

ISSN

ROCZNIK AUDYTU RACHUNKOWOŚCI

An English version of the *Annual Journal of Audit and Accounting* will be published soon.

<https://pana.gov.pl/czasopismo/>

2023

PANA

ENGLISH SUMMARIES OF ARTICLES

<https://pana.gov.pl/czasopismo/>

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Model for changes in fees for audits of financial statements during a pandemic period

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Purpose: The aim for undertaking of the title issue is the intention to examine - for audit firms outside the largest audit firms (TOP 11 or TOP12 for 2022) - the developments in fees for the audit of the financial statements of entities other than public interest entities during the pandemic period. An additional objective was to approach answering to the question: whether the pandemic forcing a shift to remote auditing of these statements has changed audit firms' behaviour in the practice of selecting clients from further distances.

Methodology/research approach: It was possible to fulfil the objective assumed by presenting a proposal for the author's model (function) of salary changes, which takes into account the specific nature of the pandemic period. When constructing and using this model, data resulting from the *Database of Annual Reports of Audit Firms for 2020-2022*, created at the Polish Agency for Audit Oversight – PANA since its inception in 2020, were used. The analysis of the data available in this database, at the same time those that coincided with the period of the Covid-19 pandemic and were appropriately extended for the needs of the analysis, consisted in diagnosing the peculiarities of the studied sample and establishing the characteristics of the explaining variables, as a result of which a proposal was formulated for modelling the issue undertaken.

Results: The article confirms the existence of a dependence of the remuneration for statutory audit services on the type of the financial statement audited, the “high” or “low” season of performing the audit and the distance between the audit firm and the entity audited. In addition, it focuses on a deeper understanding of the sign of the coefficient appearing in the model with the variable indicating the season. The study has also indicated a trend of undertaking financial statement audit assignments from entities relatively more distant from the audit firm.



Research limitations/implications: The main limitation is the identification of the actual location of the service within the audit firms. For this reason, the largest audit firms with multiple branches have been eliminated from the database. Another limitation (however, affecting the results only insignificantly) is the method used for measuring the distance. The distance was calculated as the distance in a straight line between the audited entity's registered office and the audit firm's registered office. Manual recalculation of a few examples indicates that the distance measurement error may be at a level of no more than several kilometres.

Originality/value: The author notes the lack of published research in the area assumed and identifies a research gap. The article partly complements it by contributing to the understanding of the functioning of the process of measuring revenue in audit firms earned from the provision of audit services performed in relation to entities other than public interest entities. The conclusions presented can provide an incentive for further research and development of the model for post-pandemic periods, taking into account the distinctive features specific to that period.

Key words: auditor, statutory auditor, audit, audit fees, pandemic

Managing the risk of entering into a toxic business relationship from the perspective of anti-money laundering legislation

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Purpose: The aim of this article is to provide an introduction to the issue of risk management and the standard of due diligence within the establishment of a business relationship with a client by members of the public trust profession, in particular auditors, in the context of anti-money laundering legislation.

Methodology/research approach: Literature research and review of national and European legislation relating to issues of counteracting money laundering and the statutory auditor profession.

Results: Based on the review of literature and the content of legal regulations relating to counteracting money laundering and the exercise of the statutory auditor profession, key risk areas and legal requirements for managing the risk of exposure to money laundering involvement were identified.

The analysis performed made it possible to propose a number of recommendations in the scope of limiting the exposure to the conscious or unconscious involvement of a statutory auditor in unlawful activities in the context of legal obligations regarding anti-money laundering.

Research limitations/implications: The literature research and the review of legal regulations only covered documents selected by the author which he considered crucial from the perspective of the purpose of the analysis. The text is therefore not an exhaustive overview of all content relevant to anti-money laundering issues available in the public domain.



Originality/value: Gathering in one place the knowledge of the risks that surround the practice of the statutory auditor profession in the context of regulatory requirements in the area of counteracting money laundering and exposure to the risk of the statutory auditor's involvement in money laundering.

Key words: money laundering, counteracting money laundering, AML, economic crime, financial crime, fraud risk management, due diligence, *compliance*.

The imperatives of corporate governance

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Purpose: The purpose of the text presented below is essentially to emphasise: (1) the dynamics and direction of the evolution of corporate governance principles as a guideline for the introduction of the global order in this area, (2) the importance of corporate governance for the sustainable development of business entities, and (3) the related reporting standard which, as a conceptual framework for the presentation of corporate governance reporting information of business organisations across the European Union, constitutes an important element of their policies.

Methodology/research approach: The presentation is based on the analysis of the official announcements and guidelines posted on the OECD website (and other cited institutions), which are collectively used here to provide a picture of the corporate governance framework/principles in global terms, followed by a confrontation with the legal regulation outlining the standard of corporate governance reporting in the European Union space.

Results: This text indicates the need to verify the functioning of corporate governance in practice, simultaneously at two levels: macroeconomic and microeconomic. It identifies the sustainable development imperative as a key premise. It presents six directional recommendations for improving organisational practice and corporate governance reporting from a microeconomic perspective.

Research limitations/implications: Due to the pace of change in global corporate governance guidelines, on the one hand, and EU law relating to sustainability reporting, on the other, this text focuses on the need to recognise the current shape of principles and rules occurring on both levels. This is because it will only be possible to study their impact on various areas of business organisations and carry out different comparative (and other) analyses in the future (from 2025 onwards), as they are implemented in practice.

Originality/value: The value of this study can be identified in the structuring of knowledge in the title area, in the presentation - through a historical outline - of



the global (OECD) approach and the institutional environment relevant to the formulation of the corporate governance framework. Its usefulness is supported by the provision of recommendations that can be considered as a guideline in reviewing - at the level of the business organisation - current practices in this area.

Key words: Corporate governance, OECD, reporting, sustainable development, epidemic, Covid-19, ESG.

The place of conducting the audit of financial statements vs. the location of the head office of audit firms in Poland

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Purpose: The aim of the study is to recognise the relationship between the location of conducting an audit of financial statements and the location of head offices of audit firms operating in Poland.

Methodology/research approach: The document examination method was used in the study.. The analytical approach involved a targeted search of the content of the annual reports of audit firms submitted for 2022 to Polish Agency for Audit Oversight – PANA (as part of the statutory auditors’ reporting obligations under Article 51 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws of 2023, item 1015)) to determine the relationship between the place of the audit of financial statements and the head office of their audit firms. The results of the search performed were then aggregated and plotted on a map showing the administrative division of Poland into voivodeships.

Results: Audit firms from all over Poland audit a relatively large number of entities from the Mazowieckie voivodeship. In many voivodeships, due to the distribution of the location of major cities, audit firms, while performing audits close to their head office, actually perform them in another voivodeship. Most audits are performed by audit firms in their own voivodeship or in neighbouring voivodeships. However, audit firms established in the Mazowieckie and Wielkopolskie voivodeships audit entities all over Poland. The TOP12 firms, i.e. audit firms with more than 1% share in audits of public interest entities (PIEs), have a significant share here.

Research limitations/implications: The research limitations result from several reasons. The rigid information structure of the annual financial statements submitted to PANA is fundamental (<https://strefa.pana.gov.pl/wyszukiwarka/>). For this reason, for the purposes of the audit, the head office in accordance with the PANA register of



audit firms was accepted as the head office of the auditing entity. Other limitations relate to the fact that the head office of the audited entity may be different from the place where operations are actually performed, while the geography of Poland and differences in the development of the infrastructure of individual regions may distort the idea of local performance of the financial statement audit service.

Originality/value: This is the first data analysis of this type in Poland, enabled due to the reporting information about their activity by audit firms to the supervising authority - through the STREFA System of Registration and Records of Audit Firms. Earlier analyses referred only to the activities of audit firms taking into account their geographical distribution across the country. It allows to identify the business model of audit firms operating in Poland and their preferences regarding contacts with clients, as well as to recognise the market of financial statement auditing services in terms of its saturation in individual regions of the country.

Key words: financial audit, audit of financial statements, financial review, location of audit firm

Internal audit versus ethics programmes

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Purpose: The aim of the study is to present a proposal for the delimitation (determination of boundaries) of the audit spectrum in the area of ethics programmes of organisations, from the perspective of the draft new Global Internal Audit Standards.

Methodology/research approach: A comparative analysis, a critical analysis and a descriptive method of the proposed model were used in the study.

Results: The main findings of the analysis include the identification of new opportunities provided by the revision of the Global Internal Audit Standards in the area of auditing of ethics programmes, the illustration of challenges in the area of analysing the organisation's ethical maturity levels and the presentation of a list of audit engagements in the area of ethics: desirable, potentially acceptable and not recommended.

Research limitations/implications: The proposed streamlining of audit engagements in the area of ethics from the perspective of the Standards is a proposal for discussion, resulting, among others, from the author's experience. Further development of the Global Internal Auditing Standards and potential official stances of the Institute of Internal Auditors, including the Institute's chapters, may serve its positive or negative verification.

Originality/value: This is the first publication comparing the qualitative as well as quantitative change between the existing International Standards for the Professional Practice of Internal Auditing, in force since 2017, the revision of which, called the Global Standards for Internal Auditing, was presented in 2023 and will be implemented in 2024-2025.

Key words: internal audit, ethics programmes, ethical maturity levels, Global Internal Audit Standards



Cost of equity under the circumstances of uncertainty - an example of the US market

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Purpose: The aim of this paper is to answer the question: Can the classical methodology for estimating the cost of equity (capital asset pricing model, CAPM) be applied under the conditions of particular economic uncertainty, without having to revise the legitimacy of its assumptions? The context for the search of an answer to this question is an analysis of the conditions for the estimation of the cost of equity in the USA under conditions of particular uncertainty, as observed in the period 2008-2023.

Methodology/research approach: The research approach was associated with focusing analytical attention on identifying the characteristics of three periods of particular uncertainty (generated primarily by the recent crises: the 2008-2012 subprime, COVID-19 and the high level of inflation caused by Russia's aggression against Ukraine) and examining their impact on parameters important for determining the level of the cost of equity. An additional study of related time series was also conducted, with the Kroll Inc. database used as the primary data source.

Results: The cost of equity over approximately the last 15 years has become less and less dependent on government bond interest rates. When estimating the level of

the cost of equity, market participants start to use alternative methods that modify the classic CAPM model.

Research limitations/implications: Due to the availability of data, the analysis performed focused on the US market, which is a limitation in view of the need to draw conclusions for the European market as well.

Originality/value: The article critically analyses mainstream research on the valuation of the cost of equity under the circumstances of uncertainty.

Key words: cost of equity, CAPM, uncertainty, estimation methods



The auditor's professional skepticism in times of economic uncertainty

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Purpose: The purpose of this article is to assess how contemporary conditions of economic uncertainty (the pandemic and post-pandemic periods, Russia's invasion of Ukraine, high inflation, cybercrime, signs of the environmental crisis) affect the importance of an auditor's professional skepticism.

Methodology/research approach: The main research method is an assessment of national auditing standards and professional studies, as well as an in-depth review of the scientific literature. Data from the Web of Science database was used to carry out the bibliometric studies, while Biblioshiny for Bibliometrix software was used to present the results of the study. Methods of analysis and synthesis were used in the article.

Results: The article presents a positive and normative approach to the auditor's professional skepticism in an audit of the financial statements of an entity operating in times of uncertainty across a range of business-relevant economic dimensions. In positive terms, the article demonstrates the importance of professional skepticism arising from changes in financial reporting in times of uncertainty. In normative terms, it identifies the applicable standards in the area under analysis, as well as the directions in which the importance of professional skepticism is changing.

Research limitations/implications: The research limitation is to infer from the findings presented in the scientific literature and professional studies. Supplementing these with the author's empirical research would allow for a deeper analysis, which may constitute a future research path. This is because the article serves to show the impact of uncertainty on the significance of professional skepticism in an ex-post perspective, showing changes to date, as well as ex-ante, i.e. in the perspective of the evolution of the concept analysed. The research implications of the article are therefore both practical and theoretical.



Originality/value: The lack of comprehensive academic studies in the research area identified above indicates a research gap, which the article partially completes by contributing to the understanding of the impact of economic uncertainty on financial reporting and auditing, including the importance of professional skepticism. The findings presented may be useful for both the theory and practice of financial auditing.

Key words: auditor, statutory auditor, financial audit, financial audit, professional skepticism, inflation, uncertainty, pandemic, war.

