STANDARD SUMMARY PROJECT FICHE

1. **Basic Information**

1.1 **Désirée Number:** 2002/000-282.04.04

1.2 **Title:** Application of IAS to Unlisted Companies

1.3 **Sector:** Internal Market and Economic Criteria

1.4 **Location:** Czech Republic

2. **Objectives**

2.1 **Overall objective**
Functioning market economy as well as the capacity to cope with competitive pressure and market force.

The ability to take on obligations of membership including adherence of political, economic and monetary union.

2.2 **Project purpose**
To support the substantial changes in the Czech accounting legislation and accounting system by extending the application of the International Accountancy Standards (IAS) to unlisted companies and for preparation of individual final accounts, in compliance with the EC recommendations (Proposal for a regulation of the European Parliament and of the Council on the application of IAS - see 2001/C 154 E/29).

2.3 **Accession Partnership and NPAA priority**
AP: Ensuring sufficient comparability, reliability and transparency of accounting data in all sectors for better functioning of markets, free movement of capital and services and protection of investors (AP / NPAA)

NPAA: see above

2.4 **Contribution to National Development Plan**
N.A.

2.5 **Cross Border Impact**
N.A.

3. **Description**

3.1 **Background and justification**
Across the world, national governments, regulators and accountancy professionals are taking active steps to consider how their national accounting rules differ from International Accounting Standards / International Reporting Standards (IAS/IFRS), and to reduce those differences as a reaction to the European Commission strategy for future financial reporting in Europe. Adoption of IAS/IFRS for listed companies is the requirement that would enter into force at the latest from 2005 onwards. Member states will be encouraged to extend this requirement also to unlisted companies and for preparing individual final accounts. It is important that even those companies which are not listed outside their own national borders – but in which foreign interests may wish to invest or become otherwise involved – should produce financial statements using internationally consistent accounting policies and standards.

Enlargement of the above mentioned requirements would support credibility of the Czech accounting environment in view of the investors. Adoption of high-quality accounting standards, which are globally recognized maintain adequate systems of subsequent control in the form of internal or external audit.

In order to include new trends in EU, e.g. to provide transparent and comparable information not only by listed companies in the form of consolidated financial statements, the Czech accounting system required substantial changes which were of conceptual and implementation character (this task is the objective of the project 2001: New concept of legislative regulation of Accountancy and application of IAS/IFRS). This project (2002) would have to continue in the process of implementation of IAS/IFRS, this time to unlisted companies and for preparing individual final accounts in compliance with IAS/IFRS. Extension of these requirements for unlisted companies and individual final accounts has fundamental influence on the
present tax system too. Purpose of the project is therefore to build up a solid system allowing implementation of IAS/IFRS for unlisted companies and individual final accounts, to build up a system of interpretations and recommended procedures for accountants on the basis of IAS/IFRS.

Prior to the preparation of the implementation system, there have to be verified intended results in the field research project that should become part of the Project 2002.

Amendment to the Act on Accounting No. 563/1991 Col., as amended, was approved by the Parliament on September 18, 2001. The Act on Accounting will enter into force on January 1, 2002.

Amendment to the Act on Accounting No. 563/1991 Col, as amended, is in compliance with the Community acquis. Modifications in the amendment are the final step towards alignment with the acquis. These modifications respect Commission recommendation concerning implementation of International Accounting Standards into the national Law in order to prepare consolidated financial statements exclusively according to IAS/IFRS and recommendation that allow fair value accounting for financial instruments.

3.2 Linked activities

- This project would be a follow-up to previous Phare project CZ01.04.02 “New concept of legislative regulation of accountancy and application of IAS/IFRS” to be implemented under NPP 2001 and focused mainly on the conceptual legislative issues, establishment of Czech accountancy framework corresponding to EC requirements and application of IAS/IFRS by listed companies.

3.3 Results

a) Extend the application of acquis-compliant accountancy rules in general and International Accountancy Standards (IAS) in particular to unlisted companies, thereby underpinning ongoing substantial changes to Czech accounting legislation and the accounting system.

b) Correct application of IAS by a substantial number of Czech unlisted companies and individual accounts, including IAS-compliant financial statements.

c) Increased confidence by foreign investors in the Czech business environment.

a) Development of IAS training model that can be used throughout the Czech Republic in the medium - to - long term future.

3.4 Activities

**Technical Assistance (0.5 M€)**

a) Consultations, seminars and workshops on IAS/IFRS application on the unlisted companies and individual final accounts

b) Preparation of training modules for Ministry of Finance, professional bodies and academic circles involved in IAS/IFRS application

c) Training of trainers specialised in IAS/IFRS application to the unlisted companies and individual final accounts (professional accountancy staff and in particular the trainers trained under previous Phare project will participate in the modules)

3.5 Lessons learned

All relevant recommendations from previous projects have been taken into account.

4. Institutional Framework

The Ministry of Finance is responsible for legislation concerning the accountancy and audit. In the view of the new trends in EU (see article 3.1) requiring substantial changes and within the scope of experience from past few years, the Czech accounting environment is expected to undergo substantial changes and professional bodies will be more involved in the overall process. For these reasons an advisory body of the Minister of Finance was set up in September 2000 which continues to work on the new legislative framework and application of IAS/IFRS. This advisory body entitled the "Commission for issues of regulation and further development of the accountancy and audit" is composed of the representatives of the MoF and of the relevant institutions such as 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. The Commission is chaired by the Deputy Minister of Finance responsible for accountancy and audit issues, acts according to the approved status and is guided by its adopted internal rules. It is also expected that the transfer of knowledge to the institutions involved will enhance the professional level of its members through training during the implementation of the project, including training of trainers to ensure the sustainability of the project.
5. Detailed Budget (mil. €)

<table>
<thead>
<tr>
<th>Project Component</th>
<th>Phare Support</th>
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<th>National Cofinancing</th>
<th>IFI</th>
<th>TOTAL</th>
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<tbody>
<tr>
<td></td>
<td>Investment</td>
<td>Institution Building</td>
<td>(A+I) B</td>
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<tr>
<td>TA (Service contract)</td>
<td>0.5</td>
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<tr>
<td>Total</td>
<td>0.5</td>
<td>0.5</td>
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</table>

6. Implementation Arrangements

6.1 Implementing Agency
The 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 beneficiary institutions and will be co-ordinated by the Ministry of Finance.
The contact person for the project is Ms Jana Stará, Senior Programme Officer for Phare projects of the MoF and Finance Non-Banking Sector, Ministry of Finance, Letenská 15, Prague, tel. +4202587042612, fax +4257049236, e-mail Jana.Stara@mfcr.cz

6.2 Twinning  n/a

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

6.4 Contract
(1) Service Contract – TA – 0.5 M €

7. Implementation Schedule

7.1 Start of tendering/call for proposals  1Q/03
7.2 Start of project activity  3Q/03
7.3 Project Completion  4Q/04

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

9. Environment
n.a.

10. Rates of Return
n.a.

11. Investment Criteria
n.a.

12. Conditionality and Sequencing
The proposals for amendments to legislation, procedures and structures resulting from the project will be reflected in proposals put forward by the Ministry of Finance to the Government of the Czech Republic. The EU Action Plan for Financial Services will be observed. 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/IFRS into Czech accountancy system, including their direct participation in drafting the national accountancy standards to be based on the the IAS/IFRS. Both the MoF and the professional association (Union of Accountants / SU) undertake to provide office facilities and assist in organising the events related to the project executions. The MoF and SU are fully committed to allocate the appropriate resources.
to the project in order to achieve the objectives and ensure sustainability of the project after termination of the Phare support.

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
# LOGFRAME PLANNING MATRIX

<table>
<thead>
<tr>
<th>Project title: Application of IAS for unlisted companies</th>
<th>Programme number: 2002/000-282.04.04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiary institution: Ministry of Finance</td>
<td>Total budget: 0.5 mil.€</td>
</tr>
<tr>
<td>Contracting period expires: 31/10/2004</td>
<td>Phare budget: 0.5 mil.€</td>
</tr>
<tr>
<td>Disbursement period expires: 31/10/2005</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functioning market economy as well as the capacity to cope with competitive pressure and market force; The ability to take on obligations of membership including adherence of political, economic and monetary union;</td>
<td>EC recognition</td>
<td>Regular Report</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To support the substantial changes in the Czech accounting legislation and accounting system by extending the application of the International Accounting Standards (IAS) to unlisted companies and for preparation of individual final accounts, in compliance with the EC recommendations (Proposal for a regulation of the European Parliament and of the Council on the application of IAS - see 2001/C 154 E/29).</td>
<td>Sufficient comparability, reliability and transparency of accounting data in all sectors; Better functioning of markets, free movement of capital and services and better protection of investors; National Accounting Standards (NAS) complying with the IAS used by unlisted companies and in preparation of individual final accounts</td>
<td>Official Journal, Ministry of Finance and in particular the Commission for issues of Accountancy Regulation and further development of Accountancy and Audit profession of the Minister of Finance; Professional institutions (Union of Accountants, Chamber of Auditors of the Czech Republic, Chamber of Tax Advisors); Academic sources (University of Economics, Prague etc.) and independent research institutions</td>
<td>Other parts of the 2nd and 3rd Copenhagen criteria fulfilled.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>d) Extend the application of acquis-compliant accountancy rules in general and International Accounting Standards (IAS) in particular to unlisted companies, thereby underpinning ongoing substantial changes to Czech</td>
<td>Financial statements of Czech companies and institutions set up in line with the IAS; Appropriate application of IAS for unlisted companies, including small and medium enterprises; Existence of transparent and comparable accountancy system in the</td>
<td>MoF and in particular the Commission (see above); Professional institutions (see above); Academic sources and research institutions</td>
<td>New concept of accountancy framework based on IAS and respective legislation for Czech accountancy system introduced; Decision on the extension of IAS (appropriate) application to unlisted companies and individual final accounts will be taken and corresponding legal measures will be adopted.</td>
</tr>
<tr>
<td>Activities</td>
<td>Means</td>
<td>Assumptions</td>
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<tr>
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</tr>
<tr>
<td>a)</td>
<td>Czech Republic complying with the EU and IAS standards</td>
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<tr>
<td>e)</td>
<td>Correct application of IAS by a substantial number of Czech unlisted companies and individual accounts, including IAS-compliant financial statements.</td>
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<tr>
<td>f)</td>
<td>Increased confidence by foreign investors in the Czech business environment.</td>
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<td>g)</td>
<td>Development of IAS training model that can be used throughout the Czech Republic in the medium-to-long term future.</td>
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<tr>
<td>a) Carry out an analytic examination of business environment in order to determine medium and small size of companies in the Czech Republic</td>
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<tr>
<td>b) Consultations, seminars and workshops on IAS application for the unlisted companies and individual final accounts</td>
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<tr>
<td>c) Preparation of training modules for the Ministry of Finance, professional bodies and academic circles involved in IAS application</td>
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<tr>
<td>d) Training of trainers specialised in IAS application to the unlisted companies and individual final accounts (professional accountancy staff and in particular the trainers trained under previous Phare project will participate in the modules). Training for trainers is intended for the Ministry of Finance, the Union of Accountants, Chamber of auditors, University of Economics and other professional bodies in the number about 1000 people.</td>
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<tr>
<td>TA (Service contract): experts from professional bodies related to accountancy matters.</td>
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<td>Activities will build up on the previous Phare assistance (CZ01.04.02)</td>
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<td>- Broad involvement of Czech accountancy and audit profession in the project</td>
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<td>- The training module will be incorporated into the existing education established by relevant professional bodies.</td>
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<td>- The training of trainers benefits the Ministry of Finance (responsible for accountancy legislation), which will help the representatives of companies, professional associations, academic circles and other parties involved in preparation of corresponding by-rules and regulations</td>
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**Preconditions**

Project approved as a follow-up to the previous Phare assistance, namely the project “New concept of legislative regulation of accountancy and application of IAS” to be implemented under NPP 2001 focused mainly on the conceptual legislative issues, and the establishment of Czech accountancy framework corresponding to EC requirements and application of IAS by listed companies

- Already an accounting project under Phare 2001 to be closely coordinated
# Detailed Implementation Chart

<table>
<thead>
<tr>
<th>Action</th>
<th>Year</th>
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<tbody>
<tr>
<td></td>
<td>2002</td>
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<tr>
<td>Start of tendering</td>
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<td>Start of project activity</td>
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<td>Project completion</td>
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ANNEX 2
# Annex 3

## Contracting and Disbursement Schedule by Quarter for Full Duration of Programme

### Cumulative Quarterly Contracting Schedule (mil.€)

<table>
<thead>
<tr>
<th>Project</th>
<th>1Q/02</th>
<th>2Q/03</th>
<th>3Q/03</th>
<th>4Q/02</th>
<th>1Q/03</th>
<th>2Q/03</th>
<th>3Q/03</th>
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<th>4Q/04</th>
<th>1Q/05</th>
<th>2Q/05</th>
<th>3Q/05</th>
<th>4Q/05</th>
<th>Total</th>
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<tbody>
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<td>Application of IAS to Unlisted Companies</td>
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</table>

### Cumulative Quarterly Disbursement Schedule (mil.€)

<table>
<thead>
<tr>
<th>Project</th>
<th>1Q/02</th>
<th>2Q/03</th>
<th>3Q/03</th>
<th>4Q/02</th>
<th>1Q/03</th>
<th>2Q/03</th>
<th>3Q/03</th>
<th>4Q/03</th>
<th>1Q/04</th>
<th>2Q/04</th>
<th>3Q/04</th>
<th>4Q/04</th>
<th>1Q/05</th>
<th>2Q/05</th>
<th>3Q/05</th>
<th>4Q/05</th>
<th>Total</th>
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<tbody>
<tr>
<td>Application of IAS to Unlisted Companies</td>
<td>0.2</td>
<td>0.25</td>
<td>0.30</td>
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