STANDARD SUMMARY PROJECT FICHE

1. Basic Information
   1.1 Désirée Number: CZ01-04-02
   1.2 Title: New concept of legislative regulation of Accountancy and application of IAS
   1.3 Sector: Internal Market/Finance
   1.4 Location: Ministry of Finance, Czech Republic

2. Objectives
   2.1 Overall Objective(s):
   • Ability to assume the obligations of EU membership, including adherence to the aims of political, economic and monetary union
   • Existence of functioning market economy, as well as the capacity to cope with the competitive pressure and market forces within the EU

   2.2 Project Purpose:
   • To introduce a new concept of legislative regulation on Accountancy in line with the EU acquis and to establish International Accountancy Standards (IAS)

   2.3 Accession Partnership and NPAA priority
   Complete the legislative framework for internal and external financial control; set up a central organisation within the government for harmonising internal audit/control functions; set up internal audit/ control units in spending centres; introduce “functional independence” for internal controllers/ auditors at central and decentralised levels and “ex-ante” financial control. (AP)

   Ensuring sufficient comparability, reliability and transparency of accountancy data in all sectors for better functioning of markets, free movement of capital and services and protection of investors (AP/NPAA)

3. Description

   3.1 Background and justification:
   In a recent Communication, the European Commission has outlined a strategy for future financial reporting in Europe. The strategy is designed to help eliminate remaining barriers to cross-border trading in securities, in particular by recommending that there be one set of accounting standards so that company accounts throughout the European Union are more transparent and can be more easily compared. A single set of standards should make it easier to compare corporate performance, to raise capital and to enhance investor protection. The strategy is a key element of the Financial Services Action Plan adopted in May 1999. The Lisbon Summit also explicitly insisted on the creation of an efficient, deep and liquid securities market in Europe.

   It has been pointed out by the Commission that the adoption of International Accounting Standards (IAS) is the way forward. In order to adopt IAS, the Member states will have to move from a traditional tax-oriented accounting towards a financial reporting scheme which is investor-oriented. The European Commission announced, that it proposed to establish a committee to promulgate International Accounting Standards.
Standards (IAS) within Europe. Before the end of 2001 the Commission will come forward with a proposal to amend the Accounting Directives so as to bring them up to speed with fundamental changes that have happened since their adoption. The Commission will require all EU companies listed on a regulated market to prepare consolidated accounts in accordance with International Accounting Standards. This requirement would enter into force at the latest from 2005 onwards. Member states would be allowed to extend this requirement to unlisted companies and for preparing individual accounts. Since transparency and comparability are of particular importance for financial institutions, this policy will also cover listed banks and insurance companies.

In view of the above mentioned new trends in EU requiring substantial changes, both of conceptual and implementation character, the Czech Republic will have to be appropriately prepared. With this respect a kind of awareness training for the officials of the Ministry of Finance and members of professional institutions is deemed as highly appropriate and useful.

3.2 Linked activities:
Assistance provided under Phare project Consultations on the Accountancy Act CZ9703-01-02-05-10. The recommendations were taken into account in new legislative draft which is currently subject to parliamentary deliberations.

3.3 Results:
• A prepared draft legislative status of accountancy profession in CR
• A proposal containing the status, role and content of the Czech national accountancy standards
• A proposal introducing IAS into national legislative framework and practice
• Trained trainers

3.4 Activities:
TA will be provided, preferably by the professional bodies in EU member states: Training of trainers for the professional organisations in accountancy concepts and application of IAS: 120-150 trainers should be trained, in order to ensure further training for ca. 2500 professionals.
• Consultations and seminars (for the Ministry of Finance and the professional institutions) on the development of the accountancy concepts and the application of the IAS in national legislation and practice in EU member states
• Assistance with the official translation and interpretation of updated IAS to the “Commission on issues of Accountancy Regulation and further development of Accountancy and Audit Professions of Minister of Finance”.

Short term experts are required to have the theoretical background in accountancy concepts and standards, as well as experience with the application of IAS into national legislation and / or regulation frameworks.

Provision for translation/ interpretation should be included in the budget of the project.
4 Institutional Framework
The Ministry of Finance is responsible for legislation concerning accountancy and audit. The approximation of the Czech accountancy to the EU acquis and environment has passed through several phases and could not be finalised yet due to new developments and trends in this area. The first phase was the adoption of the new Act on Accountancy in 1991. The Act and its subsequent amendments led to the approximation of the Czech accounting requirements to the EU Directives, and with the most recent draft of the Act on Accountancy, presented by the Government to the Parliament, full compliance should be ensured. By this legislative amendments the transformation of the Czech accountancy system would commence.

The new accounting legislation, that will be formulated according to the proposal to amend the Accounting Directives, introduces the concept of Czech national standards with respect to their compliance with the IAS where appropriate. Respective regulations are to be issued with the full involvement of the professional institutions. The first draft of the Framework to the Czech National Standards should be prepared as soon as the proposal to amend the Accounting Directives will be published.

In order to facilitate the process of transformation of the accountancy system the National Accountancy Council with the participation of accountancy and auditing institutions and academic circles was established in 1999. Further, in order to ensure a broader view of the relevant stakeholders in the development of accountancy and audit concepts and standards a new advisory body of the Minister of Finance was set up in September 2000. This body was entitled “The Commission for issues of regulation and further development of the accountancy and audit”. The Minister of Finance has nominated the representatives of the MoF and of the relevant institutions (Czech National Bank, Union of Accountants, Chamber of Auditors, Chamber of Tax Advisors, Securities Commission, Czech Association of Insurance Companies, Prague University of Economics, etc.) to become members of this Commission. In total the Commission has 17 members, the approved status and rules and is chaired by the Deputy Minister of Finance responsible for accountancy and audit issues.

The introduction and incorporation of the IAS into Czech accounting system will require substantial conceptual and legal changes of up-to-now tax-oriented accountancy, i.e. a distinctive separation of accountancy from the taxes, and subsequent changes related to implementation rules. This objective will have to be implemented in several phases, namely through legislative provisions related to the establishment of new regulation of accountancy. A new Act on Accountancy should become a conceptual framework for a new accountancy system. Within this framework new accountancy national standards should be drafted and adopted in such a manner that they would comply with the IAS to a maximum extent and would reflect a rapidly changing economic environment in a most flexible way.

Results of the project will lead to a change in the institutional framework in accordance with amended Accounting Directives in order that IAS would be implemented into the Czech legal system till 2005. The requirement for 2005 means that in practice by 2003 changes must be done. This fact will require major training on IAS for many accountants and to increase a pressure on professional accounting bodies responsible for the development of accountancy profession in CR.
5 Detailed Budget in M Eur

<table>
<thead>
<tr>
<th>Phare</th>
<th>Support</th>
<th>Investment</th>
<th>Institution Building</th>
<th>Total Phare (=I+IB)</th>
<th>National Cofinancing*</th>
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6 Implementation Arrangements

6.1 Implementing Agency
CFCU is the Implementing Agency responsible for tendering, contracting and accounting. Responsibility for technical aspects related to preparation, implementation and control will rest with the PIU of the Ministry of Finance being in charge of the Phare projects designed for the MoF and financial non-banking sector.

The Contact Person for the project is Ms Jana Stará, Senior Programme Officer (SPO), Ministry of Finance, Letenská 15, Praha 1, tel. +420 2 5704 2612, fax: +420 2 5753 3803; e-mail: jana.stara@mfcr.cz.

6.2 Twinning n/a

6.3 Non-standard aspects
The "Practical Guide to Phare, Ispa & Sapard contract procedures" shall be followed. The professional institutions or associations in area of accountancy and audit should be approached.

Contracts
Technical Assistance Contract - 1.00 M €

7 Implementation Schedule

7.1 Start of tendering/call for proposals 4 Q / 2001
7.2 Start of project activity 2 Q / 2002.
7.3 Project Completion 4 Q / 2003

8 Equal Opportunity
Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

9 Environment NA
10 Rates of return NA
11 Investment criteria NA

12. Conditionality and sequencing
The draft legislation and proposals concerning the concept(s) and its implementation, in particular with reference to the application of IAS in Czech
accountancy system will be presented to the Government for further legislative and/or administrative procedure. This will fully reflect the outcome of the project.

Professional institutions will be fully involved during the course of the project implementation, in view of their enhanced role in the development and implementation of a new concept and introduction of the IAS into Czech accountancy system.

Training of trainers in accountancy concepts and application of IAS will be essential. Some 120-150 trainers should be trained in order to facilitate the future training for cca 2500 professionals.

Annexes to project Fiche

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)
Project: **New concept of legislative regulation of Accountancy and application of IAS**

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of verification</th>
<th>Assumptions</th>
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| • Existence of functioning market economy, as well as the capacity to cope with the competitive pressure and market forces within the EU  
• Ability to assume the obligations of EU membership, including adherence to the aims of political, economic and monetary union. | • Acknowledgement by the European Commission | • EC Regular Report |  |

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<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of verification</th>
<th>Assumptions</th>
</tr>
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</table>
| • To introduce a new concept of legislative regulation on Accountancy in line with the EU acquis and International Accountancy Standards (IAS) into Czech accountancy system. | • Transparency and comparability of financial reporting  
• IAS introduced into accountancy system and National Accountancy Standards (NAS) elaborated | • Annual company reports  
• Stock Exchange Rules of the BCPP  
• NAS Member Guidelines | • All EU legislation is adopted and implemented, and national and local government offices and officials are capable of carrying out these tasks. |

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| • A new legislative status of accountancy profession in CR prepared  
• A proposal containing the status, role and content of the Czech national accountancy standards  
• A proposal introducing IAS into national legislative framework and practice  
• Trained trainers | • Submission of a coherent set of legislative measures regarding the accountancy profession  
• Draft of NAS standards  
• Draft proposal for the introduction of IAS into Czech national legislative framework by Mar 2003  
• 120 – 150 trainers available | • MoF | • A new concept and respective legislation is adopted by the Parliament  
• .  
• New accountancy regulations and rules are adopted and introduced by the established procedures. |
<table>
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<tr>
<th>Activities</th>
<th>Means</th>
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<tr>
<td>• Deliver advice, consultations and seminars (for the Ministry of Finance and the professional institutions) on the development of the accountancy concepts and the application of the IAS in national legislation and practice in EU member states</td>
<td>• Service Contract for TA (following a tender according to DIS)</td>
<td>• New accountancy and related legislation is approved by the Government and presented to the Parliament</td>
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<td>• Assistance with the official translation and interpretation of updated IAS to the “Commission on issues of Accountancy Regulation and further development of Accountancy and Audit Professions of Minister of Finance”</td>
<td>• Short-term experts are required to have the theoretical background in accountancy concepts and standards, as well as experience with the application of IAS into national legislation and/or regulation frameworks</td>
<td>• Appropriate steps on the conceptually new accountancy legislation are taken, as the Accountancy Act currently in force is based on completely different concept and will have to be substituted by substantially different legislative provisions.</td>
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<tr>
<td>• Training of trainers for the professional organisations and institutions (e.g. Union of Accountants, Chamber of Auditors of the CR, Chamber of Tax Advisors, etc) in accountancy concepts and application of IAS; 120-150 trainers should be trained, in order to ensure further training for cca 2500 professionals.</td>
<td>• Experts should have experience in training in this field</td>
<td>• The training modules will be incorporated in the existing system of education established by the relevant professional bodies.</td>
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<td>• Service Contract for TA (following a tender according to DIS)</td>
<td>• Provision for translation/interpretation should be included in the budget of the project</td>
<td>• Provision for translation/interpretation should be included in the budget of the project</td>
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<th>Preconditions</th>
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<tr>
<td>• Written agreement from the professional bodies that a budget has been allocated for the future training of the additional cca 2500 professionals.</td>
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New concept of legislative regulation of Accountancy and application of IAS

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4. Detailed implementation chart

November 2001: Start of the tendering
May – September 2002: Proposals for separation of accountancy and taxes
October 2002: Approval of the method used in the process of separation of accountancy and taxes
Sept 2002 – March 2003: Proposals for implementation IAS
April - May 2003: IAS in Czech national legislative framework applied
June – July 2003: Coherent set of legislative measures regarding the accountancy profession
July – Dec 2003: National Accounting Standards developed
Cumulative Contracting and Disbursement Schedule for the Project (in M €)

Annex 3

### Cumulative Quarterly Contracting Schedule

<table>
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### Cumulative Quarterly Disbursement Schedule

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Date of Drafting 22.02.2001