Chamber, and the Code of Ethics.
- (2) The quality control system is organised and managed by the Chamber in keeping with the Supervision Rules, which constitutes an internal regulation of the Chamber and which at the same time determines the details of performance of quality control by persons pursuant to subsection 3(d) and procedures applicable to reviews of quality control reports.

- (3) The quality control system shall comply with the following criteria:
 - (a) it shall be independent of the controlled statutory auditors and audit firms;
 - (b) it shall be subjected to public supervision pursuant to Title Six;
 - (c) it has safe financing and shall not be negatively affected by the auditors;
 - (d) quality control shall be executed by a natural person who is independent of the controlled auditors and who has sufficient professional education and experiences in the area of the statutory audits and accounting reporting and who has passed specialised training for such purposes as determined by the Chamber (hereinafter the “Person in Charge of Quality Control”) as determined by the Supervisory Committee of the Chamber;
 - (e) Quality control of the auditors in question shall be performed at least once in six years, unless stipulated otherwise.
- (4) The Chamber shall issue an internal regulation covering the quality control system, which specifies, in particular, details concerning the organisational and human resources backing of quality control by auditors.
- (5) Persons in Charge of Quality Control, within the performance of such quality control, shall also review any selected auditors’ files and assess compliance with the applied international auditors standards and auditors standards issued by the Chamber, requirements of independence, quantity and quality of any resources expended, the amount of the auditors’ fee and the internal system of quality management in an audit firm.
- (6) The dates of quality control shall be determined by the Chamber and notified to the auditor at least 30 days prior to their holding. Commencing on the date of notification of quality control until the completion of the control, statutory auditors and audit firms shall not request any temporary prohibition of performance of audit activities pursuant to Section 6(1)(g) or Section 6(3)(c) or any permanent prohibition of performance of audit activities pursuant to Section 7(1)(e) or Section 7(2)(d). The manner of performance and any other conditions of the organisational backing of quality control shall be stipulated in the Supervision Rules.
- (7) Quality control of auditors performing audit activities in entities of public interest shall take place at least once in three years.
- (8) Statutory auditors and audit firms shall submit to the Person in Charge of Quality Control a list of audited entities and – upon request – they shall make available any files as requested by such person.
- (9) The Person in Charge of Quality Control shall produce a report on quality control mentioning any identified shortcomings and recommending the manner and deadlines for their removal, and he/she shall discuss the report with the auditor. The quality control report shall be delivered by the Person in Charge of Quality Control to the Chamber, which shall archive the quality control report for the term of seven years following the execution of the control.

- (10) If the auditor fails to correct any shortcoming as mentioned in the quality control report within the recommended deadlines, the Chamber shall commence disciplinary proceeding pursuant to Section 25.
- (11) The Chamber shall release an annual aggregate quality control report identifying certain material findings, in particular, repeated shortcomings of the systems of quality control of auditors, which ensue from the performed quality controls. The Chamber shall deliver the report to the Council and at the same time it shall publish it in a manner allowing for remote access.

PART III

DISCIPLINARY PUNISHMENT AND DISCIPLINARY PROCEEDINGS

Section 25

Disciplinary Punishment

- (1) The following disciplinary punishment may be imposed upon statutory auditors for intentional breaches of duties as stipulated in the present Act, any other legislation covering some measures against legalisation of proceeds from criminal activity and financing of terrorism, the Code of Ethics, internal regulations or auditors standards:
 - (a) admonition;
 - (b) public admonition;
 - (c) fines of up to CZK 1,000,000;
 - (d) temporary prohibition of performance of audit activities pursuant to Section 6 for a term not exceeding one year;
 - (e) permanent prohibition of performance of audit activities pursuant to Section 7.
- (2) Punishment pursuant to subsection 1(c) may be imposed in conjunction with disciplinary punishment pursuant to subsection 1(d) or (e).
- (3) In the event of imposition of disciplinary punishment pursuant to subsection 1 for conduct, which has been executed on behalf of an audit firm or in connection with its activity, it is also possible to impose punishment pursuant to subsection 1 upon such audit firm; the fine pursuant to subsection 1(c) may be imposed in the amount of up to CZK 5,000,000. In such cases, the audit firm acts in the capacity of a participant to the proceeding. If the audit firm can prove that it was not able, even if exerting the utmost efforts, to prevent the statutory auditor from acting pursuant to subsection 1, no punishment shall be imposed.
- (4) If disciplinary punishment is imposed for conduct executed in connection with the performance of statutory audits in respect of an entity of public interest, a fine in the amount of up to CZK 2,000,000 may be imposed on such statutory auditor.
- (5) Disciplinary proceeding may be commenced within the term of one year from the date when the relevant authority learned about the existence of any reasons for

commencing such proceeding, however, not later than three years of the date of such breach of the duty by the auditor.

- (6) In imposing disciplinary punishments, the gravity of the unlawful conduct, the manner of its commitment, its consequences and circumstances under which it was committed, shall be taken into consideration.
- (7) In the event of less serious breaches of the duty, it is possible to refrain from imposing disciplinary punishments if a review of the disciplinary misconduct can be considered as sufficient.
- (8) Revenue from any fines imposed shall represent an income of the Chamber.

Section 26

Disciplinary Proceedings

- (1) Imposition of disciplinary punishment pursuant to Section 25 shall be decided by the Disciplinary Committee of the Chamber upon a move by the Minister of Finance, the Supervisory Committee, a member of the Presidium, a state supervision authority or a Czech National Bank supervision authority, or without any proposal.
- (2) Decisions concerning disciplinary punishments pursuant to Section 25 shall be executed by the Chairman of the Disciplinary Committee of the Chamber. Details concerning procedures regarding the imposition of disciplinary punishments pursuant to Section 25 shall be governed by the Disciplinary Rules, which shall constitute an internal regulation of the Chamber.
- (3) Decisions concerning the imposition of disciplinary punishment shall also be delivered to the person, which moved it.

Section 27

Striking Out of Disciplinary Punishment

Auditors shall be deemed as have never been imposed disciplinary punishments after the expiration:

- (a) of the term of one year of the date of legal force of a decision of the imposition of disciplinary punishment, admonition or public admonition;
- (b) of the term of one year from the date of payment of the fine or from the date of legal force of the decision on temporary prohibition of performance of audit activities;
- (c) of the term of ten year of the date of legal force of the decision on permanent prohibition of performance of audit activities.

PART IV
ASSISTANT AUDITOR

Section 28
Assistant Auditor

- (1) “Assistant auditor” means a natural person registered in the List of Assistant Auditors.
- (2) The Chamber shall record upon request in the list a natural person who:
 - (a) has legal capacity;
 - (b) is of integrity;
 - (c) obtained education required for enrolment to a university/college or an equivalent education²⁰).
- (3) Integrity shall be evidenced pursuant to Section 4(3)(last sentence) by analogy.

Section 29
Special Working Experience of Assistant Auditor

- (1) Special working experience shall be deemed as participation in the performance of audits of annual accounts and consolidated annual accounts for the purposes of obtaining additional theoretical and practical knowledge and expertise required in order to perform audit activities.
- (2) Special working experience shall be exercised with auditors authorised to perform audit activities in any Member State and complying with the following conditions:
 - (a) they actively performs audit activities, including statutory audits, in a Member State;
 - (b) their practical experiences in performing audit activities extends in excess of three years; and
 - (c) they have not been imposed any disciplinary punishment, unless it has been expunged as of the date of commencing such practical training, and have not been subjected to temporary prohibition of performance of audit activities.

Section 30
List of Assistant Auditors

- (1) The Chamber shall keep the List of Assistant Auditors containing the following information:
 - (a) name and surname of the assistant auditor, birth registration number, if applicable, date of birth, permanent address, and/or address for service of documents;

²⁰ For example, Act No. 18/2004 Coll., on recognising professional qualifications, Act No. 111/1998 Coll., on universities and colleges.

- (b) name and surname, business name, if different from the name and surname, company number and address of business of the statutory auditor, or business name, business address and company number of the audit firm where the assistant auditor performs special working experience;
 - (c) date of record in the List of Assistant Auditors;
 - (d) company number.
- (2) The keeping of the List of Assistant Auditors shall be governed by analogy by the provision of Sections 11(2) to (6).
 - (3) The Chamber shall remove from the List of Assistant Auditors those assistant Auditors who:
 - (a) request it in writing, as of the date of the delivery of the request;
 - (b) have died or have been declared dead, as of the date when it learned about the fact;
 - (c) have become statutory auditors, as of the date of their registration in the List of Auditors;
 - (d) fail to meet any of the conditions as stipulated in Section 28(2), as of the date when it learned about the fact.
 - (4) Assistant auditors shall notify the Chamber without any undue delay of any changes in the recorded information pursuant to subsection 1 and about each change, which may affect assessment of compliance with the requirements pursuant to Section 28(2).
 - (5) The Chamber shall update without any delay the information in the List of Assistant Auditors.

PART V

THE CHAMBER AND ITS BODIES

Section 31

The Chamber

- (1) The Chamber is an autonomous organisation of all statutory auditors with registered office in Prague. The Chamber is a legal entity.
- (2) The Chamber shall:
 - (a) ensure conditions for the organisation, management and operation of the quality control system pursuant to Section 24;
 - (b) control observance of the provisions of the present Act by the statutory auditors, audit firms and assistant auditors;

- (c) issue internal regulations of the Chamber, the Code Of Ethics and auditors standards, with the exception of international auditors standards governed by the laws of the European Communities pursuant to Section 18;
 - (d) keep the List of Auditors pursuant to Section 11 and the List of Assistant Auditors pursuant to Section 30 of the present Act;
 - (e) create preconditions for continuous maintenance and increasing of the professional qualifications of statutory auditors;
 - (f) create preconditions for the preparation of assistant auditors for the passing of auditors examinations;
 - (g) decide on submitted applications for auditors examinations, partial auditors examinations, and ensure the execution of auditors and partial auditors examinations;
 - (h) inform the Council without any delay in such cases when it contacts or is contacted by a supervising authority of another Member State in the sense of cooperation pursuant to Section 41 and 49;
 - (i) notify upon request the Czech National Bank about the outcome of quality controls of auditors who perform statutory audits of accounting units subjected to supervision from the Czech National Bank;
 - (j) in justified cases, relieve the auditors of confidentiality duty pursuant to Section 15(2);
 - (k) execute other activities as specified in the present Act.
- (3) The Chamber shall provide the Council, upon request:
- (a) with copies of documents and all information as required for the assessment of specific cases related to public supervision pursuant to Part VI of the present Act or if the Council acts in the capacity of an appellate body;
 - (b) with quality control reports.
- (4) The Chamber shall cooperate with the Council in all issues relating to public supervision and cooperation between the Council and the supervisory authorities of the other Member States and third countries pursuant to Section 37, Part VII and Part IX, if so requested by the Council.
- (5) The Chamber shall issue internal regulations within the extent as required in order to execute measures issued by the authorities of the European Communities in order to execute Sections 14, 20 and 24.

Section 32 **Bodies of the Chamber**

- (1) The Chamber shall have the following bodies:

- (a) the Assembly,
 - (b) the Executive Committee and the President of the Chamber;
 - (c) the Supervisory Committee,
 - (d) the Disciplinary Committee.
- (2) The bodies of the Chamber, with the exception of the Assembly, may be filled with statutory auditors who have not been subjected to temporary prohibition of performance of audit activities at the time of the election. The term of office of members of the bodies of the Chamber shall not exceed the term of four years. Re-election is possible; however, a member of a body of the Chamber should not hold an identical office in one and the same body of the Chamber in excess of two subsequent terms of office. Details governing the manner of election and removal of members of the bodies of the Chamber shall be determined in an internal regulation of the Chamber. The offices held in the bodies of the Chamber shall be unpaid; members of the bodies of the Chamber shall be entitled, for the performance of their offices, to reimbursement of income lost in connection with the performance of their offices and to reimbursement of expenses incurred in connection with the performance of their offices.
- (3) Details of the organisation of the Chamber and its bodies and the manner of approval and publication of internal regulations of the Chamber shall be stipulated in the Statutes of the Chamber.

Section 33 **Assembly**

- (1) The Assembly shall constitute the supreme body of the Chamber. All statutory auditors entered in the List of Auditors shall be entitled to attend the Assembly. The Assembly shall be convened at least once in every two years by the Executive Committee of the Chamber, in intervals and in a manner as stipulated in the internal regulations of the Chamber. The Executive Committee of the Chamber shall convene the Assembly at any time, if requested to do so in writing within 60 subsequent days by at least one third of all statutory auditors or if so requested by the Supervisory Committee; the Executive Committee shall convene the Assembly in such cases so that it should be held within three months of the date of convocation at the latest.
- (2) The sessions of the Assembly shall be governed by the Rules of Procedure, which constitute an internal regulation of the Chamber. The Assembly may:
- (a) elect and remove, by way of direct and secret ballot, members of the bodies of the Chamber and their substitute members from among statutory auditors;
 - (b) approve the Statutes of the Chamber, the internal regulations of the Chamber or their amendments;
 - (c) approve the Code of Ethics and auditors standards, subject to their compliance with Section 18;

- (d) decide on the amount of the statutory membership dues paid and payable by statutory auditors and audit firms to the Chamber;
 - (e) decide on the amount of the fee paid and payable for applications to auditor examinations, partial auditors examinations and differential examinations;
 - (f) review and approve the activity reports released by the Executive Committee, the Supervisory Committee and the Disciplinary Committee, always for the previous two years;
 - (g) approve the annual accounts of the Chamber; in between the holding of two Assemblies held pursuant to subsection 1, the annual accounts shall be approved by the Executive Committee and advised to the Assembly;
 - (h) appoint the auditor to verify the annual accounts of the Chamber;
 - (i) perform any other activities as stipulated in the Statutes of the Chamber.
- (3) The Chamber shall submit to the Council any internal regulations of the Chamber, the Code of Ethics and auditors standards within 30 days of the date of their approval by the Assembly.

Section 34 **Executive Committee**

- (1) The Executive Committee represents the executive body of the Chamber. The Executive Committee shall be headed by the President of the Chamber, who acts in the capacity of the authorised representative body of the Chamber.
- (2) The Executive Committee shall have 14 members and 6 substitute members. If the number of the members of the Executive Committee should drop under the stipulated number, they shall be replenished from among the substitute members. The manner of election of the substitute members and the procedure applicable to the replenishment of the members of the Executive Committee shall be stipulated in the Statutes of the Chamber.
- (3) The Executive Committee shall perform the following activities:
 - (a) as stipulated in the present Act for the Chamber, which at the same time shall not be assigned to any other bodies of the Chamber;
 - (b) as determined in the Statutes of the Chamber; and
 - (c) have been delegated to it by a resolution of the Assembly.
- (4) If the legislation of the European Communities or any amended regulations pursuant to Section 2(k) should require any amendments of a regulation pursuant to Section 33(2)(c), the Executive Committee shall draft and approve such amendment of the regulation, which shall become effective as of the date of its publication in a manner pursuant to Section 18. Such amendments of the internal regulations shall be approved by the Assembly at its nearest next subsequent session.

- (5) The Executive Committee shall meet usually every other month; it shall be convened by the President of the Chamber.
- (6) The Executive Committee shall elect and remove, from among its members, the President and Vice-Presidents of the Chamber. If the President of the Chamber is temporary unable to perform his/her office, he or she may authorise any of the Vice-Presidents of the Chamber to perform the office.

Section 35

Supervisory Committee

- (1) The Supervisory Committee represents the controlling body of the Chamber. The number of the members and substitute members of the Supervisory Committee shall be stipulated in the Statutes of the Chamber. The Supervisory Committee shall organise and manage the system of quality controls of audits, check observance of the present Act, fulfilment of resolutions of the Assembly, compliance with any other legislation concerning measures against legalisation of proceeds from criminal activity and financing of terrorism and observance of the internal regulations of the Chamber by all statutory auditors, audit firms, assistant auditors, and the bodies of the Chamber.
- (2) The Supervisory Committee shall be governed in the discharge of its tasks by the Supervision Rules.
- (3) The Supervisory Committee shall inform the Chamber and the Council about the outcome of its activity at least once in six months.

Section 36

Disciplinary Committee

- (1) The Disciplinary Committee shall perform its authority pursuant to the present Act. The number of the members and substitute members of the Disciplinary Committee shall be stipulated in the Statutes of the Chamber.
- (2) The Disciplinary Committee shall be governed in the discharge of its tasks by the Disciplinary Rules.

PART VI

PUBLIC SUPERVISION

Section 37

Council and its Authority

- (1) The Council for public supervision over audits shall be established. The Council is a legal entity. The Council shall have its registered office in Prague.
- (2) The Council shall:
 - (a) perform public supervision over the performance of audit activities and the activities of the Chamber within the extent as stipulated in the present Act; and

- (b) decide about the rights, legally protected interests, and obligations of both legal entities and natural persons, if so stipulated in the present Act.
- (3) The Council, in performing public supervision, shall take into consideration the principles of protection of public interest.
- (4) The work of the Council shall be funded from income from fines imposed pursuant to Section 45(4), and in the event of any lack of such funds, from subsidies from the State budget.
- (5) Details about the activities and the internal organisation of the Council and its secretariat shall be stipulated in the Statutes of the Council.

Section 38
Activities of the Council

- (1) Performance of public supervision pursuant to Section 37(2) means supervision over:
 - (a) checks of observance of the provision of the present Act, auditors standards, the Code of Ethics, and internal regulations of the Chamber by auditors and the bodies of the Chamber;
 - (b) organisation, management and operation of the system of quality control of audit activities performed by the Chamber;
 - (c) organisation and operation of the system of continuous education of statutory auditors organised by the Chamber;
 - (d) application of disciplinary measures and penalties pursuant to the present Act by the Chamber in proceedings against auditors, and/or auditors from third countries.
- (2) The Council shall:
 - (a) cooperate with the Ministry of Finance in the drafting of legislation related to statutory audits of annual accounts and consolidated annual accounts;
 - (b) cooperate with the authorities in charge of public supervision over auditors from the other Member States and from third countries, under the terms and conditions as stipulated in the present Act;
 - (c) cooperate with the Czech National Bank in the area of supervision over auditors performing audit activities in respect of entities subjected to supervision by the Czech National Bank;
 - (d) act in the capacity of the body of appeals in cases as stipulated in the present act or in any other legislation²¹);
 - (e) approve:

²¹ Act No. 500/2004 Coll., the Rules of Administrative Procedure, as amended by Act No. 413/2005 Coll.

1. the Statutes of the Council;
 2. plan of activities of the Council;
 3. draft budget of the Council;
 4. the Rules of Procedure of the Council, and the Organisational, Filing, and Signature Rules of the Council;
 5. reports on public supervision over audits pursuant to subsection 3;
- (f) review, together with the Chamber, any proposed amendments of internal regulations or draft internal regulations of the Chamber prior to their approval by the Assembly or by the Executive Committee; members of the Council shall be entitled to attend – without the right to vote – the Assembly of the Chamber or sessions of its bodies;
- (g) propose to the Chamber moves for elimination or amendment of internal regulations of the Chamber or any parts thereof, if they contradict the present Act or any other legislation; if the Chamber fails to uphold such move within a term as determined by the Council, the Council may file an action for the elimination of such internal regulation of the Chamber or any parts thereof by a court of justice;
- (h) propose to the Chamber moves for execution of quality controls of auditors;
- (i) supervise the execution of quality controls pursuant to Section 24 via a member authorised to do so by the Council or any other duly authorised person, and propose remedial measures;
- (j) act as the appellate administrative body in proceedings concerning appeals against decisions of the Chamber;
- (k) execute any other activities pursuant to the present Act, which are essential for the due performance of public supervision over audits.
- (3) The Council shall issue, on or before 30 June, a report on public supervision over audits in the Czech Republic for the preceding calendar year.

Section 39

Bodies of the Council

- (1) The executive body of the Council is represented by its Presidium, which shall discharge tasks as assigned to the Council in the present Act. The Presidium may authorise the President of the Council to perform certain tasks pursuant to Sections 38(2)(a) to (d) and (f) and (g).
- (2) The Presidium shall consist of:
- (a) five members who are individuals outside the profession; and
 - (b) one member who is a statutory auditor.

- (3) The Presidium shall be appointed and removed by the Minister of Finance, upon consultation with the Czech National Bank.
- (4) The Presidium shall elect and remove from among its members, pursuant to subsection 2(a), the President of the Council, at the constituting session of the Council and further upon the appointment of more than one new member of the Presidium or upon the termination of the term of office of the President of the Council as a member of the Presidium.
- (5) The President of the Council shall act in the capacity of the authorised representative body of the Council. The President of the Council shall be substituted in his/her absence by an authorised member of the Presidium.
- (6) The term of office of the members of the Presidium shall extend to six years. Two new members of the Presidium shall be appointed every other year.
- (7) A member of the Presidium shall be a citizen of the Czech Republic who is a recognised expert and has been active in the areas of accounting, audit or any associated areas, or in the areas of jurisprudence and economy.
- (8) No person may be appointed as a member of the Presidium who has been imposed any disciplinary punishment pursuant to Section 25(1)(b) to (e) by the Chamber.
- (9) The execution of the office of a member of the Presidium shall terminate as follows:
 - (a) upon the expiration of their term of office;
 - (b) upon their removal from office;
 - (c) upon their resignation from the office;
 - (d) upon their death or declaration of death;
 - (e) in the event of members of the Presidium pursuant to subsection 2(b), due to temporary or permanent prohibition of performance of audit activities, with the exception of their own request pursuant to Section 6(1)(g) and Section 7(1)(e).
- (10) Members of the Presidium shall be removed from office:
 - (a) if they fail to execute their office or fail to fulfil their duties pursuant to the present Act for a term in excess of nine months;
 - (b) if they impair in a material way the dignity of their office, and/or breach independence and impartiality of the Council;
 - (c) in the event of legal force of a judgement removing or limiting such members' legal capacity;
 - (d) upon legal force of a judgement convicting such members of intentional criminal offence; or

- (e) if such members of the Presidium pursuant to subsection 2(b) have been imposed disciplinary punishment pursuant to Sections 25(1)(b) to (e).
- (11) Members of the Presidium shall be entitled, for the performance of their office, to remuneration in the amount determined from the base salary using the salary coefficient of 0.25 pursuant to the Act on salaries and other prerequisites related to the performance of the office of representatives in State administration and certain State authorities and judges.
- (12) The President of the Council shall be entitled, for the performance of his/her office, to remuneration in the amount determined from the base salary using the salary coefficient of 0.35 pursuant to the Act on salaries and other prerequisites related to the performance of office of representatives in State administration and certain State authorities and judges.
- (13) Members of the Presidium shall be entitled to the reimbursement of their expenses incurred in connection with the execution of their offices. Such reimbursement of expenses incurred in connection with the execution of their offices and expenses under the observance of the principle of economical spending shall be represented by pecuniary considerations paid out for duly evidenced:
- (a) expenses incurred for transport using one's own car or a hired transport vehicle from the place of permanent sojourn to the place of the registered office of the Council and other travels in the discharge of the tasks associated with the execution of their office;
 - (b) expenses incurred for transport using public transport, with the exception of air transport, during domestic travels in the discharge of the tasks associated with the execution of their office;
 - (c) expenses incurred for transport during international travels in the discharge of the tasks associated with the execution of their office;
 - (d) expenses incurred for board during domestic and international travels in the discharge of the tasks associated with the execution of their office;
 - (e) expenses incurred for accommodation during domestic and international travels in the discharge of the tasks associated with the execution of their office;
 - (f) expenses incurred for temporary lodging at the place of the registered office of the Council;
 - (g) expenses incurred for professional and administrative work;
 - (h) expenses for professional literature.

Section 40
Sessions of the Presidium

- (1) The Presidium shall be in session as required but at least once in three months. The sessions of the Presidium shall be convened by the President of the Council. If any of

the members of the Presidium should request in writing the convocation of an extraordinary session, the President of the Council shall convene such session not later than within 30 days of the delivery of such request.

- (2) The sessions of the Presidium shall not be open to public, unless stipulated otherwise in the Statutes of the Council.
- (3) The Presidium shall take decisions by a vote. Each member of the Presidium shall have one vote. A decisions shall be adopted if voted for by at least four members of the Presidium, with the exception of decisions pursuant to Section 37(2)(b); in such cases the decision shall be adopted if approved by a simple majority of all members of the Presidium present, and in the event of equal votes, the vote of the President of the Council shall decide. Minutes shall be kept about any such voting to be signed by all members of the Presidium present, and possibly also by the person in charge of taking such minutes.
- (4) The organisational structure as well as any other organisational details regarding the Council shall be stipulated in the Statutes of the Council.

PART VII

COOPERATION WITH SUPERVISORY AUTHORITIES IN THE OTHER MEMBER STATES

Section 41

Cooperation with the Relevant Bodies of the Member States

- (1) The Council shall cooperate with the relevant authorities of the Member States whenever it is necessary or desirable for the purposes of performing public supervision pursuant to the present Act. Such cooperation mainly involves exchange of information and cooperation in investigations into the performance of statutory audits.
- (2) The confidentiality duty shall apply to all persons employed, currently or previously, by the Council. Information covered by the confidentiality duty shall not be disclosed to any other person or body, unless stipulated otherwise in the present Act or any other piece of legislation. This provision shall be without prejudice to exchanges of information between the relevant authorities. The Council shall ensure that such exchanged information should also be covered by identical confidentiality duty. The Council may also request the relevant authority of another Member State to perform investigations on its territory. It may further request that its own employees or any other selected persons are invited to accompany the members of the relevant authority of any such other Member State during the investigations. The Council may invite employees or any other persons selected by the relevant authority of any such other Member State to accompany a member of the Presidium or any other person authorised to perform the review of quality control during such review of quality control.

- (3) The Council may refuse to perform any investigations or invite employees or any other persons selected by the relevant authority of any such other Member State to accompany its members, as described in subsection 2, if:
- (a) such investigations may have a negative impact on sovereignty, security or public order in the Czech Republic;
 - (b) proceedings have already been launched against the auditor in the same case; or
 - (c) the Chamber or the Council have already adopted a decision within disciplinary or any other proceedings against those persons in the given case.

Section 42

Exchange of Information between the Relevant Authorities

- (1) The Council shall provide the relevant authorities in the other Member States upon request and without any undue delay with information required for the purposes as stipulated in Section 41(1). If so required, the Council, which would be delivered such request, shall adopt without any undue delay any required measures in order to obtain any such requested information. Such information provided in this way shall be subjected to the confidentiality duty.
- (2) If the Council fails to provide any such requested information upon request and without any undue delay, it shall communicate to the requesting party the reasons.
- (3) The Council may refuse to provide information, if:
 - (a) the provision of such information may have a negative impact on sovereignty, security or public order in the Czech Republic;
 - (b) a court proceeding has already been commenced against the auditor in the same case; or
 - (c) the case has already been finally decided by a court of justice.
- (4) Without prejudice to any duties of the Chamber or of the Council regarding any administrative or judicial proceedings, such information obtained by way of the procedure as described in Section 41(1) from the relevant authorities in the other Member States may only be applied in the performance of their powers within the extent of authority pursuant to the present Act, and in connection with any administrative or judicial proceedings, which specifically concern the exercising of such powers.
- (5) If the Council or the Chamber arrive at the conclusion that activities have been performed on the territory of another Member State, which run counter to the provision of the Directive¹), it shall notify as accurately as possible the relevant authority or authorities of such other Member State about its conclusion. Moreover, the Chamber shall also notify the Council.
- (6) If the Council or the Chamber obtains any information pursuant to subsection 5, they shall inform each other about such facts accordingly. The Council shall decide about

the adoption of any suitable measures. The Council shall notify the relevant notifying authority of such other Member State about the relevant outcome, and/or any material interim developments.

PART VIII

SPECIAL PROVISIONS FOR STATUTORY AUDITS OF ENTITIES OF PUBLIC INTEREST

Section 43

Transparency Report

- (1) Auditors performing statutory audits of entities of public interest shall publish, in a manner allowing for remote access and within three months of the end of their financial year, the Annual Transparency Report, which shall contain the following information:
 - (a) information about the legal form and owners of the audit firm;
 - (b) description of a network, if the audit firm belongs to one, and the legal and structural position of the audit firm in such network;
 - (c) description of the management structure of the audit firm;
 - (d) description of the internal quality management system of the auditor, and/or a declaration of the authorised representative body of the audit firm about its efficiency;
 - (e) information of the time when the latest quality control pursuant to Section 24 was performed in respect of the auditor;
 - (f) a list of entities of public interest in respect of which the auditor commenced, performs or completed the performance of statutory audit in the financial year covered by the Transparency Report;
 - (g) statement on independence of the activities of the audit firm, which will also confirm the execution of an internal review of observance of such independence;
 - (h) statement on approaches followed by the audit firm in the area of continuous education of statutory auditors pursuant to Section 9;
 - (i) financial information showing the position of the audit firm on the market, such as the total turnover broken down to fees for statutory audits of annual accounts and consolidated annual accounts and fees charged for any other verification services, tax advisory services, and other non-auditing services;
 - (j) information relating to the manner of determination of remuneration paid and payable to persons holding the position of key audit partners.

- (2) If the audit of an entity of public interest has been performed by a statutory auditor, it shall be governed proportionately by requirements of the Transparency Report pursuant to subsection 1.
- (3) The Transparency Report shall be signed by an auditor.

Section 44
Audit Committee

- (1) Entities of public interest shall establish an audit committee, unless elsewhere stipulated otherwise. The audit committee shall be a body of the entity of public interest and it shall have three members, unless the statutes or any other similar constituent document of the entity of public interest stipulate any higher number. At least one of the members of that committee shall be independent of the audited entity and shall have at least three years of practical experiences in the areas of accounting or statutory audits.
- (2) The supreme body of the entity of public interest shall appoint the members of the audit committee out of the members of its supervisory board or from third parties. If the entity of public interest does not possess any such supreme body, the members of such committee shall be appointed by its supervisory board.
- (3) If the entity of public interest fails to meet its duty to establish the audit committee, the tasks of the audit committee shall be taken up by its supervisory board.
- (4) Without prejudice to the liabilities of the members of statutory or supervisory bodies or any other persons appointed by the supreme body of the entity of public interest, the audit committee shall, in particular:
 - (a) follow the procedure of compiling annual accounts and consolidated annual accounts;
 - (b) evaluate efficiency of internal control in the company, the internal audit, and/or systems of risk management;
 - (c) follow the process of statutory audits of annual accounts and consolidated annual accounts;
 - (d) assess independence of statutory auditors and audit firms and in particular provision of auxiliary services to the audited person;
 - (e) recommend auditors.
- (5) Auditors continuously submit the audit committee with significant facts resulting from statutory audits, in particular, about any material shortcomings as regards internal control in relation to the procedures of compiling annual accounts or consolidated annual accounts.
- (6) Insurance companies, assurance companies, pension funds, savings and credit cooperatives, banks, securities dealers, operators of the settlement system, investment

companies, investment funds, and electronic money institutions, need not establish their audit committees, if:

- (a) they do not constitute persons whose securities have been accepted for trading on the regulated market;
 - (b) the tasks of the audit committee has been taken up by the supervisory board; and
 - (c) according to their latest annual accounts or consolidated annual accounts, meet at least two of the following three criteria:
 - 1. their average number of employees in the previous financial year has been less than 250;
 - 2. the value of its total assets does not exceed the sum of EUR 43,000,000; or
 - 3. its net annual turnover does not exceed the sum of EUR 50,000,000.
- (7) If an entity of public interest has not established its audit committee, it shall publish, in a manner allowing for remote access, exactly which body shall take up the tasks of the audit committee, and who are its members.

Section 45

Further Requirements for Independence

- (1) Auditors, who perform statutory audits of entities of public interest, shall:
 - (a) once a year, by way of a written statement, confirm to the audit committee their independence of that entity;
 - (b) once a year, notify the audit committee in writing about any auxiliary services rendered to that entity; and
 - (c) discuss with the audit committee any potential threats to its independence and measures applied in respect of their mitigation, in keeping with Section 14(5).
- (2) If the entity of public interest has not established its audit committee pursuant to Section 44, the auditor shall implement its duties pursuant to subsection 1 in respect of the supervisory board of such entity.
- (3) The key audit partner in charge of the performance of statutory audit of an entity of public interest must be replaced in performing auditors jobs not later than within seven years of the commencement of the performance of such statutory audit and they shall not perform any audit activities regarding such entity of public interest before the expiration of two years.
- (4) Statutory auditors or key audit partners performing statutory audits in the name of an audit firm shall not accept any management positions in respect of the audited entity of public interest before the expiration of two years after the completion of statutory audits or after they terminated, were removed or resigned as statutory auditors or key audit partners from such audit job. If a statutory auditor or a key audit partner should

breach such restriction, the Council shall decide on the imposition of a fine upon such statutory auditor, up to the amount pursuant to Section 25(1)(c). The fine shall represent an income of the Council.

PART IX

AUDITORS FROM THIRD COUNTRIES AND COOPERATION WITH RELEVANT AUTHORITIES OF THIRD COUNTRIES

Section 46

Approval of Auditors from Third Countries

- (1) Based on the principle of reciprocity, auditors from third countries may perform audit activities so long as they can evidence compliance with the requirements equivalent to requirements pursuant to Section 4, and pass the differential examination if so required pursuant to Section 10.
- (2) Auditors from third countries pursuant to subsection 1 shall be deemed as auditors pursuant to the present Act. The Chamber shall issue the Auditor's Licences to auditors from third countries not later than within 30 days of the date of compliance with the terms and conditions pursuant to subsection 1.

Section 47

Registration of Auditors and Audit Firms from Third Countries

- (1) The Chamber shall register, upon request, all auditors and audit entities from third countries in the List of Auditors who would submit their auditor's report relating to annual accounts and consolidated annual accounts of a company with registered office outside the Community whose securities have been accepted for trading on regulated markets in the Czech Republic as of the balance sheet date, with the exception of cases when the company issues solely debentures or any similar securities representing the right to repayment of an owed amount accepted for trading on regulated markets in the Czech Republic, and the nominal value of such security equals at least EUR 50,000 or, in case of debentures with nominal value expressed in any other currency, their nominal value equals at least the equivalent of EUR 50,000 as of the date of issue. For the purposes of such translation, the exchange rate of the foreign exchange market of the Czech National Bank as of the balance sheet date shall apply.
- (2) Any registered auditors and audit entities from third countries shall be subjected to the provision of the present Act governing public supervision, quality control and disciplinary punishment. If such auditors and audit entities from third countries are subjected to a system of quality control in any other Member State or in any third country, which has been evaluated as equivalent in keeping with Section 24, and such review was performed in respect of such auditor or audit entity from third countries in the course of the previous three years, it is not necessary to perform a review of their quality control system.
- (3) If an auditor's report regarding any annual accounts or consolidated annual accounts pursuant to subsection 1 has been produced by an auditor or an audit entity from a third country who have not been registered with the Chamber pursuant to subsection 4,

such report shall not be deemed an auditor's report pursuant to the present Act. This provision shall not apply if such auditor has been approved by the Chamber pursuant to Section 46.

- (4) The Chamber shall register an audit entity from third countries upon its application only if:
 - (a) requirements have been met equivalent to the requirements pursuant to Sections 4(1) and (2);
 - (b) the majority of the members of the administrative or management body of such entity comply with requirements equivalent to the requirements pursuant to Sections 4(1) and (2);
 - (c) auditors from third countries performing statutory audits in the name of such entity meet requirements equivalent to the requirements pursuant to Sections 4(1) and (2);
 - (d) audits of annual accounts or consolidated annual accounts pursuant to subsection 1 have been performed in keeping with auditors standards pursuant to Section 18 and in keeping with the requirements pursuant to Sections 14 and 16 or in keeping with any equivalent standards and requirements;
 - (e) such entity shall publish, in a manner allowing for remote access, the Annual Transparency Report, which contains information pursuant to Section 43 or which meets any equivalent requirements for publication.
- (5) The Council shall decide about such equivalence as per subsection 4(d), unless the European Commission has decided in the same case earlier. The Council may also act in cooperation with the Chamber.

Section 48

Deviations in Cases of Equivalence

- (1) The procedure as per Sections 47(1) and (2) needs not be applied in such cases when the said auditors or audit entities from third countries are subjected to systems of public supervision, quality control and penalties in the third country, which comply with the requirements equivalent to the requirements to Sections 24, 25, and 36.
- (2) The Council shall decide about such equivalence as per subsection 1 unless the European Commission has decided in the same case earlier. The Council may also rely on an evaluation produced in other Member States. If the European Commission decides subsequently that the requirement of equivalence pursuant to subsection 1 has not been complied with, the relevant auditor or audit entity from third countries may continue in the performance of audit activities pursuant to the present Act for any reasonable transition period, if so allowed by the European Commission in its decision.
- (3) The Council shall notify the European Commission without any undue delay of:
 - (a) its evaluation of equivalence pursuant to subsection 2; and

- (b) pursuant to subsection 1, of the parts of its arrangements on cooperation with systems applied in third countries in the area of public supervision, quality control and investigations, and penalties.

Section 49

Cooperation with Relevant Authorities from Third Countries

- (1) The Council may provide auditors' files or any other documents possessed by auditors to the relevant authorities from third countries, provided:
- (a) the auditors' files, their parts or any other documents relate to any statutory audits of companies, which have issued securities in such third country or which belong to a group statutory required to publish their consolidated annual accounts in such third country;
 - (b) those documents shall be provided to such relevant authorities from such relevant third country upon their request and via the Council;
 - (c) the relevant authorities from such relevant third country shall comply with requirements, which have been declared as reasonable pursuant to subsection 3;
 - (d) there are certain working arrangements in place based on reciprocity, as agreed by and between the Council and the relevant authorities from the third country in question;
 - (e) the delivery of any personal data to such third country shall comply with the provisions of another piece of legislation²²).
- (2) The working arrangements pursuant to subsection 1(d) shall ensure that:
- (a) the relevant authorities were required to justify the purpose of their request pursuant to subsection 1(b);
 - (b) any persons employed or previously employed by the relevant authorities from such third country, which obtained such information, were required to abide by the confidentiality duty;
 - (c) the relevant authorities from third country were able to make use of the auditors' files and any other documents exclusively for the purposes of the execution of public supervision, quality control and investigations, which meet the requirements equivalent to the requirements pursuant to Sections 24, 25 and 36;
 - (d) requests submitted by the relevant authorities from third country for the provision of auditors' files or any other documents possessed by auditors could be rejected;
 - 1. if the provision of such auditors' files or any other documents could have a negative impact on sovereignty, security or public order in the Czech Republic or in the Community; or

²² Act No. 101/2000 Coll., on protection of personal data, and amending certain other legislation, as amended by further legislation.

2. if the local courts of justice have already commenced proceedings against such persons in the same case.
- (3) The Council shall adopt measures required in order to achieve compliance with the decision of the European Commission in the case of evaluation of reasonability pursuant to subsection 1(c).
- (4) The Council, in exceptional cases, may permit auditors in writing, contrary to the provision of subsection 1, the provision of the auditors' files or any other documents directly to the relevant authorities from third countries, namely, subject to the following conditions:
 - (a) the relevant authorities from third countries have already commenced investigations;
 - (b) such provision shall not run counter to the duties as stipulated in the present Act, which statutory auditors and audit firms shall comply with in relation to the delivery of any auditors' files and any other documents to the Council or to the Chamber;
 - (c) there are working arrangements in place with the relevant authorities from third countries, which allow the Council, based upon the reciprocity principle, direct access to any auditors' files and any other documents belonging to audit entities in that third country;
 - (d) the relevant authorities from third countries, which request information directly from auditors, shall notify the Council in advance of any such request, also giving reasons for applying such procedure;
 - (e) the conditions pursuant to subsection 2 have not been breached.
- (5) If the European Commission should specify any exceptional cases pursuant to subsection 4, the Council shall permit procedures pursuant to subsection 4 in respect of such exceptional cases.
- (6) The Council shall notify the European Commission about the working arrangements pursuant to subsections 1 and 4.

PART X

JOINT, TRANSITIONAL AND REPEALING PROVISIONS

Section 50

Joint Provisions

The matters pursuant to Sections 4 and 5, Section 6(6), Sections 7(4) and (6), Section 8(6), Sections 10, 25 and 26, Section 28(2), Section 38(2)(j) and Sections 46 and 47, shall be governed by the Rules of Administrative Procedure, unless the present Act stipulates otherwise. Provisions of Sections 10 and 11, 13, 25, 58 to 63 and Sections 94 to 178 of the Rules of Administrative Procedure, shall not apply.

Section 51
Transitional Provisions

- (1) Auditors and audit firms registered in the List of Audit Firms and in the List of Auditors maintained in keeping with the existing legislation shall be deemed as audit firms and statutory auditors pursuant to the present Act as of the date of effect of the present Act. The Chamber shall ensure their registration in keeping with the present Act.
- (2) Guest auditors pursuant to the existing legislation may perform their activities for a term as shown in their licences issued pursuant to the existing legislation.
- (3) Resident auditors pursuant to the existing legislation shall be deemed as statutory auditors pursuant to the present Act.
- (4) Auditors examination passed until the date of effect of the present Act pursuant to the existing legislation shall be deemed as auditors examinations pursuant to the present Act.
- (5) The passing of a partial examination pursuant to the existing legislation shall be recognised as passing of a partial examination pursuant to the present Act. The passing of all partial examinations pursuant to the existing legislation shall be deemed as passing auditors examination pursuant to the present Act.
- (6) Audits commenced and uncompleted until the date of effect of the present Act shall be completed pursuant to the existing legislation.
- (7) As regards contractual relations created prior to the date of effect of the present Act, whose subject matter covers the performance of audit activities in relation to the financial year commencing prior to the date of effect of the present Act, the assessment of independence of an auditor shall be executed pursuant to the existing legislation.
- (8) As regards contractual relations created prior to the date of effect of the present Act, whose subject matter covers statutory audits of annual accounts with the conclusive date not later than on 31 December 2010, the nomination of the auditor pursuant to Section 17(1) shall not be required.

Section 52

- (1) Assistant auditors registered in the List of Assistant Auditors maintained pursuant to the existing legislation shall be deemed as assistant auditors pursuant to the present Act as of the date of effect of the present Act. The Chamber shall ensure their registration in keeping with the present Act. The term of employment of assistant auditors registered in the List of Assistant Auditors prior to the date of effect of the present Act shall be counted in their term of employment pursuant to the present Act.
- (2) Working experience passed by auditors pursuant to the existing legislation shall be deemed as working experience passed pursuant to the present Act.

Section 53

The terms or deadlines as stipulated in the present Act shall also include terms and deadlines commencing prior to the date of effect of the present Act.

Section 54

- (1) The disciplinary punishment of striking out from the List of Auditors imposed pursuant to the existing legislation shall be deemed as disciplinary punishment of permanent prohibition of performance of audit activities pursuant to Section 7.
- (2) Disciplinary proceedings commenced prior to the date of effect of the present Act and pursuant to the existing legislation shall be completed pursuant to the existing legislation. Any ongoing appeals considered by the Chamber shall be completed by the Chamber. If the Disciplinary Committee issues a decision after the date of effect of the present Act, any appeals shall be addressed to the Council as the appellate body.

Section 55

- (1) The Executive Committee pursuant to Section 33 shall convene the first Assembly pursuant to the present Act on or before 31 December 2009.
- (2) The established pursuant to the existing legislation shall be deemed as the Chamber established pursuant to the present Act.
- (3) Any professional regulations, directives and the Statutes of the Chamber issued until the date of effect of the present Act shall remain in force. The Chamber shall harmonise them with the present Act within 12 months of the date of effect of the present Act.
- (4) If, as of the date of effect of the present Act, a certain area of audit activities is not covered by the international auditors standards pursuant to Section 18, the existing auditors standards issued by the Chamber shall be applied instead for the given areas, until the given area is covered by the international auditors standards pursuant to Section 18.
- (5) Members and substitute members of the Council of the Chamber elected pursuant to the existing legislation shall be deemed as members and substitute members of the Executive Committee pursuant to the present Act as of the date of effect of the present Act. Until the election of the Executive Committee pursuant to the present Act, the Executive Committee shall have such number of members and substitute members as stipulated in the existing legislation applicable to the Council of the Chamber (Section 32(2) of Act No. 254/2000 Coll., on auditors and amending Act No. 165/1998 Coll.). The same procedure shall be applied in the case of the Supervisory Committee and of the Disciplinary Committee of the Chamber.
- (6) The elections to the bodies of the Chamber pursuant to Section 32 shall be held for the first time on or before 31 December 2010; seven members of the Executive Committee with the highest number of the votes cast will be elected for the term of four years while the remaining seven members shall be elected for two years. If a member of the Executive Committee serving the four-year term of office should resign

for any reason whatsoever, such vacated place shall be offered to another member of the Executive Committee with the next highest number of votes cast. Such other vacated place shall be filled with a substitute member.

- (7) In appointing the first six members of the Presidium, two members shall be appointed for a six-year term of office, two members shall be appointed for a four-year term of office, and two members shall be appointed for a two-year term of office. In case of such appointment, the number of the members of the Presidium, who constitute persons outside the profession, may be reduced to four members.

Section 56

- (1) Any submitted applications for auditors examinations or partial auditors examinations or differential auditors examinations pursuant to the existing legislation shall be deemed as applications for auditors examinations or partial auditors examinations or differential examinations pursuant to the present Act.
- (2) Statutory auditors, audit firms and assistant auditors shall provide the Chamber within six months of the date of effect of the present Act with current information to be registered in the List of Auditors or in the List of Assistant Auditors.

Section 57

Entities of public interest shall comply with their duties pursuant to the present Act on or before 31 December 2009.

Section 58

Repealing Provisions

The following legislation shall be repealed:

1. Act No. 254/2000 Coll., on auditors, and amending Act No. 165/1998 Coll.
2. Act No. 209/2002 Coll., amending Act No. 254/2000 Coll., on auditors, and amending Act No. 165/1998 Coll.
3. Act No. 169/2004 Coll., amending Act No. 254/2000 Coll., on auditors, and amending Act No. 165/1998 Coll., as amended by Act No. 209/2002 Coll.
4. Ordinance No. 467/2000 Coll., issuing the Rules of Examinations for auditors examination and auditors differential examinations (Rules of Auditors Examinations).

TITLE TWO

Amendment to Act No. 284/2004 Coll., as amended by Act No. 344/2005 Coll.

Section 59

Title Three shall be repealed from Act No. 284/2004 Coll., amending Act No. 61/1996 Coll., on certain measures against legalisation of proceeds from criminal activity, and amending and

complementing certain associated legislation, as amended by further legislation, and some other legislation, as amended by Act No. 344/2005 Coll.

TITLE THREE

Amendment to Act No. 56/2006 Coll., amending Act No. 256/2004 Coll., on trading on capital market, as amended by further legislation, and further associated legislation

Section 60

Title Ten shall be repealed from Act No. 56/2006 Coll., amending Act No. 256/2004 Coll., on trading on capital market, as amended by further legislation, and further associated legislation.

TITLE FOUR

Amendment to Act No. 57/2006 Coll., amending certain acts in connection with the unification of supervision of the financial market

Section 61

Title twenty Seven shall be repealed from Act No. 57/2006 Coll., amending certain acts in connection with the unification of supervision of the financial market.

TITLE FIVE

Amendment to Act No. 70/2006 Coll., amending certain acts in connection with the adoption of the act of executing international sanctions

Section 62

Title seventeen shall be repealed from Act No. 70/2006 Coll., amending certain acts in connection with the adoption of the act of executing international sanctions.

TITLE SIX

EFFECT

Section 63

The present Act shall become effective upon the date of its promulgation.

Vlček s.

Klaus s.

Topolánek s.