



Polish
Agency
for Audit
Oversight

THEMATIC INSPECTIONS REPORT

AUDITS OF FINANCIAL STATEMENTS OF COMPANIES LISTED ON ORGANIZED EQUITY MARKETS CONDUCTED OUTSIDE THE REGULATED MARKET USING AN ALTERNATIVE TRADING FORMULA

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List of abbreviations

Abbreviation	Full form
The Agency, PANA	Polish Audit Supervision Agency
ATS	Alternative Trading System
SA	Statutory Auditor
AC	Auditing Company (as defined in Article 46 of the Statutory Auditors Act)
SE	Stock Exchange
PIE	Public-interest Entities
KA	Key Auditor
NQCS	National Quality Control Standards (as amended by International Quality Assurance Standard 1)
NAS	National Auditing Standards compliant with International Standards on Auditing (ISA's)
IQAS 1	International Quality Assurance Standard 1
FS	Financial Statements
CFS	Consolidated Financial Statements (of the capital group)
IQCS	Internal quality control system
AoA	Accounting Act of 29 September 1994 (Journal of Laws of 2021, Item 217, as amended)
Statutory Auditors Act	Act of 11 May 2017 on statutory auditors, audit firms and public oversight (Journal of Laws of 2022, Item 1302)
WSE	Warsaw Stock Exchange

1 INTRODUCTION

This report has been prepared in connection with thematic inspections of the Polish Audit Supervision Agency carried out among selected audit firms auditing financial statements of companies listed on organized ATS stock markets in the alternative trading formula. Thematic inspections were carried out in connection with the implementation of objective A ("Ensuring the highest quality and reliability of audits of financial statements and assurance services other than statutory audit and related services") in the implementation of action 1.3 ("preparation of an analysis of important elements of the audit based on the thematic inspections for audits of financial statements among entities of a uniform type") indicated in the [PANA Action Plan for 2021](#).

The inspections were carried out pursuant to Article 123(1) of the Statutory Auditors Act. The report was prepared on the basis of Article 123(6) of the Statutory Auditors Act, and its publication effectively implements the PANA's obligation under Article 123(7) of the Statutory Auditors Act.

The subject matter of the thematic inspections included:

- 1) assessment of the internal quality control system of the auditing company being inspected, including an assessment of the internal quality control policies and procedures of the said firm with respect to services provided to entities listed on organized ATS stock markets using the alternative trading formula, ensuring compliance by statutory auditors and the audit firm with:
 - the applicable testing and quality control standards,
 - the ethical and independence requirements laid down by law and the rules of professional ethics,
 - other applicable laws and obligations arising therefrom;
- 2) assessment of the conformity of procedures to verify the effectiveness of the internal quality control system for services provided to entities listed on organized ATS equity markets using the alternative trading formula;
- 3) assessment of the compliance of the audit documentation selected for review with applicable law, the requirements of auditing standards, quality control and ethical and independence requirements in relation to services provided to entities listed on organized ATS stock markets using the alternative trading formula;
- 4) assessment of the quantity and quality of human, material and financial resources used to conduct the audit in relation to services provided to entities listed on organized stock markets operated outside the regulated market using the alternative trading formula, including the assessment of compliance with the requirements for mandatory professional development;
- 5) assessment of compliance with the law of audit fees and other services calculated and paid to the key statutory auditor, members of the mandated team and the inspected audit firm or other entity whose services were used during the audit by the key statutory auditor or inspected audit firm in relation to services provided to entities listed on organized ATS stock markets using the alternative trading formula.

The main objectives of the thematic inspections are defined as follows:

- indication of significant problems affecting the effectiveness of services provided by ACs for this segment of entities,
- identification of the main risk areas in the financial reporting of entities listed on the ATS.

The study was based on the analysis of documents and information on various entities related to the ATS, including in particular:

- the content of *Individual In-depth Interviews (IDI)* conducted with the management of audit firms and statutory auditors performing audits for the ATS market,
- results of verification of the documentation of the audit of financial statements of companies listed at the ATS carried out by PANA as part of the inspection of planned audit firms covered by the thematic inspection,
- [an online survey](#) completed by anonymous individual investors with experience in investing capital on the ATS market.

The interviews were conducted by PANA inspectors in separate thematic inspections meetings between 28 October 2021 and 12 August 2022. The audit covered a total of 20 audit firms. Answers were provided directly by the management of ACs or statutory auditors performing financial audit activities in relation to entities listed on the ATS.

The second area of analysis included the results of the quality control system inspection and the study documentation included in the inspection protocols prepared by the PANA. For these 20 audit firms, a total of 39 audit files of entities listed on the ATS were selected for verification (including 30 audits for financial statements and 9 audits for consolidated financial statements).

The final element was an analysis of the results of a survey conducted electronically among investors. The questionnaires were completed by 19 people. Therefore, the scope for making a full inference is limited. However, it is also worth presenting the position of direct participants in the capital market, who are one of the most important recipients of information contained in the financial statements of enterprises.

2 SUMMARY OF CONCLUSIONS OF THEMATIC INSPECTIONS

Financial statements and audit reports of companies listed in the alternative trading system are one of the important documents analysed by investors and are often the basis for economic decisions. Despite the fact that financial statements are such an important document, investors often complain about their low quality, while emphasizing the poor assessment of the financial condition of these entities. A certain indicator of this lack of confidence in the quality of the reports and the financial condition of entities registered in the ATS is an indication made by investors, who are the main source of information about the entity, of a cash flow statement. In other words, investors are reliant on definite information about cash earned and invested (confirmed by physical cash flow).

National audit standards provide that in relation to listed entities, the key auditor will maintain higher standards of attention (mandatory quality control, inclusion of key audit matters in the audit report or, ultimately, correspondingly stricter ethical requirements). In 2019, the Audit Supervision Commission, in its position, confirmed the interpretation of the National Council of Statutory Auditors that the term "entities listed on the stock exchange" should be understood, among others, as entities whose securities are listed on non-regulated markets, i.e. NewConnect and Catalyst as part of non-regulated platforms¹. Thus, the Polish Chamber of Statutory Auditors and the Audit Supervision Commission were clear and unanimous about the importance of the quality of assurances provided by statutory auditors in relation to the assessment of the quality of financial statements of entities registered on the ATS.

It should be noted, however, that despite this common approach to the need for high-quality auditing of financial statements, for both investors and regulators, auditing companies have not made due efforts to sufficiently address these issues in quality control systems, in accordance with the mandatory obligation indicated in the audit standards. This is indicated by the lack of mandatory quality control of audits in relation to the financial statements of entities on the ATS.

Important factors behind the insufficient quality of financial statements of entities on the ATS are internal ones, including:

- no significant interest on the part of supervisory and management boards in the quality of financial reporting (including lack of communication with the auditor),
- entrusting bookkeeping to accounting offices despite a lack of internal control,
- emphasis on tax bookkeeping,
- low attention to interim reporting,
- choosing an audit firm by price only.

The above factors are also reflected in the irregularities of the study indicated in the thematic inspections, including:

- no documentation of communication with supervisory boards and management boards,
- difficult and insufficient communication with accounting offices,

¹ <https://www.pibr.org.pl/pl/aktualnosci/1327,Stanowisko-KNA-dotyczace-stosowania-KSB-701>

It should also be noted that the KSKJ regulations are analogous to the current ones in the new quality management standards (par. 34.f.i International Quality Management Standard 1). Therefore, this situation will not change with regard to future regulations either.

- no assessment of the entity's internal control in relation to financial reporting processes,
- underestimated workload of the audit, and thus insufficient examination procedures, no use of necessary consultations or other resources (e.g. permanent assistants ensuring appropriate quality) and no use of a quality controller.

With regard to items mentioned in financial statements, investors identified the following as important but highly risky areas of the financial statements:

- intangible assets (with particular emphasis on know-how and research and development),
- financial assets (shares, stocks and loans),
- research and development (accruals),
- provisions for liabilities.

In addition, investors raise the issue of the poor financial condition of entities on the ATS.

It should be noted that in the key audit matters presented in the audit report, the above areas are largely reflected and enriched with the area of revenue risk and fraud risk. However, this reflection is not consistent with the documentation of the auditor's procedures. Statutory auditors shall insufficiently document the activities carried out in relation to the assessment of:

- Going concern (which is also caused by a lack of communication with the management and supervisory boards),
- Correctness of significant estimates (which is caused by poor quality of communication with accounting offices and limitations in the scope for employing the necessary experts),
- Risk of fraud.

It is also worth noting that as a result of the inspections carried out, it is possible to observe insufficient quality of verification of the key element of financial statements for investors, which is the cash flow statement. Audit reports hardly ever indicate any shortcomings in this area of financial statements, while the actual inspection does identify errors in this area.

It should be emphasized that the quality of the audits carried out is also often influenced by a lack of quality control of audits (which is obligatory and yet not performed) and a high degree of autonomy in the quality control system of the audit company (i.e. the absence of a second statutory auditor viewing the quality principles and their implementation in an audit company) as well as a lack of rotation rules for both the key statutory auditor and the quality controller in relation to the audit of reports for entities on the ATS.

3 INDICATIONS OF REMEDIAL ACTION

Remedial actions in relation to audit firms auditing entities on the ATS will be formulated in the context of new quality management standards due to their imminent time of entry into force.

The Agency points out that due to the specific regulations concerning entities in the ATS, auditing companies engaged in auditing such entities should identify additional risks related to this in their quality management systems and develop appropriate responses to these risks.

With regard to the '**Appropriate ethical requirements**' component of the quality management system, audit firms should consider adding provisions on how to mitigate risk by setting rotation periods for the key statutory auditor of no more than five years (in accordance with those currently used by audit firms) as well as the rotation periods of the quality controller resulting from applicable regulations or shorter rotation periods to ensure the correctness of supervision over the order execution process.

With regard to the quality management system element, '**Acceptance and continuation of client relationships and specific assignments**', auditing companies should consider adding at least the following aspects to their acceptance and follow-up audit engagement verification assessment sheets:

- a) how accounting is conducted (whether the books are entrusted to an accounting office),
- b) whether there are formalized internal control procedures within the entity,
- c) how the AC selection process is carried out (whether it is not based only on fee or intimacy),
- d) whether there is pressure for a short execution time,
- e) whether FS have significant estimated values (with particular emphasis on intangible assets, financial assets, research and development or provisions for liabilities),
- f) whether there was satisfactory contact with the management and supervisory boards during the offer process,
- g) whether adequate quality resources (including experts, quality controller, qualified and permanent assistants) have been provided to carry out such an assignment,
- h) whether an adequate time for the execution of the audit has been foreseen and estimated.

With regard to the '**Execution engagement**' element of the quality management system, auditing companies should consider adding the following aspects to their engagement execution procedures:

- a) detailed provisions on conducting consultations on difficult and contentious matters,
- b) with regard to significant estimates, provision in the procedures for examining cooperation with or consultation with an expert,
- c) the inclusion in survey procedures that reinforce professional scepticism of points in the study programme in relation to significant estimates,
- d) entrusting research activities in the scope of key matters of the audit to particularly experienced members of the research team,
- e) development of precise procedures within the scope indicated in paragraph 24 of KSB 320, with particular emphasis on checking items mentioned in the cash flow statement,
- f) including in the examination procedures a requirement to meet with the supervisory and management boards and to document these meetings,
- g) including in the examination procedures a requirement for the quality of a given audit to be verified by a qualified quality controller in accordance with the applicable law.

With regard to the "**Monitoring and correction process**" element of the quality management system, auditing companies should consider adding to their procedures the obligation to inspect the audit documentation of the financial statements of an entity from the ATS market at least once a year. This is due to estimated quality risks concerning the audit of financial statements of entities from the ATS market.

4 THEMATIC INSPECTIONS FINDINGS

4.1 ANALYSIS OF INTERVIEWS WITH AUDITING COMPANIES

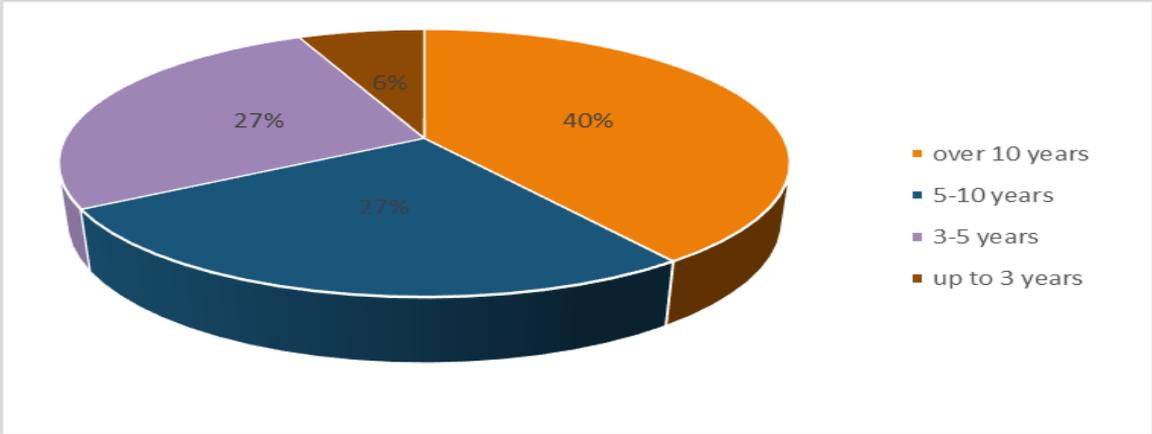
4.1.1 GENERAL

This part of the interview was mainly concerned with the scope of ACs' experience in auditing financial statements of companies listed on the ATS and the general assessment of the principles of this cooperation in the context of other serviced entities.

Of the ACs inspected, most of them declared several years of cooperation with this market sector. However, it is also possible to identify a strong group of individuals whose experience is much longer, exceeding 10 years.

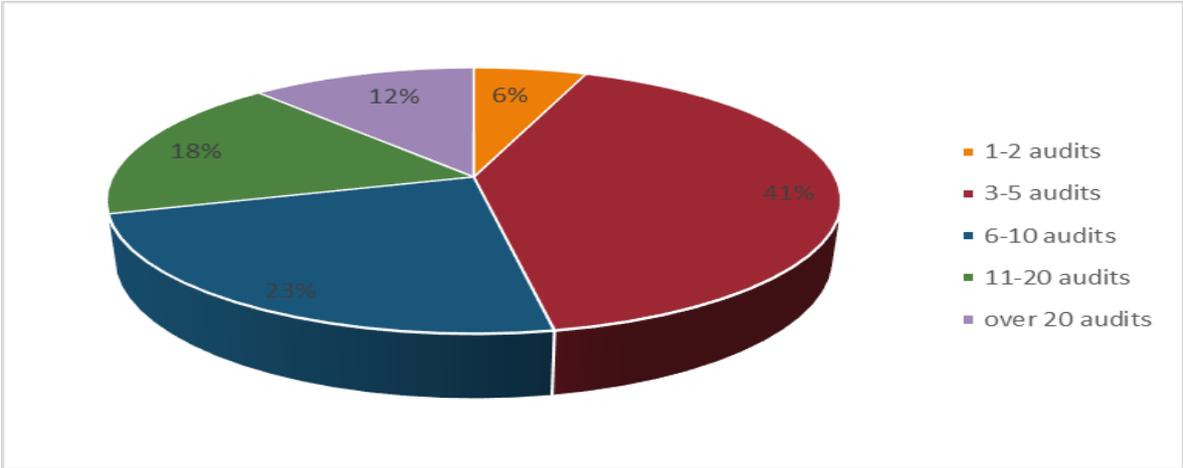
It is worth mentioning that there are very few entities involved in this type of cooperation for a period longer than 10 years. The most frequently declared average period of cooperation with ATS entities is up to 5 years.

Figure 1. Length of cooperation of AC entities on the ATS market



Taking into account the average annual number of audits performed for the ATS market by auditing companies, they declared the data presented in Figure 2. The largest group of ACs surveyed currently performs an average of 3 to 5 audits in a given year. In the entire group of 20 inspected entities, a total of five of them declare the execution of more than 10 of these audits per year (including two ACs with more than 20 audits).

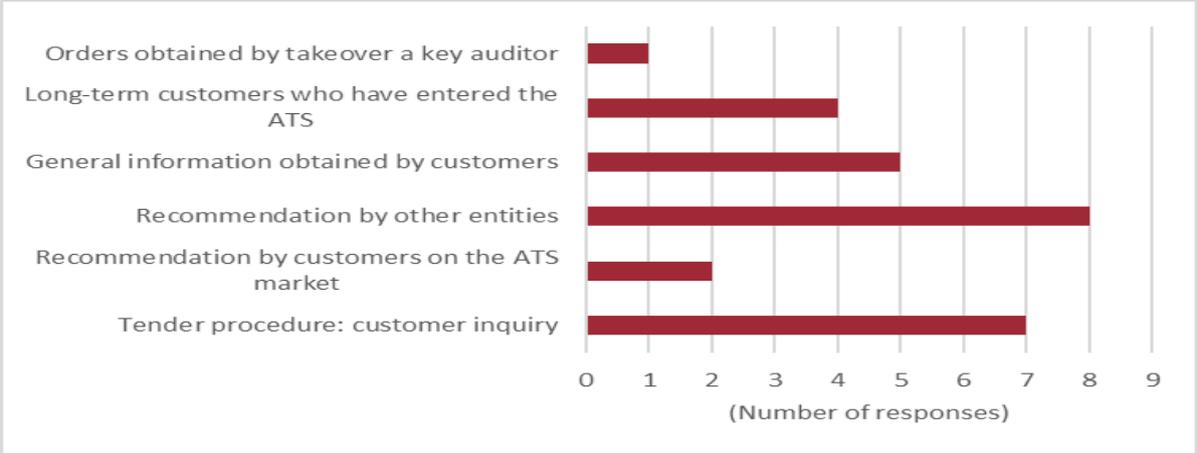
Figure 2. Annual number of FS ATS audits by ACs verified during the latest period



Regarding the nature of services provided to the ATS sector, the audit of financial statements is by far the most dominant: ACs do not perform other services for audit clients. This nature of orders was declared by as many as 13 out of 20 controlled entities. Selected ACs also provided historical data survey services.

The main way of obtaining orders to audit financial statements for the ATS market are informal communication channels. Audit firms often stressed that the clients are more active in this area. No ACs have been identified that have been particularly active in soliciting customers in this market. Significant channels for obtaining orders are presented in Figure 3.

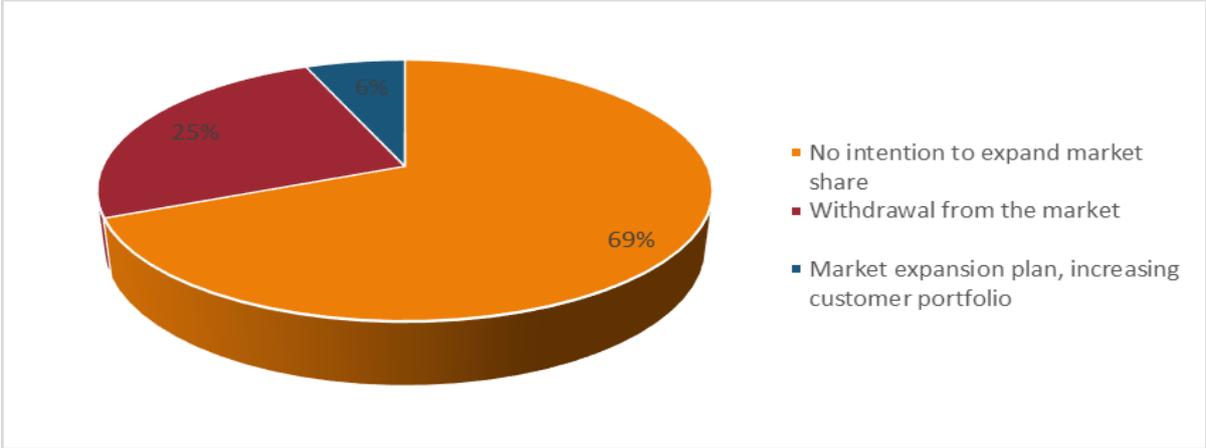
Figure 3. The main ways of obtaining orders on the ATS market



The two main sources are generally concerned with the various relations and recommendation of a given AC by various entities (e.g. law firms dealing with IPOs or accounting offices keeping the books of ATS entities), as well as inquiries sent directly from the client. However, there are also audit companies that conduct long-term cooperation with a given entity and provided services to it before it became a listed company.

Interesting conclusions can be drawn when analyzing the results of interviews regarding the future of cooperation with customers of the ATS market. The vast majority of audited ACs do not intend to become more involved in auditing the financial statements of these companies. This position was declared by almost 70% of the auditing companies surveyed. An additional 25% clearly stated that they were withdrawing from this market. Indeed, only one entity confirmed that it was interested in wider expansion. The key figures are shown in Figure 4.

Figure 4. Plans for ACs' expansion on the ATS market



In most cases, auditing companies indicated an increased audit risk, greater pressure of responsibility than in the case of a non-PIE audit (30%) and the resulting increase in workload (also 30%) as their main reasons for limiting the number of audits related to the ATS market. Other reasons include difficulties in cooperating with ATS market entities and restrictive deadlines for financial reporting.

The ACs inspected were also asked to assess the overall cooperation with companies listed on the ATS compared to the entities of PIEs and non-PIEs. In this respect, the nature of the replies varied considerably.

Figure 5. General assessment of cooperation with ATS entities

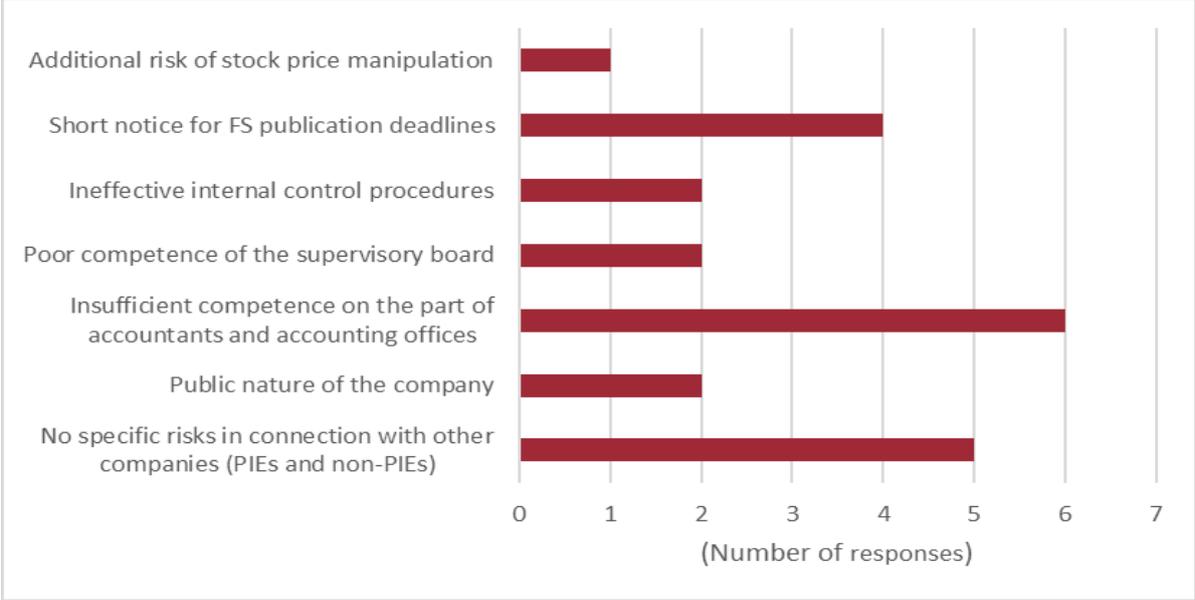


However, the assessments are mostly negative. In most cases, the issue of poor communication with supervisors was repeated. Statutory auditors emphasized that members of the supervisory board often lack sufficient knowledge of financial reporting and are not very interested in communicating with the auditor. It was also repeatedly emphasized that a large part of companies listed on the ATS were serviced by accounting offices, which often provided low-quality services. A recurring problem was the issue of accounting books being too frequently based on the tax approach, with no consideration of the obligations arising from the accounting law.

Similar problems were also highlighted by the AC when asked to identify specific additional risk areas related to the assessment of clients of the ATS market. The key issues are presented in Figure 6.

The graph clearly indicates that the problem of insufficient competences and poor quality of the work of accountants (including accounting offices) is visible. Restrictive deadlines related to the publication of financial data are also a problem. It is worth noting, however, that this issue was raised mainly by ACs, which do not have extensive experience in cooperation with PIEs. Audit firms conducting longer cooperation with entities on the ATS market also more often indicated that they do not identify any specific risk exclusively for this market. Increased risk in selected cases is much more often associated with a specific industry and not necessarily operating on the ATS market.

Figure 6. Additional risks associated with auditing ATS customers



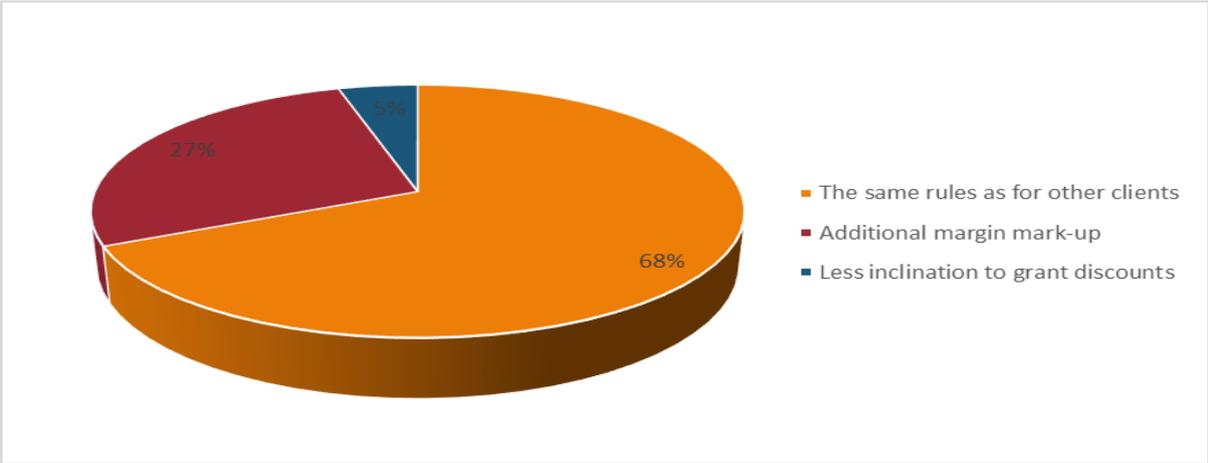
4.1.2 REMUNERATION FOR SERVICES PROVIDED

As part of the analysis of the area of AC remuneration for services provided to the ATS sector, the first question was concerned with the degree of satisfaction with the agreed level of remuneration. Of the auditors, 65% clearly stated that the current remuneration was correctly calculated and its level was appropriate. Some auditors even indicated that an upward trend in salaries had recently been visible. However, the remaining 35% of ACs believed that they received too little remuneration from entities listed on the ATS compared to other companies served and the scope of work performed.

Considering the potential problems indicated when calculating this remuneration, the vast majority of entities (65%) stated that there were no major complications in estimating its level. Other ACs strongly emphasized that the price they proposed was often too high for customers, and the cheapest offers were selected in tenders. This opinion was expressed by a total of 25% of entities. In addition, it was also emphasized that it was much easier to negotiate a higher level of remuneration with a new client than to raise the price on older customers. There is also no strong pressure from the management boards of new clients to reduce remuneration. Instead, there is sometimes a misunderstanding of the scope of the auditor's work, leading to further misunderstandings concerning of the price set for auditing financial statements.

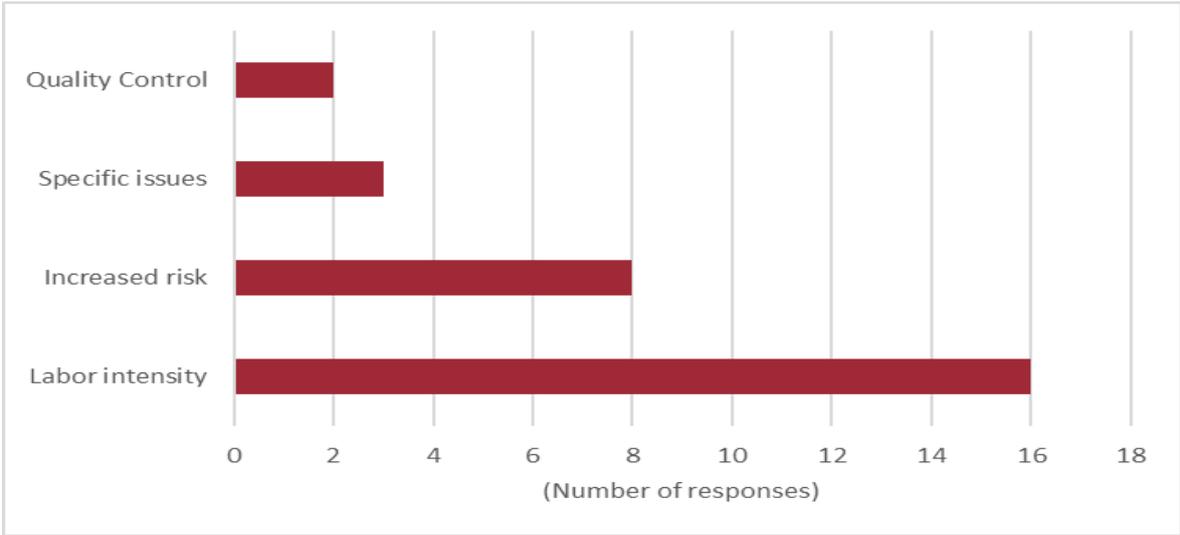
The next part of the interview concerned specific aspects related to the estimation of remuneration in individual ACs. When analyzing the results on the method of determining the price, it should be emphasized that most auditors clearly pointed to a lack of specific rules for estimating remuneration for ATS clients. The details are shown in Figure 7.

Figure 7. The method of estimating remuneration for the ATS market.



Of the ACs surveyed, as many as 68% stated that they did not apply any special rules for setting prices for entities listed on the ATS market. In turn, 27% indicated accepting an additional margin mark-up for services provided for this segment, while the remaining ACs were simply less willing to grant any discounts.

Figure 8. Main factors affecting price estimates



In accordance with the law, the main factor taken into account when estimating the remuneration is the labor intensity of the audit and the increased risk, identified by ACs, that is involved in servicing clients of the ATS market. Of much less importance are the specific issues related to these companies. Some entities also pointed to additional costs related to quality control, which in this case is obligatory, and does not occur when executing non-PIE audits.

The vast majority of the ACs surveyed confirmed that there were no specific rules for setting the price for services delivered to entities on the ATS market included in its IQCS. This is mainly due to the fact that the method of estimating remuneration is identical to that of other entities. At the same time, some of them declared that they had verified these rules.

The final question in this part of the interview concerned cases of underestimation of remuneration for services provided to the ATS market, found by the ACs. Almost half of the auditors stated that they had not identified such a situation in the recent period. Around 30% of the ACs surveyed

admitted that they had such problems, but were unable to increase their wages, mainly due to a lack of contractual provisions. The above entities plan to change their model contract and introduce such regulations. In this situation, the ACs mainly increased their price per audit in subsequent financial years. In the remaining 20% of cases, the original underestimation of the price also occurred but the auditor eventually received increased remuneration for the service.

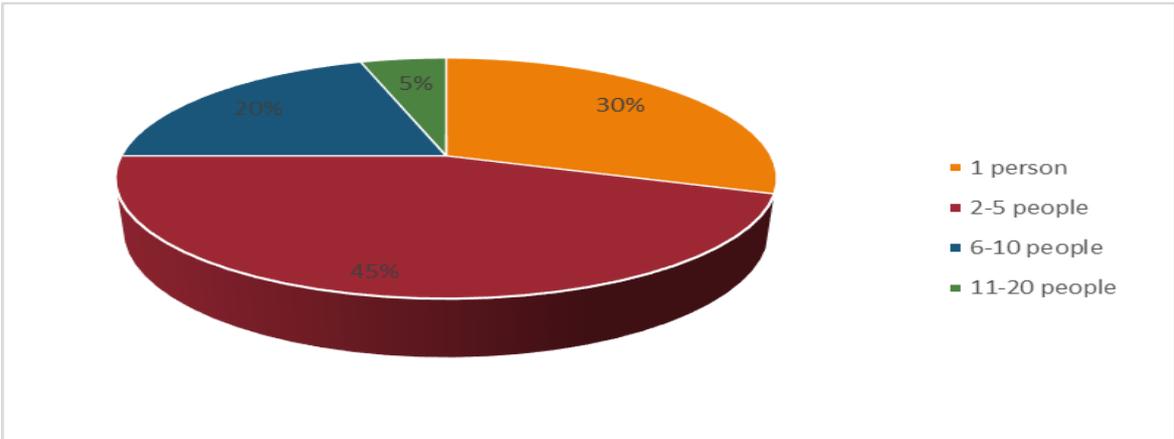
4.1.3 HUMAN, MATERIAL AND FINANCIAL RESOURCES

Another aspect analyzed as part of thematic inspections were the resources of audit firms used to carry out contracts related to the ATS market, including in particular the staff of experienced auditors and assistants. Taking into account the overall assessment, all entities indicated that they generally assess their preparation for the FS examination of units listed on the ATS well. However, the need for continuous improvement of professional qualifications was clearly emphasized.

In the vast majority of audit firms, these audits are not carried out only by individual persons performing the functions of key auditor, but with the help of more or less extensive audit teams. Even in the case of small companies serving the ATS market, at least one person performing an auxiliary function always participated in the audit.

During the interview, it was also necessary to provide a specific number of key auditors who carried out audits on behalf of ACs for ATS entities and the nature of this cooperation. Detailed data in this area are presented in Figure 9.

Figure 9. Number of key auditors serving the ATS market on behalf of ACs



The data indicate that in most cases audit firms have from 2 to 5 persons acting as KAs on their behalf when auditing financial statements for ATS companies (45%). The second largest group are statutory auditors practicing the profession in the form of a sole proprietorship, who also have orders related to the ATS market in their package. They make up 30% of the AC group analyzed. 20% of the teams consist of 6 – 10 people. Only one entity declared that it has several KAs serving the ATS market.

However, regarding the nature of cooperation, it is difficult to identify a single dominant legal form. In some cases, the role of KAs is simply performed by the owners of small audit offices; in others, experts conducting FS audit for entities listed on the ATS are employed under an employment contract or a civil law contract. None of these forms is particularly dominant here.

Interesting conclusions can be drawn when analyzing the results related to the professional experience of key auditors servicing the ATS market. In this respect, the level of participation of people with quite a long practice is clear: almost 60% are KAs with auditing experience exceeding 10

years, while another group has 6-10 years of professional experience (32%). The rest are KAs with less than 5 years of experience (there have been two such cases).

The next question involved a similar assessment of persons acting as assistants in the FS study for ATS companies. However, in this area, the indications of audit firms were not very precise. Larger entities usually have permanent audit teams serving this market and specializing in auditing specific industries. Most ACs also clearly emphasized a problem with young staff, from the point of view of substantive preparation, approach to the implementation of professional duties, as well as stability of employment. Many entities pointed to excessively high labor turnover amongst assistants.

As far as the remuneration system applied to members of audit teams examining the reports of companies listed on the ATS is concerned, it is worth mentioning the lack of specific rules adopted by ACs in this area. This means that the remuneration estimation system for an ATS market service team contains no additional criteria taking into account increased risk in dealing with this sector or a more complicated range of substantive issues, for example.

4.1.4 INTERNAL QUALITY CONTROL SYSTEM (IQCS)

As part of the analysis of the IQCS used in the ACs surveyed, the issue of identifying specific rules relating to audits executed for companies listed on ATS was of particular interest. The analysis focused on issues related to independence, quality control and monitoring.

All ACs unequivocally stated that they did not have any problems with maintaining independence when auditing financial statements for the ATS market. In selected cases, additional services were provided to audit clients, but they were within the permitted directory. There were also no violations of independence concerning the KA, other audit team members or quality controllers.

The next question referred to the rules of KA rotation adopted in the AC for orders concerning the ATS market. It should be mentioned that strict rules on changing auditors are adopted for PIEs. In other cases, the AC itself should introduce mechanisms to prevent excessive intimacy between the two parties. As far as ATS companies are concerned, the vast majority of the entities inspected have not included any rotation rules – formal or informal – in their IQCS. Around 65% of the auditing companies surveyed declared no specific rotation rules; 35% do have such rules, although they have not necessarily been formalized in any way. Several entities have clearly stated that they plan to introduce changes in this area and include relevant provisions in the IQCS. Some also indicated that there was no need to introduce special rotation rules due to the very short period of cooperation with ATS companies.

When analyzing the length of the period of execution of an audit for ATS companies by the same KA within a given AC, it should be emphasized that the cooperation is indeed short: in most cases, this period did not exceed 5 years. Therefore, there was no excessively high risk of intimacy between the auditor and the entity. In almost 26%, of cases this period lasted up to 10 years, but there was no case of this being exceeded.

Very interesting conclusions can be drawn when analyzing the principles of quality control in the case of audits financial statements for the ATS market. A large number of the entities inspected do not comply with the obligation to perform quality control for these audits. The above irregularity was also confirmed by the conclusions of the inspection of individual audit documentation. When answering the question whether each audit regarding the FS examination of ATS market companies was covered by internal verification, as many as 35% of companies admitted that they did not comply with this obligation.

Another issue concerned the criteria for the selection of quality controllers, mainly from the point of view of their professional experience in auditing financial statements for ATS market companies. In the vast majority of cases, the ACs confirmed that the verification was carried out by persons with relevant knowledge and practice. However, some of them are based on mutual quality control of individual contracts, which is particularly problematic for smaller audit firms. In this case, it is difficult to ensure the complete impartiality of the internal verifier. There were situations where quality control was performed mutual by two KAs auditing the financial statements of ATS market companies. In one case, the audited company even stated that they had one KA responsible for executing audits for the ATS market, which also carried out his or her own quality control.

The results of the internal verification are in most cases positive and the quality controllers do not identify any irregularities. However, if there are any shortcomings, they are very often discussed and corrected, thus they are not reflected in official reports prepared by quality controllers. The ACs inspected also failed to notice that in the case of audits executed for the ATS market, the scale of irregularities was significantly greater than in the case of verifying other entities' financial statements.

In principle, all audit companies confirmed that they had no specific rules regarding quality control for companies from the ATS sector. In most cases, the only reference to this market was mentioning that internal verification was mandatory in its own context.

Moreover, ACs have no special regulations for inspecting the audit documentation of the financial statements of ATS companies (as part of monitoring). In principle, only one entity explicitly declared that such an inspection was carried out when verifying the financial statements of a given company listed on the ATS market for the first time. In other cases, the probability of performing a documentary inspection of these entities is the same as for other audited entities. On the other hand, around 25% of ACs stated that as part of the monitoring they did not inspect the ATS audit documentation at all, as the audits in question were subject to mandatory quality control. The entities also admitted that they did not technically have any special inspection rules implemented in their IQCS for auditing financial statements of companies listed on the ATS.

The final question in this part of the interview was concerned with the scope and subject matter of the training provided, which would be particularly useful for the implementation of audits for companies on the ATS market. In most cases, ACs clearly indicated the particular importance of training on valuation principles and verification of estimates.

4.1.5 SUBSTANTIVE MATTERS RELATING TO EXECUTING AUDITS

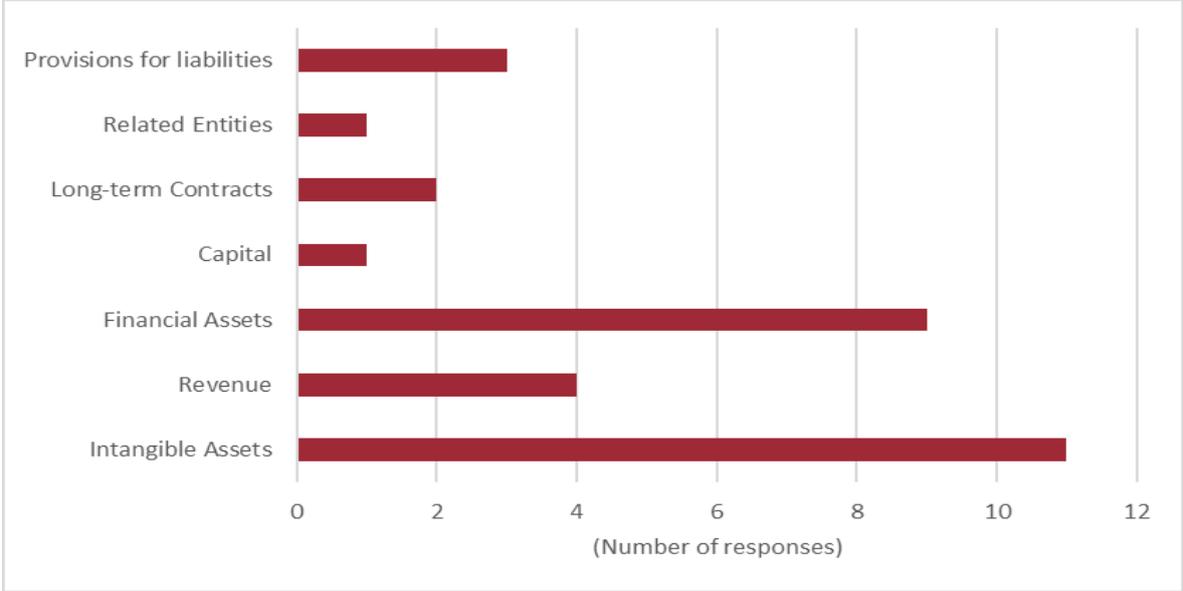
The final part of the interview was concerned with substantive issues related to auditing financial statements for companies from the ATS sector. To a large extent, it referred to the specific areas of risk identified by the ACs as well as the verification procedures used.

The first questions included a general assessment of the level of financial reporting of entities listed on the ATS. Half of the companies inspected indicated that the quality of these FSs was average. In turn, about 33% clearly confirmed their low substantive level. Only 17% of ACs reported a high level of reporting. It is worth pointing out that several entities have marked a significant improvement in the quality of financial statements of the ATS market in the long run. The worst rated cases are those where the company's accounting is conducted by accounting offices with no experience in reporting for listed companies. A relatively common problem is insufficient scope for disclosures or important verbal descriptions, especially those noted under additional information.

Among the inspected ACs also auditing the financial statements of companies listed on the main market of the WSE, over 60% confirmed the lower level of reporting quality of ATS entities for PIEs.

Audit firms were also asked to indicate the main areas of risk that they identified during the process of auditing the financial statements of ATS companies. The results in this range are shown in Figure 10.

Figure 10. Main areas of risk in ATS financial statements



The auditors clearly indicated that the most problematic issue is intangible assets, especially in relation to research and development works carried out by companies as well as the goodwill. It was emphasized that in this case, the main issues are the possibility of actual activation and the correctness of qualifications, as well as valuation problems (including impairment tests). The second riskiest balance sheet item is financial assets and their associated valuation. In terms of general additional risks resulting from the specific nature of the ATS market, the auditors also emphasized such issues as the threat to going concern principle, the risk of greater interference in the entity's operations in order to influence the share price and the conscious maintenance of the company on the ATS market only, for quick sales without any specific plans for actual operations.

One of the biggest areas of risk in financial reporting is estimation. Accordingly, the ACs inspected were asked to clearly indicate the range of balance sheet items for which this risk is the highest in the case of ATS companies. The results presented in Figure 11 confirm the preliminary observations made in the general part of the interview and present three problematic issues: provisions for liabilities, intangible assets and financial instruments. As far as creating provisions is concerned, statutory auditors often stressed a simple lack of awareness of the obligation to create them, especially in the case of accounting performed by an accounting office. On the other hand, in the context of intangible assets, the uncertainty of estimates concerned a very wide set of property rights: licenses, know-how and research and development. The most problematic financial instruments included shares and loans granted. The ACs surveyed also indicated that it is relatively rare that valuations of individual assets relating to their estimated values are prepared by external experts. The vast majority of them are prepared within the company whose financial statements are audited.

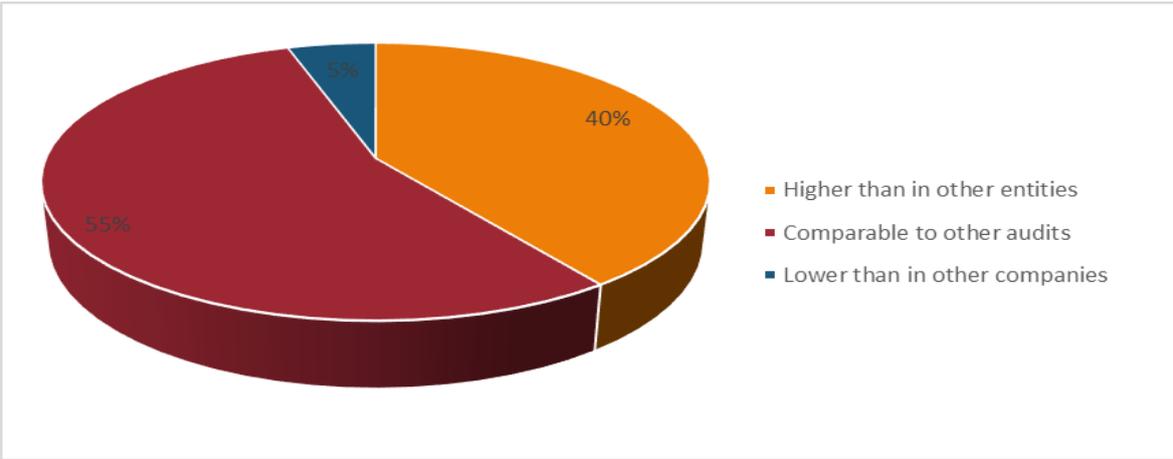
Figure 11. Reporting items with the highest estimation risk



Around 70% of the entities surveyed admitted that in the course of executing audits for companies on the ATS market, they encountered a problem with estimating intangible assets. In selected cases, large adjustments were made resulting from the need to recognize an impairment loss (half of the balance sheet total). The auditors also had a problem with verifying the valuation of know-how. On some cases, the companies audited did not agree to make adjustments to the financial statements, and qualified opinions were issued at that time.

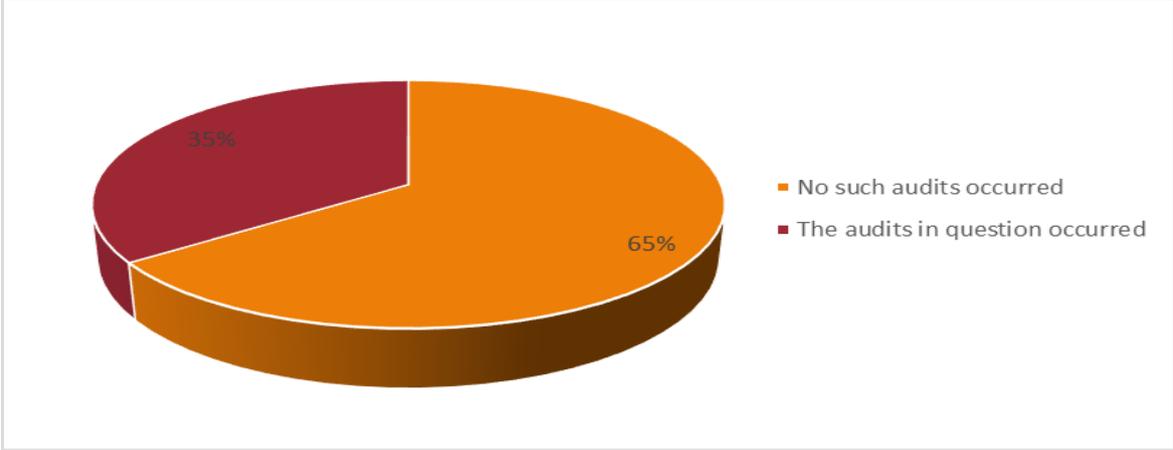
Other questions were concerned with identifying fraud risks. In most cases, the audited entities stated that the level of this risk when auditing financial statements for the ATS market was no higher than for other companies (55%). In turn, 40% clearly indicated a significant increase, although they did not presenting any specific arguments.

Figure 12. The level of fraud risk in ATS companies compared to other entities



About 65% of audit firms confirmed that in their previous cooperation with entities listed on the ATS market, they did not find cases of particularly high risk of fraud. Other ACs identified selected audits in which they identified such risks. This was mainly connected valuating shares in subsidiaries, estimates for research and development, capital increase by making a contribution in kind and transactions related to cryptocurrencies.

Figure 13. Identification of audits with a particularly high level of fraud risk



At the same time, none of the inspected audit firms found any definite evidence of fraud while executing these engagements. Therefore, it was not necessary to report any information in this area to the relevant authorities.

Internal control functioning in companies listed on the ATS was also assessed. The vast majority of auditors clearly indicated that it was not formalised (71%). Only 29% of the ACs inspected confirmed the identification of actual control procedures. Obviously, this also affects the ability to carry out control tests as part of audit planning. Only in six cases did audit firms confirm the performance of such tests and they mainly concerned sales revenues. It was also emphasized that control tests were in principle only possible in the case of large ATS companies (which had implemented ISO certificates).

The next question related to identifying inherent risk factors. In particular, this involved identifying potential areas of this risk that may be common to all entities on the ATS market. More than half of the auditors clearly confirmed that such factors could not be identified. Instead, each company is analyzed in the context of a given industry, and these elements have a major impact on the estimated level of inherent risk.

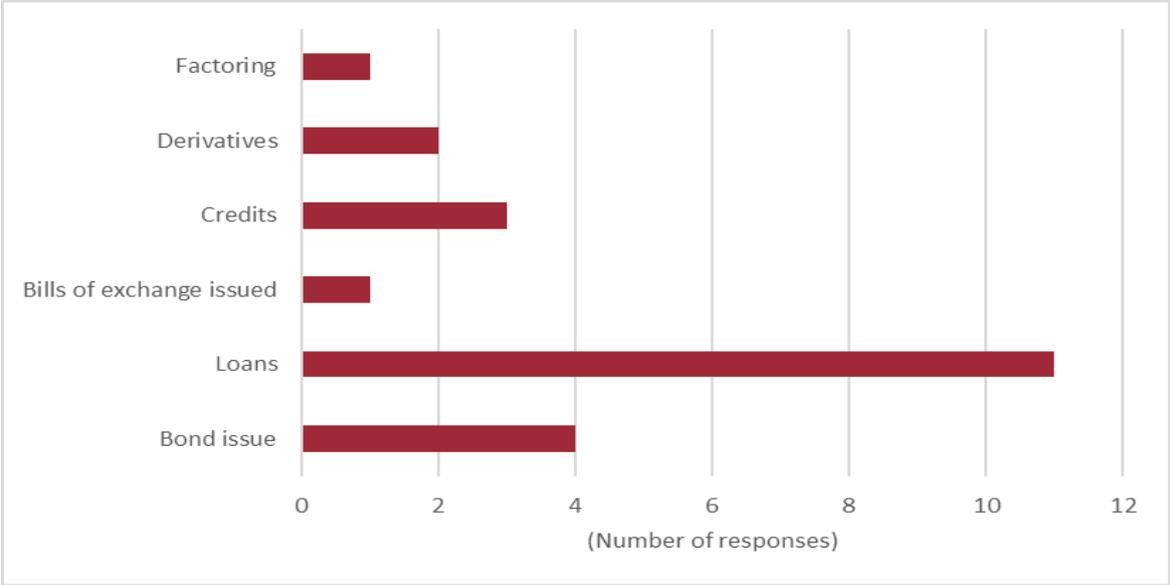
Similar conclusions can be drawn from the analysis of responses to the methods for estimating the level of general materiality, mainly in the context of the patterns used as a basis for such an estimate and the amount of interest. In this area, auditing companies also stressed that it was impossible to apply a common approach for all companies listed on the ATS. However, each entity may have a slightly different main group of recipients of financial statements, which affects the use of different templates. The most common financial data used as the basis for estimating general materiality are revenue, gross profit and balance sheet total, although it is impossible to indicate a pattern that has been used particularly often. One AC stressed that in the case of startups, it always takes net assets as a basis. Several of them also adopted for the audit of the accounts of ATS companies the principle of deliberate reduction of the interest rate when calculating general materiality.

Another aspect was the scale of use of external sources of financing operations and the assessment of the degree of indebtedness of companies listed on the ATS. Almost 60% of auditing companies admitted that they had noted a fairly high degree of liabilities in the balance sheet of these entities. In several cases, it was highlighted that the companies in question even had negative equity.

Taking into account the popularity of the financial instruments used, it should be pointed out that loans are particularly important. Other important financial instruments relate to the issue of bonds and borrowings. However, about 35% of the auditors clearly stated that the ATS companies they

surveyed did not use any financial instruments at all. Several of them also admitted that they did not cooperate with a given company if extensive and complex financial instruments were visible in the financial statements.

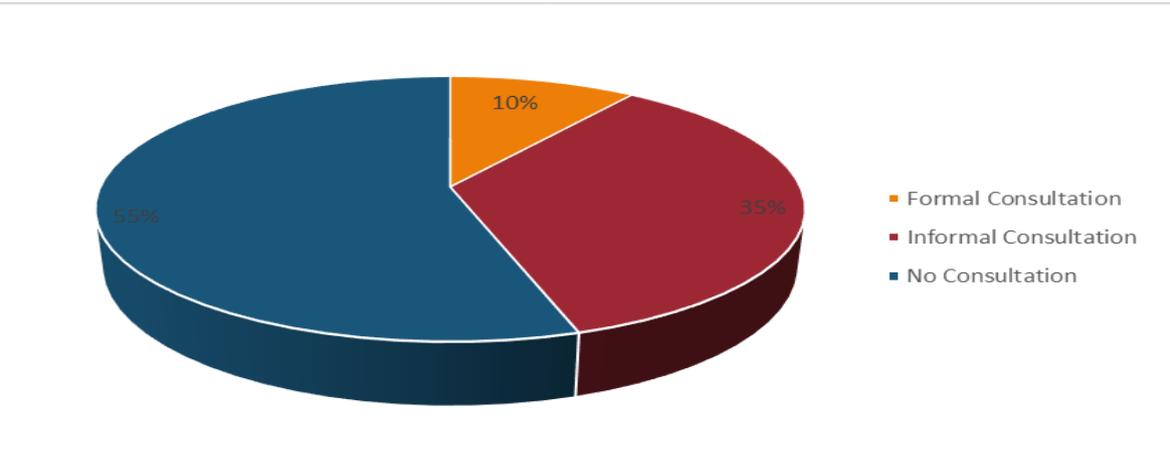
Figure 14. The most popular financial instruments used by ATS companies



As part of the audit, the scope for ACs’ use of external experts and consultations when auditing the financial statements of the ATS sector was also verified. The vast majority of auditors (75%) did not consider it necessary to cooperate with an expert. The remainder mainly used the services of lawyers to assess the correctness of contracts concluded by the company being audited and employed appraisers to verify the valuation of financial instruments and to assess the ability of the entity being audited to continue its operations.

With regard to internal consultations, in most cases the statutory auditors also did not consider it necessary to hold discussions within the audit firm. This applied to 55% of the entities inspected. 35% of respondents had informal consultations. Only 10% of entities had documented discussions within the AC.

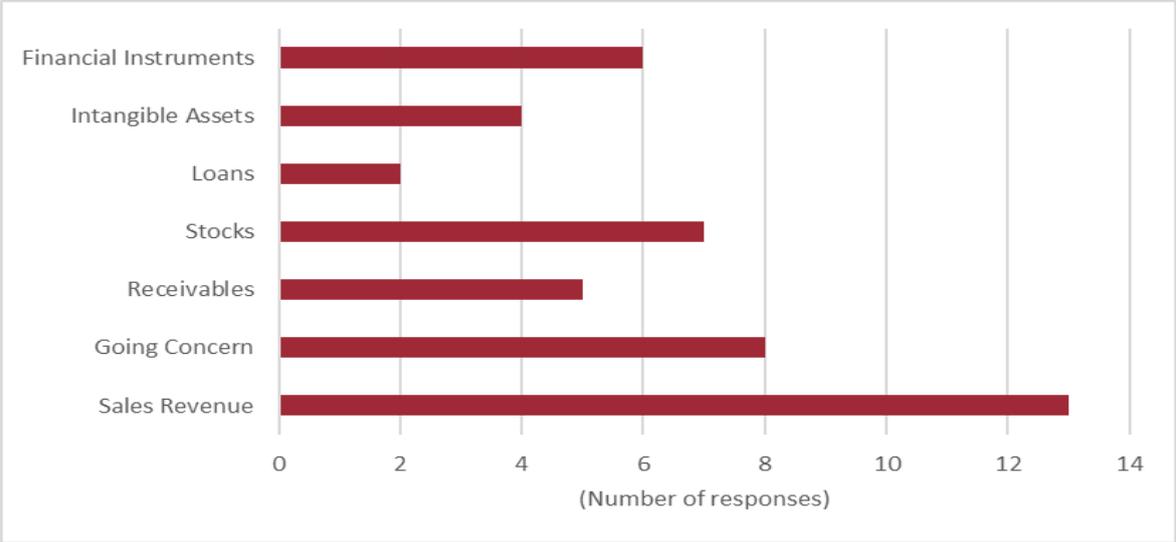
Figure 15. The scope of internal consultations during ATS audits



Taking into account the effects of audits of companies listed on the ATS, it should be stated that 60% of the ACs surveyed confirmed reporting corrections to the accounting books and financial statements of these entities. Only in 40% of cases did the auditors report no irregularities. The

audited companies usually take into account the suggestions of auditors and make appropriate adjustments. However, most audit firms also clearly emphasized that, in the case of ATS entities, an audit report containing a qualified opinion was issued. Statutory auditors also pointed out that with a longer period of cooperation with a given entity, an improvement in the quality of financial statements prepared in subsequent financial years can be observed.

Figure 16. Main areas of key audit matters disclosed in auditors' reports



Another issue was presenting key audit matters of the study. It should be noted that their disclosure in the audit report is also obligatory for the ATS market. About 85% of the ACs inspected confirmed the identification of such issues. However, the remaining 15% did not identify areas during the audit that should be considered a key audit matter. Figure 16 presents the main aspects identified as key audit matters in auditors' reports.

There are four issues that are particularly frequently discussed in auditors' reports: sales revenues, going concern risk, inventories and financial instruments.

Bearing in mind the specificity of entities listed on the ATS market, the issue related to the assessment of the threat to the going concern principle by these entities during the next financial year seems to be particularly interesting. The vast majority of auditors (63%) clearly confirmed that they encountered this problem when auditing financial statements for ATS companies.

The final question in the interview related to contacts with the supervisory authorities of the entities audited. All audit firms declared their cooperation with the supervisory board, which is a mandatory procedure. However, as many as 40% of them clearly emphasized that this cooperation was sometimes difficult and, in some cases, members of supervisory authorities were not interested in the work of statutory auditors at all.

4.2 RESULTS OF INSPECTION OF AUDITS INTO ATS MARKET COMPANIES

4.2.1 INTRODUCTION

As part of the verification of audits concerning the ATS market, the audit documentation of the financial statements of these companies prepared by statutory auditors was also subject to special control. These files were assessed as part of parallel planned inspections of audit firms. In each case, at least one audit related to the ATS market was designated for inspection. However, there were situations where as many as three files of auditing documents for ATS companies were verified by one AC. In 20 auditing companies subjected to the thematic inspections, a total of 39 audits from the ATS market were evaluated, including those related to consolidated financial statements. 30 files of auditing documents for financial statements and 9 files of documents concerning consolidated financial statements were verified.

Due to quite significant substantive differences between the procedures used by statutory auditors when auditing both types of financial statements, a separate analysis of these audits was carried out.

4.2.2 RESULTS OF INSPECTIONS INTO THE AUDIT OF FINANCIAL STATEMENTS

Figure 17 presents the main areas related to the FS auditing process and the number of irregularities found in the inspected audit documentation. In total, over 300 deficiencies were identified, i.e. for one file of documents for the FS study there were about 10 irregularities indicated by the PANA inspectors. Based on this data, it is possible to identify at least a few key areas with a relatively high error rate.

Around 7% of the deficiencies relate to a very important issue: the correctness of the audit report issued. To a large extent, they concern the presentation of key audit matters, which is also obligatory in the case of ATS companies. In selected audits, the auditors found a general lack of disclosure of such matters in the auditor's report (without sufficient justification in the auditing documentation) or deficiencies in documenting them. For several cases, an erroneous type of opinion contained in the auditor's report was also found. During the PANA inspections, significant irregularities were identified in the final version of the financial statements that were not indicated by the statutory auditors.

Another aspect is errors in setting materiality levels. These concern, in particular, the adoption of several different templates as a basis for calculations, the lack of taking into account the perspective of recipients of published financial data, or the lack of clear justification for the position adopted by the auditor when determining these levels. A similar number of irregularities relate to the procedures for determining the risk of material misstatement both at the level of the financial statements as a whole and within their individual areas and statements. Errors relate to insufficient recognition of important factors concerning the estimation of inherent risk, the determination of control risk levels (including cases of reducing the level of this risk without conducting appropriate control tests) or the determination of significant risks in general. A particular type of risk that should be considered when auditing financial statements is that of fraud. This is another area of auditing documentation in which PANA inspections pointed to numerous irregularities. These related to both the correct estimation of the level of this risk and the application of mandatory audit procedures indicated by the applicable standards.

Figure 17. Main irregularities in FS auditing procedures of companies listed on the ATS



Failure to properly document the conditions of independence was another frequently occurring problem. This relates to the outdated content of declarations in connection with statutory requirements, incorrect dates of their signing or the lack of them (in the broad context of statements made by auditing companies, KAs, members of auditing teams or quality controllers).

It is also worth noting the number of irregularities in verifying the final version of financial statements and the scope for mandatory disclosures. Weaknesses in this area relate mainly to the correct documentation of the completion of checks on the figures and verbal descriptions included in the report.

This applies to all elements of the annual financial report, starting from the balance sheet (no reconciliation of balance sheet items to the statement of turnover and balances), through the income statement, the statement of changes in equity, the cash flow statement and ending with additions to supplementary notes in financial statements. In several cases, the verification of the completeness of the information contained in them also raised many doubts.

By the way, it should be mentioned that there were audit documentation that did not contain an archived correct version of the final financial statements or statements activities on which the auditors expressed their opinions. The main irregularity was the lack of correct signatures on these documents.

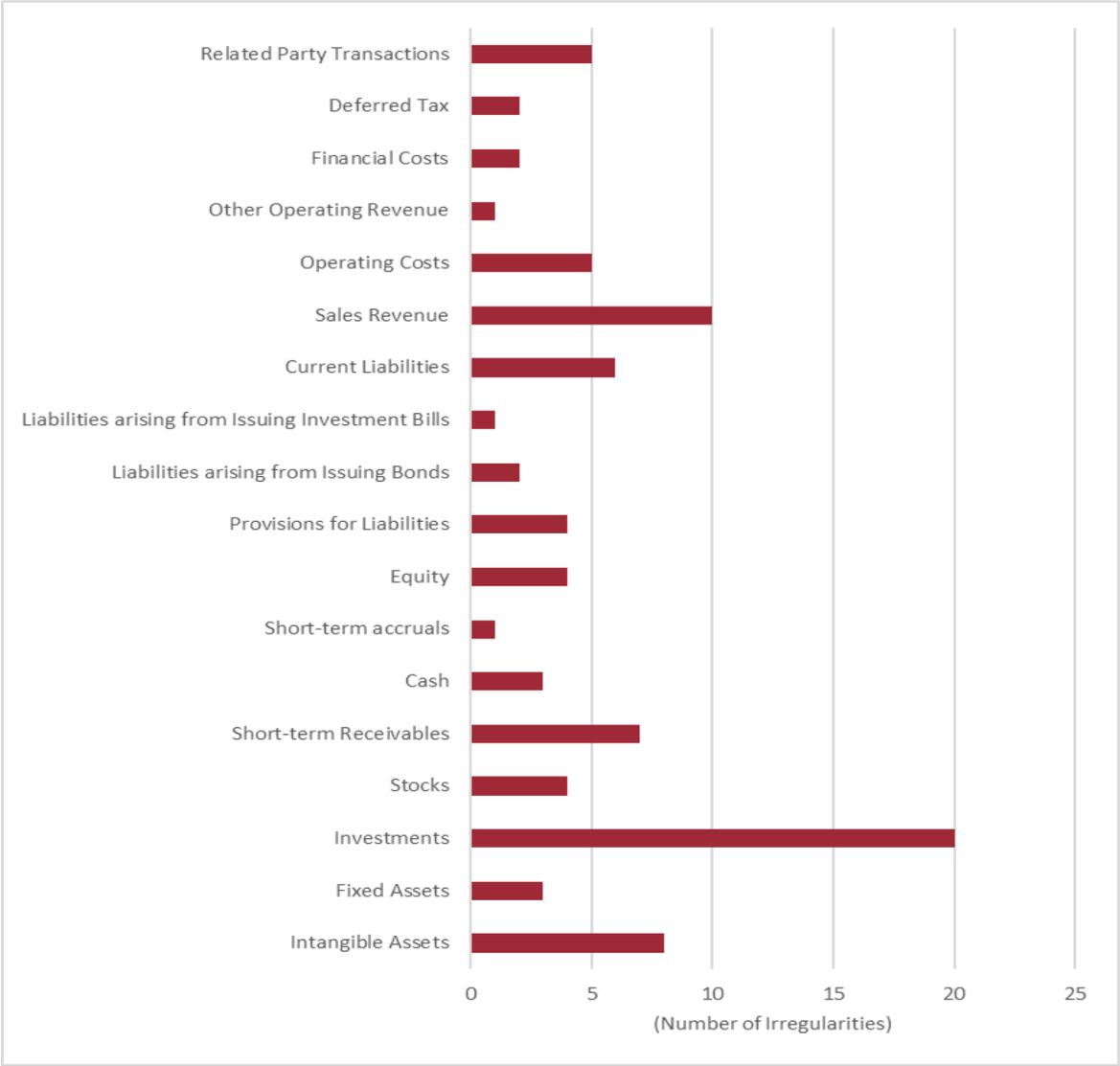
It should be emphasized that despite the existing obligation, not all documents from the audit of the financial statements of ATS companies were covered by internal quality control. In several cases, such verification did not take place. Weaknesses were also found in other audits subjected to quality control. They concerned the actual procedures used by internal verifiers, their lack of effectiveness (even in the case of an erroneous audit report), or even an unresolved dispute between the KA and the quality controller.

The results of the inspection of the actual scope of contacts between statutory auditors and members of supervisory authorities are also slightly different. During the interview, virtually all audit firms declared full compliance with this obligation. However, the analysis of the file documentation clearly indicated that, in several cases, there was definitely insufficient or incorrectly documented contact between statutory auditors and members of supervisory authorities, or no such contact at all.

Bearing in mind the individual areas of the financial statements, it is worth noting that the most irregularities were found during the verification of financial investments. In most cases, these related to shares held by the companies examined in other entities. They accounted for 65% of the cases of non-compliance with this balance sheet item and most of them related to valuation problems (including verification of appraisal reports prepared by external experts employed by the entities audited). Another important group of financial assets were loans granted, which also repeated aspects related to the correctness of their balance sheet valuation. Other irregularities related to the presentation of bonds and cryptocurrencies.

Other areas with a high number of errors in the audit procedures applied were sales revenues, intangible assets (including mainly research and development, goodwill, patents) and short-term receivables and liabilities. It is worth adding that during the interviews conducted as part of the thematic inspection, most of the auditors drew attention to investments and intangible assets as areas with the highest auditing risk. In this respect, the results of verifying auditing documentation would coincide with the auditors' general feelings about the degree of difficulty of verifying both items.

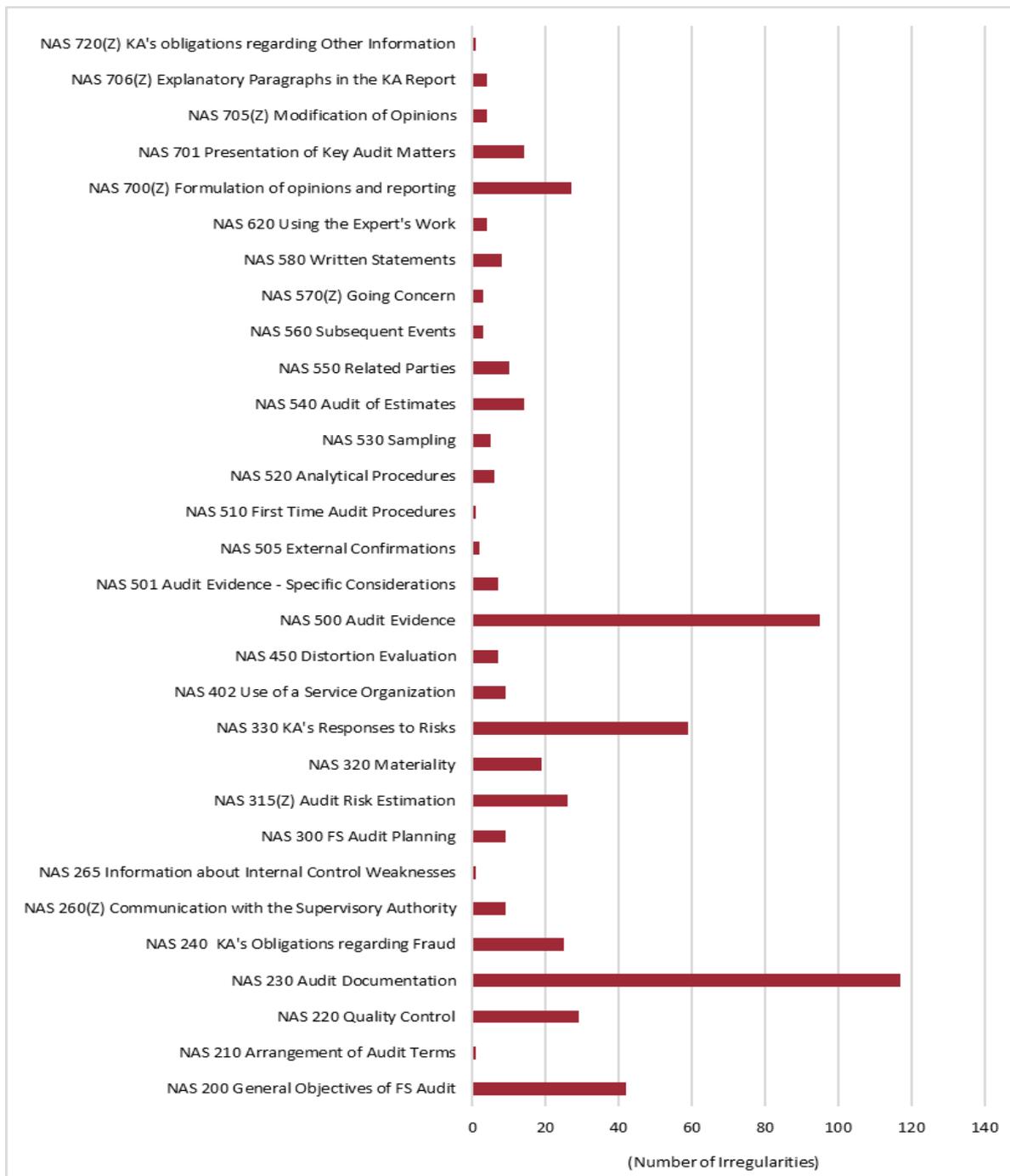
Figure 18. Irregularities in the verification of the main FS areas of companies listed on the ATS



The general presentation of the number of violations of specific National Auditing Standards included in Figure 19 indicates the most common categories of irregularities found when verifying audit documentation. They mainly concern NAS 230 *Audit Documentation*, including in particular paragraph 8 of this standard relating to the possibility of full understanding of the audit procedures performed and their results and conclusions of KAs by another experienced auditor not involved in the audit of the financial statements. The above provision is indicated by PANA inspectors in a situation where the auditor applied insufficient or inadequate verification procedures, or did not perform any control activities at all and drew an unjustifiable conclusion about the correctness of a given aspect.

Subsequently, the violation of NAS 500 *Audit Evidence* is relatively often cited, mainly referring to the lack of adequate and sufficient documentation of the audit procedures performed. This means that the KA did not include all the required evidence of the study in the auditing documentation, which would reliably confirm the actual implementation of the verification procedures declared by it.

Figure 19. Infringements of the NAS during the FS examination of companies listed on the ATS



Other violations of standards that require more attention include:

- NAS 330 Statutory auditor's reactions to the estimated risks,
- NAS 200 General objectives of the independent statutory auditor and performing the audit in accordance with international auditing standards,
- NAS 220 Quality control for auditing financial statements,
- NAS 315 (Z) Identification and estimation of the risks of significant misstatement by understanding the entity and its environment,
- NAS 700 (Z) Formulating opinions and reporting on financial statements,

- NAS 240 Duties of the statutory auditor during the audit of financial statements regarding fraud,
- NAS 320 Relevance in the planning and conduct of the study,
- NAS 701 Presentation of key audit matters in the independent auditor's report.

The substantive scope for the above standards basically coincides to a large extent with the main types of irregularities identified during the inspection of audit documentation.

The final element of the analysis of the correctness of audits of financial statements for ATS companies performed by auditors is an assessment of violations of the Statutory Auditors Act and the AoA. Detailed data indicating the number of infringements of specific provisions of the Statutory Auditors Act are presented in Figure 20.

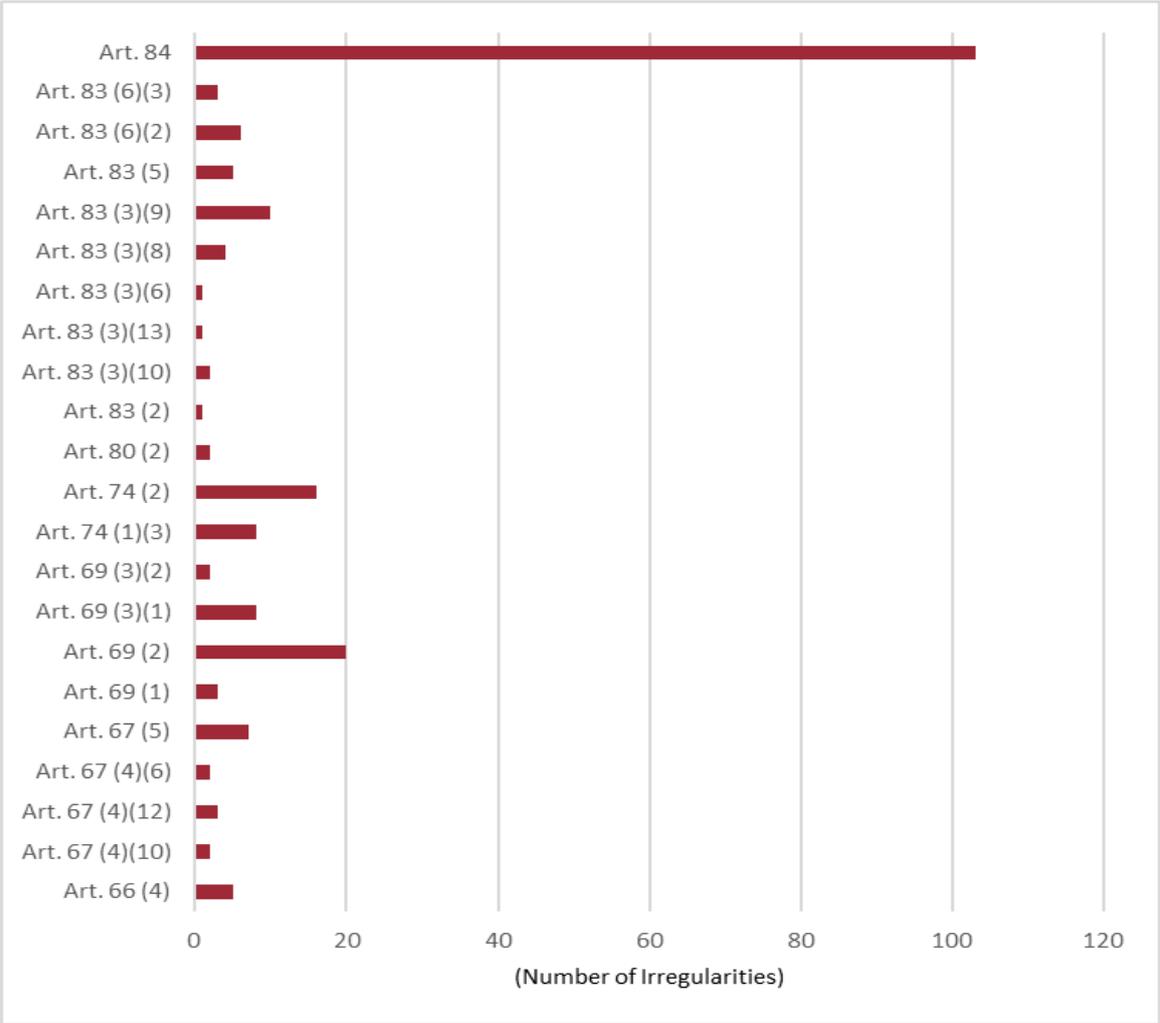
In the PANA inspection protocols, violation of Article 84 of the Statutory Auditors Act is by far the most frequently cited, which reads as follows: *„the audit report is prepared on the basis of the audit files collected and developed by the key statutory auditor in the course of the audit. The audit file shall enable the statutory auditor not involved in the audit to follow the audit and find justification for the opinion on the audited financial statements expressed in the audit report.“* The above violation is therefore pointed out in cases where the auditing documentation collected for a given area is so insufficient and incomprehensible to another auditor that he or she is not able to reach the same conclusions as the KA on the basis of this documentation and, consequently, it is not justified by the final opinion in the audit report.

Further significant infringements relate to KA's compliance with the principle of professional scepticism during its audit activities. It should be emphasized that this is one of the key conditions for a properly conducted audit of the financial statements. Pursuant to Article 69(2) of the Statutory Auditors Act, *"the statutory auditor and the audit firm maintain professional scepticism during the audit, including that occurring during its planning, assuming that circumstances, including error or fraud, may arise, resulting in material distortion of the financial statements to be audited, regardless of the statutory auditor's or audit firm's previous experience, concerning the integrity and integrity of the management of the audited entity and the persons responsible for the management of the audited entity, including its corporate governance"*. In turn, Article 69(3) of the Statutory Auditors Act indicates the particular importance of professional scepticism when verifying estimated values included in the accounts of companies.

Article 74(2) of the Statutory Auditors Act relating to the correct submission of declarations of independence before proceeding with the audit and Article 83 of the Statutory Auditors Act on issuing a correct audit report are also relatively common.

As far as violations of the provisions of the Accounting Act are concerned, in several cases the audit reports referred mainly to Article 78, which indicates the criminal liability of the auditor in the event of an opinion inconsistent with the facts.

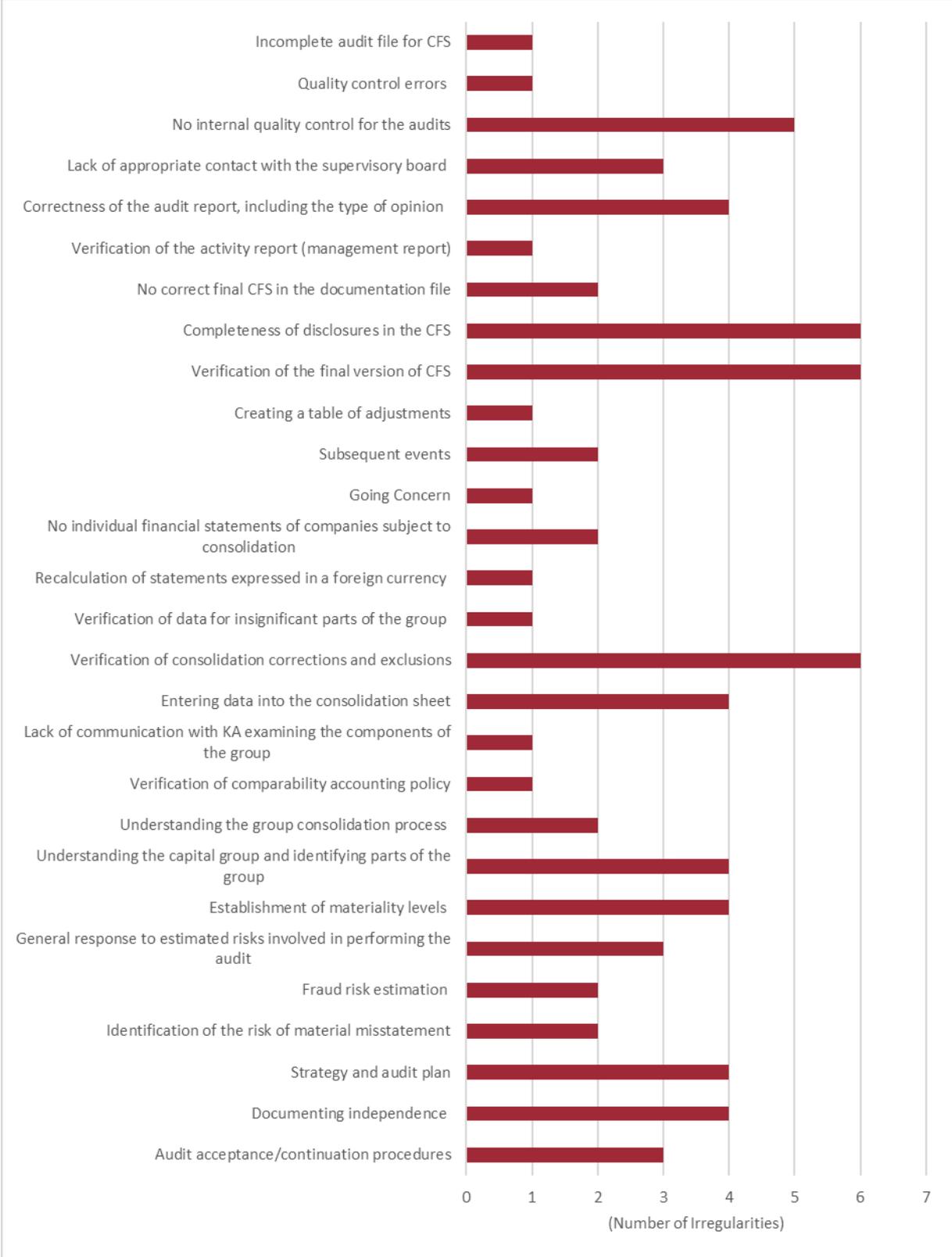
Figure 20. Violations of the Statutory Auditors Act during the FS examination of companies listed on the ATS



4.2.3 RESULTS OF INSPECTIONS INTO THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

During the planned inspections, nine audit documentation of the consolidated financial statements carried out by auditing companies covered by the thematic inspection was subject to verification. In total, more than 70 weaknesses were identified. Figure 21 presents the main areas of infringements identified. Particular attention should be paid to three types of irregularities – verification of consolidation adjustments and exclusions, reconciliation of the final version of the consolidated financial statements and analysis of the scope of their disclosures. These are very important from the substantive point of view of auditing activities and have been identified in over 60% of cases of verified auditing documentation.

Figure 21. Main areas of irregularities in the CFS audit documentation of companies listed on the ATS

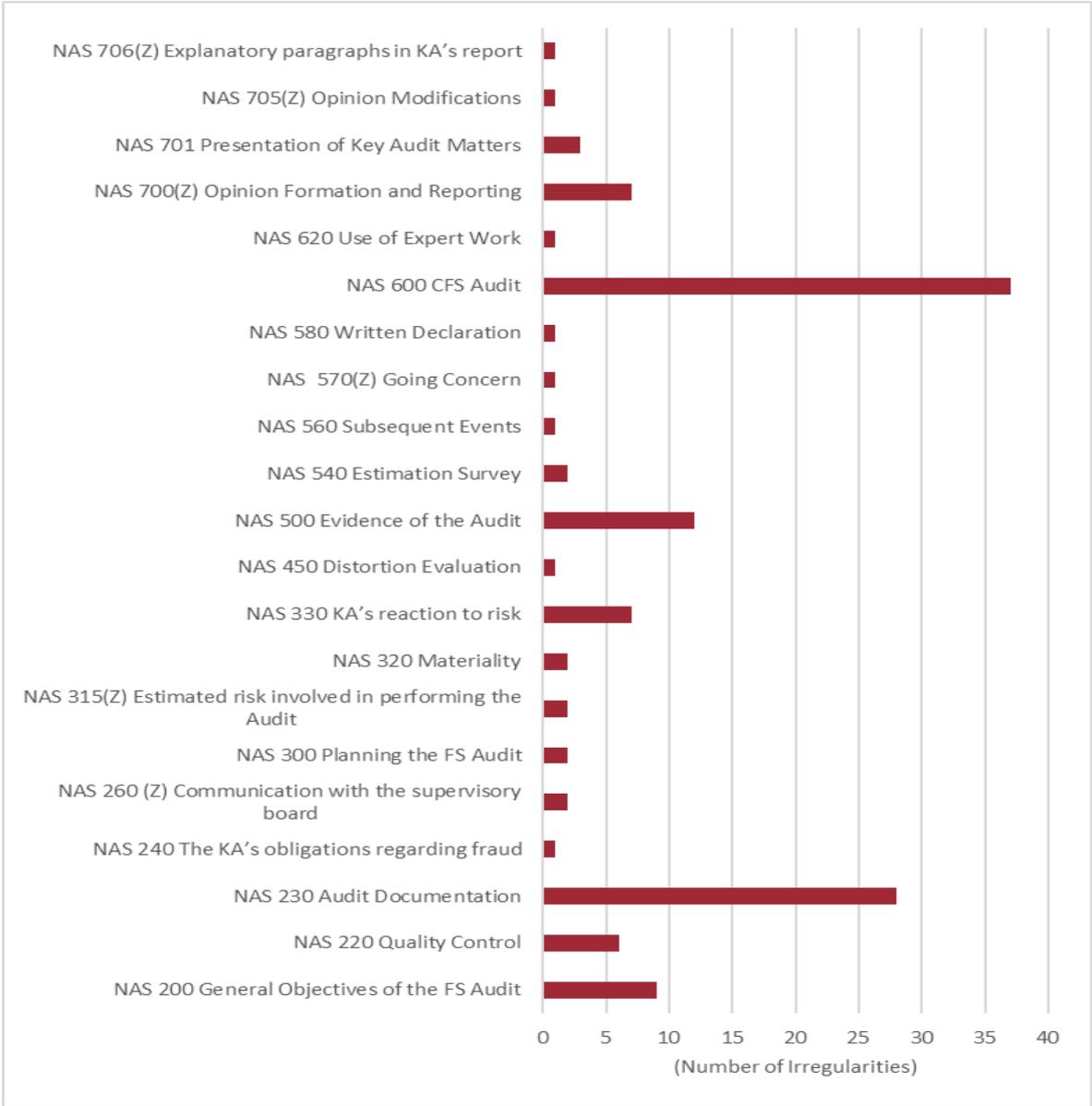


In the area of auditing consolidation adjustments and exclusions, auditors often had consolidation packages prepared by companies, but there was no audit trace that would clearly show what verification activities had been carried out by the KA. There was also no full documentation confirming the corrected amounts. As regards the reconciliation of the final version of the full

financial statements, this applied in particular to the cash flow statement, the statement of changes in equity and supplementary notes. It should be emphasized that the PANA inspections also identified cases where the final version of the CFS contained material errors and missing disclosures.

It is also worth paying attention to the recurring problem of an absence of internal quality control despite the existence of such an obligation. This irregularity was identified in five out of nine inspected files (over 50%). Weaknesses in auditors' reports, including the erroneous type of opinion, were also relatively common. To a large extent, these concerned various aspects of presenting key audit matters in the study. Violations related to documenting independence, preparing an audit strategy and plan, determining materiality, understanding the group and its components and verifying the introduction of separate financial statements data into consolidation sheets were also noted at a similar level. It should also be emphasized that there was no contact with any members of the supervisory board.

Figure 22. Infringements of the NAS during the examination of the CFS of companies listed on the ATS



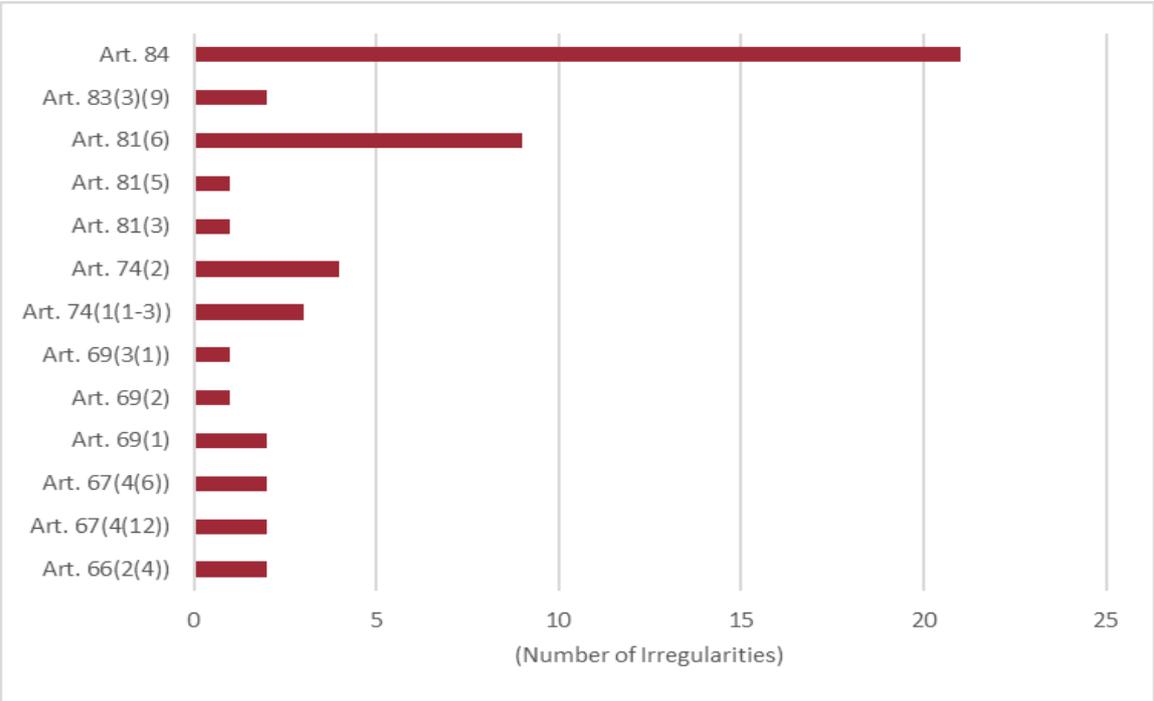
The number of violations of specific National Auditing Standards during the audit of consolidated financial statements of companies listed on the ATS is included in Figure 22.

Most of the deficiencies relate to NAS 600 *Special considerations – audits of consolidated financial statements* (including the work of statutory auditors of the components of the group). The irregularities identified in this area relate mainly to the specific audit procedures that should be applied in the CFS audit from the planning stage onwards.

Violations of paragraph 8 of NAS 230 *Audit documentation* relating to the ability of another experienced auditor not involved in the audit statement to understand the auditing procedures performed and their results were also indicated very frequently. Subsequently, the violation of NAS 500 *Evidence of the Audit* is alleged, mainly relating to the lack of adequate and sufficient documentation of the audit procedures performed. This means that the KA did not include all the required evidence in the auditing documentation, which would reliably confirm the actual implementation of the verification procedures declared thereby. It is also worth noting the number of violations of NAS 200 *General objectives of the independent auditor* and, when conducting an audit in accordance with international auditing standards, NAS 700 (Z) *Opinion Formation and Reporting* as well as NAS 330 *Auditor's reactions to estimated risks*.

The final element of the analysis is the assessment of violations of the Statutory Auditors Act and the Accounting Act. Detailed data indicating the number of infringements for specific provisions of the Statutory Auditors Act are presented in Figure 23.

Figure 23. Violations of Statutory Auditors Act during the CFS examination of companies listed on the ATS



As before, the most frequently indicated violation was that of Article 84 of the Statutory Auditors Act on the assembly of correct audit files, justifying the type of opinion contained in the auditor's report. The second most commonly quoted provision of the law was Article 81(6) of the Statutory Auditors Act, which reads as follows: *"the audit files for the consolidated financial statements collected and compiled by the group's auditing company are intended to enable the Agency to verify the work of the group's auditing company"*. A significant part of the audit documentation related to the CFS audit

submitted for inspection did not meet the above condition. The remaining most important infringements concern Article 74 of the Statutory Auditors Act on the submission of declaration of independence by the auditing company and the KA applicable prior to commencing the execution of the audit.

However, regarding violations of the provisions of the Accounting Act, in two cases Article 78 was invoked, which indicates the criminal liability of the statutory auditor in the event of an opinion inconsistent with the facts.

4.3 INVESTOR SURVEY

In order to supplement the conclusions resulting from thematic inspections, a survey was conducted among investors dealing with companies listed on the ATS market. In total, 19 people took part in the study. Almost half of these were investors with several years of investment experience in this market, while another 30% had over ten years of experience in this area. The vast majority of respondents confirmed that they had invested free cash in various forms (including shares listed on the main WSE market).

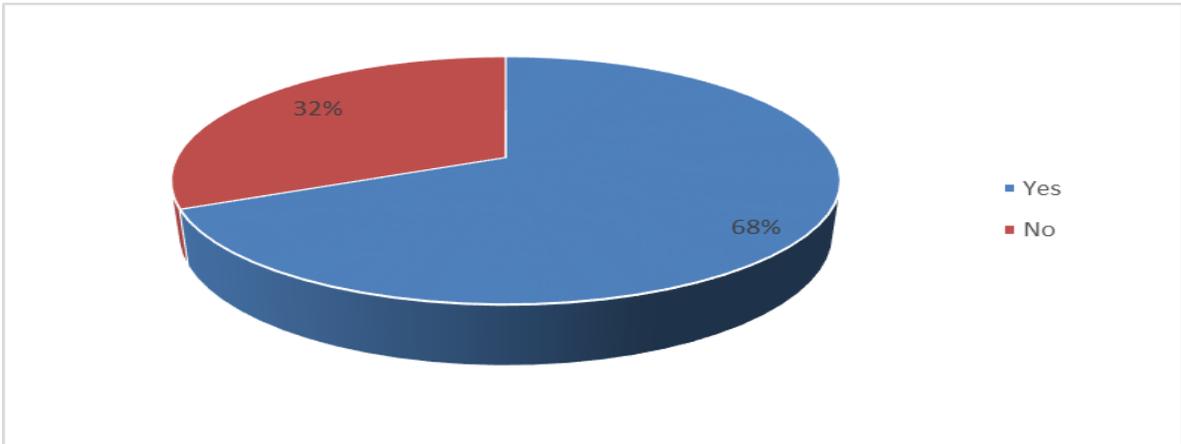
The first question directly related to the scope for investors to use the information contained in the financial statements published by ATS companies. Almost 90% of respondents confirmed that they analyzed the above documents on an ongoing basis. One can therefore conclude that financial statements are an important element in shaping the image of the company.

There was also a similar opinion on the reports issued by statutory auditors as a result of the audit of the annual financial statements of ATS companies. Almost 80% of investors clearly indicated that they analyzed the information contained in these documents.

It should be emphasized that this is very good news for auditors as it confirms the important role they play in shaping the security of business transactions.

During thematic inspections, some auditors stated an increase in the frequency of verification of reports prepared by ATS companies, which would certainly improve the quality of their reporting. This was mainly due to the introduction of the obligation to review half-year reports, which currently applies to the main WSE market. A similar question was also addressed to investors, and their opinions proved very similar. The vast majority of respondents supported this solution (68%), pointing to the reduction of investment risk.

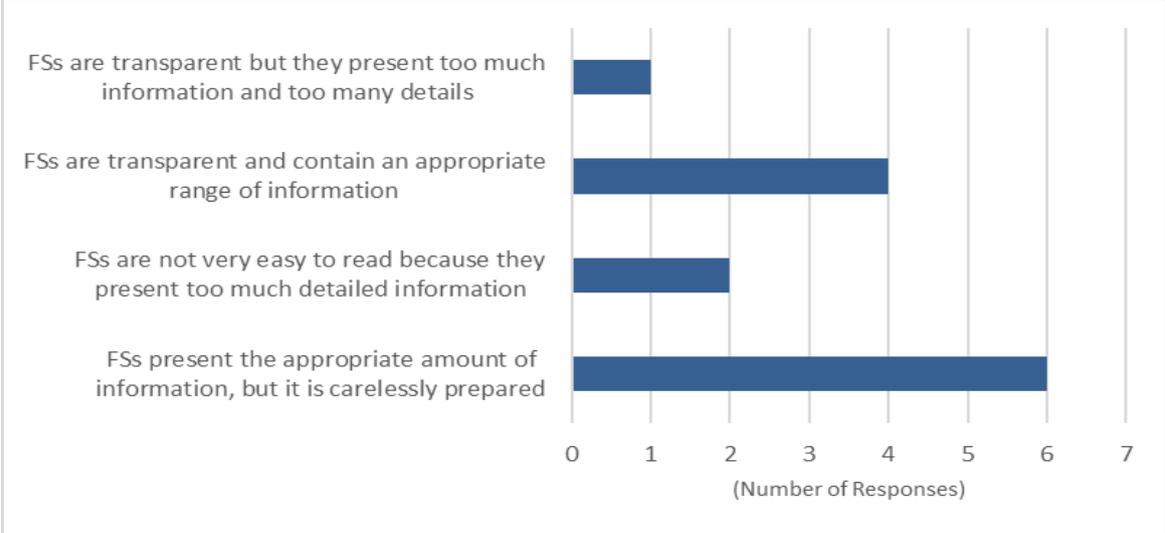
Figure 24. Currently, interim reports of companies listed on the ATS are not covered by the mandatory statutory auditor review. Do you think it would be advisable to introduce such an obligation?



Some respondents emphasized that the interim financial reporting of ATS companies was definitely worse than their annual reports and there was a wider range of types of manipulation used. This can be seen, for example, when comparing quarterly data with the final version of the annual financial report published after the end of the year. The introduction of mandatory reviews would therefore allow for earlier identification of possible problems related to a given entity, and thus the potential avoidance of losses by investors.

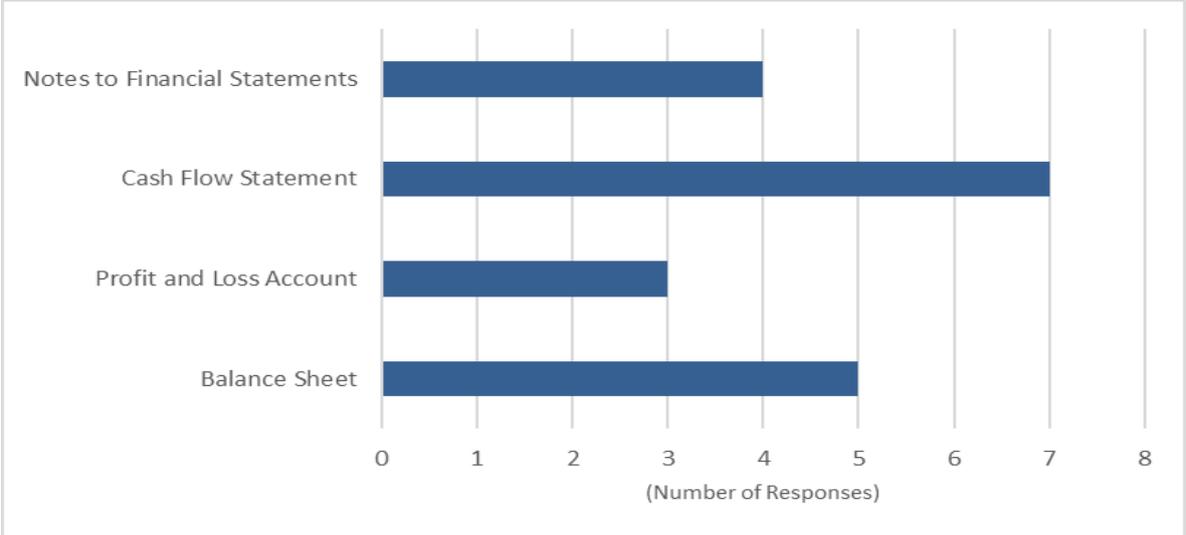
The next questions concerned more detailed data directly related to the reports of companies listed on the ATS. A large part of the respondents believed that the scope for publishing financial data was currently sufficient and required no expansion. However, the main problem finding a certain way to ensure that this information is properly presented.

Figure 25. What is your overall assessment of the level of financial reporting of companies listed on the ATS?



In addition, almost half of the investors agreed with the common opinion that the financial statements of ATS entities were of worse quality than those of companies listed on the main WSE market.

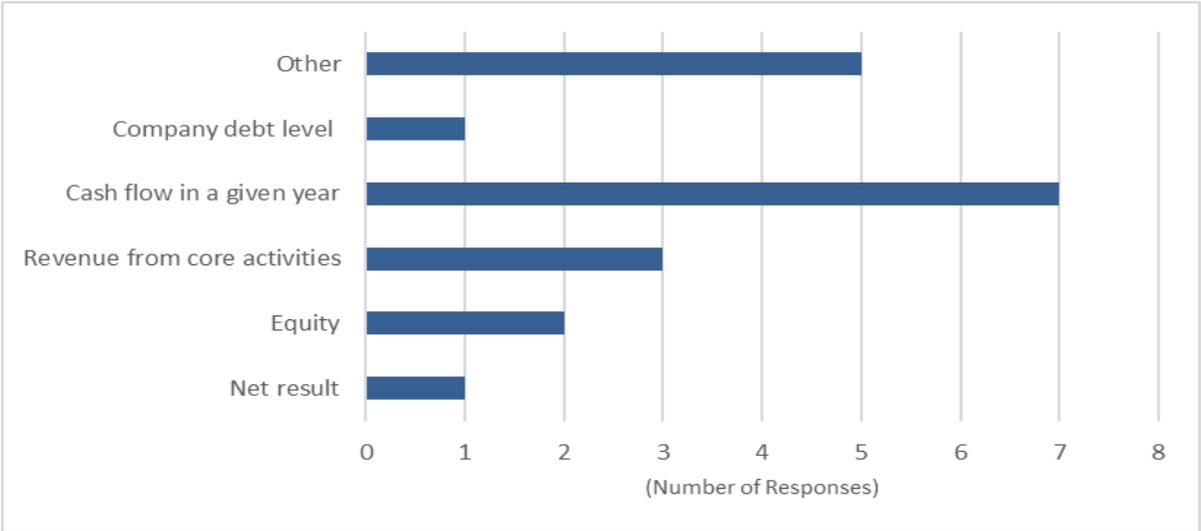
Figure 26. Which elements of the annual financial statements are most useful from the investor's point of view?



Of all types of financial statements, investors are most interested in using the cash flow statement as part of the most reliable assessment of a company's liquidity and solvency over a longer period of time. The next item is the balance sheet and additional information. It should be emphasized that no one indicated the statement of changes in equity as a useful report from the point of view of investment activities.

Respondents were also asked to provide specific financial data that was most important to them. By far the most important economic category is cash flow in a given financial year. This is followed by income from core activities and equity. Conversely, the least important issue was the financial result. Relatively many people also indicated the "Other" category and pointed out that basically all these factors were important when making investment decisions.

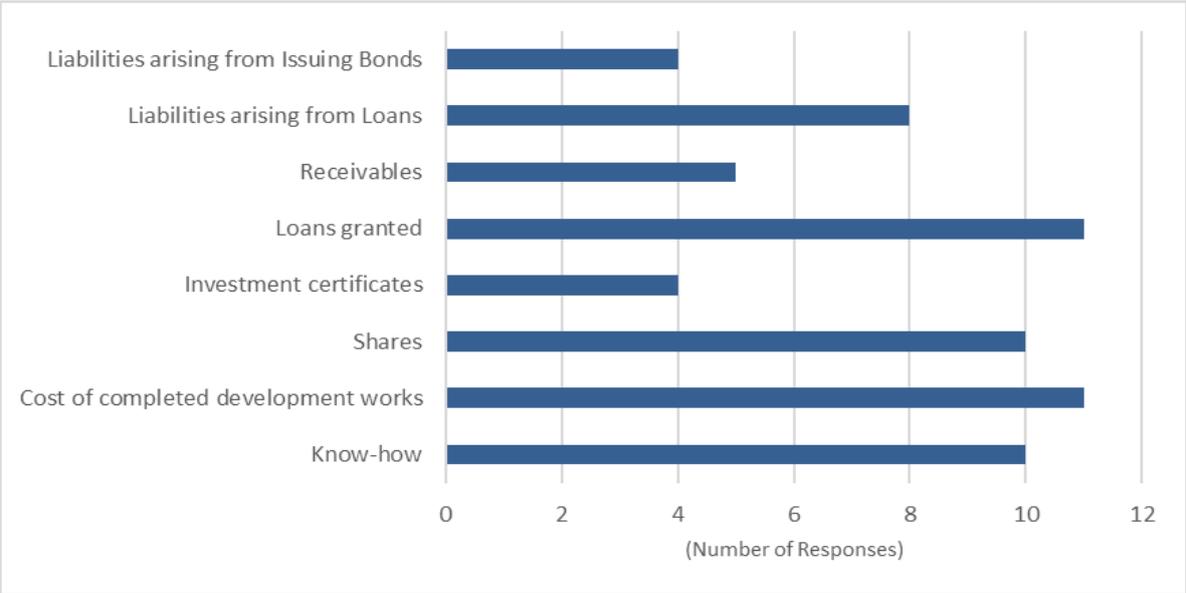
Figure 27. Which of the following information presented in the financial statements is the most important for you when making investment decisions?



In terms of identifying general risk areas related to the financial reporting of companies listed on the ATS stock exchange, respondents mainly mentioned problems related to creative accounting, excessive subjectivity and optimism in the presentation of data, the value of estimates included in the books, overstating profits, deliberate concealment of important information and insufficient disclosures. Investors also indicated specific financial positions that in their opinion are subject to the greatest risk. The conclusions in this respect are to a large extent consistent with the observations made by statutory auditors. The most problematic issues are intangible assets (costs of completed development works and know-how), as well as financial investments. This mainly applies to loans, shares and investment certificates. The respondents also pointed to items related to the size of companies' debts, including in particular liabilities from loans and issues of debt securities.

In response to a question about the proposed changes to the applicable legal provisions in the field of financial reporting of ATS companies, investors emphasized that the current regulations were sufficient but a reliable form of presenting data should be enforced. In most cases, they pointed to the role of good cooperation between the company and the auditor. Some respondents also stated that it was necessary to accelerate the publication of reports, fully implement IAS/IFRS on the ATS market and increase penalties for presenting unreliable data.

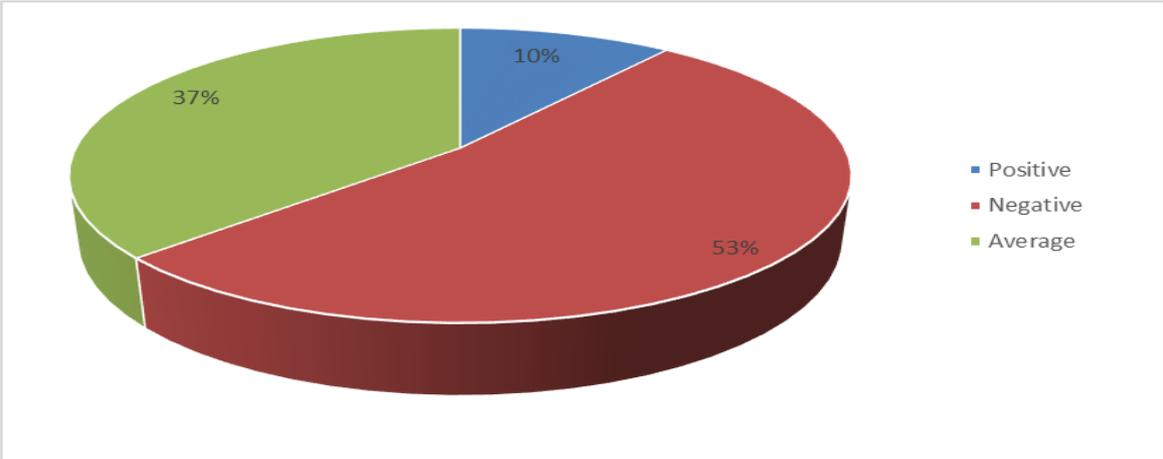
Figure 28. Which of the following items in the financial statements do you consider to be the most risky?



Findings relating to the risk of fraud are interesting: around 58% of respondents believed that there was high probability of financial data in the reports of ATS companies being manipulated. The same number of investors also clearly confirmed that they identified the risk of fraud when analyzing the financial statements of entities listed on the ATS. Specific mechanisms included unjustified activation of costs, deliberate overstatement of revenues, underestimation of provisions, excessive loans between related parties, overstated values of in-kind contributions as well as lack of revaluation write-downs on receivables.

Similarly, investors do not have a very optimistic view of the overall financial situation of ATS companies or their ability to survive in the long term. Only 11% of respondents expressed a positive opinion in this area. By contrast, as many as 53% clearly indicated potential problems related to this.

Figure 29. How do you assess the general financial condition of companies listed on the ATS and their ability to survive in the long term?



The final issue related to the general assessment of shares of companies listed on the ATS as an investment asset. Investors' feelings were very divided in this area: around 53% of respondents said that this was currently not an attractive form of investing free funds, while 47% confirmed their satisfaction. The arguments for the negative opinion were mainly the high risk caused by the

instability of this market, the low liquidity of entities and the threat of potential bankruptcy. Among the advantages were high potential for growth and the resulting high expected rate of return.

4.4 SUMMARY OF OBSERVATIONS

On the basis of the analysis of the issues presented in all three areas – interviews of audit companies regarding the ATS market, verifying selected documentation from auditing financial statements of these companies and the position of investors associated with the ATS – the following general conclusions can be drawn:

- In most cases, the period of cooperation between audit firms and ATS companies does not exceed 10 years, although there are also entities with longer experience. The ACs surveyed execute on average several such audits per year and usually obtain them informally,
- It should be emphasized that audit the financial statements of ATS companies are not particularly interesting to auditors. Almost 70% of auditing companies declared that they do not intend to increase their share in this market, while another 25% are withdrawing from this sector altogether,
- In the general assessment of cooperation with the ATS market, most auditors express a rather negative opinion, indicating mainly poor communication with supervisory authorities, lack of understanding of the role of the statutory auditor and the poor quality of the work of accounting offices dealing with this market,
- A much higher level of risk when auditing the financial statements of ATS companies was reported by statutory auditors who did not conduct audits for PIEs. However, auditing companies with such experience rated cooperation with this sector more highly,
- Over 65% of auditors are satisfied with the level of remuneration they currently receive for services provided to the ATS market. Most also pointed to an upward trend in this area. As regards the method of estimating this remuneration, it does not deviate significantly from the principles adopted for other entities,
- Audits of financial statements of ATS companies are usually carried out in teams of at least two people (including smaller offices of statutory auditors). Persons acting as KAs in these assignments are usually auditors with more than ten years of experience in the profession,
- Almost all ACs declared that they did not have any specific rules for the ATS sector included in their IQCS. This also applies to the rotation of the entity or auditor performing the audits in question. In most cases, the period of cooperation between the ATS and the person performing the role of KA does not currently exceed five years, so there is no particularly high risk of intimacy. At the same time, most entities declared verification of these rules in the context of the ATS market,
- A definite problem is the lack of mandatory quality control for FS audits of ATS companies. The auditors clearly confirmed this in the conversations. The above issue was also identified during the verification of audit documentation. For the audit of consolidated financial statements, quality control was not carried out in more than 50% of cases. It should also be emphasized that even in the case of internal verification for a given audit, PANA inspectors often pointed to some shortcomings. The assessment of the verifiers' work made directly by the AC itself was decidedly different,
- Both experienced audit firms and investors pointed to a lower level of quality of financial reporting of companies from the ATS market compared to entities listed on the WSE main market. At the same time, it was pointed out that the scope of data presentation currently required by law is in principle sufficient and there is no need to introduce additional

- regulations. The main issue is to ensure that these statements are prepared by accountants (including accounting offices) with more care and a greater degree of reliability,
- The main areas of risk in the financial statements of the ATS sector, indicated jointly by statutory auditors and investors, concern broadly understood intangible assets and financial investments. This is primarily concerned with the risk involved in their valuation. About 70% of the ACs surveyed admitted that in the course of executing audits for the ATS market, they encountered a problem regarding the estimation of the value of property rights. On the other hand, the auditors clearly emphasized that when auditing the financial statements of the ATS companies, they did not see any need to use external experts or internal consultations to a greater extent,
 - In most cases, the ACs surveyed stated that the risk of fraud in the financial statements of companies listed on the ATS was no higher than in the case of other entities. A slightly different opinion in this respect was presented by investors, who in 58% clearly confirmed the identification of such risk,
 - Companies listed on the ATS usually do not have a formalized internal control, which does not allow for wider use of control tests during the audit. In principle, such tests are only possible within larger entities,
 - Similarly, auditing companies do not identify specific factors related to the ATS market that would affect the assessment of inherent risk or the determination of materiality levels. The mere functioning of companies on this market is not a substantive criterion that would be specifically taken into account in the above audit procedures. The nature of the industry in which the company conducts business activity is much more important in this area,
 - During the process of auditing the financial statements of companies listed on the ATS, the main irregularities found in the audit documentation concerned the correctness of the audit report issued (including the type of opinion), presenting key audit matters, determination of materiality levels, estimation of the risk of material distortion at the level of completed financial statements and individual areas of said statements, determining the risk of fraud and following relevant procedures in this area, correctness of documenting independence, verification of the final version of financial statements and the scope for disclosures, quality control and contacts with the supervisory board. Some of them also concerned the audit of consolidated financial statements, although in this case one additional issue was the poor standard of verification by statutory auditors of the correctness of corrections and exclusions concerning consolidation,
 - It should be emphasized that, in several cases, PANA inspectors, when verifying auditing documentation, identified significant errors in the final versions of financial statements published by companies listed on the ATS market, which were not indicated by the auditors performing the given audit. In these situations, statutory auditors were required to issue an audit report containing a different type of opinion,
 - It is very important that 90% of the surveyed investors strongly confirmed the use of financial statements of companies when deciding how to invest free capital. In addition, 80% of them also verify the information contained in reports issued by statutory auditors. This is a very clear signal for the auditor community confirming their significant role in shaping the security of business transactions,
 - Among all financial statements, the most popular among investors is the cash flow statement and the information presented in it on the main directions of financial inflows and outflows. Revenues from core activities, equity or net result are much less important.