University of Economics in Prague

Faculty of Finance and Accounting

Finance and Accounting

MASTER THESIS

Regulation and implementation of International Standards on Auditing in the European Union and in the Czech Republic

Author: Bc. Bashynska Vladyslava

Supervisor: doc. Ing. Vladimír Králíček, CSc.

Academic Year: 2017- 2018

Declaration of Authorship

The author hereby declares that she compiled this thesis independently, using only the listed resources and literature, and the thesis has not been used to obtain a di erent or the same degree.

The author grants to University of Economics in Prague permission to reproduce and to distribute copies of this thesis document in whole or in part.

Prague, date

Signature

ABSTRACT

The purpose of the submitted thesis "Regulation and implementation of International Standards on Auditing in the European Union and in the Czech Republic" is to describe adoption and sequent implementation of International Standards on Auditing (ISAs) in the European Union and in the Czech Republic. The first part of this paper is devoted to the process of historical development of the accounting and audit regulations in the European Union and in the Czech Republic. In the final part, for the purpose of this thesis, evidences of the implementation of ISAs in Czech auditing were collected through semi-structured interviews with Czech auditors. Based on the interviews' evaluation, the paper outlines the main areas of concern and the future perspectives in auditing in the Czech Republic.

JEL CLASSIFICATION

M41, M42, M48

KEYWORDS

Accounting, Audit, International Accounting Standards, International Financial Reporting Standards, accounting harmonization, European Union accounting directives, Information asymmetry

Content

Introduction

Given the current trend of globalization and geometrically growing amount of multinational companies all over the world and explicitly in the EU, integration of accounting and audit takes a vital part in the EU economy.

Since its establishment the EU aspired to create a single capital market which would contribute into free flow of financial services, attract investors and ensure consistent growth for all Member States. In order to reach this goal financial markets of Member States were harmonized, what brought them one step closer to the concept of unified internal market. For single market were required common accounting standards, therefore in 2002 international accounting standards were adopted for publicly traded companies.

Current capital markets are exposed to a range of risks and one of them is information asymmetry. As a solution of the issue mentioned, a concept of audit was introduced. Auditors as a third independent party could reduce information asymmetry and protect investors from failure or fraud and as a result increase investors' trust in capital markets.

However, a position of auditor requires a high credibility and trustworthiness of all stakeholders, therefore there was a call for a set of rules which can guide auditors how exactly audit should be performed in order to be effective and satisfactory for users of audit reports. A global set of standards on auditing - ISAs perfectly corresponds to this need. Hence, ISAs adoption in the EU was a logical step which took place in 2005.

The purpose of my thesis is to outline the historical development of accounting and audit legislations in the EU and in the Czech Republic; a practical part of this thesis - to evaluate how currently the audit regulation is implemented and to conclude a current role of ISAs as a tool of harmonization. For this purpose, semi-structured interviews are chosen as a methodology. The semi-structure interviews will be conducted with Czech auditors, who represent experts in a field of audit.

The thesis consists of introduction, six chapters, conclusion and one appendix (a list of interview questions). The first chapter of it describes the regulatory framework of accounting in the EU and in the Czech Republic till nowadays. This chapter outlines major legislations, proposals, comments and criticism of all expert bodies and public which are related to the field of accounting either on legislative level or on users' level in the EU. The second chapter is devoted to the same topic, however defines the legislation of accounting on the territory of the Czech Republic. Third and fourth chapters describe the audit regulatory frameworks both in the EU and in the Czech Republic. Fifth chapter briefly outlines the process of creation of ISAs and bodies in charge of it.

Under the practical framework of this thesis, the sixth chapter provides general information on the method of conduction of interviews, a short auditors' sample description and the results of the semi-structured interviews collected. To each question was made a short comment on the idea behind this question, the most intriguing insights from respondents and pie charts representing statistical spread of Czech auditors' answers grouped by meaning.

The last chapter outlines evaluation of the received results from the interviews and conclusions on current state of auditing in the Czech Republic drawn out of it.

1. The framework of the EU regulation of accounting

1.1 Adoption of IFRS in the European Union

One of the significant goals of the European Union (EU) is to establish an economic union within its Member States in order to enhance social, territorial and financial cohesion. Internal competitive market as a fundamental principle of economic prosperity is not possible to fulfill without transparency. In order to improve comparability of financial statements of publicly traded companies was introduced the regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. In order to encourage an internal EU market to a higher quality functioning, publicly traded companies must be required to apply international accounting standards for the preparation of their consolidated financial statements, which will be globally and commonly accepted. This implies an increasing convergence of accounting standards currently used internationally with the ultimate objective of achieving a single set of global accounting standards.[1] This idea was already pushed ahead in 2000 in "EU Financial Reporting Strategy: the way forward'.

International Accounting Standards (later on renamed as International Financial Reporting Standards) meet all requirements as an efficient tool for true, trustful and fair view of the financial performance of companies, which leads to better comprehension of the financial statements by users i.e. less information asymmetry, higher level of the protection of investors.

According to the adopted regulation Article 3 of regulation (EC) No 1606/2002 of the European Parliament and of the Council, for each financial year starting on or after 1 January 2005 IAS's in accordance with one single set of accounting standards must be applied to all publicly traded companies on a regulated market.

Regarding non-publicly traded companies there is an option in respect to annual accounts and/or consolidated accounts. It is contingent on Member States either to permit or to require mentioned companies to prepare their annual accounts in compliance with the international accounting standards. Later on, IAS requirement was extended to all companies.

[1] Regulation (EC) No 1606/2002

Same time, in 2001 the European Financial Reporting Advisory Group (EFRAG) association was established as a group of bodies representing accounting professionals who support a positive contribution of IFRS to the internal capital market of the EU. The EFRAG Board has 16 members in total: eight members each from European stakeholder bodies and national standard setters.

The EFRAG Technical Expert Group was created as a qualified instrument of Europe's "IAS Endorsement Mechanism" in order to value tolerance of the local European law for IFRS, to help out in a case of any technical concern regarding IFRS usage within EU and to confirm that European views are taken into account in the IASB standard-setting process.

One of the greatest advantages of the EFRAG is its high transparency with its clear due process, public meetings and annual review on its activities and expenses.[2]

In 2003 have been approved few accounting directives such as 4th and 7th Company Law Directives by EU Council. This step made them equal to law. These directives brought range of changes and updates replacing old ones - less consistent and accurate. As the main modifications in annual reporting it can emphasize a restriction on the off- balance liabilities reporting, risk and uncertainty disclosures obligation, a requirement of more steady audit reports all across the EU.

Commission Regulation (EC) No 2238/2004 [3] in 2004 amending Regulation (EC) No 1725/2003 adopting certain IFRS, the ones which were revised by the IASB in their project of Improvement to IFRS, in accordance with regulation mentioned above, IASs such as IFRS 1, IASs from 1 to 10, 12 to 17, 19 to 24, 27 to 38, 40 and 41 and SIC [4] from 1 to 7, 11 to 14, 18 to 27, and 30 to 33.

Since the official legislative steps have been taken, a strong need in clear vision how to implement IFRS combining both its theoretical framework and practical technical aspects of it arose. As a solution IFRS Roundtable was set. IFRS Roundtable is a regular informal meeting of financial accountants, supervisors, CFOs, national standard setters, regulators, auditors and financial scientists who are representing active users of IFRS. The goal of the meetings is to support sharing of practical solutions and

[2]Deloitte. "IAS Plus." *European Financial Reporting Advisory Group (EFRAG)*, 14 Dec. 2012, www.iasplus.com/en/resources/regional/efrag.

[3] Commission Regulation (EC) No 2238/2004

[4] SIC Interpretations were previously issued by the Standard Interpretations Committee (SIC), and were subsequently endorsed by the International Accounting Standards Board (IASB)

technical knowledge in the application of IFRS. The idea is to provide a forum in which each participant is able to take part freely in order to share ideas and related experiences and to support each other in making changes to IFRS and in the practical implementation of it. The round table is free to participate regardless being individual companies or organizations. The roundtable is an ideal opportunity for networking and cooperation regarding IFRS and its technical issues. The Roundtable identifies significant issues of common concern and generally recommends referring them to the International Financial Reporting Interpretations Committee (IFRIC) or directly to the IASB Board. The Roundtable itself would not make any interpretations of IFRS usage, it is only guiding tool of effective compliance with regulations.

On 20 June 2007, the US Securities and Exchange Commission (SEC) accepted to issue a proposing announce which cancels the requirement to reconcile financial statements to US GAAP if the financial statements are in full compliance with the English language version IFRS by the IASB. This proposed approach would give foreign private issuers a choice of using IFRS without reconciliation, US GAAP, or their local GAAP reconciled to US GAAP in preparing financial statements for SEC registration or annual reports.

In favor of such a decision was the World Federation of Exchanges (WFE), which represents 64 regulated exchanges across the world, and acts on behalf of a total of 99 organizations including affiliate members and clearinghouses.[5]

The main goal of it is to ensure equal rights for all shareholders and protection of investors. The WFE stressed out a crucial importance of reliable financial reporting to public capital markets, stating that all exchanges are interested in having comprehensible and more comparable financial information produced by the issuers of securities and expressed the WFE's strong support of the development and implementation of IFRSs as a qualified tool of financial information improvement (On behalf of the WFE, Secretary General was a member of IFAC 's Advisory Group on International Audit and Assurance Standards Board (IAASB))[6]. Investors search for the investment opportunities globally that is why different accounting reporting standards can complicate comparisons. Furthermore, global set of accounting standards improves the effectiveness of allocation of capital and capital pricing.

[5]World Federation of Exchanges, *WFE Members*, https://www.world-exchanges.org/home/

[6]World Federation of Exchanges*, Letter in response to a consultation paper of the IOSCO Technical Committee by World Federation of Exchanges*, 7 June 2007

1.2 The EU implementation of IFRS: First results

In 2007 The Institute of Chartered Accountants in England and Wales (ICAEW) has published a report "EU Implementation of IFRS and The Fair Value Directive" on the first year of implementation of IFRS across the EU. The ICAEW has used numerous tools such as questionnaires sent to interested parties, on-line surveys, roundtables, academic research papers and detailed technical analysis in order to put all relevant information together.

On-line surveys among preparers, users and auditors of financial reports stated that:

•IFRS has made financial statements easier to compare across countries, across competitors within the same industry sector and across industry sectors,

• 63% of investors thought that IFRS had improved the quality of consolidated financial statements against 24% who thought that IFRS had made it worse. The preparers were 60% and 14% respectively and for auditors 80% and 8%,

• 49% of investors thought that the switch to IFRS accounting had made financial statements more difficult to understand, although 32% disagreed.

• 69% of preparers used IFRS accounting for internal reporting and 25% stated that IFRS financial statements had impacted the way the business was run.

To sum up findings in on-line surveys above, it is clear that overall opinion was in favor of IFRS as a successful development of the EU reporting, even though investors were less enthusiastic about IFRS implementation than preparers and auditors. Investors had more doubts regarding its positive contribution in accuracy and greater quality of financial statements, and expressed that they were highly influenced in their decision-making. As surveys showed, investors found some specific accounting policies difficult to understand – particularly financial instruments, what might be the reason of quite unresponsive feedback on IFRS.

To major findings from the roundtables belongs a point of view that it is too early to judge positive effect of IFRS implementation due to economic conditions under which it took place, meaning that these terms could cause a delay of accounting and regulatory mistakes identification. Furthermore, there were expressed some concerns about inconsistencies and unclearness of application of the standards, some of them were criticized, for instance IAS 39.The roundtables supported the view that, despite increasing levels of understanding, company boards required advices and assistance on technical aspects on accounting. "Many participants pointed to the requirements of national legislation and national regulators and the enduring strength of national accounting traditions as factors contributing to the ‘local accents’ found in IFRS reporting in the EU" - revealed the report.

With respect to costs occurring while preparing the first IFRS consolidated financial statements of publicly traded companies, was indicated that that the smallest companies carried the proportionately greatest costs (0,3 % of turnover). Possible reason of it can be the fact that bigger companies turned to be more prepared for accounting policy changes to reduce future costs. The costs of auditing IFRS implementation were significant for all size companies.

During the sample analysis of IFRS compliance of publicly traded companies, non– publicly traded companies and legal entities it was not disclosed any conflict with IFRS in the EU among any policies adopted by mentioned companies.

As IAS 1 Presentation of Financial Statements requires, companies should disclose their accounting policies. It was concluded that there is a need to pay more attention to the disclosure of judgments made in accounting policies' application, the use of estimates and influence of new updated IFRS standards. Some of securities regulators have identified the disclosure of accounting policies as a problematic area.

Additionally, the common view is that further disclosures on business combinations and impairment testing of goodwill are needed to comply with IFRS 3 Business combinations. Furthermore, an expectation regarding disclosures on residual costs which were recognized as a goodwill failed. Sample companies did not provide mentioned disclosures required by IFRS 3.

The key findings related to financial instruments stated that there was lack in clarity in investment financial asset classification, on the other hand derivatives reporting was comprehensible, was a clear difference between hedging derivatives and economic hedging derivatives. Also, with accordance to IAS 39, financial risk disclosures were clear and full, focusing on credit risk, interest rate and foreign exchange. Impairment of the financial investments was not visible in most of the financial statement. This evidence may be explained by nature of impairment for non-bank companies, as just a risk management tool.[7]

Following table shows IASB's documents that have been endorsed by 2007:

Tab. 1: The EU endorsement by 2007

Name Of Standard	Date Of Endorsement
Amendments to IAS 21: The Effect of Changes in Foreign Exchange Rates	8 May 2006
IFRS 7 Financial Instruments: Disclosures	11 Jan 2006
Amendments to IFRS 1 and IFRS 6	11 Jan 2006
Amendments to IAS 39 and IFRS 4: Financial Guarantee Contracts	11 Jan 2006
Amendment to IAS 1: Capital Disclosures	11 Jan 2006
Amendment to IAS 39 "Cash Flow Hedge Accounting"	21 Dec 2005
Amendment to IAS 39 "The Fair Value Option"	15 Nov 2005
Amendments to IAS 19 'Employee Benefits': Actuarial Gains and Losses, Group Plans and Disclosures	8 Nov 2005
IFRS 6 :Mineral Resources	8 Nov 2005
IFRS 2 Share-based Payments	4 Feb 2005
Amendments to IASs 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, IASs 31, 33, and 40.	29 Dec 2004
IAS 32 Financial Instruments: Disclosure and Presentation	29 Dec 2004
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	29 Dec 2004
IFRS 4 Insurance Contracts	29 Dec 2004
Amendments to IAS 36	29 Dec 2004
IFRS 3 Business Combinations	29 Dec 2004

[7] Institute of Chartered Accountants in England and Wales, report *"EU Implementation of IFRS and The Fair Value Directive "*, 2007 ISBN 978-1-84152-520-4

IAS 39 Financial Instruments: Recognition and Measurement	19 Nov 2004
Amendments to IASs 38	29 Dec 2004
IFRS 1 First-time Adoption of International Financial Reporting Standards	6 Apr 2004

Source: IASB ,the EU endorsement process—Position at16 October 2007

In 2008, nine of Europe's accountancy institutes, in response to globalization of business activity and difficult situation on the single financial market and regulatory harmonization of accounting and auditing, have formed the Common Content Project to bring their professional qualifications together. The main goal of the project is further development of learning outcomes, skills and knowledge for professional accountants, which are crucial to in order to provide related services. A significant part of the relevant learning outcomes is based on IFRS and ISAs. Membership is open for all qualified associations, what share vision and values of this project, regardless its geographical or political considerations.

Common Content qualifications focus on the five service areas of professional accountant such as assurance and related services, performance measurement and reporting, strategic and business management, financial management and taxation and legal services. An important way how to improve quality of education is a cross-border exchange of views of those who are involved in the education in the EU and worldwide.

By that time, IFRS were used for public reporting purposes in more than 100 countries all over the world. Some countries such as Brazil, Korea, India, Canada were expected to apply IFRS over the next few years. Other group of countries, such as China and Japan, which did not adopt it, nevertheless have agreed to cooperate with IASB to eliminate major differences between home-country generally accepted accounting principles (GAAP) and IFRS by 2011. What significantly contributes to the global market harmonization.

About 40 percent of the Fortune Global 500 companies were using IFRS, and that percentage was increasing in a great pace, since most companies outside the United States were required to move from home-country GAAP to IFRS.

According to Deloitte's "IFRS Survey Where Are We Today?" by 2011 almost all countries are expected to use IFRS to certain extent. Results of this survey aimed to figure out how US companies feel about IFRS reporting adoption, suggested that U.S. companies have a certain interest in adopting IFRSs and an interest has a growing tendency. This movement in favor of IFRSs is being driven largely by the capital markets, since more companies outside the US use IFRS in their financial reporting, many U.S. companies will feel a stronger need to present their financial reports in a comparable way. To the industries which are the most interested in IFRS adoption belong industrial, financial, customer and health care industries. This fact is determined by a high competition in these areas with non-US companies.

An interesting statement of one of the "Big four" company states that the most challenging part of IFRS global adoption is probably hidden in cultural differences: "Bringing together accounting standards may be easier than coordinating the variety of cultural differences and perspectives involved in interpreting and applying IFRS. With the use of IFRS, companies, auditors, regulators, and users will need to adapt to an accounting and financial reporting framework that requires greater professional judgment and less reliance on detailed rules and bright lines".[8] This statement brings forward a view, that there is a need of unions of professionals and qualification association such as EFRAG, ACCA, FEE Common Content Project and other, which work in public interest and actively contribute in a smooth IFRS implementation.

Shifting to IFRS is more complicated than just a change of technical accounting aspect, it has a significant influence on all companies' sides including: financial reporting, control procedures, statutory reports, legal matters, taxation and obviously all stakeholders**.** All companies which are opt for IFRS adopting, have to develop complex internal (within whole company) and external (in relation to investors and regulatory bodies) communication strategy in order to be aware and be ready to deal with all consequences of adoption.

On contrary of challenges, there is a range of potential benefits of IFRS adoption such as cost reduction, risk of penalty reduction, better cash management (i.e. dividend payout) due to consistency of standards used in subsidiaries.

While a big number of the US companies felt lack of knowledge to support IFRS financial statement reporting, on contrast, in the EU more standards were endorsed for use, for instance IAS 1, IAS 23.

---

[8] Deloitte *"IFRS Survey Where Are We Today?"*, 2008, https://www.iasplus.com/en/binary/dttpubs/2008ifrssurvey.pdf

1.3 The EU implementation of IFRS since the financial crisis

Federation of European Accountants (FEE, nowadays Accountancy Europe) in 2009 has published a policy statement on financial reporting confirming its positive position regarding a single set of global accounting standards. However, the FEE stressed out a need for IASB to concentrate on the areas which are substantial for investors and as well on reducing of current complexity of the standards. What is possible through tight cooperation with all standard setting bodies worldwide. Nevertheless it must be ensured that quality will not diminish.

The FEE states that the number of active projects should be decreased significantly, and attention should be shifted to those projects that really create a basis for the development of future standards and which matter to investors. Furthermore, under financial crisis circumstances, the FEE expressed its concern related to existing convergence model of IASB, which is not suitable anymore due to diminishing returns. That is why the FEE insisted on a new approach. Common development and simultaneous implementation of new global principles-based standard set is the best way to deliver an equal ground for all stakeholders, without preferring inputs from one jurisdiction over another. The FEE is persuaded that only under these terms, IASB can exist as an international body.

In FEE's opinion, to obtain a level playing field, all countries should be called upon to adopt full IFRS, G20 (group of the most developed economies in the world) should stimulate countries for full adoption of IFRS. That is why in setting of standards it is crucial to incorporate all standard setting recourses globally. To work on behalf of European stakeholders' main role is assigned to the EFRAG. The EFRAG represents main European standard setters in order to contribute to the particular aspects and concerns of their interests. Also, G20 has to push FASB and EFRAG to cooperate and work on new global solutions in areas which are truly matter to investors.[9]

Since the financial crisis started, IASB started to work on the program to eliminate effects of it, mainly focusing on areas defined by the FSF (Financial Stability Forum) namely: an application of Fair Value concept on illiquid markets, accounting for

[9] Federation of European Accountants, policy Statement *"Standing for trust and integrity"*, 2009, https://www.accountancyeurope.eu/wp-content/uploads/News_Release_COP_15_091202212200919912.pdf

off–balance items and risk disclosures. On all concerns mentioned above IASB has reacted acutely.

The statement prepared by of Sir David Tweedie, Chairman of the IASB on fair value in illiquid markets declared that IASB produced a report in October 2008 which the European Commission approved. It was stated that IFRS and US guidance are consistent in mentioned area, despite the concern that this guidance creates "unlevel playing field" (inequitable state), what was refuted in the published statement of IASB claiming that guidance is totally compatible with FASB's guidance. As an extra precaution ensuring that global consistency is maintained, in 2009 the IASB published an exposure draft on fair value measurement that directly incorporates the relevant FASB guidance.

Regarding, off-balance sheet items, IASB was required to clarify and tighten IFRS further. On risk disclosures, in 2009 the IASB published improvements to the disclosure requirements for fair value measurements and liquidity risk disclosures associated with financial instruments.

Among further questions raised by European Commission was a call on clarification on CDO's (credit derivative obligations) including embedded derivatives which caused the financial crisis. Secondly, the existing impairment approach regarding instruments available for sale, and the last but not least, the possibility of reclassification out of fair value option into other categories.

Regarding CDO's, IASB was tightly cooperating with US standards setter in order to ensure consistency in the accounting of embedded derivatives. The result of a clarification on financials of 2009. Problem of fair value was planned to solve in updated version of IAS 39 Financial Instruments: Recognition and Measurement, where were included major inputs of European stakeholders as was originally planned by IASB to work on comprehensive revision of IAS 39.

To sum up, it was stated that part of the issues mentioned must be sold to the end of the year, and draft version of the new standards will be available for public comment to ensure that all stakeholders had a say. Was stressed out that G20's call for complexity reduction of impairment would meet expectation in new approach. The IASB ensured that a comprehensive solution avoids unnecessary costs occurring by changes in reporting requirements, knowing that these costs are not appropriate under current financial circumstances.

With regard to debt securities available for sale, David Tweedie - Chairman of the IASB emphasized impossibility of simply overtaking of the US approach, mainly because of different assumption behind impairment, for instance different rules regarding impairment reversals of losses, those that IASB allows and which are controversially forbidden under FASB. He stated that in a relation to some concerns EU financial institutions would not be in favor of adopting the US approach on impairment.

In 2010 the CESR (Committee of European Securities Regulators) has published its first report on monitoring enforcement of IFRS in Europe. The report is based on the activities of the European Enforcement Coordination Sessions. This report indicated a rise in regulators' enforcement activities and increased consistency of actions by enforcers, which is caused by deterioration of financial market situation.

The EU enforcers identified a great improvement in the quality of reporting under IFRS, since its adoption in Europe. It may relate to the fact that range of enforcers engaged in ex-ante activities aimed to provide helpful guidance to issuers in advance of their preparation of their financial reports. To these activities belong: announcing in advance main area of examination, pre-clearance (mainly it is a detailed description of underlying aspects of the issue or analysis of available options) and open seminars with financial statements preparers and auditors.

On the other hand, were identified certain areas in which listed companies are invoked to focus further, in order to provide better information to investors. The areas include: fair value of financial instruments, assumptions in testing on impairment of assets, estimations supporting the reporting of the deferred tax. Given credit market situation, estimation of uncertainty brought for many companies important adjustments of the asset and liability carrying values. Unfortunately, necessary disclosures on the management's judgments in fair value determining, impairment of financial assets for sale, sensitivity analysis (required by IAS 1, IFRS 7) were not comprehensive and transparent enough.

In their review, enforcers from the European Economic Area (EEA) concentrated mainly on impairment of assets, going concern, classification of liabilities and disclosures on financial investments. A sample chosen for the review was based on risk approach also additionally combined with random sampling. Risk approach matrix incorporates effect of two variables: probability of material mistake in financial statement and possible impact of this mistake on the market confidence and investor protection. All significant misstatements identified as unacceptable, either corrected in new financial statement and revised in complementing auditor's opinion or described in a public note by issuer or the enforcer, informing the market about error and further corrective action on it. Third option is with accordance of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, correction will be performed in the next financial statement of the issuer. In case the infringement was not material, market would not be informed, nevertheless issuer gets a notification to take it into consideration for the next financial statement.

In terms of 900 enforcement action which were taken:

- 19 actions required revised financial statement,
- around 160 actions required public corrective note,
- around 560 actions required correction on a future financial statement,
- 170 actions resulted only in notification of the issuer, no correction was required.[10]

Furthermore, to the areas of concern enforcers refer valuation issue, due to dramatic change in economic conditions. So, there was a call for new assumptions (discount rate, growth rate, risk premium, cost of equity) which are used in calculation of fair value and value in use of non/-financial asset (IAS 36). Secondly, regarding an identification of cash-generating units and goodwill allocation and impairment testing of goodwill, still many companies were duplicating text from a standard instead of providing market with exact information how they identify cash-generating units and eventually allocate goodwill. There was a lack of specific information how company acts in decision making about keeping or disposing particular asset, also was no information provided regarding critical level of goodwill.

The enforcers tried to keep under review the material practices of business combinations (IFRS 3), even though this standard was not mandatory, but only voluntary to apply in this period. It was expressed that particular revised standard scope does not cover clearly cases of transaction between companies under common control,

[10] Committee of European Securities Regulators, *Annual Activity Report on IFRS Endorsement*, 2009, https://www.esma.europa.eu/sites/default/files/library/2015/11/10_917.pdf

accounting policies and treatments and changes of it under business combination terms. Furthermore, many companies did not provide exact information in disclosure on the factors contributing to goodwill. Under IFRS 3, each transaction's information should clearly state the nature and financial effect of the business combination, same as comprehensive comment on the premium paid.

Also, there were detected some cases of inappropriate recognition of goodwill, which was recognized together with other measurable intangible assets, what does not comply with IAS 38. Also, negative goodwill recognition was not reasonable in the certain cases.

The ESMA (European Securities and Markets Authority) has created a confidential database of enforcement decisions of European enforcers (2012), which is a source of information on correct application of IFRS. Database is designed to contribute to correct and consistent application of IFRS through publications of the enforcement decisions and rationale behind it.

An extract from mentioned database is regularly published by the ESMA. The latest 21. extract covers period from July 2015 to February 2017. The ESMA will continue publishing further extracts, the next extract is expected to be published in the first half of 2018.[11] EECS's Database extract consists of several cases considered appropriate for publication. A consideration is determined by the ESMA's criteria such as complexity of accounting issue, different applications of IFRS, common issue for many issuers, issuers which may be of interest to third parties or enforcers, decisions which are not covered by an accounting standard. The extracted decisions content: year of financial statement, category of issue, description of issuer's accounting treatment, the enforcement decision on issuer's accounting treatments and rationale of the enforcement decision with the related IFRS paragraphs mentioned as a framework of the decision. In average each report of the ESMA consists of 10 to 15 decisions.

The United Kingdom Financial Reporting Council (FRC) has published a discussion paper on supporting disclosure framework in financial reporting. The FRC is monitoring IASB's major better-communication-of-information projects and

[11]European Securities and Markets Authority, EECS's Database , https://www.esma.europa.eu/press-news/esma-news/esma-publishes-21st-extract-eecs%E2%80%99s-database-enforcement

responding to its consultations. The mentioned paper states following advantages such as:

- greater consistency of setting of disclosure requirements in standards,
- a decrease in the burden of disclosures thank to setting proportionate disclosure requirements,
- a removal of duplicate information in financial reports,
- an improved organization of disclosures (information fulfilling set objectives will be described in the same section of a financial report),
- empowering of preparers to apply materiality more strongly to disclosures,
- elimination of boilerplate disclosures, which do not provide any specific information.

Furthermore, the paper states that in order to contribute to further development of the disclosure framework IASB should set the principles as a part of its conceptual framework project (originally, since 2002 was a common project of IASB and FASB, since 2012 reopened as IASB only project). For this purpose, the FRC recommended the IASB to explain boundaries of financial reporting, create certain criteria for a placement for information disclosed, set clear goal for disclosures and its presentation.

Additionally, the FRC states that earlier involvement of financial statements issuers into framework development can help them in orientation which information should be provided.

To problematic areas according to the paper belong:

- materiality, in a disclosure perspective,
- lack of precise definition of terms such as "significant", "critical", "key" and etc.,
- usage of the new terms consistently within IFRS,
- lack of overall principles on disclosures in a separated standard.

The FRC in its paper expressed an acute need for IAS 1 update to separate presentational and disclosures parts, as well stressed out that individual standards without mandatory requirement of disclosures should be moved into implementation guidance which is not part of the standard.[12]

In July 2013, the FRC published a feedback statement on its report's responses, starting series of calls to improvement, some of them were considered by the IASB in its Disclosure Initiative project.

A feedback on this paper (2013) which came mainly from accounting bodies and accounting and auditing firms (50% of responses) was positive. The main comments in the feedback were made about ineffective disclosure - duplication, lack of cohesion and immaterial information.

Secondly, the idea of drafting of disclosures was highly supported but rather in a form of communication action than compliance exercise. Many respondents stated that there is a need to agree on the purpose of annual financial reports. Most of them agreed that financial reports are made for investors. This fact changes a substance of disclosures, there is an obvious tension because disclosures in financial reports are often aimed at a wider stakeholder group than only investors.

To the key findings also belongs the answers to the question who is the primary user of financial reports. The view splits into several options: some of respondents claimed that it is made for shareholders, however some responders extended their answer to the capital providers group, which according to IASB include investors, lenders and creditors. It is clear that wider group of users such as regulators or public were not meant to be primary users of financial reports.

Moreover, a number of respondents expressed that a willing to satisfy all possible users of financial reports leads to needless complexities and basically is not realistic.[13]

1.4 The EU implementation of IFRS: Further steps

At the end of 2012, The EU published Commission's Regulations endorsing the "package of five" standards on consolidation (IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011)), IFRS 13, IFRIC 20, and amendments to IFRS 1, IAS 12 and IFRS 7/IAS 32. The "package of five" standards came with a European effective date of 1 January 2014.

[12] United Kingdom Financial Reporting Council , discussion paper *"Thinking about disclosures in a broader context"*, 2012, https://www.frc.org.uk/consultation-list/2012/discussion-paper-thinking-about-disclosures-in-a

[13] Feedback Statement on *"Thinking about disclosures in a broader context"*, 2013

An overview of the pronouncements adopted:

Tab 2: The EU endorsement by 2012

Pronouncement	EU effective date
IFRS10 *Consolidated Financial Statements*	1 January 2014 (early application permitted)
IFRS 11 *Joint Arrangements*	1 January 2014 (early application permitted)
IFRS12 *Disclosure of Interests in Other Entities*	1 January 2014 (early application permitted)
IAS27 *Separate Financial Statements* (2011)	1 January 2014 (early application permitted)
IAS28 *Investments in Associates and Joint Ventures (2011)*	1 January 2014 (early application permitted)
IFRS 13 *Fair Value Measurement*	1 January 2013 (early application permitted)
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013 (early application permitted)
IFRS 1 *First-time Adoption - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	at the latest from the commencement date of the first financial year starting on or after the date of entry into force of the Regulation
IAS 12 *Income Taxes - Deferred Tax: Recovery of Underlying Assets*	at the latest from the commencement date of the first financial year starting on or after the date of entry into force of the Regulation

In 2013 the new Transparency Directive has eliminated an existing gap in the requirements on disclosure of major holdings of all financial instruments that could be used to acquire shares in listed companies. A second major change was a cancellation of the requirement to publish quarterly financial information; in order to reduce administrative burden and encourage long term investment.

Finally, country-by-country reporting disclosure requirements have been incorporated in the new Transparency Directive.

The draft report on correctives to the European accounting legislation proposed by the EC required certain large companies to provide additional information on social and environmental matters.

Same time an agreement by three parties (the European Parliament, the Council and the Commission) on the EU co-financing of the IFRS Foundation, the EFRAG, and the Public Interest Oversight Board (PIOB) was finally reached. The proposed regulation agreed on form the legal basis for the continuation of financing IFRS Foundation for the period 2014-2020 and of the EFRAG for the period from 2014 to 2016 (in 2016 was prolonged to 2020).[14] In financial terms, the regulation suggests to contribute annually approximately the following amounts: 4.3 million Euros to the IFRS Foundation (17% of its budget) and 3.4 million Euros to the EFRAG (43% of its budget).

In 2014, the EC has organized a public consultation on the impact of IFRS in the EU, which was seeking for the views from all interested parties about their experience. The IFRS Foundation published a staff paper that provides a perspective from the staff on some of the main issues stressed out in the consultation. It was intended to contribute into discussion on the results of adoption of IFRS - how IFRS have already improved the efficiency of EU capital markets.

In its consultation the EC asked whether IFRS regulation has improved in establishing a set of global high-quality standards. The IFRS Foundation stated that when IFRS regulation was just adopted in 2002, only few bodies used it. It is clear that since that time amount of users of IFRS has grown significantly.

In July 2014, the IFRS Foundation has published the findings of a research on a full picture of IFRS use in the world. The mentioned research was verified by jurisdictional authorities in all 130 countries which participated in it. It showed that 105 countries (81%) now made mandatory to use of IFRS for all/most of public companies. The result of the research also confirmed that almost all of the remaining countries have already permitted IFRS in certain circumstances. Many companies in Asia use IFRS reporting because of their dual/multiple listing on US stock exchange, as far as since 2007 it is allowed to report under IFRS for non-US companies. Furthermore, often investors in these countries are more used to IFRS financial statements.

The staff paper expressed a range of benefits of IFRS such as: increased market efficiency, better basis for investment decision-making, improved quality of financial

[14] European Commission, Regulation (EU) No 258/2014 establishing a Union Programme to support specific activities in the field of financial reporting and auditing for the period of 2014-20, https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/1-2016-202-EN-F1-1.PDF

information, higher attraction to foreign investment, better capital market integration, and the consistent method of application supported at a national and international levels .The paper stated that the Maystadt's report "Should IFRS be more "European"? (2013) found out that IFRS helped to improve the quality, comparability and reliability of financial information in the EU.[15]

Furthermore, the ESMA publishes annual reports on enforcement activities in Europe that show further improvements in the quality of IFRS financial statements gradually. In addition, the Maystadt report has supported standard-by-standard adoption process, commented on adjustments made to IFRS and expressed the consequences of possible non-endorsement.

In September 2014, the ACCA has organized a conference to discuss the published consultation on the evaluation of IFRS regulation and the potential ways of development. In speakers' opinion, IFRS meet the investors' expectation, nevertheless there is space for improvement.

Once again it was stressed out an inappropriate complexity of some standards, for instance, on accounting of hedging. Some speakers noted relatively limited comparability, but explained that by enforcement issue. The speakers underlined the advantage of the 'common vocabulary' which helps to avoid ambiguity.

Regarding the costs of IFRS adoption, it was pointed out that none system is costless and it matters how costs are balanced with effectiveness. For instance, most speakers believe that IFRS system is highly helpful in a question of competitiveness in Europe.

It was also stated that it is difficult to compare local GAAP of countries with IFRS. A local system would has evolved and changed within a time too, so it is not certain that the costs for maintaining would have differentiate significantly, same as implementation costs. A use of IFRS by small listed firms may have positive effect attraction of investors. On the other hand, it was mentioned that there is a need to draw boundaries, based on the simplicity of the business model.

Joining the major point of view on IFRS, the FEE has responded to EC's questionnaire and stated that IFRS adoption had favorable competitive effect, increased a possibility of foreign investments and restored a confidence in European financial market.

[15] Maystadt Philippe, report *"Should IFRS be more "European"?"*, 2013, http://ec.europa.eu/internal_market/accounting/docs/governance/reform/131112_report_en.pdf

Furthermore, the FEE noted that the scope of IFRS should be expanded even further. The FEE stressed out an improved transparency of financial statements due to increased requirement on disclosures, which also boosts investor protection. At the same time the FEE asserted that any implementation guidance must be received from IASB only, not from EU or at national level.

The Institute of Chartered Accountants in England and Wales (ICAEW) supplemented its response to EC consultation with a report presenting 170 academic empirical research papers that have explored the impact of IFRS adoption both in the EU and other countries.

To report's finding belongs the evidence of benefits of IFRS adoption regarding financial reporting transparency and comparability, costs of capital, market liquidity, corporate investment efficiency and cross-border capital flows. However, there are evidences on some of these matters are controversial-different researchers give different answers, and it is not clear to which extent the benefits identified are attributable to IFRS adoption. The report also noted that the benefits which were found are uneven, varying with the institutions and motives that apply for different companies in different countries. The report identifies a range of challenges to IFRS as well. Among the challenges are an importance of surrounding institutions and preparers' incentives (applies to any reporting framework), a role of options in standards and the impact of principles-based standards. The challenges specifically to IFRS were identified as following: a role of fair value accounting and a priority given to the valuation role of accounting. Some evidences were not strong enough to put much weight on it, nevertheless they are worth mentioning:

- possible unexpected costs related to IFRS adoption (evoked by changes in capital structure and capital issues that would not otherwise have been made),
- other possible benefits of IFRS adoption (increased trade within the EU, reduced risk of stock market price crashes).[16]

In 2015 the EC has launched an action plan to set a single capital market in the EU, which is aimed to stimulate growth and eliminate the barriers that are limiting cross-border investments in the EU. One of the questions was if there is a point in developing

[16] Institute of Chartered Accountants in England and Wales *"The Effects of Mandatory IFRS Adoption in the EU: A Review of Empirical Research"*, 2014, https://www.icaew.com/-/media/corporate/files/technical/financial-reporting/information-for-better-markets/ifbm/effects-of-mandatory-ifrs-adoption-april-2015-final.ashx?la=en

the common EU - level accounting for small and medium entities (SME's). This idea was opened to discussion, some respondents considered the current situation as a favorable therefore there is no need for change. On contrast, another respondents stated that SME's need to become more transparent and comparable in their financial statements, hence making SME's more attractive for investors worldwide.

However, it was suggested to implement IFRS-based solution rather than IFRS adoption for SME's to reach this goal, what avoids a needless administrative work and extra costs.

History of the of IFRS for SME's development:

Illustration 1: IFRS for SME's

Date	Development	Comments
2001	Project carried over from old IASC	History of the project
24 June 2004	Discussion Paper *Preliminary Views on Accounting Standards for Small and Medium-sized Entities* published	Comment deadline 24 September 2004
15 February 2007	Exposure Draft *Proposed IFRS for Small and Medium-sized Entities* published (Various translations were also subsequently published)	Comment deadline ~~1 October 2007~~ 30 November 2007
9 July 2009	*IFRS for Small and Medium-sized Entities* issued	Effective immediately on issue (subject to jurisdictional adoption)
26 June 2012	Request for Information *Comprehensive Review of the IFRS for SMEs* published	Comment deadline 30 November 2012
3 October 2013	ED/2013/9 *Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* published	Comment deadline 3 March 2014
21 May 2015	*2015 Amendments to the IFRS for SMEs* issued	Effective for annual periods beginning on or after 1 January 2017; earlier application permitted

Source: Deloitte, network IAS Plus, https://www.iasplus.com/en/standards/other/ifrs-for-smes

As it is showed above, the latest official pronouncement of IFRS on SME's was in May 2015, which incorporates 2015 Amendments to IFRS for SME's (IASB's definition of SME's, based on nature rather than size of entity), private entities, and non-publicly accountable entities.[17] This standard is complied with full IFRS with special modifications considering needs of users of SME's financial statements.

The IFRS Foundation stated that IFRS for SME's is a stand-alone document, what means that no change of full IFRS should be applied before it is transferred to IFRS for SME's, exceptionally for cases which are not coved by IFRS for SME's and only if it is not in a conflict with it.

To main differences between a full IFRS reporting and reporting under IFRS for SME's, for instance, belongs possible different set of financial statement. IFRS for SME's states: "If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity".

In 2015 there was a next wave of adoption of the amendments such as: IFRS 1, IFRS 27, IFRS 16, IFRS 41, IFRS 11, IFRS 16 and IFRS 38 with the additional guidance.

There was a dispute on IFRS 9 Financial Instruments, relating to insurance industry and specifics of the industry, therefore adoption was postponed till 2016.

The European Banking Authority (EBA) published its first report on the results of impact of IFRS 9 'Financial Instruments'. In its assessment, the EBA looked at a sample of approximately 50 institutions across the EU, looking at qualitative and quantitative aspects. The assessment of the impact provided the following results:

Qualitative side:

- The smaller banks perform worse in their preparation compared to larger banks.
- Banks are generally looking to leverage off existing definitions, processes, systems, models and data used for regulatory and credit risk management purposes in order to implement IFRS 9 impairment requirements, although new models and/or adjustments to existing models will be necessary.
- The overall impact of the change in classification and measurement requirements does not seem very significant for most banks.
- The interpretation and application of some key elements of IFRS 9 impairment requirements are challenging and have to be finalized in many cases.

[17] Public accountability - the obligations of agencies and public enterprises who have been trusted with the public resources, to be answerable to the fiscal and the social responsibilities that have been assigned to them.

- 75% of the banks included in the survey anticipate that IFRS 9 impairment requirements will increase volatility in profit or loss.

Quantitative side:

- The total estimated impact of IFRS 9 is mainly driven by the impairment requirements and only to a lesser degree by the classification and measurement requirements of IFRS 9.
- The reclassification of financial instruments between categories may also have an impact on own funds.
- The estimated increase of provisions compared to the current levels of provisions under IAS 39 is 18% on average and up to 30% for 86% of respondents.[18]

To sum up, all surveyed banks were at the early stage of preparation of IFRS 9 implementation. The EBA continued to monitor the implementation by the EU institutions of IFRS 9 in a second impact assessment and supported their effort towards an appropriate implementation of IFRS 9. Similarly, the ESMA published a statement on issues to be taken into consideration while implementing IFRS 9, which expresses the need for consistent and quality implementation of IFRS 9 and as well the need for transparency on its impact to users of financial statements.

According to the EC's report to the Parliament and Council on activities of IFRS Foundation, EFRAG and PIOB in 2015, the key achievement of IASB was the finalization of the new IFRS 16 Lease. IFRS 16 is a major revision of the way in which companies account for leases and requires all leases to be reported on a lessee’s balance sheet as assets and liabilities. IFRS 16 aims to reflect better the actual consequences of economic transactions and provide greater transparency about companies’ lease assets and liabilities, off balance sheet lease financing is no longer unrecognized.

Secondly, some terms in a framework were reintroduced such as prudence and reliability, as well substance over form concept was revised, entity’s business model and long-term investments.

The ESMA's report "Enforcement and Regulatory Activities of Accounting Enforcers in 2016" overviewed the activities of the ESMA and the European enforcers: inspected compliance of financial information with IFRS, overviewed the main activities carried out in the EEA, described the information on enforcement activities in 2016 and

[18] European Banking Authority , first report on impact of IFRS 9, 2016, https://www.eba.europa.eu/-/eba-provides-its-views-on-the-implementation-of-ifrs-9-and-its-impact-on-banks-across-the-eu

ESMA's contribution to the development of the single rulebook in the area of financial reporting.

After the implementation of the ESMA Guidelines on Enforcement of Financial Information (the Guidelines on Enforcement) in 2015, the ESMA and European enforcers continued to encourage supervisory convergence and harmonization of financial information reporting in the EU. The Guidelines on Enforcement strongly contributed to the reconciliation of existing supervisory approaches, set the main areas of interest for enforcers and provided with major concepts of examinations.

The European enforcers have examined financial statements of more than 1 200 issuers, representing an average examination rate of 21% of all issuers with securities listed on regulated market. It resulted into 311 actions addressed to material deviations from IFRS. The action rate increased from 25% in 2015 to 27% in 2016. Like in 2015, the main deficiencies arose in the areas of financial statements presentation, impairment of non-financial assets and accounting for financial instruments.

The ESMA and European enforcers evaluated a sample of 206 issuers' financial statements of 2015 for the level of compliance with IFRS, this evaluation resulted into 45 enforcement actions related to the two enforcement priorities: the impact of the financial market conditions on the financial statements (for instance, interest rate influence on asset impairment, provisions, defined benefit plans) and cash flow statements and related disclosures.

In a sample of issuers inspected per sector of activity. It consisted of issuers from diverse sectors with a range of market capitalization - most of all issuers were examined from financial area, industrial sector and energy sector.[19]

The 2016 priorities focus on:

- the presentation of financial performance,
- the difference between equity instruments and financial liabilities,
- disclosures of the impact of the new IASB 's standards, which are not yet required to apply (IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases).

[19] European Securities and Markets Authority, report *"Enforcement and Regulatory Activities of Accounting Enforcers in 2016"*, 2017, https://www.esma.europa.eu/sites/default/files/library/esma32-51-382_report_on_enforcement_activities_2016.pdf

Regarding implementation of IFRS 9 and IFRS 15 the ESMA stressed out that issuers must be ready for the upcoming implementation, especially to be able to provide a full range of relevant disclosures which are required. To encourage issuers' effort towards new standards ESMA published illustrative timeline and practices of disclosures.

Furthermore, the ESMA and European enforcers convinced issuers to provide disclosures on exposure to risks resulting from the BREXIT, its expected impacts and management plans on risks reduction.

In 2016 the ESMA published two more extracts from the EECS database. They consisted of 25 enforcement decisions, what increased total amount of extracts to 223. However, not all enforcement decisions are still relevant.

In its report the ESMA also provided information by clusters of countries. The clusters have been determined based on the number of issuers listed on regulated markets which prepare financial statements in accordance with IFRS.

Tab 3: Number of IFRS issuer

Number of IFRS issuers	Countries
1-99 issuers	Cyprus, Czech Republic, Estonia, Hungry, Iceland, Latvia, Lithuania, Malta, Portugal, Romania, Slovakia, Slovenia
100-249 issuers	Austria, Belgium, Croatia, Denmark, Finland, Greece, Ireland, Luxembourg, Netherlands, Norway, Spain
250-450 issuers	Bulgaria, Italy, Poland, Sweden
>450 issuers	France, Germany, United Kingdom

Source: ESMA, report on Enforcement and Regulatory Activities of Accounting Enforcers in 2016

Examination rate was diminishing, from 23% for 1-99 issuers cluster to 14% for the biggest one consisting of more than 450 issuers. Sample action rate distributed in a following order: 2nd cluster─34%, the 4th cluster─31%, 1st cluster─25%, 3rd cluster ─15%. In 70% of correction cases enforcers decided that correction in a future financial statement will be sufficient.

In 2017, the EC launched a public consultation on the activity of the European Supervisory Authorities, one of which is the ESMA. The consultation's statement has suggested that the review of the ESAs' operation might be also used to rationalize the endorsement process in the EU by giving ESMA an "advisory role".

The feedback statement which was published later on showed that stakeholders did not share its opinion. The majority of respondents was presented by organizations and companies, followed by public authorities and small percentage of private individuals.

The feedback was a quite straightforward - the stakeholders did not believe that the current arrangements need to be changed. The vast majority of respondents stated that there is no reason to change the current endorsement process or the role of the EFRAG. The EFRAG is currently operating successfully, following the implementation of the Maystadt report's recommendations. The stakeholders claimed that strengthening the role of the ESMA could be less productive because the ESMA would consider the standards only from the perspective of investors. A clear separation between standard setting and enforcement should be maintained to avoid conflict of interest.

To newly effective standards for 2017 belong (IASB effective date on 1 January 2017):

- Disclosures Initiative (Amendments to IAS 7),
- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12),
- Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IFRS 12).

In the "Pocket Guide to IFRS Standards—the global financial reporting language" by IFRS Foundation was stated that by 2017:

- 93% of jurisdictions which is 140 out of 150 jurisdictions have required IFRS as a single set of accounting standards,
- 84% of jurisdictions which is 126 out of 150 jurisdictions have already require the use of IFRS by all or most domestic public companies, with most of the remaining jurisdictions permitting their use,
- IFRS for SME's is required or permitted in 57% which is 85 out of 150 jurisdictions and 11 more are considering this decision.[20]

Hans Hoogervorst, Chairman of IASB, expresses his positive statement on this year continued progress in the improvement of IFRS Standards and global adoption of them. He claims: "It is fair to say that considering IFRS Standards to be the global framework for financial reporting is more than a vision. It is a reality today. Moreover, the quality

[20] IFRS Foundation, *"Pocket Guide to IFRS Standards—the global financial reporting language"*, 2017 , https://www.ifrs.org/-/media/feature/around-the-world/documents/pocket-guide-2017.pdf

of those standards has been validated by a decade of use by markets in both advanced and developing economies, and by national and regional studies including those conducted recently in the European Union, Canada, Korea and Australia".

2. Czech accounting legislation

A regulation of the accounting profession in the Czech Republic is implemented trough several forms: acts, decrees and standards. The Czech GAAP is represented mainly by three main legislative concepts, an arrangement of legislation is due to legal strength:

- The act 563/1991 Coll. of accounting,
- The decree 500/2002 Coll. for entrepreneurs,
- Czech Accounting Standards for Entrepreneurs.

Certainly, accounting legislation in Czech Republic is wider, there are multiple acts and decrees in Czech Republic besides mentioned ones, which are aiming at tax aspects, particular types of entities or specified concerns.

In 1993 in the Czech Republic was adopted Act No. 563/91 Coll. of accounting. As a complementary part to the act of accounting was issued sample chart of accounts for different types of organizations. The chart of accounts presented both synthetic and analytic accounts and it was in a binding form for entities. A part of the accounting act was accounting methodology which was mandatory to follow as well.

Act No. 563/91 Coll. of accounting consisted of 7 parts, 38 paragraphs in total, defining accounting framework terms, attributes of accounting operation, financial statements, describing recognition of assets and liabilities and main accounting methodologies in general.

In 2002, a new Accounting Act 353/2001 Coll. was adopted, followed by Decree of the Ministry of Finance No. 500 - 507/2002 Coll., for entrepreneurs, which consists of 6 parts, 70 paragraphs in total. It states that decree incorporates the relevant accounting EU legislation, while continuing with the directly applicable EU legislation. Such a step forward to harmonization of accounting legislation with EU was related to the Czech Republic's membership in EU since 2004.

The amendments of the accounting act represented a significant step towards the incorporation of IFRS principles into accounting system of the Czech Republic; specifically, the changes concerning business entities issuing securities on the European regulated market. These entities are required to maintain accounting in accordance with IFRS framework. The mandatory components of the financial statements are:

the balance sheet, the profit and loss statement, the notes, the statement of changes in equity and the indicative accounting chart of accounts.

An accounting framework of the Czech Republic and IFRS framework are not identical in many aspects. So, only for the cases where these frameworks are inconsistent, the entity must comply with IFRS. On the contrary, if there are cases which are not covered by IFRS, the entity must comply with Czech regulations - the Czech GAAP (Czech Accounting Standards).

Since January 2016 there is a differentiation in categories of accounting entities: micro, small, medium and large. Separation into categories depends on exceeding of two out of three limits in asset value, turnover or an amount of employees hired. Different categories of accounting entities have different extent of regulatory liabilities. The main goal of separation is to set clearly reporting and information requirements within a category.

Medium and large accounting entities are required to provide users of its annual reports with trial balance, profit and loss statement, cash flow statement, statement of changes in equity and notes. Furthermore, medium and large accounting entities and in particular cases some small accounting entities are required to have audits annually. An adoption of this amendment certainly enhanced information available for users of financial statements.

Decrees of the Ministry, as another level of regulation of accounting in the Czech Republic, are implementing regulations which are issued on the basis of the Act of Accounting for range of groups of entities such as banks, on-profit organizations, health insurance companies, insurance companies and entrepreneurs.

The primary goal of the decrees is to specify the general accounting law. Each of the decrees regulates for the particular entity group: the content and structure of the accounts, accounting methods and the chart of accounts.

Regarding the Czech Accounting Standards (Czech Accounting Standards), the main purpose of which is to reach compliance of the accounting methods and approaches and ensure stable level of comparability. The CAS consists of 23 parts, devoting to the major accounting issues and following accounting methods of it.

Given that, all content of the CAS fully corresponds with accounting legislation of the Czech Republic, then if an entity in its accounting follows the CAS, it means an entity fulfills all requirements of the Act 563/1991 Coll. of accounting.

Based on the fact, that amendments on accounting in the Czech Republic are relatively often, it creates some level of uncertainty and worse orientation in accounting legislation and as a result slower reaction of the entities on the updates in the regulation. In order to enhance view on accounting within a company, entities create an internal accounting regulations. Internal corporate regulations determine major accounting rules and set corporate governance code.

The Czech accounting legislation does not determine internal accounting regulations, however there is a requirement of full compliance of them with valid legislation of the Czech Republic. So, accounting of entities should ensure trustful, fair, complete and transparent view on entities' accounting. These terms are applied in companies by internal directives in which the statutory accounting regulations are regulated precisely to the extent of the company.

To the main goal of the internal directives belongs an improvement of the internal environment and greater transparency for regulatory bodies such as tax department and audit. The internal directives must be updating each year incorporating annual changes of the Czech accounting and tax legislation.

Since 1999 in the Czech Republic exists Chamber of Certificated Accountants (CCA), a professional organization uniting qualified professionals of accounting from the Czech Republic, acting in interest of society, contributing into development and enhancement of accounting profession within a country.

The CCA issues the Ethic Code for accountants and other norms which guide the activities of professional accountants and supervises their implementation. Furthermore, the CCA provides a system of continuous professional education (consists of 40 hours of qualification courses per year) and provides its members with extensive professional, educational and ethical services.

To become a member of the CCA each person/legal entity has to graduate from certificated system of professional accountants in the Czech Republic or from comparable system of any other member organization of IFAC. The certification system in the Czech Republic is organized by the Institute of Certification of Accountants.

The CCA claims that membership in its organization is a logical step after graduating after the certification of a professional accountant, because it helps to maintain graduates' professional level and knowledge and provides with the necessary background in a field of accounting. Membership fee is 2000 CZK/year. [21] (Exchange rate for 09.04.2018 is 25,32 CZK/EUR)

As was mentioned above, the Institute of Certification of Accountants (the ICA) is in charge of certificated education of professional accountants. It operates since 2002, in a very short time this organization got a strong position on the market thanks to high quality education process, assured and qualified relevant information in a field of accounting. Same as the CCA, the main goal of the Institute of Certification of Accountants is to contribute to development of accounting profession in the Czech Republic. Moreover, the ICA organizes qualification courses in a field of corporate finance, business law, taxation and etc. for both experienced professionals and for recent graduates.

On its official pages, the ICA stresses out that its long-term goal is to be able to provide a high class educational services which will correspond with the level of professional knowledge in developed countries, that local participants of its program will be fully equivalent and qualified enough not to be anyhow discriminated in their practices.

The ICA tightly cooperates in its activity with the Chamber of Certificated Accountants, ACCA and the Chamber of Auditors in the Czech Republic and as well with the Ministry of Finance of the Czech Republic. Its professional cooperation is going beyond the Czech Republic, The ICA has a strong working relationship with Ordre des Experts Comptables in France, the Slovakian Chamber of Accountants. A massive source of inspiration in its activity was IFAC: great amount of qualification courses devoted to IFRS, which fulfill all professional requirements of major supervising bodies such as IFAC, UNICTAD.

To the positively contributing accounting organizations in the Czech Republic belongs also the National Accounting Board. The national Accounting Board is an independent qualified institution aimed to support professional competence and ethics in terms of continuous development of accounting methods and techniques.

---

[21] Komora Ucetnich, http://www.komora-ucetnich.cz/cze/informace-komory

This organization was founded by 4 members:

- the Chamber of Tax Advisors of the Czech Republic,
- the Chamber of Auditors of the Czech Republic,
- the Association of Accountants,
- the University of Economics represented by the Faculty of Finance and Accounting.

The main goal of the NAB is to cooperate with the Ministry of Finance and other legislation setter institutions in development of accounting legislative framework and related directives and standards. In this goal the NAB works with national and foreign institutions to provide comprehensive verification and clear opposition before publication.

At early stage, its focus was primarily on commenting on draft amendments to the Act on Accounting. The next step was the orientation towards cooperation in the preparation of decrees and Czech Accounting Standards. As a result of the gradual development of the activity of the NAB, the range of its activities has extended to work with other institutions and individual specialists, and therefore every offer of cooperation in a related field is accepted.[22]

So, since 2004 the National Accounting Board conceptually prepares interpretation of the Czech accounting regulations in order to clarify and guide entities in accounting of the extraordinary specific transactions which are either not covered by Czech accounting law or are frequently mistaken. By this, the NAB aspires to enhance quality of reporting in the Czech Republic and increase usability of external users.

Even though, these interpretations are not formal regulatory tools in a field of taxation and accounting, they represent "best practice". It means, interpretations offer practical sample solutions and simultaneously create a pressure on legislation setters.[23] There are some case when the interpretations were resulted into amendments of regulatory framework, as a confirmation of bilateral dual relation between practice and accounting law thanks to the NAB.

---

[22] Narodni Ucetni Rada, https://nur.cz/

[23] Skalova J. a kolektiv, *Podvojne ucetnictvi*, 2018, p.14, ISBN: 978-80-271-0868-8

3. The framework of the EU regulation of auditing

3.1 The framework of the EU regulation of auditing: first steps

Audit as a powerful tool increases trustworthiness of European companies' financial reports and reduces information asymmetry. It was developing over decades on the territory of Europe.

Requirements for auditing services have been changing rapidly in a response of successful cohesion and integration of the EU. Unfortunately, multiple audit regimes of each Member State made comparisons within the EU rather problematic for investors.

An importance of audit was doubtless, the next stage in creation of harmonized approach to auditing services was to ensure high-quality consistent audit system within a whole EU area.

As one of the first regulatory actions forward harmonized auditing system can be considered "Commission Communication on the statutory audit in the European Union" in 1998. The primary goals of the mentioned work were addressed to auditing standards, quality of audit, content of audit report and auditor's independence from a company being audited. The paper stated that companies seek an access to more integrated EU capital markets, what creates an increased need for harmonization of both financial reporting and auditing.

To the main achievement of the auditing Communication working plan belongs setting of the Committee on Auditing, which consists of experts from auditing field nominated by the Member States of the EU. The Committee is aimed to create tight cooperation and high involvement of the EU states in developing of harmonized auditing system and auditing profession in general.

First of all, the Committee was delegated to inspect audit quality monitoring systems regarding application of standards of audit and core principles of auditors' independence. Unfortunately, that time not all Member States were equipped with such a system. Moreover, following the recommendation of the European Parliament, the Commission ensures that particular attention is paid to determining which exactly non-audit services offered by auditing firms. The next of the Committee's tasks was to review how International Standards on Auditing by IFAC are applied in the EU and if there is no gap due to dissimilarity between ISAs and the EU auditing requirements.

In addition, The Committee on Auditing closely cooperates with IFAC in the views on draft versions of auditing standards, because of certain risk related to the fact that if EU companies are lack of globally accepted audit of their accounts, they would not be accepted at international capital market.[24]

Proceeding from work of Committee, in 2000 the Commission of the European Communities has issued a recommendation on quality assurance for the statutory audit in the European Union: minimum requirements addressed to the EU Member States. The recommendation stated: “Quality assurance is the profession's principal means of assuring the public and regulators that auditors and audit firms are performing at a level that meets the established auditing standards and ethical rules". As a support of it importance of the particular principle, the recommendation stressed out once again that quality assurance for the statutory audit is fundamental tool which implies additional credibility to financial statements of the EU companies' and contributes to the protection of shareholders, investors, creditors and other stakeholders.

Auditor's independent opinion is required to provide with minimum level of assurance of reliability of financial information got audited in a company, required minimum is used as a benchmark tool for the whole EU countries. Based on the significant differentiation between quality assurance systems, which are varying from country to country in the EU, it was hard to evaluate whether required minimum was reached.

Minimum requirements on quality assurance system in Member States were addressed to:

- subject's coverage: persons, carrying out statutory audit must be subjects of quality assurance system,(not all statutory auditors were subjects of it),
- methodology: peer review (active member carries out the review)and monitoring (stuff from professional body or regulator performs assurance review),
- selection of the statutory auditors for review,
- cycle of full coverage required to be a maximum of 6 years (shortened for statutory auditors with ‘public interest entity’ clients),

[24] European Commission, *Communication on the statutory audit in the European Union: the way forward*, 1998

- scope of quality review: Internal Control System inspection, compliance with auditing standards and the Code of Ethics, quality of the evidences, audit reports,
- public oversight and public reporting as a supervisory organization on quality assurance (The public oversight requirement is meant to ensure that the quality assurance is in fact and appearance an exercise with sufficient public integrity),
- disciplinary sanctions,
- confidentiality rules,
- attributes of the quality reviewer,
- cost recourses for establishing efficient quality assurance system.[25]

On 28 September 2005, the European Parliament has approved various amendments to the Eighth Company Law Directive (the 'auditing directive').The mentioned amendments were aimed at:

- Establishing a system for public oversight of the auditing profession and for cooperation between the EU authorities.

- Requiring an application of ISAs in European auditing. ISAs are issued by the International Auditing and Assurance Standards Board of IFAC.

- Requiring certain rotation, every 7 years, of the key auditor. However, compulsory rotation of audit firms was rejected.

- Providing basis for effective and balanced co-operation between regulators in the EU and with regulators in third countries, such as the US Public Company Accounting Oversight Board (the PCAOB).

- Improving the independence of auditors by requiring listed companies to set up an audit committee (non-executive) with clear functions to carry out.

In 2006, the Directive of the European Parliament was out, it was addressed to statutory audits of annual accounts and consolidated accounts. As a further step in the EU convergence, this Directive was directed to create high-level harmonization of statutory audit requirements, stating following aspects: qualification of auditors should be equivalent, knowledge of fiscal and social law must be significant, all auditing

[25] European Commission, recommendation on quality assurance for the statutory audit in the European Union: minimum requirements (notified under document number C 2000) 3304), 15 November 2000

subjects must be enrolled in register and all auditors are required to have strong sense of ethics and integrity.

Good audit quality contributes to the markets' functionality by enhancing the integrity and efficiency of financial statements.

While auditing, auditors are supposed to cooperate with entity being audited, however keep their independence which was clearly stated by law. For instance, it is acceptable to inform audited entity regarding key matters, but all internal processes and discussions should be kept abstained.

There are specific threats in audit, which can compromise auditor's independence:

- self-review threat,
- self-interest threat,
- multiple referrals threat,
- advocacy threat,
- familiarity threat,
- intimidation threat.

To eliminate audit threats mentioned above, there are special techniques named safeguards. To these safeguards belong: internal/external rotation, external review, minimizing of a size of the engagements from one client (recommended maximum is 15% of overall clientele) and fixed audit fees, advanced payment for audit services and etc. Often a judgment of audit threats depends on auditor personal ethics, that is why the Code of Ethics is vital for audit profession. The Directive requires statutory auditors in cases when even after application of safeguards there is a risk to their independence to resign or reject an engagement.

Since an application of ISAs was required, all Member States were additionally allowed to impose audit procedures and requirements at the national level relating to the scope of the statutory audit of annual or consolidated accounts, only if those requirements have not been covered by ISAs. Member States could maintain those additional audit procedures until they have been covered by subsequently adopted ISAs.

An important aspect of the Directive was that statutory auditors and audit firms are responsible for carrying out their work with due care and thus should be liable for the financial damage caused to entities audited and to intended third parties. However, the auditors' and audit firms' ability to obtain professional indemnity insurance cover may be affected by whether they are subject to unlimited financial liability. The Commission examines these issues, taking into account the fact that liability extent of the Member States may vary considerably.[26] Since public-interest entities[27] have a higher visibility and are economic importance, stricter requirements should apply in the case of a statutory audit of their annual or consolidated accounts.

As was mentioned above, all auditors should be equivalent, that there are no ambiguities regarding auditors' report reliability. The interrelation of capital markets underlines a need to ensure high-quality work performed by auditors from third countries in relation to the Community capital market. The mentioned auditors should either be registered in a Member State, so as to make them subject to quality assurance reviews and to the system of investigations and penalties or regulated by competent authority of the third country where the auditors come from. It should be equivalent to the Community requirements in the field of principles of oversight and quality assurance systems.

Furthermore, Directive 2006/43/EC has applied a range of the most frequent auditing definitions and set the procedure of approving and recognizing of statutory auditors and audit companies in Member States of the EU and as well. In cases of compromised good reputation, the Directive has described the actions of withdrawal of an approval of a statutory auditor.

For auditing firms, the regulation stated that a majority of shareholders and of the control management board in an entity must be held by auditors which are approved in any of Member States. In 2007 The Internal Market Directorate General has published an independent study on the ownership rules of audit firms and their consequences on the market concentration.

The study has analyzed if changes to the structure of an ownership rules might help to increase the number of international players in the audit market. The key findings of the mentioned research stated that rather for the smaller audit firms 'investments might be necessary over years in order to expand and to enter the international audit market.

[26] Directive 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 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

[27] public-interest entities - entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member Stat, credit institutions, insurance institutions and entities that are of significant public relevance.

The analysis stated that expansion of an ownership for external investors might lead to the expansion on the market of large audits, because an existing ownership structures estimated to increase audit firms' cost of raising capital by about 10%. Nevertheless, restrictions on the audit firms' capital structure represents only one of multiple barriers to entry. There are more of them such a: reputation, the need for international coverage, international management structures, and liability risk.

A great role of an ownership structure is devoted to human capital, from the regulatory point of view, existing ownership structure has been set by the necessity to protect the independence of audit firms. However, the analysis of the decision-making in large audit firms indicated that alternative ownership structures are unlikely to impair auditor independence in practice. Specific conflicts of interest could be dealt with through the appropriate safeguards.[28]

Educational requirements on statutory auditors, set by the EU regulation, were following:

- attained university entrance or equivalent level,
- completed theoretical courses,
- practical training experience (minimum of 3 years),
- successfully passed an examination (accounting, IASs, cost and management accounting, risk management, internal control, auditing, ISAs, ethics, law).

According to The EC's report (2008), where 27 Member States stood with their implementation of the May 2006 Statutory Audit Directive, which had to be adopted into national law by 2008. That time already 12 Member States have already completed the entire implementation of the mentioned Directive, which makes 45% of total Member States.

[28]European Commission, study *"Ownership rules for audit firms"*, 2007, http://ec.europa.eu/internal_market/auditing/docs/market/oxera_report_en.pdf

3.2 The EU regulation of auditing: activities on audit confidence restoring

In 2005 in order to prevent continuous decrease of confidence in auditors' reliability and integrity after several scandals in US and Europe (Enron, Parlamat, Tyco), Public Interest Oversight Board was created.

The PIOB is a global independent oversight body, uniting auditors' profession and regulatory community together. It oversees three out of four standards setter units of the IFAC which establish standards in areas of audit and assurance, accounting education and ethics. The PIOB as a global independent body is aimed to find a balance between contribution of profession and public interest responsiveness on the standards. Through its oversight activities, the PIOB works to bring greater transparency and integrity to the audit profession as a key to revive a stable and international financial system.

Since its establishment the PIOB publishes annually public reports named 'An international oversight body for standard setting in the areas of auditing, ethics and education for the accounting profession' on its activities and achievements.

Clearly, to key accomplishments of 2006 belong mainly organizing and establishing activities, but fourth public report of the PIOB was addressed to actions done under the financial crisis circumstances. Given economic situation that time, the PIOB once again focused on the public interest, meaning that main reason of crisis was caused by private interest intensions. The report stated: "Today more than ever before, accurate assessment of market risks and reliable measurement of the consequences of risk-taking call for transparent, effective and clear financial reporting and auditing standards. In other words, standards that uphold and protect the public interest". As a part of its monitoring activity the PIOB observed 33 meetings of PIACs, CAGs, CAP and IFAC Nominating Committee and held also 33 meetings, on contrary to previous year was noticeable shift from complex revisions to redrafting activity, consideration of new projects (including guidance) and finalization of the full IFAC ' Code of Ethics.

In its report on monitoring activities, the PIOB expressed positive feedback on PIAC's (Public Interest and Accountability Committee) efforts to incorporate the highest possible range of stakeholder views without compromising the robustness of the ISA 700 standard. The standard is addressed to forming an auditors' opinion and reporting on financial statements. The PIOB supported proposals to provide an additional guidance to assist auditors in understanding and managing the challenges occurred by the financial crisis.

On the other hand, the Board expressed its disappointment in the IAASB's decision to resolve this challenging public interest issue just by withdrawing proposed accounting framework's related guidance from ISA 700 on which stakeholders could not reach an agreement.

A major approval agenda was aimed to Clarity Project, having its roots in 2004 and aiming at improving the quality and understandability of the range of standards by the IAASB.

The Clarity Project, a comprehensive clarifying program which was aimed at more consistent application of ISAs and trough it, leading to better quality of audits. During this project many ISAs were revised substantively. A summary of the changes provided by the ACCA are as follows:

- 19 ISAs and ISQC 1 have been redrafted to apply the new Clarity conventions and format– these are referred to as 'Redrafted[29] ISAs'
- 16 ISAs contain new and revised requirements, in addition to being redrafted to apply the new Clarity conventions and format – these are referred to as 'Revised and Redrafted ISAs'
- A standard has been issued on a new topic – ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.[30]

For the beginning of 2008, IAASB reached certain progress, have been released following final ISAs:

- ISA 230 "Audit Documentation", ISA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", ISA 260 "Communication with Those Charged with Governance",

29 Redrafted standard - that a standard has a new structure, in which information is presented in separate sections.

30 ACCA, *"THE IAASB CLARITY PROJECT"*, 2018 http://www.accaglobal.com/my/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/iaasb-clarity-project.html

- ISA 300 “Planning an Audit of Financial Statements”, ISA 315 “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment”, ISA 330 “The Auditor’s Responses to Assessed Risks”,
- ISA 540 “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures”, ISA 560 “Subsequent Events”, ISA 580 “Written Representations”
- ISA 600 “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)”
- ISA 720 “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements”.

Standards which have been in a progress at December 21, 2007 as following:

- ISA 200 “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing”, ISA 210 “Agreeing the Terms of Audit Engagements”, ISA 250 “The Auditor’s Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements”, ISA 265 “Communicating Deficiencies in Internal Control”
- ISA 402 “Audit Considerations Relating to an Entity Using a Third Party Service Organization”, ISA 450 “Evaluation of Misstatements Identified during the Audit”,
- ISA 500 “Considering the Relevance and Reliability of Audit Evidence”, ISA 501 “Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures”, ISA 505 “External Confirmations”, ISA 510 “Initial Audit Engagements—Opening Balances”, ISA 520 “Analytical Procedures”, ISA 530 “Audit Sampling”, ISA 550 “Related Parties”, ISA 570 “Going Concern”,
- ISA 700 “The Independent Auditor’s Report on General Purpose Financial Statements”, ISA 705 “Modifications to the Opinion in the Independent Auditor’s Report”, ISA 706 “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report”, ISA 710 “Comparative Information—Corresponding Figures and Comparative Financial Statements”,

- ISA 800 "Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement", ISA 805 "Engagements to Report on Summary Financial Statements".[31]

It is expected that new format of ISAs should make auditor understand the overall goals while conducting an audit, and also to understand auditors 'obligation in relation to the objective' of audit. A crucial aspect stands on the fact that all IAASB's standards are interconnected and related one to another, so should not be considered separately. Furthermore, since Clarity Project is out should be easier for monitoring bodies to benchmark the quality of audits. The new draft versions of standards incorporated further developments and considerations in a field of audit and reporting.

The areas which have been influenced in drafting: risk assessment, evaluation of audit evidences, materiality, evidences in a relation to external confirmation, missing components of internal control system, audit of accounting of estimates, related party relationships and transactions, modifications to the auditors' opinion, work of component auditors.

The ACCA stated that changes in Clarity Project made ISAs more rule-based in their approach, became clearer range of obligations and requirements to auditors. As was mentioned above, the main goal of the project to enhance quality of audits, however some professionals are persuaded that for smaller companies such an approach is needlessly complex and leads to additional workload and costs. Therefore, the ACCA recommended all size audit companies to be ready for adoption of clarified ISAs, because obviously they will be affected in a rather great way. Some of the practical issues firms are going to face include:

- a review and update of the firm's audit methodologies, documentation, manuals and software,
- a review of amendments needed to audit programs and procedures,
- development of training programs for audit staff of all levels of seniority.

The redrafted or revised and redrafted ISAs have been effective for audits of financial statements for periods beginning on or after December 15, 2009.

[31] International Auditing and Assurance Standards Board, *"Auditing_Handbook_B010_Clarity_Project_Information"*, 2008

In 2011 there was published a Commission Decision on equivalence of certain third country audit activities and monitoring of these activities. The Commission has carried out assessments of the public oversight, quality assurance, investigation and penalty systems for auditors and audit entities of the third countries such as Australia, Canada, China, Croatia, Japan, Singapore, South Africa, South Korea and Switzerland. The European Group of Auditors' Oversight Bodies was assisting in the conducting of the assessment. The principles governing the public oversight, quality assurance, investigation and penalty systems for auditors and audit entities of those third countries and territories were assessed for compliance with Directive 2006/43/EC.

The ultimate objective of cooperation between Member States and third country audit related systems for auditors and audit entities should be to reach an equivalence of the systems.

An assessment proved that in mentioned countries such systems work under the similar rules, therefore it is appropriate to consider those systems in assessed third countries as equivalent to the Member States' public oversight, quality assurance, investigation and penalty systems for auditors and audit entities.

Regarding the US systems, which are considered to operate under similar rules as well, however the competent authorities in the US do not consider that mutual reliance was fully reached, therefore the public oversight, quality assurance, investigation and penalty system for auditors of the US should be reviewed for the purpose of assessing the progress made towards reaching mutual reliance till July 2013.

Some other countries either did not have such systems of a public oversight, quality assurance, investigation and penalty systems (Bermuda, Cayman Islands, Israel and New Zealand) or that time were in a process of establishing such a set of systems (Abu Dhabi, Brazil, the Dubai International Financial Centre, Guernsey, Hong Kong, India, Indonesia, Isle of Man, Jersey, Malaysia, Mauritius, Russia, Taiwan, Thailand, and Turkey).

Based on the Commission's Decision of 19 January 2011 Article 1, public oversight, quality assurance, investigation and penalty systems were considered as equivalent for financial years starting from 2 July 2010 in countries: Australia, Canada, China, Croatia, Japan, Singapore, South Africa, South Korea, Switzerland, The US.[32]

In September 2012 the FEE has published a Discussion Paper on the functioning of the audit committees. The Discussion Paper expressed the role of the audit committees in corporate governance system, and divergence in the audit committee's functions and the composition across Europe; and in general, as a crucial tool which contributes to the quality of financial information.

The Statutory Audit Directive has applied some general rules and requirements for the audit committees as a significant component of effective corporate governance. However, within time some improvements and adjustments are needed, in order to keep functioning of audit committees optimal. In some EU countries an audit committee is a quite new concept, and even for the Member States which are equipped with the audit committee for a while, there is still space for improvement.

The paper recommended multiple legislative and other responses which would enhance the role of audit committees. For instance, to require the audit committee to be a subcommittee of the board of directors with an independent chair.

The paper stated that a range of legislative frameworks in Member States led to differentiation in supervisory bodies, corporate governance structure and audit committee's functioning itself. There is a call for harmonization of the functioning of the audit committees at European level. However, to keep them rather flexible in order to be able to accommodate for the multiple company law systems.

Audit committees closely cooperate with the auditors through their monitoring responsibilities and an effective cooperation is beneficial not only for the auditor and the audit committee, but also for the company. This allows the useful information accumulated by the audit committee regarding the risks for the company to be shared with the external auditor. Such an exchange is useful for the auditor in a meaning of the audit engagement and related risks.

Additionally, the paper outlined a great role of the audit committee, which would assist in improving of financial reporting. For example, the FEE stated that transparency of audit committee's work could be improved through formally advising the board on

[32] European Commission, Decision on the equivalence of certain third country public oversight, quality assurance, investigation and penalty system, 2011

judgments and conclusions of the audit committee in relation to the key or to the critical accounting policies and estimates.

There was decided to keep on working on the improvement of audit committees functioning through further discussion during upcoming roundtable. The FEE was seeking to gather all national Member States' experiences in this field in order to reach greater results. [33]

3.3 The EU regulation of auditing: further steps

A significant change of legislative environment of the EU arrived in April 2014, the Directive 2014/56/EU was out, amending Directive 2006/43/EC on statutory audit of annual accounts and consolidated accounts. The reasons for this amendment laid in the need to harmonize in a greater way EU rules in order to reach better transparency and predictability of the requirements for auditors, their objectivity and independence while providing audit services.

Secondly, there was an intension to increase minimal convergence with ISAs as a basis on which is required to carry out their activity. Also, among the core reasons of the Directive was the intention to enhance investors' protection and trust, improving the independence of the EU public oversight authorities trough empowering authorities to impose sanctions and investigate on audit activities performed by auditors and audit firms.[34]

ISAs are designed for application on all size companies of all types and jurisdictions. The EU Member States' authorities should consider into details the level of complexity of the business when assessing the scope of ISAs' application. Any provision or measure adopted by the EU countries should not create any incompliance with ISAs. Definitely, Member States are allowed to adopt at national level requirements on the additional procedures which are not covered by ISAs.

An important aspect of improving compliance with this Directive and Regulation (EU) No 537/2014 were sanctioning regimes of competent authorities in Member States. The directive stated: "Provision should be made for the imposition of

[33] Federation of European Accountants, discussion paper *"The functioning of Audit Committees"*, 2012, https://www.iasplus.com/en/news/2012/june/fee-seeks-better-financial-reporting-through-audit-committee-improvements

[34] Directive 2014/56/EU, amending Directive 2006/43/EC

administrative pecuniary sanctions on statutory auditors, audit firms and public-interest entities for identified infringements of the rules. The competent authorities should be transparent about the sanctions and measures that they apply". However, there was added that adoption and publication of sanctions should be in accordance with EU Charter of Fundamental right: right to respect private life, personal data protection right, right to a fair trial and etc.

Administrative sanctions which can be imposed by competent authorities should have same determination criteria which would ensure equality. Sanctions can be up to 1 million Euros for auditor, and up to a certain percentage of annual turnover - for auditing firm. In a process of detecting irregularities and frauds, whist blowers can provide authorities with valuable information, therefore the goal of Member States is to ensure that motivation to cooperate is in a place, same as protection for the people reporting to authorities.

In the European economy development, a crucial role is devoted to small and medium sized companies. Europe 2020 Strategy which was adopted in March 2010 stressed out a need for an improvement of the business environment, especially for small and medium-sized firms, what would include reduction of transaction costs of running the business in the Union. Article 34 of Directive 2013/34/EU of the European Parliament and of the Council (2) does not require small undertakings to have their financial statements audited.

To sum up, major amendments of the new Directive, the Directive 2014/56/EU, has reintroduced some basic audit terms, however remained limits of balance sheet total, net turnover and average number of employees for all categories of undertakings and groups same as was applied by Article 3 of Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of the certain types of undertaking.

The Article on recognition of audit firms was added, which stated the requirements for the flow of the audit services within the EU through approval and registration of audit firm from another Member State by host country competent authority. Also, there was introduced an Article on employment by audited entities of former statutory auditors or of employees of statutory auditors or audit firms which expressed a restriction to be employed by audited company within 1 year after the conduction of the audit, for public-interest companies within 2 years for key auditors as a management in audited company, as a member of audit committee or as a member of administrative or supervisory body in a audited company.

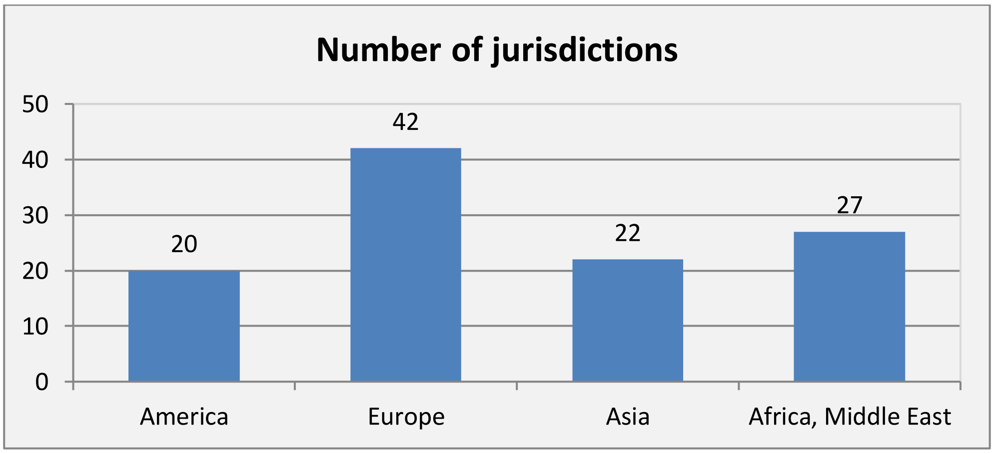
Furthermore, there were applied requirements for internal organization of auditors and audit firms such as:

- appropriate policies and procedures to ensure auditors' independence and objectivity from all shareholders and employees in an audit company while carrying out statutory audit,
- an internal quality control, effective risk assessment, effective control and safeguard arrangements for information processing systems,
- appropriate policies and procedures to ensure appropriate knowledge and experience of firms' employees,
- adequate remuneration policies, including profit-sharing policies, providing sufficient performance incentives to secure audit quality

Some rather technical changes also took place like a change of titles, clearer wording and more exact details. The additional attention was paid to the issues of auditors' education, auditors' independence, a cooperation of competent authorities and group auditors within the EU and after replacement by another auditor.

Undoubtedly, the significance of ISAs has grown. At the end of 2015 a range of jurisdictions all over the world was using ISAs or committed to use them in a close future. Further information is provided in the chart below:

Chart 1: ISAs use among jurisdictions



Source: IAASB, report on activities in 2015

According to the IAASB's report on their activities in 2015, to main outputs of the IAABS belong: standard settings projects finalized (3), published exposed drafts (3), published guidance (13), responses to public consultation (2).

However, Chairman of the IAASB CAG (Consultative Advisory Group) stated that major accomplishment of the IAASB is related to revised standards which are aimed at improving the independent auditor's report. This would bring better transparency regarding the result of audit. Furthermore, there was a call from stakeholders who have been asking auditors to provide more relevant information. The greatest update of this standard is an additional section which is aimed at communication of key audit areas that were analyzed in audit - key audit matters, however auditors are not obligated to discuss audit risk areas, matters requiring significant auditor judgment or significant events and transactions occurring during audit period.

According to the IAASB's first five-years strategy for 2015-2019, the strategic objectives are:

- to ensure that ISAs continue to form quality relevant basis, reflecting all changes in practice and emerging developments (usage of technology),
- to ensure necessary attention of IAASB to other than audit services,
- to strengthen outreach and collaboration with key stakeholders in the reporting supply chain (i.e., management, those charged with governance, investors and regulators).

Also, further work was made in a massive topic of audit quality since the release of the IAASB's Framework for Audit Quality in 2014. The mentioned framework on audit quality describes the key elements of environment for audit quality that enhance the likelihood that audit is performed on consistent basis (obeying of law and standards, shown values and ethics, useful reports, proper cooperation with relevant stakeholders). The projects on audit quality were finalized, including professional skepticism, quality control, group audits: Invitation to Comments, Enhancing Audit Quality in Public Interest, Quality Control and Group Audits.

Furthermore, in 2015 the following standards were finalized:

- ISA 700, ISA 701,
- ISA 260,
- ISA 570,

- ISA 705, ISA 706

And exposed and reexposed draft versions to:

- ISA 720,
- ISA 800, ISA 805, ISA 810.

In 2016 Data Analytics Working Group (DAWG) of IAASB has published a paper on exploring the growing use of technology in the audit as a response to changing environment of companies' operating and audit execution itself. The main goal of it to support the Board in finding an efficient way how to respond to continuous development in technology and transfer it into ISAs.

The DAWG gathered information from qualified stakeholders including accounting firms, National Auditing Standard Setters (NSS), audit regulators and oversight authorities, International Federation of Accountants (IFAC) member bodies and representatives of the IFAC Small and Medium Practices Committee, it also collected information on the range of data analytics' applications in order to define opportunities and challenges regarding the use of data analytics (tools of discovering and analyzing patterns, deviations and inconsistencies, and extracting other useful information in the data of an audit through analysis) in the audit.

Usage of data analytics will enhance auditors' ability of collecting evidences, help to perform larger population analysis and including enabling better risk-based selections from those populations for further testing.

Secondly, it helps out in deeper insight of entity audited. Even though that data analytics unable auditors to test 100% of a population does not imply that meaning of reasonable assurance regarding auditor's opinion would change.

The ISAs neither prohibit nor stimulate the use of data analytics. The ISAs acknowledge the use of technology by the auditor in executing the audit, through use of Computer Assisted Audit Techniques (CAATs), but current data analytics represent more complex techniques than CAATs, stated the DAWG in its project. There are clear benefits of data analytics techniques, they can lead to increased effectiveness, time saving and reduced human error risk.[35]

---

[35] Data Analytics Working Group, *"Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics"*, IAASB, 2016, https://www.ifac.org/publications-resources/exploring-growing-use-technology-audit-focus-data-analytics

Auditors, audit oversight authorities, standard setters and other stakeholders need to cooperate tightly together in exploring how developments of technology could support enhanced audit quality.

Same year, given a new audit directive, the Committee of the European Audit Oversight Bodies (CEAOB) was created. The CEAOB is a new framework to provide cooperation of audit oversight bodies at the EU level and contributes into harmonized implementation of the EU audit reform from 2014. By facilitating supervisory convergence, the CEAOB contributes to the effective and consistent application of the new audit legislation throughout the EU. The CEAOB unites representatives of the national audit oversight bodies from the EEA, the ESMA, the EBA, the EIOPA and observers.

The work program for 2016-2017 determines the major focus on cooperation in the implementation of the EU audit reform to ensure its smooth and coherent harmonization and to support a common understanding of the rules.

In 2017, the CEAOB continued to establish its internal structures and enhance cooperation at the EU level between its audit oversight bodies, established regular communication with external stakeholders in order to improve confidence in audit, discussed inspection findings and participated in standard setting process and many others.[36]

The IFAC 's Global Status Report of 2017 stressed out a significant progress has been made in adoption of international standards and best practices, reflecting strong support for and commitment to high-quality financial reporting and auditing, greater transparency and accountability, and a support for the ethical standards for the accountancy profession.

Across the 80 jurisdictions in which 104 member organizations operate, out of total amount jurisdictions 79 % of them - 63 jurisdictions have already adopted ISA for all mandatory audits:

- with 70 % (56 jurisdictions) having adopted at least the 2009 Clarified ISA and 9 % (7 jurisdictions) having adopted the new 2016 ISAs, and
- 17 jurisdictions have partially adopted ISAs.

[36] Committee of the European Audit Oversight Bodies , annual report 2017, 2017, https://ec.europa.eu/info/files/ceaob-annual-report-2017_en

The current status of adoption of ISA is almost 80% while IFRS status of adoption is around 55%.

4. Czech audit legislation

At the early stage, the Czech regulatory framework was represented by the Act No. 524/1992 Coll., on Auditors and the Chamber of Auditors of the Czech Republic published in 1992 and Act No. 254/2000 Coll., on auditors and on amendment to Act No. 165/1998 Coll., published in 2000.

Since the Czech Republic became a Member State of the EU there was a call for legislative changes: all further regulatory amendments were aimed at ensuring compliance with the EU rules on audit.

In May 2006 was out Directive of the European Parliament and the Council on statutory audit which was a basis for the Czech Act of Auditors published in 2009, amending acts: 254/2000, 209/2002 and 169/2004.

The act on auditors 93/2009 Coll. consists of 6 parts, 63 paragraphs, covering following issues:

- audit terminology,
- requirements for registration of auditors and audit firms,
- terms of abolition of the audit license,
- auditors' examination,
- education of auditors,
- services provided by auditors and audit firms registered in Member States,
- information contained in the register of auditors governed by the Chamber of auditors,
- sections on the auditors' independence, ethic code, confidentiality rules,
- attributes of the audit engagement,
- ISAs and standards on audit published by Chamber of auditors (in accordance with the EU legislation),
- audit of consolidated financial statements,
- auditor's report and its attributes,
- auditor's rights and duties,
- quality control system organized and governed by Chamber of auditors,
- a sanction system,
- a register of auditors' assistants governed by Chamber of Auditors,

- The Chamber of Auditors, its organizational structure and its activities,
- audit requirements for public interest entities (audit report, audit committee in PIEs)
- establishment of the Public Audit Oversight Board (PAOB) to improve a credibility of the auditors, (Another goal is securing a cooperation among supervising authorities over auditor activities in the EU and outside),
- auditors and audit firms form a third country, cooperation with qualified bodies.[37]

In 2014 an amendment to audit act was published, the new act has 10 chapters, 49 paragraphs. A content of the act remained same, covering all parts of the regulation of audit. The main goal of the act was to incorporate the EU amendments (the new audit directive) to the national legislative framework.

Next year in 2016 was out one more updated amendment to the act on auditors 93/2009.

Novelizations of the audit act bring new requirements on the obligated audit of PIEs (public interest entities) , regulatory activities of the Chamber of Auditors in the Czech Republic and others. However, some changes had rather formal nature and had a goal to clarify provisions which were already set.

The updated sections are related to:

- restrictions of the requirements on the future auditors (no monetary liabilities to any state body, acceptance of the equivalent education from a third country),
- auditor's examination (more detailed information),
- approval of the auditors from a third country (academic differences examination),
- the Code of Ethics (published as an internal regulation of the Chamber of Auditors),
- requirement on setting systems of risk assessment and control for audit firms,
- ISAs application by auditors and audit firms during audits (audited company's file attributes, the possibility of jointly carrying out statutory audits),
- audit quality system (activities of Chamber of auditors and the Council, protocols of controls),
- sanction system (criteria, procedure, publication),

[37] Act on auditors 93/2009

- public oversight activities,
- electronic tasks and authorized conversion of documents.

In 2004, being aware of the importance of global auditing standards in relation to the quality of audit, the Chamber of Auditors has decided on the mandatory application of ISAs, in auditing the financial statements for accounting periods beginning on 1.1.2005.

To ensure a high-level and smooth adoption of the ISAs, the Czech audit qualified bodies such as Chamber of auditors, all-size audit firms, Ministry of Finance, University of Economics in Prague cooperated together and worked on terminology, content and translations of ISAs.

The Chamber of Auditors in the Czech Republic is a self-regulating professional body which was set up by the Act on Auditors in order to manage the auditing profession in the Czech Republic. The Chamber was established in 1993 and since 2009 its scope has been regulated with accordance of the Act No. 93/2009 Coll. mentioned above.

In 2014 the Chamber of Auditors adopted international standards issued including ISAs, International Standards on Quality Control (ISQC), International Standards on Review Engagements (ISRE), International Standards on Assurance Engagements (ISAE), and International Standards on Related Services (ISRS).

To the main functions of the Chamber of Auditors belong:

- to ensure the conditions for quality control of auditors',
- to control whether auditors and assistant auditors comply with the legislation,
- to issue the internal regulations of the Chamber, Code of Conduct and Auditing Standards,
- to govern and publish the register of auditors and assistants,
- to create prerequisites for continuous professional education and professional level of statutory auditors and assistants,
- to decide on the equivalent of auditors coming from other countries,
- to issue audit permission/licenses,
- to suspend, prohibit or permanently prohibit the performance of audit work,
- to publish the Auditor's Magazine and the Professional Guides for Auditors,

- to cooperate with domestic and foreign professional organizations and state administration institutions,
- to participate in the National Accounting Council, international professional organizations IFAC and AE (FEE).[38]

In order to enhance transparency, in 2009 the Chamber of Auditors has applied an obligation for the entities to include the total fees for statutory audit in the notes to the financial statements. There is an exemption for the entities which are part of a consolidation unit, provided that audit fees are included in the notes to the consolidated financial statements.

In general, financial crisis did not lead to some significant changes in audit and the statistics of qualified opinions issued by Czech auditors. There was observed a slight increase of qualified opinions by auditors in 2011, but percentage reverted back next year in 2012.

Regarding financial crisis reopened disputes on audit, is important to mention that reaction on the Green Paper: Audit Policy which was issued by EC in 2010 in order to improve audit services as a possible reason of the financial collapse in 2008. The Green Paper was not so supported by qualified audit representatives from the Czech Republic. It was stated that a range of proposals in the Green Paper is counterproductive. For instance, an idea to involve third party into setting of the auditor for companies and payment of the fees for audits can arise a risk of corruption.

Secondly, the concentration of the audit companies on the market is not considered as a systematic risk, setting of the new central European oversight body is not considered as an efficient step either. [39]

Furthermore, thanks to an equivalence of the audit Member States qualification there is no need to set "Green passport" for auditors, auditors are already flexible to provide their services out of the country of origin. The Central Bank of the Czech Republic also outlined that Green Paper does not bring any value added to the current regulatory framework, and it is too early to judge the weaknesses of the valid audit Directive.[40]

[38] Komora Auditorů ČR, https://www.kacr.cz/o-komore-auditoru

[39] Magazine "Auditor" from 06/2011, KAČR, 2011

[40] Czech National Bank, response to Green Paper – Audit Policy: Lessons from the Crisis, 2011, https://www.cnb.cz/miranda2/export/sites/www.cnb.cz/en/supervision_financial_market/legislation/other/CNB_comments_on_Green_Paper_on_Audit_Policy.pdf

This debate once again stresses out the fact that in such a changing environment as financial one and with a constant development of the audit there is always space for discussion regarding audit regulation both at European and national level.

As was mentioned above, financial crisis did not damage audit in the Czech Republic in such a great way as in the US. On contrast, an amount of auditors, audit firms and auditors' assistants was gradually increasing over time. For the end of 2014 it counted: 1374 auditors, 374 audit firms and 794 auditors' assistants.

Also, the PAOB was actively operating since its establishment, in 2014 was investigated on up to 40% of the audit market on audit quality. There were discussed 25 official complaints on auditors and audit firms. Fortunately majority of the cases were justified.

Recently, in the Czech Republic were opened additional discussions on the professional auditors' ethics and use of IT systems during audits as a response to continuous development of audit and its techniques on the Czech audit market.

The latest audit market density shows that currently the Czech audit market is represented by more than 1500 auditors and audit firms.

5.International Standards on Auditing: first appearance, process of formation and release

A global policy in the areas of financial reporting and auditing is significantly determined by the International Federation of Accountants (IFAC). Based on a tight interrelation between accounting and audit, there is no astonishment that one of the main triggers to set an international audit body in order to promote audit globally was related to the establishment of the similar accounting body - the International Accounting Standards Committee in 1973. A few years later in 1977 in Munich the International Federation of Accountants was established.

Through the IFAC's committees, councils and members of the IFAC, the organization currently establishes ISAs in the field of ethics, auditing, education and accounting. The first proposal that the international standards of auditing can be developed has been mentioned at a range meetings and reports of the International Accounting Study Group.

Historically, a process of standardizing audits began with the UK, where back in the late XIX century, when number of laws have been adopted to protect the property interests of shareholders. Since the middle of the last century, there has been a trend towards globalization and the emergence of transnational companies. New enterprises, which combine capital from different countries demanded special approaches to their accountability, which led to a crucial need for international standard of accounting and audit.

A process of formation and adoption of new standards is complex and time-consuming. The duration depends on range of factors (complexity of an issue, public reaction, number of comments). On average it takes about one year till standards are finalized and published on the IFAC's official pages.

In its inspiration for drafts versions, the Council is primarily trying to incorporate and reflex global development in audit profession, however can also take into consideration evidences from a particular country. The main goal is to make adoption process effective, value adding and transparent in order to provide high quality of standards.

All active projects which represent a basis for standards are referred to the Public Oversight Board. The PIOB has task of assessing the suitability of the project in terms of public interest. The Public Oversight Board either approves the project or enforces the replenishment or reworking of the project. If the project is approved, the council can start working on creating a standard.

A primary stage of standard is a creation of its proposal, its modification or addition or deletion of a part of the already existing standard. The Board establishes the Working Group out of board members or external qualified representatives. The Working Group formulates the proposal of a standard, based on an examination of the problem and consultation with experts in audit field. The Working Group's meetings are not publicly accessible, one of the possible reasons of it can be rather early stage of standard creation.

A secondary stage, a proposal processed by the Working Group is presented at the Board's meeting, which is publicly opened. The proposal is discussed and if it approved it, then approved draft version publish on its website. At this point, all comments and proposals and suggestions from public are welcomed. The proposal is 120 days on the website and assessable to view it for free.

Afterwards, there is a process of analyzing a feedback on proposal by Working Group. In case comments are considered as appropriate ones, the Working Group is addressing the main differences between the original proposal and the proposal incorporating approved changes to the Board in order to make it able to decide on a final acceptance or not acceptance of the standards. In cases of significant adjustments, public comments are reopened again.

The final stage is voting, in order to make the proposal be adopted, at least two thirds of the members of the Board present at the meeting must vote for it. Then the Public Oversight Board approves the final version of the standard.

Once a proposal is finally approved, it becomes a standard. The Board determines a date of its entry into force, effective date. The date should be chosen sin such a way that related parties have on opportunity to get acquainted with the standard and make further steps towards a preparation for the adoption.

To summarize, the process of drafting and sequent adoption can be described in several steps as follows:

1. The Working Group will draft a standard.

2. The proposal is put forward at the Council's meeting.

3. The proposal is published on the Council's web pages.

4. Open a public discussion.

5. Vote on the proposal.

6. The Public Oversight Board's approval.

7. Publication of the final standard.

8. Entry into the force.

To summarize, the overall process which the ISAs are being taken through is aimed to be democratic, useful and transparent. The result, a finalized version of the standards is required to be applicable, relevant - what means to reflect current audit needs in the regulation, and in its positive effect exceed costs of the implementation for auditors and audit companies and costs of creation of standards.

6. Application of ISAs in the Czech Republic

Within the practical framework of this thesis there were conducted several semi-structured interviews with auditors from the Czech Republic. The goal was to receive a feedback from Czech auditors on the regulatory aspects of audit in the Czech Republic and to get deeper insights into auditing experience. The list of the interview's questions consisted of 14 questions (*Appendix1*), the interviews were conducted in English and Czech languages, according to the interviewees' preferences.

The audit professionals were representing:

- large audit companies (Big Four companies),
- medium-size audit companies,
- small audit companies,
- individual auditors,

In addition, some of interviewees are currently engaged or used to be engaged in the Chamber of Auditors of the Czech Republic activities or the National Accounting Board activities, therefore an explanatory power of the interviews 'results is considered to be strong. A spread of the job positions of the participants representing audit companies is from assistant position to partner position.

In a table below is showed a planned maximum and minimum amounts of the interviews which were set on the begging (planning) stage of the research (6.03.2018) and real amount of interviews collected till end of the final stage of the research (15.05.2018).

Tab 4: Basic information of inputs

Expected maximum amount of the interviews in a sample	**15**	**100%**
Expected minimal amount of the interviews in sample	**8**	**53%**
Real amount of the interview collected	**9**	**60%**

6.1 Results of the collected interviews

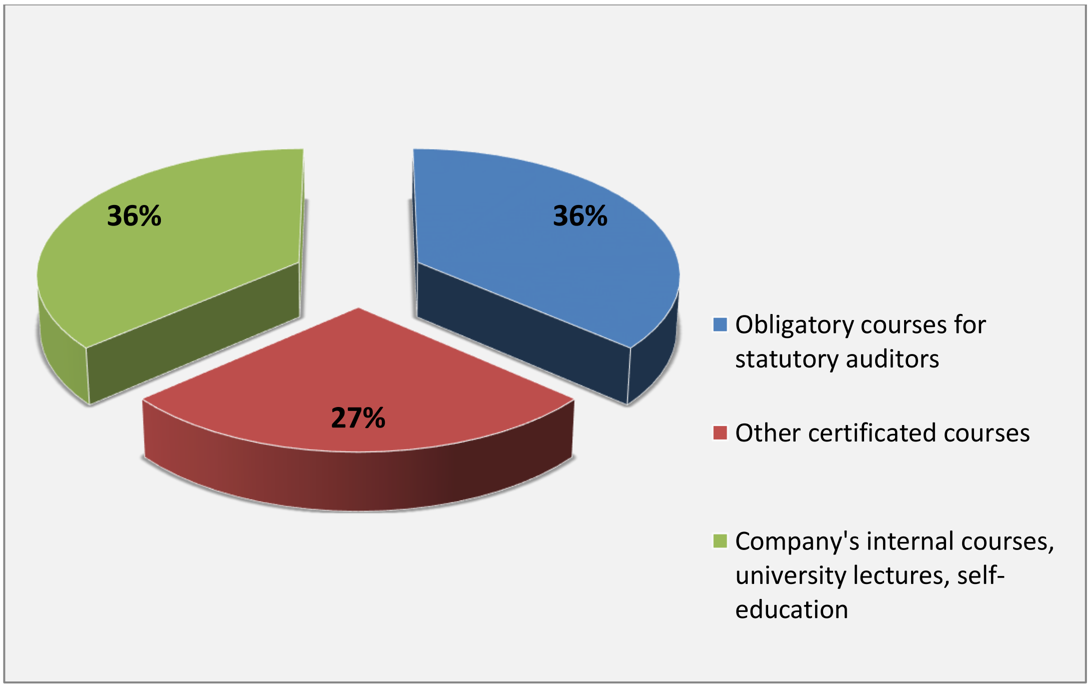
For the representational purposes the answers given by auditors were separated into clusters according to meaning and presented in a form of pie chart after each question.

Question 1: Have you attended any qualification/educatory course on IFRS or/and ISA's? If yes what kind?

Given a credibility of the auditors' expert opinion, an educational development of auditors is an integral part of the auditor profession and is required by the audit regulation.

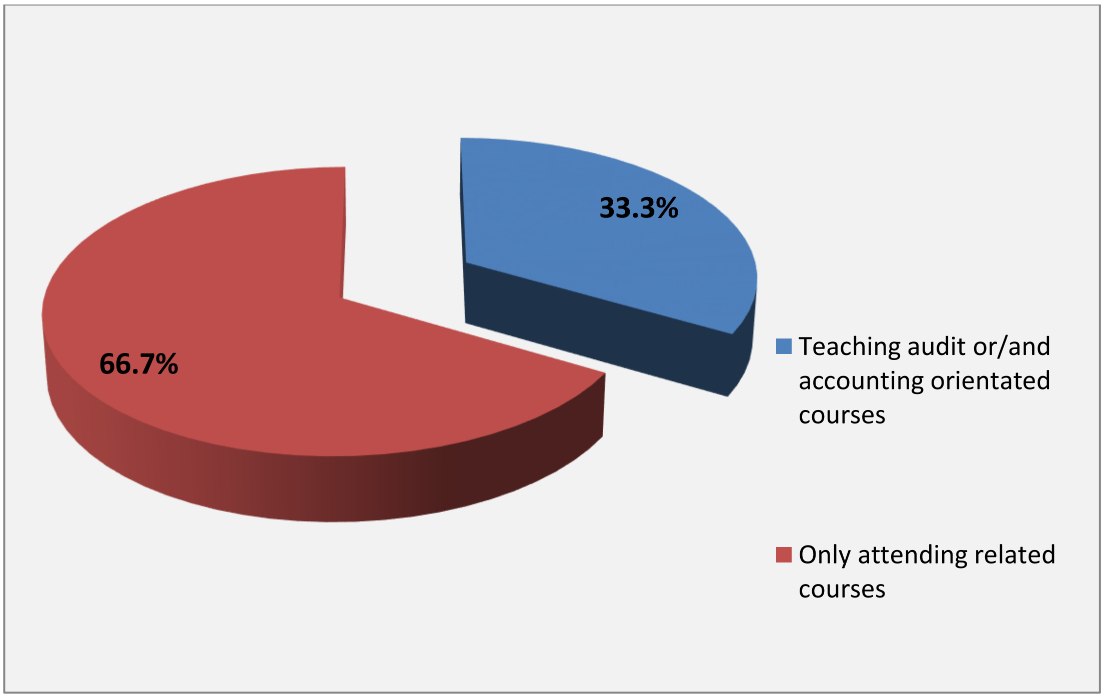
All participated auditors - what makes 100%of respondents- have attended courses on IFRS or/and ISA's either organized by Institute of the Union of Accountants, the Chamber of Auditors or by employing audit company within a context of continuous auditors' education. Also, it was stated that big contribution into theoretical knowledge was made through self-education and the university lectures.

Chart 2: Courses attended by auditors(Q1)



Among the interviewed auditors, some respondents are currently engaged in teaching audit and accounting courses. A breakdown of the auditors' academic activities is shown in the chart below.

Chart 3: Auditors lecturing audit and/or accounting courses (Q1)

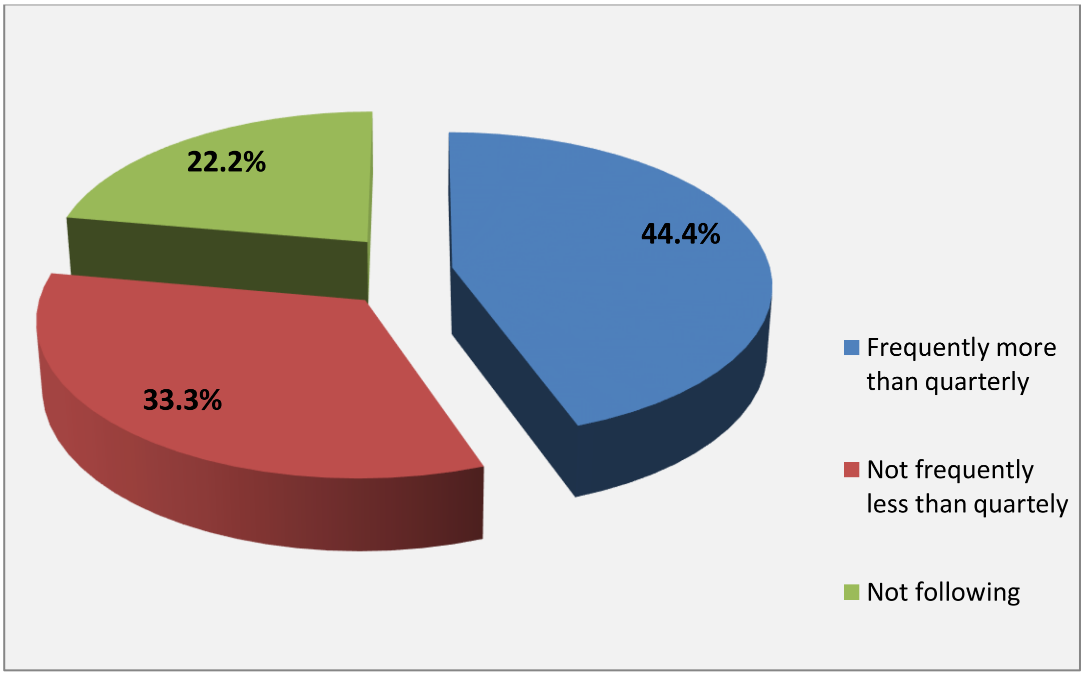


Question 2: Do you follow IFRS or/and ISA's news? If yes, how exactly (sources, web pages). How often?

The purpose of this question was to figure out the level of awareness of ongoing events and news related to IFRS and ISA's. From the auditors' answers it is concluded that the main information sources are official pages of IFRS, IASB or IFAC and audit companies' newsletters.

Clearly, all new standards and amendments of standards are of interest to auditors on all job positions, however it is more frequently explored by auditors occupying higher positions or for auditors engaged in public expert activities.

Chart 4:How often auditors follow IFRS and ISAs news (Q2)

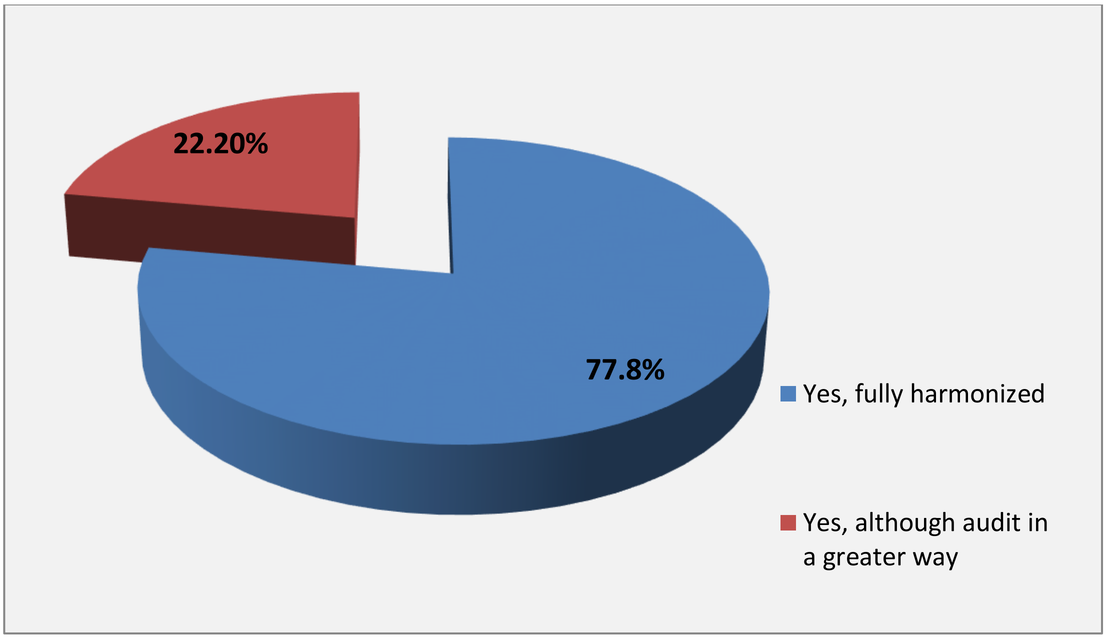


Question 3: Do you agree that Czech accounting and auditing laws are harmonized with EU framework? If yes, to which extent?

The answers to this question were univocal, given the required harmonization with the EU accounting framework even though pointing out some dissimilarities between the Czech GAAP and IFRS framework (leases, recognition of the liabilities). Furthermore, it was stated that not in all aspects was chosen the most appropriate way of harmonization with the EU accounting and audit law.

Regarding ISAs, all questioned auditors (100% of respondents) have stated a full harmonization of audit as ISAs are adopted at the national level in the Czech Republic.

Chart 5: Harmonization with the EU framework (Q3)

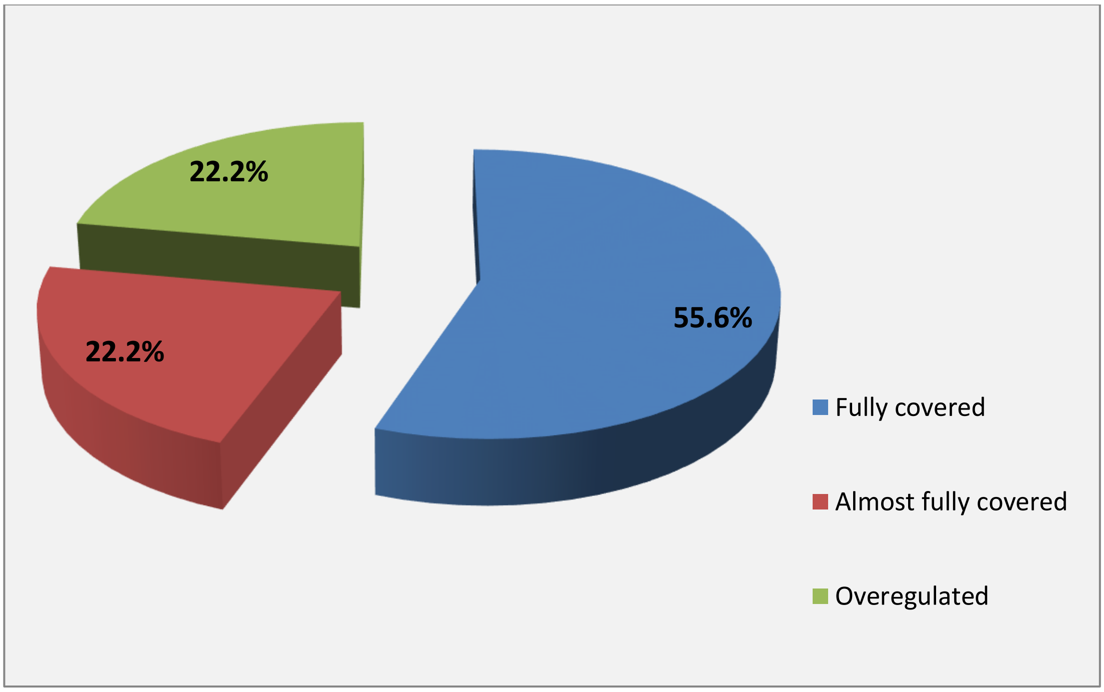


Question 4: In your opinion, to what extent a real-life practice is covered by the scope of IFRS and /or ISA's framework?

Throughout the history, standard setters were aspiring to eliminate all gaps and inconsistencies. As a result, a standard setting progress became perpetual. Majority of auditors stated that practice is fully covered by the regulatory frameworks of IFRS and ISA; the framework would still be appropriate for the current environment even in the cases of its relaxation.

Nowadays there is a lot of ongoing development of new businesses, startups and concepts like crypto currencies, which is not currently covered by IFRS. However, thanks to its strong conceptual nature, it is possible to derive all accounting solutions by your own. Considering audit, ISAs provide with clear consistent logic (risk-oriented audit), which is surely covering current audit practices.

Chart 6: Coverage of audit and accounting practice (Q4)



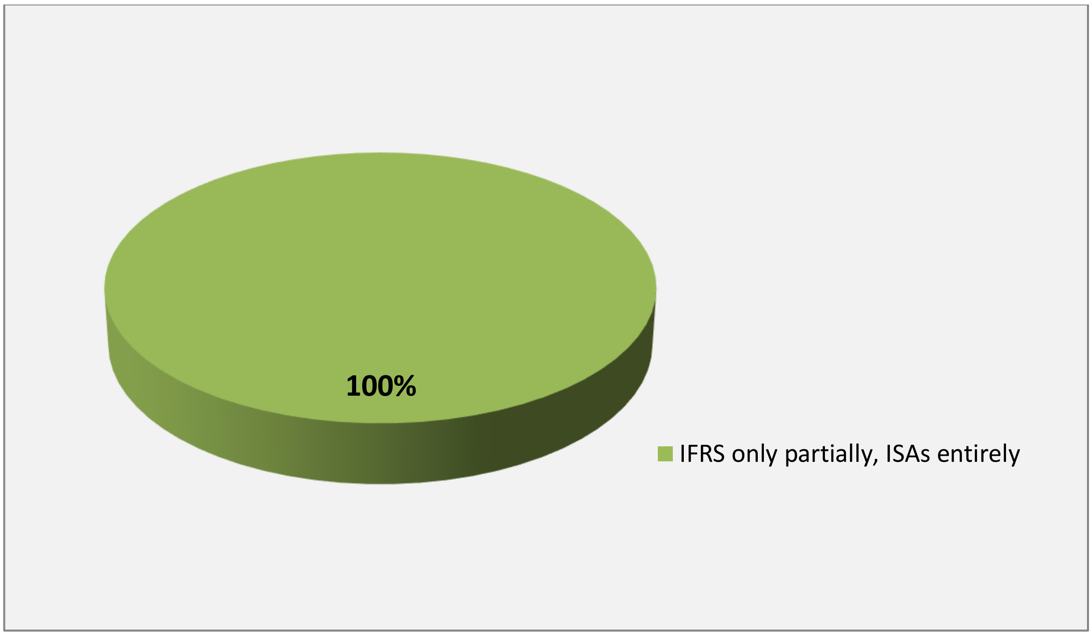
Question 5: How did application of ISA's and/or IFRS influence accounting/ auditing practices in the Czech Republic?

The Czech accounting and audit legislations went through multiple changes and modifications since their begging. Undoubtedly, as a globally accepted framework IFRS and ISAs was updated and subsequently transferred into the Czech GAAP. Nevertheless, sometimes it was happening with certain delays which were caused by dissimilarities in the frameworks; for instance, correction of errors of the previous fiscal year through other comprehensive income.

Consolidated groups and listed companies are influenced directly by IFRS, whereas they are required to prepare their annual accounts in compliance with it. Undoubtedly, all auditors stated an enormous impact made by ISAs which are fully adopted in the Czech Republic more than a decade since 2005, therefore all audits are conducted with accordance of ISAs.

An intriguing comment was received from auditor representing Big Four company, who ensured a compliable quality of audit required by ISAs in the Big Four companies, however expressed certain doubts about sufficient level of quality of audits by local small auditors.

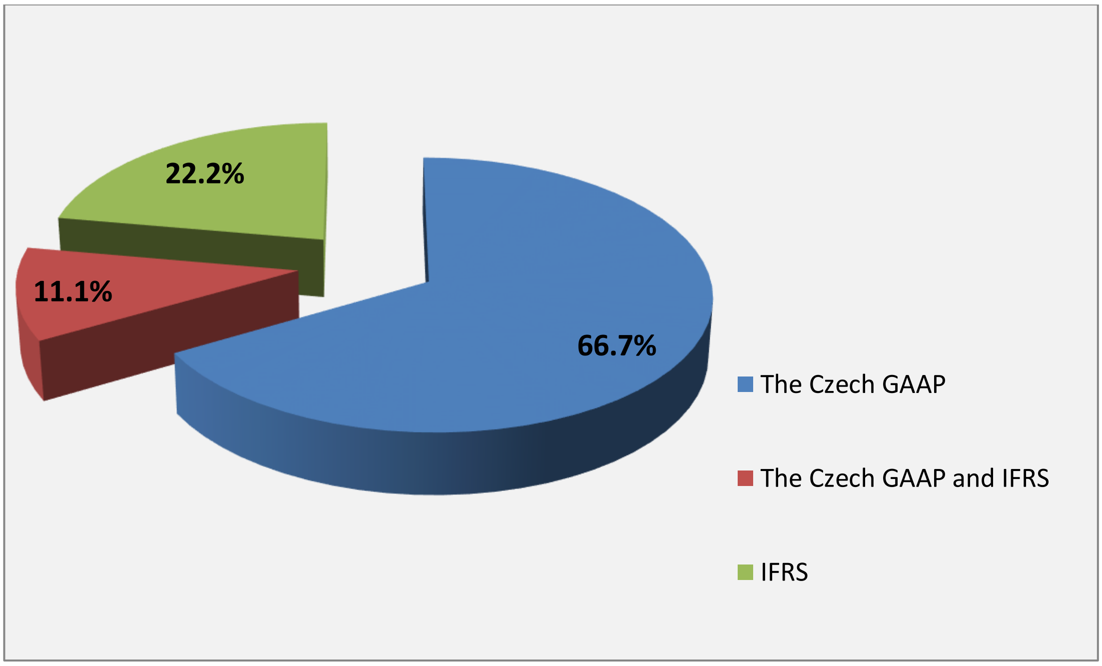
Chart 7: The influence of IFRS and ISAs on practice (Q5)



Question 6: What is the most frequent standard framework in your accounting/auditing practice? (If it is possible rank mentioned standards according to frequency

In this question was a visible tendency that auditors representing Big Four companies work more with IFRS standards (mainly IFRS 17/4, IFRS 15, IFRS 17, IFRS 9,IFRS 3, IFRS 10, IFRS 7, IAS 38, IAS 36, IAS 16, IAS 37, IFRS 13, IFRS 1) then individual auditors or auditors from small and medium-size audit companies. It is possible to explain taking into consideration that Big Four companies have bigger human capacity and therefore are able to conduct audits of the biggest companies in the Czech Republic. Despite this fact, clearly, the most common accounting framework is the Czech GAAP (ČUS).

Chart 8: The most frequent framework in practice (Q6)

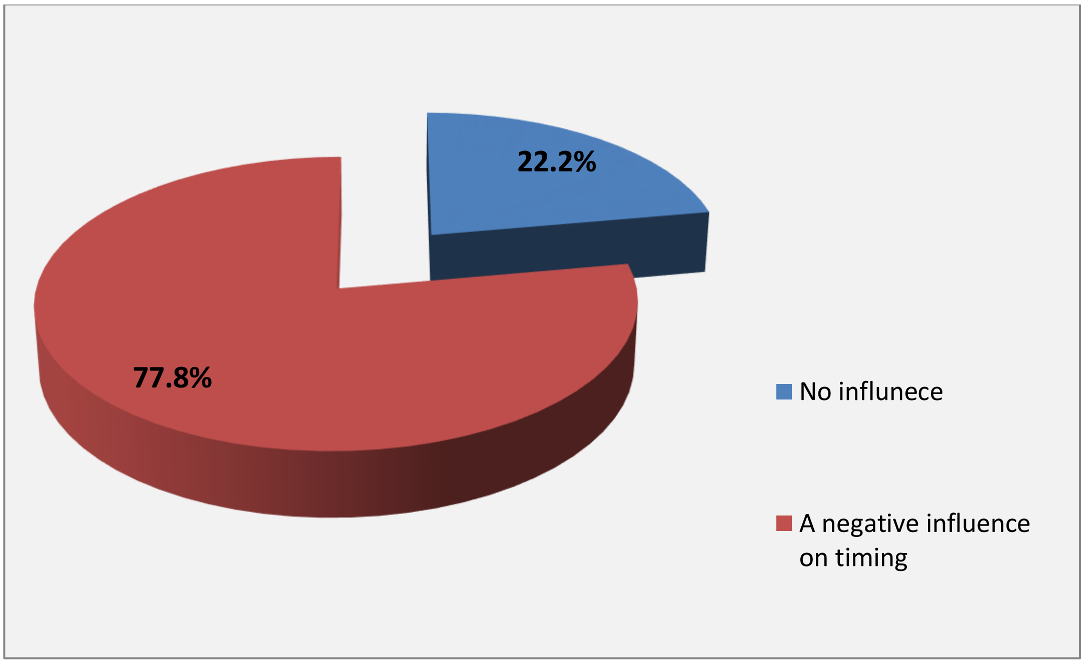


Question 7: How do the new IFRS or ISA's change working cost-effectiveness (time, price) of the engagements?

Generally new standards seem to be more complex and comprehensive and therefore require additional time. However, certain percentage of the respondents (33% of interviewed auditors) outlined that it is not necessarily financial costs caused by additional time on engagements are directly attributable and recognized by clients as invoiced hours of the auditors' work.

On the other hand, there is a tendency to more consultations with auditors, because clients request auditors to explain changes what took place and how these must be implemented and incorporated in clients' accounting.

Chart 9: An influence of new standards on working effectiveness (Q7)

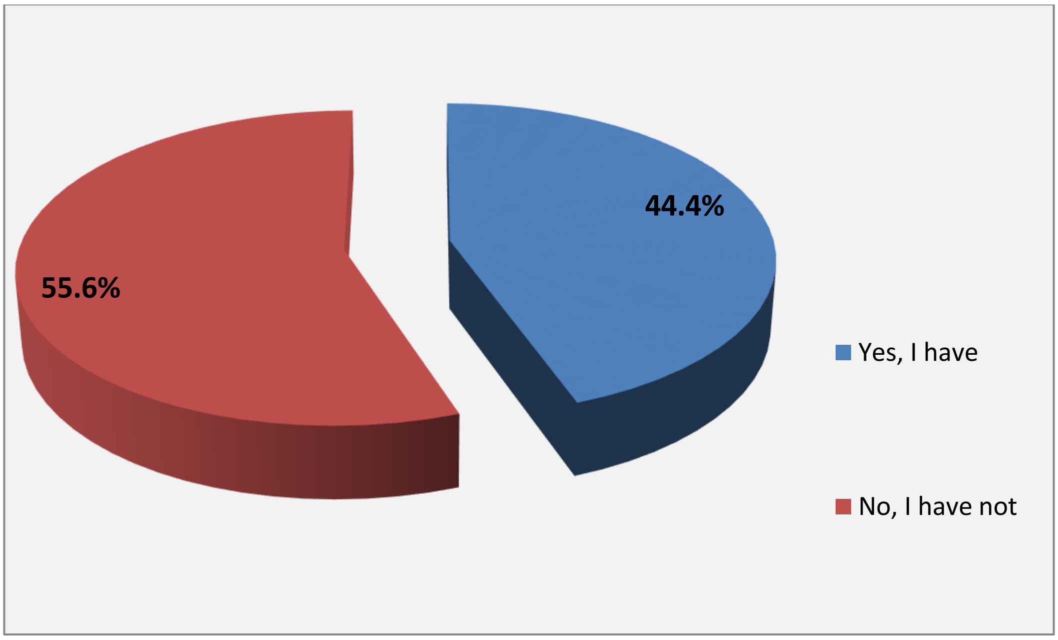


Question 8: Have you ever met any inaccuracies or irrelevancies in IFRS and ISA's according to you?

Majority of the interviewed auditors (56% of respondents) stated that they have not met any inaccuracy or irrelevancy in IFRS and ISAs. However, auditors who are additionally engaged in research activity or members of the executive committee of the Chamber of auditors have faced some of these issues. It was mentioned that some provisions of ISAs are not fully clear (parts of the rules on the inventory check by auditors), some obligatory test are not totally appropriate for some companies (external confirmation of liabilities, receivables) in case of IFRS - recently updated issue on lease. Generally, a vast majority of the auditors outlined satisfying quality of IFRS and ISAs, claiming that the EU directives and the Act of Auditors are rather problematic.

Furthermore, there is space for these issues due to human factor on the both sides: on writer's side and translator's side what can create inaccuracies or ambiguities which can lead to incorrect implementation of IFRS and ISAs.

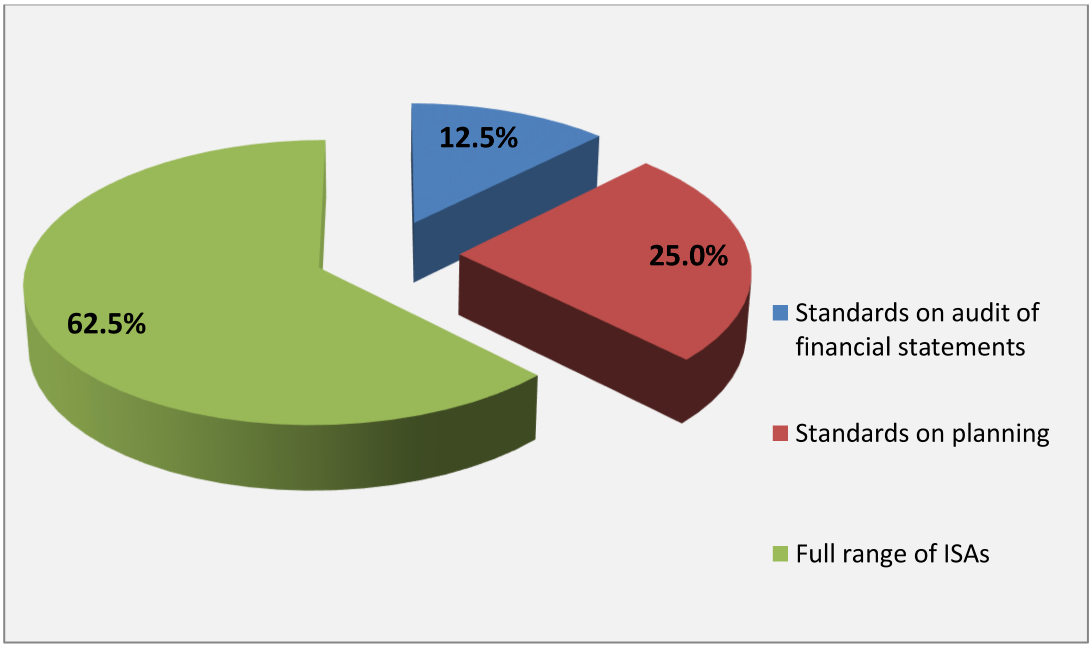
Chart 10: Irrelevancies or inaccuracies in IFRS and ISAs (Q8)



Question 9: Which part of ISA's do you find the most precisely applicable in your practice?

It would be fair to mention that this question belongs to the most problematic in understanding for the questioned respondents. The main goal of it is to clarify which part of the ISAs are usually applied without any adjustments or derivations for company's internal knowledge or risk sources. It means which part of the ISAs is applied in a rather original way. To the main answers of Czech auditors belong reference to financial statements' audit (ISA 700 - ISA 720) or ISA 300 on planning of audit. However, some auditors stated that they follow a full range of ISAs very strictly therefore cannot name any part of it explicitly.

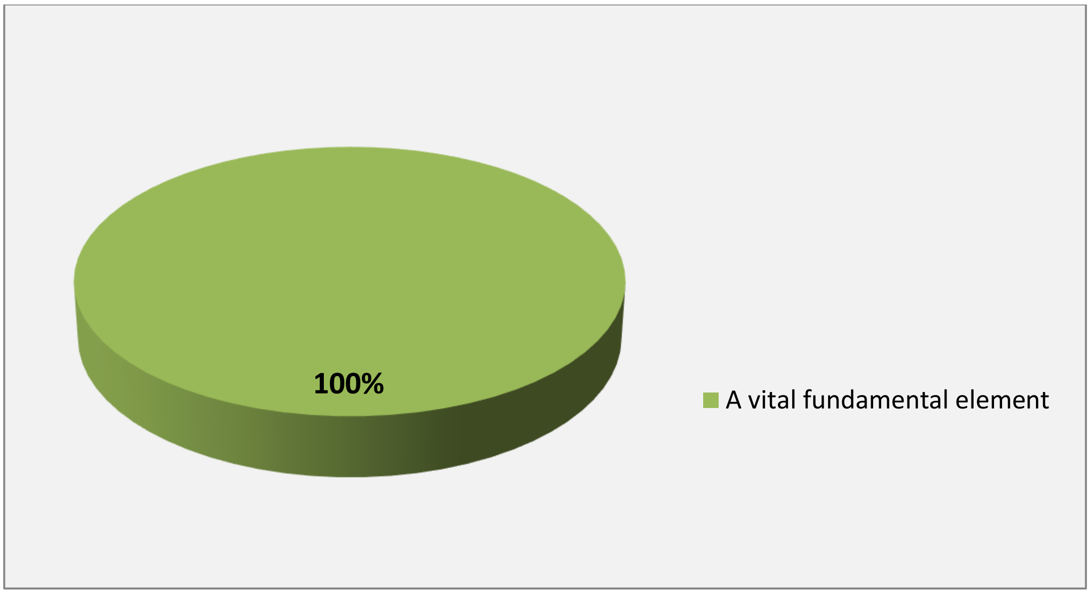
Chart 11: The most precisely applicable part of ISAs (Q9)



Question 10: How important do you think is Code of Ethics in auditing?

A solid univocal answer was received from the whole population of interviewed auditors (100% of the respondents). Some auditors expressed that the Code of Ethics is even more crucial that obeying all technical aspects of the audit. Furthermore, many auditors stated that reputation is the most valuable possession and profit driver for any auditor or audit company. The representative of the Chamber of Auditors outlined: "All you pay for as a client it is signature in the bottom of the auditor's opinion". ISAs require auditors to have strong integrity and always act with professionalism and on behalf of the public interest.

Chart 12: The importance of the Code of ethics in auditing (Q10)

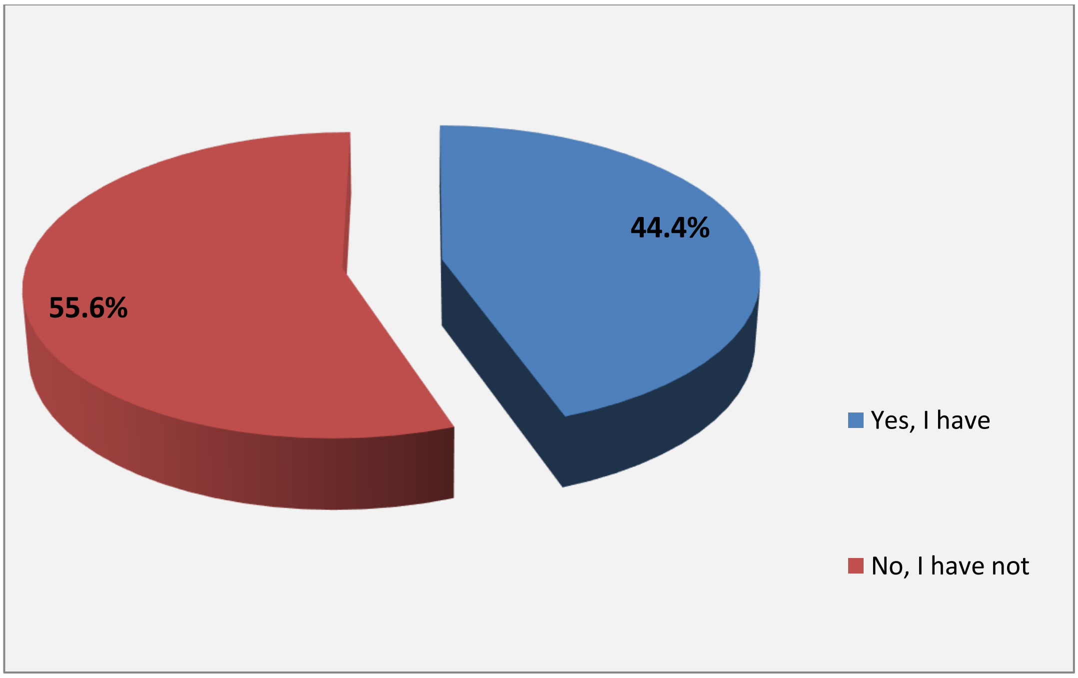


Question 11: Have you faced any moral (non-moral) dilemma in your practice? If yes, which kind?

Audit profession requires high level of objectivity and independence, nevertheless sometimes it is not so easy to implement mentioned compulsions. Auditors face range of challenges and even dilemmas in their audit practice both moral and non-moral dilemmas. Luckily, the majority of respondents (56%) has never faced any dilemma, however a certain percentage stated that they have faced dilemma regarding accounting policies in companies, auditors suspected companies' management in intension of manipulation with operating profit by reason of performance bonuses. This phenomenon is known as agent problem.

Moreover, one of the interviewee was struggling with moral dilemma to be skeptical in judgments and give a modified auditor's opinion, what could possibly lead to the collapse of the financing for audited company and subsequent bankruptcy of the company.

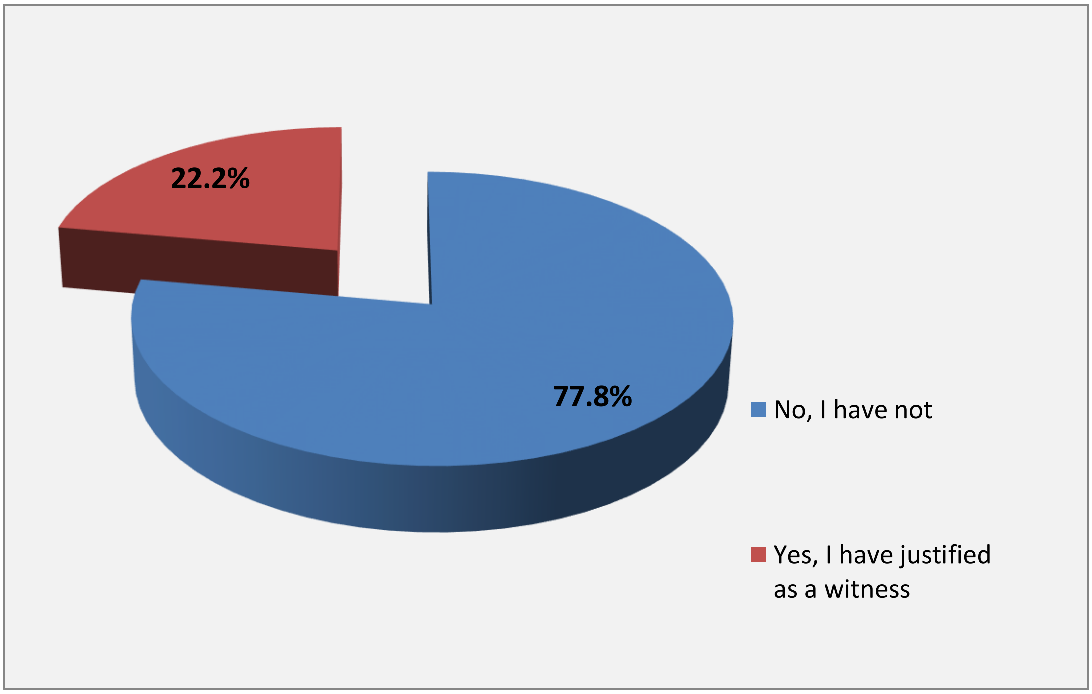
Chart 13: Moral or non-moral dilemmas in auditors' profession (Q11)



Question 12: Have you ever been sued/ attempted to suit in your practice?

None of the respondents has been sued, however two of respondents have justified in a court as witnesses i.e. experts form a field.

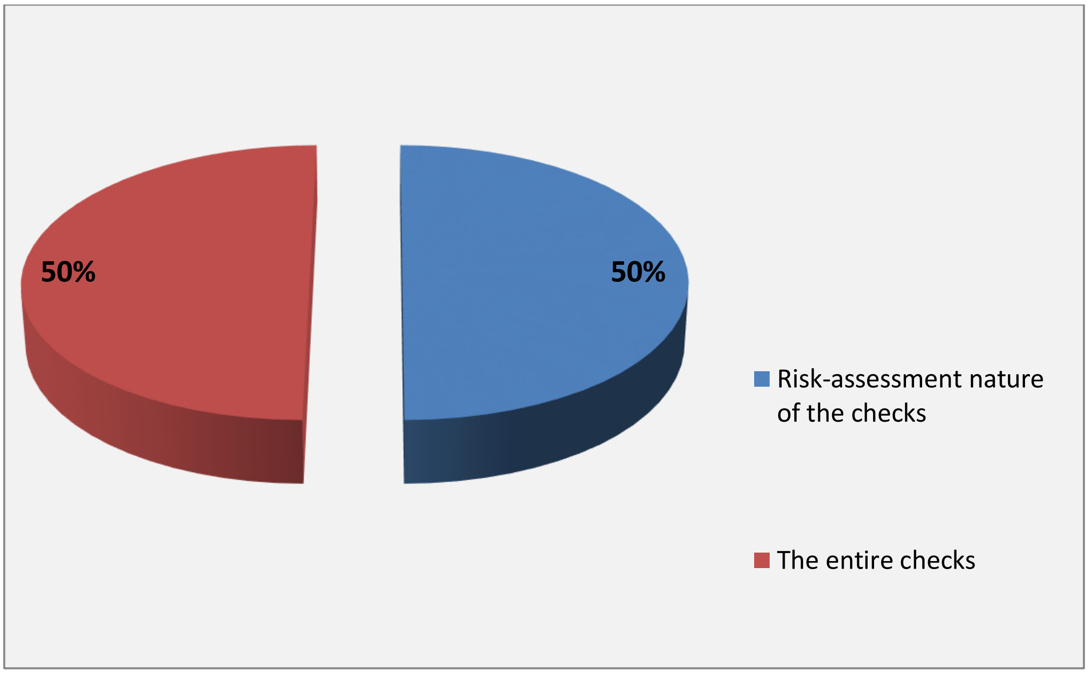
Chart 14: The implication of the auditors into litigations (Q12)



Question 13: In case you have assistants, can you describe in brief the procedure of the check of their work?

The regulatory framework requires auditor to carry responsibility of assistants/subordinates which work on behalf of auditor. All answers are possible to split into two groups: range of the check procedure is based on the assistant risks assessment according to auditors' personal judgment, company's risk-orientated check or equally detailed check regardless assistants or companies background.

Chart 15: A procedure of the auditors check as in-charge managers (Q13)



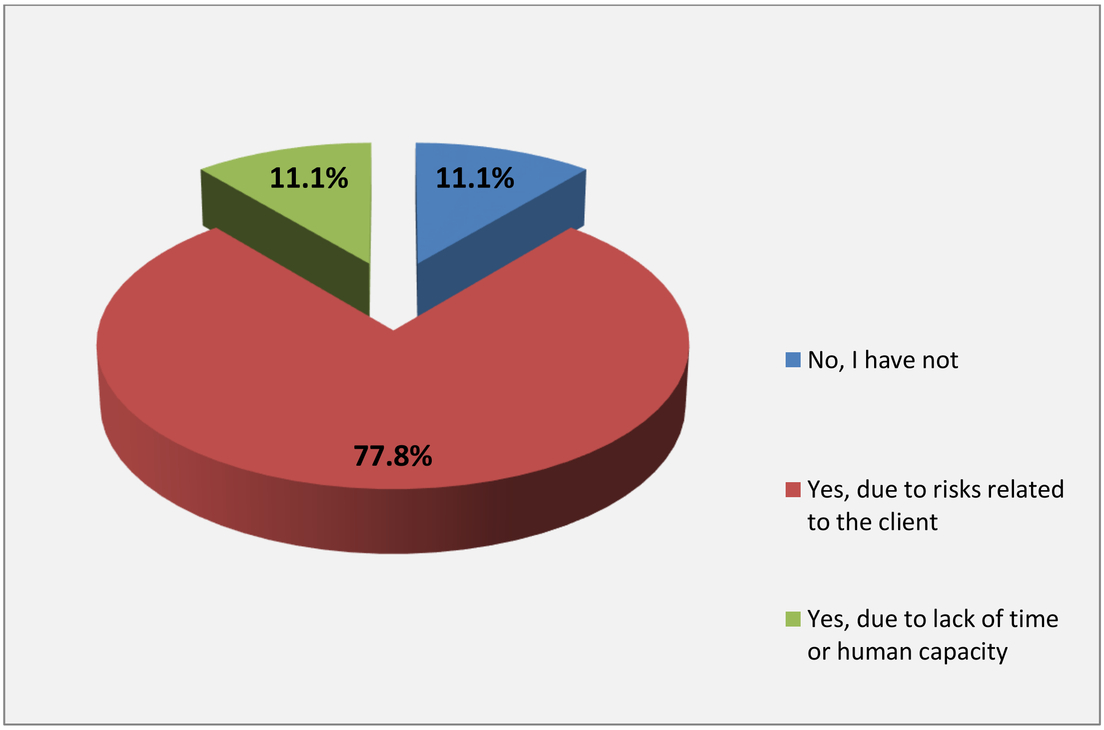
Question 14: Have you ever rejected an engagement by any reason apart from consideration? Why?

As was mentioned above, auditors are very careful with their reputation, reputation clearly depends on the quality of audit and ability to detect a fraud in a company. However, in order to perform an audit, auditors tightly cooperate with management of a company and all documentary received from are treated like reliable, that is why there is a need to be confident regarding good intensions of a company being audited.

There are certain measures and tools to mitigate the risk of the client or incorporate this risk into audit procedure, however practical experience has showed that even for a Big Four companies it can lead to failure.

The main reason of engagements' rejection was clearly risk related to the potential client- its reputation, history. It can include ownership, issues with regulatory bodies both locally and abroad, doubtful business practices or weak corporate policies. A minor reason was lack of human sources or lack of time.

Chart 16: The reasons of an engagement's rejection (Q14)



6.2. Evaluation of the results

As a conclusion of the results gathered from the interviews with the auditors of the Czech Republic, a range of findings such as: similarities and differences of the experts' opinion, issues and concerns of the auditors would be outlined in a practical part of this paper.

Firstly, a full agreement among all interviewed auditors was reached in the question on the level of harmonization of audit and accounting in the Czech Republic. There is no surprise regarding the nature of the auditors' answers: the EU integration procedure claims all Member States to comply with the EU laws. However, some concerns should be expected regarding the optimality of the precision of way of harmonization. There are still some significant gaps in the Czech accounting framework caused by continuous global development of the financial and business environment.

To the acute issues of the Czech accounting law can relate: a restriction to use present value for measurement of liabilities, accounting of leases, accounting for consolidation, M&A accounting. It would be fair to outline that gaps and inaccuracies are being eliminated and adjusted; this increases contribution into the Czech accounting.

On the other hand, some auditors stated that they find current Czech legislation suitable for the Czech market and it is rather beneficial that it is less complicated and demanding at some points that IFRS framework, especially for SMEs. It has a great sense based on the current call for a simplicity of IFRS from both preparers and users.

Regarding audit framework in the Czech Republic, it was stated that there is still a lack of clarity in certain parts. Its current state can be considered as an overregulation proceeding with the lack of clarity on the EU level. Consequently this issue is shifted within time to the national law of the Czech Republic as a Member State.

Second question the respondents fully agreed on was related to the importance of the Code of Ethics in audit profession. A great attention is paid to this concept due to original position of auditors on the financial market as a tool of reduction of information asymmetry. However, pointing out the dilemmas in audit profession, many auditors refer to the problem of auditors' skepticism and potential migration of clientele in case of modified opinion or adverse opinion. Risk of client loss in case of disagreement on accounting policies or treatments was mentioned multiple times as a common issue in audit (mainly manipulation with operating profit).

The main concern lays in a fact that some other audit company or auditor can be less skeptic. In case of neglecting problematic issue and as a result giving unmodified opinion, the client might be considering migrating to a different company or auditor. A rationale can lay in the fact that there were cases when audit companies were accused in neglecting Code of Ethics and approving some suspicious ambiguous practices by clients. The mentioned actions by auditors have caused some collapses and scandals, which reduced the trustworthiness of audit itself. It is reasonable to consider that smaller companies and individual auditors are more exposed to the described issue due to weaker clients' awareness in comparison with bigger companies. All auditors agreed that integrity is a crucial component of their practice and without credibility of auditors, audit profession can become extinct.

In general, it was stated that IFRS has a very detailed and strong conceptual basis, even though due to modern trends on the market there are some issues which are not currently covered such as crypto currencies. Nevertheless, thanks to robust conception it is possible to derive each accounting solution from IFRS.

ISAs are claimed to be rather complicated in implementation and not always clear in its formulation what creates some space for discrepancies in application.

It was expressed by the auditors who are engaged with academic activities in the Czech Republic that sources of inaccuracies in IFRS and ISAs frameworks are on the both sides: creators and translators into national language. They stated how crucial it is to involve into translation people with accounting and audit background to create an accurate vocabulary of terms in the first place.

In the Czech Republic a great contribution was made by the Department of the Financial Accounting and Auditing of the University of Economics in Prague, which worked on the translation and interpretation of the multiple terms such as fair value, true and fair view in accounting, gain and losses. When it comes to ISAs - materiality and even full translation of certain standards.

Considering an impact of new ISAs and IFRS standards on cost-effectiveness of audit engagements it was claimed that certainly it makes auditors' work more time-demanding, especially given the fact that there is an overall tendency of complication rather than simplification. To comply with the regulatory requirements demands more administrative work with clients' file and in general more work with rather non-tangible nature from a client’s point of view. Many auditors stated that it is hard to meet clients' expectation when it comes to amount of time required for audit and simultaneously to comply with all regulatory requirements related to it. Simply saying, just testing and final auditor's opinion are considered as value-creating activities form client's point of view.

Clearly, new standards make auditors' work more time-consuming, what means either higher price for clients or losses on the auditors’ side. Secondly, there is no doubt that it is harder to cope with additional documentation work for smaller companies or individual auditors due to lack of assistants or absence of assistants, furthermore fees for audit services are lower than in bigger companies what shifts losses on auditors' side. To sum up, there is a pressure for smaller companies which cannot be competitive in the same way.

Based on the further discussion with auditors, the main competitive advantages of the Big Four companies which were observed are:

- higher involvement of the IT tools during audits what saves costs and improves engagements' effectiveness,
- greater investment into employees' education and presentation with new legislative updates and trainings on implementation of them,
- greater expert human sources.

To conclude, all questioned auditors consider accounting and audit regulation in the Czech Republic as a satisfying one but with space for improvement. IFRS and ISAs standards were claimed to be detailed and conceptual, however in the certain parts needlessly complex and sophisticated. Based on the results of the interviews conducted, the level of audit implementation in the Czech Republic can be considered as sufficient.

Conclusion

The purpose of this thesis was to provide an insight into history of accounting and audit legislations in the European Union and in the Czech Republic. Secondly, to describe main events, disputes and achievements of IFRS and ISAs adoption and implementation in the European Union and in the Czech Republic. Furthermore, to evaluate a current role of ISAs as harmonization tool. As the practical part of this thesis, semi-structured interviews with Czech auditors were conducted in order to value how IFRS and ISAs standards are implemented in the Czech Republic and based on information collected to draw a conclusion on audit sufficiency, challenges and potential perspectives in audit in the Czech Republic.

Since its establishment an ultimate goal of the European Union integration was a creation of the internal financial market. In order to reach it, IFRS and ISAs frameworks were adopted. IFRS as a global set of accounting standards contributes into transparency and credibility of financial statements of the European companies, therefore improves comparability of companies' financial statements, attracts foreign investors and contributes into capital market integration. Furthermore, there are clear benefits of IFRS use at the companies' level, for instance increased attraction for investors, cost reduction, risk of penalty reduction and better cash management (i.e. dividend payout).

Certainly, ISAs contribute into audit quality therefore help to reduce information asymmetry as a result to protect investors and other stakeholders and contribute into development of internal audit market in the European Union.

The International Auditing and Assurance Standards Board (IAASB) is in charge of issuing ISAs and plays a role of independent standard-setter in auditing. The International Accounting Standards Board (IASB) is independent standard-setting body, which issues IFRS standards.

Experts in accounting and audit establish a range of associations and unions to bring their knowledge together and to cooperate on the continuous development of IFRS and ISAs. Multiple expert organizations are involved into improvement, development or even educating and certificating activities: the European Financial Reporting Advisory Group (EFRAG), the Association of Chartered Certified Accountants (ACCA), The Institute of Chartered Accountants in England and Wales (ICAEW), the International Financial Reporting Interpretations Committee (IFRIC), The Federation of European Accountants (FEE, now Accountancy Europe), the Public Interest Oversight Board (PIOB), the Committee on Auditing, the Public Interest and Accountability Committee (PIAC), Committee of the European Audit Oversight Bodies (CEAOB and many others at national level of Member States. On the territory of the Czech Republic operates a range of expert institutions such as the Chamber of Certificated Accountants, the Chamber of Auditors, the Institute of Certification of Accountants (the ICA), the National Accounting Board (NAB). Moreover, the University of Economics in Prague represented by the Faculty of Finance and Accounting is actively participating in expert activities and contributes into accounting and audit at the national level in a great way.

At the early stage, after the first year of IFRS adoption in the EU, an improved quality of reporting was questioned by stakeholders. However, auditors as a user group appreciated it the most. Regarding investors and preparers their first reaction was rather skeptic—only slightly more than half has agreed that reporting quality has improved since IFRS adoption. In the begging, investors found IFRS hard to understand with a lack of clarity. Unfortunately, clarity and complexity of IFRS are still criticized by stakeholders.

According to the historical development of IFRS is evident that to the most ambiguous IFRS standards belong: IAS 39 Financial instruments later on IFRS 9 Financial instruments, IFRS 3 - Business combinations, IFRS 7 - Financial instruments: disclosures, IAS 36 - Impairment of assets, IAS 38 Intangibles (goodwill), IAS 17 - Leases (was newly reintroduced as IFRS 16).

The main reasons can lay behind fluctuating financial environment, lack of precise definition of terms at the early stage of IFRS adoption and lack of overall principles on disclosures in a separated standard.

Regarding ISAs, the Clarity Project can be considered as a turning-point, during which many ISAs were revised substantively including both content and format, for instance: ISA 230 on Audit documentation, ISA 300 on Planning an audit, ISA 720 on Auditors' responsibilities relating to other information. The main goal of it was to enhance audit quality, understandability and principally to restore a belief in audit after several scandals happened earlier.

In general, within overall regulatory audit development, a great attention was always paid to the issues of auditors' independence, ethics in audit, quality of audit and the European Union audit integration.

For this year, current status of adoption of ISA is almost 80% while IFRS is around 55%.

To the main findings of the practical part, semi-structured interviews Czech auditors, belong an overall auditors' opinion that IFRS and ISAs still have a lack of clarity or practical interpretation what results into inappropriate implementation. In general, there is a tendency for complication of standards rather than simplification, however there is a range of phenomenon which are currently not covered by IFRS, but thanks to the strong conceptual basis companies can derive any accounting solution on their own.

Current opinion of auditors states that audit in the Czech Republic is overregulated (mainly at the EU level) what creates loss of effectiveness and increased costs for smaller or medium-size audit companies and individual auditors. Regarding the accounting framework, there is a call for changes in areas such as M&A accounting, leases, techniques of liability measurement.

Quality of audit can be considered as a sufficient, regardless the size of audit company. To the biggest audit future perspectives can relate higher involvement of IT techniques. This trend obviously brings Big Four companies an additional competitive bid over smaller players on the audit market due to the fact that mentioned techniques are developed internally and require special experts in IT and significant funding.

To the biggest challenges of auditors' profession belongs conflict of interest and ethical dilemma due to the nature of business - relations between client and auditor and subsequently exposure to client loss risk. One more time, there is bigger pressure for smaller audit firms and individual auditors, considering smaller clientele than in the Big Four companies, however in case of failure - stronger damage on companies' reputation.

In general, accounting and audit regulatory frameworks are considered by interviewed auditors as satisfying - existing gaps and inaccuracies are gradually being eliminated. However, there is still space for improvement due to continuous changes in the business environment in the Czech Republic.

Based on all information mentioned above, the purpose of this thesis is considered to be fulfilled.

Bibliography

ACCA, *"THE IAASB CLARITY PROJECT"*, 2018 <http://www.accaglobal.com/my/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/iaasb-clarity-project.html>

Committee of European Securities Regulators, *Annual Activity Report on IFRS Endorsement*, 2009, <https://www.esma.europa.eu/sites/default/files/library/2015/11/10_917.pdf >

Committee of the European Audit Oversight Bodies , Annual report 2017, 2017 <https://ec.europa.eu/info/files/ceaob-annual-report-2017_en>

Czech National Bank, response to Green Paper – Audit Policy: Lessons from the Crisis, 2011, <https://www.cnb.cz/miranda2/export/sites/www.cnb.cz/en/supervision_financial_market/legislation/other/CNB_comments_on_Green_Paper_on_Audit_Policy.pdf>

Data Analytics Working Group, *"Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics"*, IAASB, 2016, < https://www.ifac.org/publications-resources/exploring-growing-use-technology-audit-focus-data-analytics>

Deloitte *"IFRS Survey Where Are We Today?"*, 2008, <https://www.iasplus.com/en/binary/dttpubs/2008ifrssurvey.pdf>

Deloitte. "IAS Plus." *European Financial Reporting Advisory Group (EFRAG)*, 14 Dec. 2012, <www.iasplus.com/en/resources/regional/efrag.>

European Banking Authority , first report on impact of IFRS 9, 2016 <https://www.eba.europa.eu/-/eba-provides-its-views-on-the-implementation-of-ifrs-9-and-its-impact-on-banks-across-the-eu>

European Commission, *Communication on the statutory audit in the European Union: the way forward*, 1998, < https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:31998Y0508(01)&from=EN>

European Commission, recommendation on quality assurance for the statutory audit in the European Union: minimum requirements (notified under document number C 2000) 3304),

< http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:120:0020:0024:EN:PDF>

European Commission, study *"Ownership rules for audit firms"*, 2007, <http://ec.europa.eu/internal_market/auditing/docs/market/oxera_report_en.pdf>

European Securities and Markets Authority, EECS's Database <https://www.esma.europa.eu/press-news/esma-news/esma-publishes-21st-extract-eecs%E2%80%99s-database-enforcement >

European Securities and Markets Authority, report *"Enforcement and Regulatory Activities of Accounting Enforcers in 2016"*, 2017, <https://www.esma.europa.eu/sites/default/files/library/esma32-51-382_report_on_enforcement_activities_2016.pdf>

Federation of European Accountants, discussion paper *"The functioning of Audit Committees"*, 2012, <https://www.iasplus.com/en/news/2012/june/fee-seeks-better-financial-reporting-through-audit-committee-improvements>

Federation of European Accountants, policy Statement *"Standing for trust and integrity"*, 2009, <https://www.accountancyeurope.eu/wp-content/uploads/News_Release_COP_15_091202212200919912.pdf>

IFRS Foundation, *"Pocket Guide to IFRS Standards—the global financial reporting language"*, 2017, < https://www.ifrs.org/-/media/feature/around-the-world/documents/pocket-guide-2017.pdf >

Institute of Chartered Accountants in England and Wales *"The Effects of Mandatory IFRS Adoption in the EU: A Review of Empirical Research"*, 2014 , <https://www.icaew.com/-/media/corporate/files/technical/financial-reporting/information-for-better-markets/ifbm/effects-of-mandatory-ifrs-adoption-april-2015-final.ashx?la=en>

International Auditing and Assurance Standards Board, *"Auditing Handbook B010 Clarity Project Information"*, 2008

International Auditing and Assurance Standards Board, report on activities in 2015, 2015, <https://www.iaasb.org/publications-resources?publication-type=77&source=30&language=87&keyword=Search+Publications&x=43&y=9>

Komora Auditoru CR, < https://www.kacr.cz/o-komore-auditoru >

Komora Ucetnich, < http://www.komora-ucetnich.cz/cze/informace-komory>

Magazine "Auditor" from 06/2011, KAČR, 2011, < http://www.komora-ucetnich.cz/ >

Maystadt Philippe, report *"Should IFRS be more "European"?"*, 2013 <http://ec.europa.eu/internal_market/accounting/docs/governance/reform/131112_report_en.pdf>

Skalova a kolektiv, *Podvojne ucetnictvi*, 2018, p.14, ISBN: 978-80-271-0868-8

United Kingdom Financial Reporting Council , discussion paper *"Thinking about disclosures in a broader context"*, 2012, < https://www.frc.org.uk/consultation-list/2012/discussion-paper-thinking-about-disclosures-in-a>

World Federation of Exchanges*, Letter in response to a consultation paper of the IOSCO Technical Committee by World Federation of Exchanges*, 7 June 2007

World Federation of Exchanges, *WFE Members*, <https://www.world-exchanges.org/home/>

Binding legislation

Act No. 524/1992 Coll.

Act 353/2001 Coll.

Act No. 563/91 Coll.

Act No. 93/2009 Coll.

Czech Accounting Standards for Entrepreneurs

Decree No. 500 - 507/2002 Coll.

Directive 2006/43/EC

Directive 2014/56/EU

European Commission, Decision on the equivalence of certain third country public oversight, quality assurance, investigation and penalty system, 2011

Regulation (EC) No 1606/2002

Regulation (EC) No 2238/2004

Regulation (EU) No 258/2014

List of charts and tables

Appendix 1: A list of questions

Q1: Have you attended any qualification/educatory course on IFRS or/and ISA's? If yes what kind?

Q2: Do you follow IFRS or/and ISA's news? If yes, how exactly (sources, web pages) / How often?

Q3: Do you agree that Czech accounting and auditing laws are harmonized with EU framework? If yes, to which extent?

Q4: In your opinion, to what extent a real-life practice is covered by the scope of IFRS and /or ISA's framework?

Q5: How did application of ISA's and/or IFRS influence accounting/ auditing practices in the Czech Republic?

Q6: What is the most frequent standard framework in your accounting/auditing practice? (If it is possible rank mentioned standards according to frequency

Q7: How do the new IFRS or ISA's change working cost-effectiveness (time, price) of the engagements?

Q8: Have you ever met any inaccuracies or irrelevancies in IFRS and ISA's according to you?

Q9: Which part of ISA's do you find the most precisely applicable in your practice?

Q10: How important do you think is Code of Ethics in auditing?

Q11: Have you faced any moral (non-moral) dilemma in your practice? If yes, which kind?

Q12: Have you ever been sued/ attempted to suit in your practice?

Q13: In case you have assistants, can you describe in brief the procedure of the check of their work?

Q14: Have you ever rejected an engagement by any reason apart from consideration? Why?