



**REPORT
OF THE AUDIT OVERSIGHT
COMMISSION
FOR 2014**

Warsaw, 29 April 2015

Pursuant to Art. 64(5) of the *Act of 7th May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight* (Journal of Laws No. 77, item 649, as amended) the AOC, by the 30th April of the following year, drafts an annual report comprising comprehensive information on the operations of the quality assurance system, the results of disciplinary proceedings against statutory auditors, and on penalties imposed on entities authorised to audit financial statements.

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INTRODUCTION

The Audit Oversight Commission (AOC) has been operating in Poland since mid-2009, and is responsible for public oversight over statutory auditors and audit firms (entities authorised to audit financial statements). The AOC is a public administration body, the service of which is provided by the Accounting and Auditing Department of the Ministry of Finance. Public oversight is first exercised directly through the oversight of tasks imposed on the bodies of the professional self-government of statutory auditors (National Chamber of Statutory Auditors – NCSA). The AOC oversees the activity of the NCSA bodies in particular as regards the approval of statutory auditors and audit firms, establishment of the standards and rules of performing the profession of a statutory auditor, regular and ad-hoc inspections in audit firms which perform audit activities in public interest entities (PIE), or as regards the disciplinary proceedings against statutory auditors.

The AOC directly registers statutory auditors and entities authorised to audit financial statements from third countries, handles international cooperation, including with regard to information exchange with oversight bodies from other EU Member States and third countries, and is entitled to carry out investigation-like inspections in audit firms in case of receiving information concerning irregularities.

Within the inspections of audit firms auditing PIEs 97 inspections were carried out under the oversight of the AOC in 2010-2012, and 134 inspections in 2013-2014. In the light of the objectives pursued by the said inspections it should be particularly emphasised that during the said inspections irregularities concerning the following issues were found: violation of the impartiality and independence principles at the level of an audit firm, failure to develop an internal quality control system by audit firms, and no evidence of auditing the confirmation of statements arising out of the mandatory standards of performing the profession with regard to material parts of financial statements. Due to the key importance of those irregularities for the audit with respect to which the irregularities were found, as well as for audits to be performed in the future, the AOC requested proper actions to be undertaken within the framework of the investigation and sanction system towards audit firms and/or key statutory auditors respectively. The AOC also monitored the course of disciplinary proceedings against statutory auditors carried out by the self-government court, joining certain proceedings as a party. As regards those areas, in the times of eroded trust to financial institutions, it was important for the AOC in cooperation with the Financial Supervision Authority to involve in measures undertaken against statutory auditors and audit firms auditing financial statements of Savings and Credit Unions.

Furthermore, within the tasks performed directly, the AOC developed the principles of registering statutory auditors and audit firms from third countries, and got in operating contacts with foreign oversight bodies to develop the rules of covering audits of financial statements of cross-border importance with oversight.

In the international context, in 2011 the AOC was admitted to the International Forum of Independent Audit Regulators (IFIAR). The AOC representatives also participate in the works of the European forum within the EGAOB and EAIG. The external activity of the AOC was additionally demonstrated by conferences co-organised with the World

Bank and the Warsaw Stock Exchange at the beginning of 2013 and 2015 concerning the role of audit committees in companies.

This Report presents the activities undertaken by the AOC within the framework of public oversight in 2014, i.e. in the sixth year of the AOC's operations, towards statutory auditors and entities authorised to audit financial statements. The first chapter characterises the market of audit services, in particular split into the banking, insurance, and exchange sector. The second chapter comprises background information on the AOC, including the manner to fund the tasks. The activity of the AOC within the quality assurance system, disciplinary proceedings, oversight of the NCSA activity, cooperation with the FSA, and international cooperation, are all discussed in the third chapter. The fourth chapter concerns the evaluation of the particular bodies of the NCSA with regard to tasks performed within the framework of public oversight.

A challenge for the next years, for statutory auditors, the self-government thereof, audit firms, and for the public oversight body, will be the change of the profession performance standards. The fact that in April 2015 the AOC approved the International Standards on Auditing and the International Standard on Quality Control 1, which were adopted by resolutions of the National Council of Statutory Auditors, to be applied in Poland should be a significant step towards enhancing the quality and uniformity of performing the profession of a statutory auditor in Poland, and towards building the trust to financial reporting and auditing. The AOC will support the NCSA in undertaking further measures aimed at implementing the new standards into practice.

Due to the audit reform completed in 2014 within the EU forum, the AOC is awaiting new challenges in 2015 concerning the reorganisation of the public oversight system, including the preparation to fulfil new obligations under the Regulation of the European Parliament and of the Council on Specific Requirements Regarding Statutory Audit of Public Interest Entities, i.e. performing inspections, investigations, and imposing penalties on audit firms, statutory auditors, and other natural persons involved in auditing public interest entities, performing the analysis of risk arising out of irregularities concerning the audit service quality, or monitoring the audit service market.

LIST OF ABBREVIATIONS AND ACRONYMS

ABBREVIATION/ ACRONYM	FULL NAME
EAIG	European Audit Inspection Group
EGAOB	European Group of Auditors' Oversight Bodies
WSE	Warsaw Stock Exchange
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
NCSA	National Chamber of Statutory Auditors
NAOC	National Audit Oversight Committee
NIAC	National Internal Audit Committee
AOC	Audit Oversight Commission
FSA	Financial Supervision Authority
Examination Committee	Examination Committee for Candidates for Statutory Auditors
NCoSA	National Council of Statutory Auditors
NDS	National Disciplinary Spokesman
NDC	National Disciplinary Court
NSAs	National Standards on Auditing
MF	Ministry of Finance
ISAs	International Standards on Auditing
PCAOB	Public Company Accounting Oversight Board
SCUs	Savings and Credit Unions
SPCP	Swiss-Polish Cooperation Programme
EU	European Union
FSA Office	Office of the Financial Supervision Authority
PIB MF	Public Information Bulletin of the Ministry of Finance

1. PUBLIC OVERSIGHT SYSTEM

1.1. Legal basis of the system

EU legal instruments

Directive 2006/43/EC of the European Parliament and of the Council of 17th May 2006 on Statutory Audits of Annual Accounts and Consolidated Accounts, Amending Council Directives 78/660/EEC and 83/349/EEC and Repealing Council Directive 84/253/EEC (OJ EU L 157 of 9th June 2006, p. 87, as amended), hereinafter referred to as Directive 2006/43/EC.

The following legal instruments were adopted in 2014:

- Directive 2014/56/EU of the European Parliament and of the Council of 16th April 2014 Amending Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts (OJ EU L 158 of 27th May 2014, p. 196)¹;
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16th April 2014 on Specific Requirements Regarding Statutory Audit of Public Interest Entities and Repealing Commission Decision 2005/909/EC (OJ EU L 158 of 27th May 2014, p. 77)².

Act of Law

The Act of 7th May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements and Public Oversight (Journal of Laws No. 77, item 649, as amended), hereinafter referred to as the Act.

Other

- the Accounting Act of 29th September 1994 (Journal of Laws of 2013, item 330, as amended), hereinafter referred to as the Accounting Act;
- the Regulation of the Minister of Finance of 15th January 2010 on Inspection of Performing the Profession of Statutory Auditors and Activity of Entities Authorised to Audit Financial Statements (Journal of Laws No. 16, item 83), hereinafter referred to as the Inspection Regulation;
- the Regulation of the Minister of Finance of 29th December 2009 on Qualification Procedure for Statutory Auditors (consolidated text: Journal of Laws of 2014, item 391), hereinafter referred to as the Qualification Procedure Regulation³;
- the Regulation of the Minister of Finance of 13th November 2014 on Qualification Procedure for Statutory Auditors (Journal of Laws item 1611)⁴;

¹ The Directive entered into force on 16th June 2014, and the UE Member States are obliged to implement the provisions thereof by 17th June 2016.

² The Regulation shall be in force as of 17th June 2016.

³ The Regulation was in force to 31st December 2014.

⁴ The Regulation entered into force as of 1st January 2015.

- the Regulation of the Minister of Finance of 21st November 2014 on Mandatory In-Service Training of Statutory Auditors (Journal of Laws item 1730)⁵;
- the Regulation of the Minister of Finance of 3rd December 2009 on Mandatory Civil Liability Insurance of Entities Authorised to Audit Financial Statements (Journal of Laws No. 205, item 1583);
- Resolution No. 5 of the Extraordinary National Assembly of Statutory Auditors of 21st March 2010 on the Constitution of the National Chamber of Statutory Auditors, hereinafter referred to as the NCSA Constitution.

1.2. System characteristics

The public oversight system consists of the following elements:

- the Audit Oversight Commission (AOC) – the public oversight body;
- the National Chamber of Statutory Auditors (NCSA) – the professional self-government, the bodies of which by the intent of the legislator have been entrusted with certain tasks of public oversight, with the AOC being finally accountable for the execution thereof. These bodies are:
 - ✓ the National Council of Statutory Auditors (NCoSA),
 - ✓ the National Audit Oversight Committee (NAOC),
 - ✓ the National Disciplinary Court (NDC),
 - ✓ the National Disciplinary Spokesman (NDS),
- the Examination Committee for Candidates for Statutory Auditors.

Pursuant to the Act, the competence of the AOC include among others:

- approving resolutions adopted by the NCSA bodies as specified in the Act, including resolutions concerning:
 - ✓ the National Standards on Auditing (NSAs),
 - ✓ the rules of internal quality control of entities authorised to audit financial statements,
 - ✓ the rules of professional ethics of statutory auditors,
 - ✓ the regulations of disciplinary proceedings against statutory auditors,
 - ✓ the rules of mandatory in-service training for statutory auditors,
 - ✓ the regulations of the Examination Committee and other rules concerning the qualification procedure for candidates for statutory auditors;
- approving annual plans drafted by the NAOC concerning inspection in entities authorised to audit financial statements⁶ which perform audit activities in public interest entities, and approving candidates for inspectors prior to their engagements, and inspectors designated to perform particular inspections;
- approving results of inspections carried out in entities authorised to audit financial statements which perform audit activities in public interest entities, and participating in certain inspections performed by the NAOC in the capacity of an observer;

⁵ The Regulation entered into force as of 1st January 2015.

⁶ The names *entities authorised to audit financial statements* and *audit firms* are applied interchangeably herein.

- carrying out (by itself), in case of receiving information about irregularities, inspections of performing the profession by statutory auditors, and the activity of entities authorised to audit financial statements;
- participating as a party in disciplinary proceedings against statutory auditors carried out by the NDS and the NDC;
- registering statutory auditors and entities authorised to audit financial statements from third countries;
- appealing to administrative court against resolutions of the NCSA bodies which are not subject to approval;
- inspecting documentation constituting the basis for the NCoSA to adopt resolutions concerning entries of statutory auditors to the register of statutory auditors, or entries of entities authorised to audit financial statements to the list of entities authorised to audit financial statements;
- handling international cooperation, including in particular with the European Commission, oversight bodies from other EU Member States and third countries.

An important element of the public oversight system is the Examination Committee for Candidates for Statutory Auditors, appointed by the Minister of Finance. The Examination Committee acts under the Act, the Qualification Procedure Regulation, and resolutions of the NCoSA approved by the AOC.

Pursuant to Art. 7 of the Act, the tasks of the Examination Committee comprise the following:

- carrying out exams for candidates for statutory auditors, including a diploma exam;
- acknowledging, upon request of a candidate for a statutory auditor, the completion of apprenticeship and professional training;
- drafting test questions, case studies, and preparing examination sets for particular exams, including for a diploma exam, for candidates for statutory auditors;
- considering appeals against exam results;
- carrying out exams for natural persons having the rights to perform the profession of a statutory auditor acquired in another EU Member State or in a third country;
- assessing equivalence referred to in Art. 5(4) of the Act.

The Examination Commission consists of 19 members, among them there are:

- 10 representatives of the Minister of Finance (including 4 persons other than employees of the Ministry of Finance, selected from among representatives of academic circles);
- 7 representatives recommended by the NCoSA (from among the statutory auditors entered into the register);
- 2 representatives recommended by the FSA.

Pursuant to Art. 8(6) of the Act, the Examination Committee for Candidates for Statutory Auditors submits a report on activity to the AOC⁷.

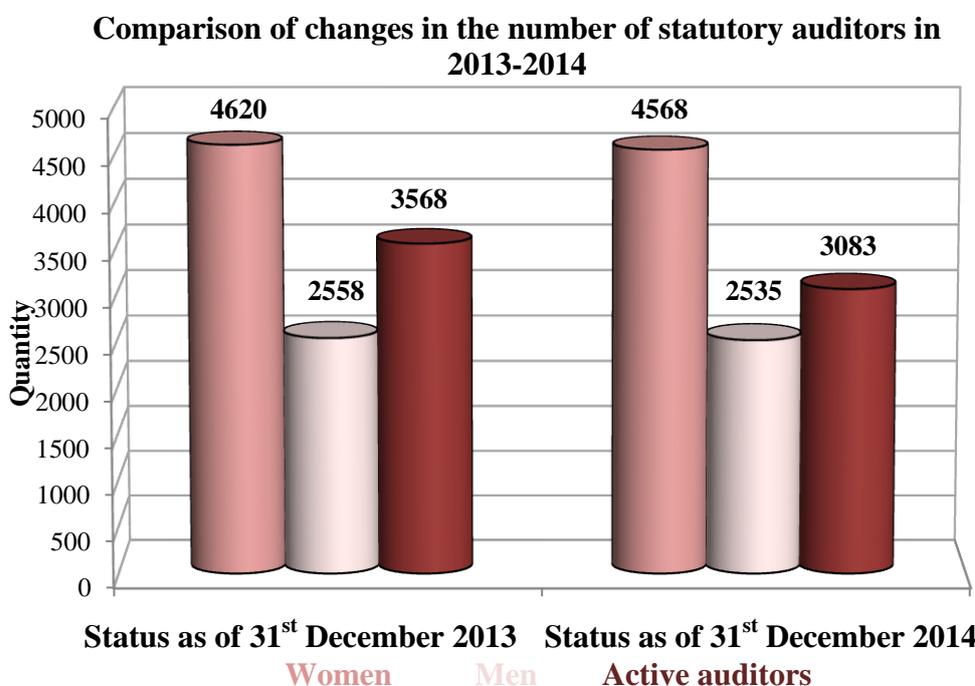
⁷ Report on the Activity of the Examination Committee for Candidates for Statutory Auditors for the Period from 1st January 2014 to 31st December 2014 is available on the website of the PIB MF ➔ Activity [Działalność] ➔ Collective Bodies [Ciała kolegialne] in the AOC [KNA] section, tab Reports [Sprawozdania].

1.3. Background information on the market of audit services

Statutory auditors

As of 31st December 2014 the register of statutory auditors comprised 7,103 statutory auditors (including 4,568 women and 2,535 men), which is a decline by 75 statutory auditors as compared to the end of 2013. 3,083 people among the statutory auditors entered into the register of statutory auditors declared to be professionally active. As compared to the end of 2013 that number dropped by 485 auditors. The average age of a statutory auditor as of 31st December 2014 was 56, and was by one year higher as compared to the end of the previous year.

The changes in the number of statutory auditors are compared on the figure below.



Source: own compilation of the AOC Office based on the NCSA data.

In 2014, 11,934 candidates (including 971 recruited in 2014, and 10,963 in the previous years) participated in the qualification procedure for candidates for statutory auditors. As compared to the end of 2013, it is a growth by 678 candidates for statutory auditors. In 2014, the qualification procedure was completed by 298 candidates, which means that that many candidates passed the diploma exam and acquired the right to apply to the NCoSA to be entered into the register of statutory auditors, which is an increase by 67 candidates as compared to 2013.

From 1st January 2014 to 31st December 2014, pursuant to the NCoSA resolutions, 157 people were entered into the register of statutory auditors (no entries under Art. 5(3) or (4) of the Act were made), and 196 statutory auditors were struck off the register of statutory auditors, including:

- 147 upon request;

- 48 due to death;
 - 1 due to failing to comply with the conditions referred to in Art. 5(2)(3) of the Act.
- As compared to the end of 2013, the number of entries into the register of statutory auditors declined by 79 entries, and at the same time the number statutory auditors struck off the register of statutory auditors increased by 34.

Entities authorised to audit financial statements

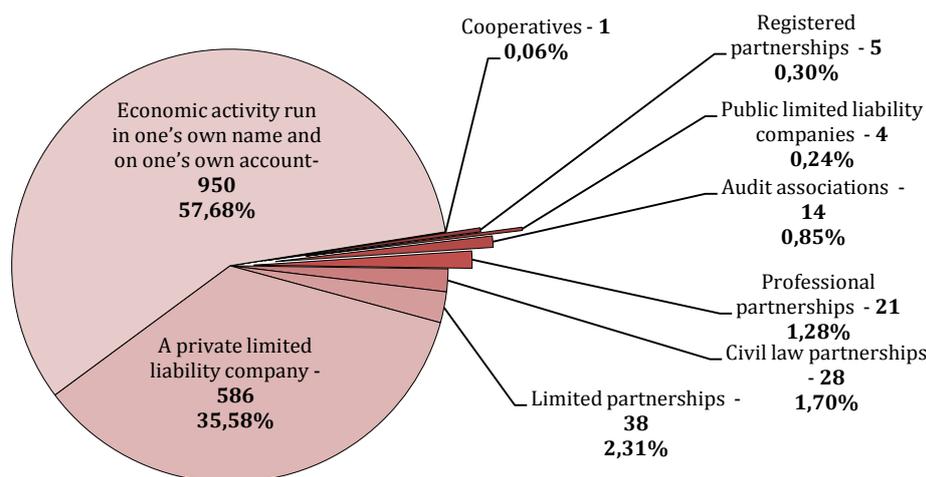
As of 31st December 2014 the list of entities authorised to audit financial statements comprised 1,647 entities authorised to audit financial statements. As compared to the end of 2013, the number of entities authorised to audit financial statements dropped by 22.

From 1st January 2014 to 31st December 2014, pursuant to the NCoSA resolutions, 86 entities authorised to audit financial statements were entered into the list of entities authorised to audit financial statements, and 109 entities were struck off the list of entities authorised to audit financial statements, including:

- 99 upon request;
- 7 upon the request of the NAOC due to refusing to undergo an inspection;
- 2 due to the death of statutory auditors running the authorised entities as activity in their own name and on their own account;
- 1 due to striking the statutory auditor off the register.

The figure below shows the division of entities authorised to audit financial statements by business activity form as of 31st December 2014.

Entities authorised to audit financial statements by business activity form at the end of 2014

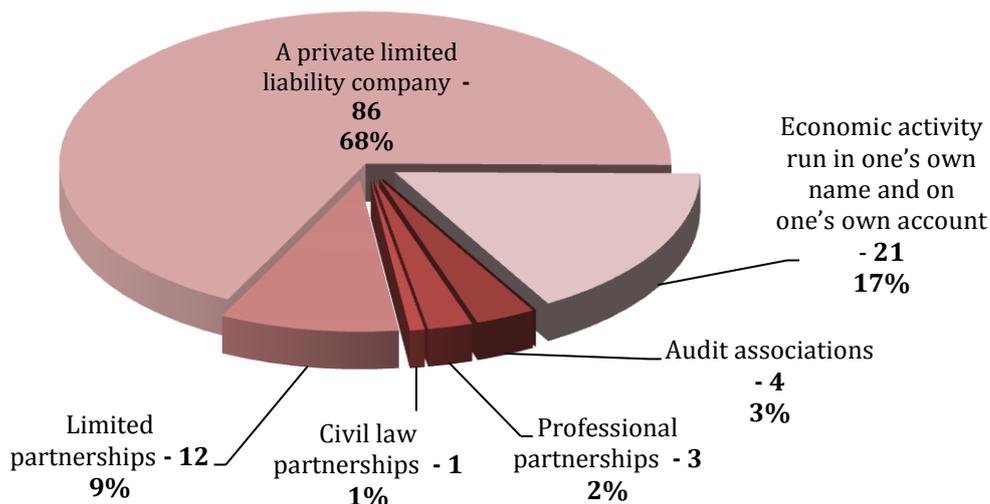


Source: own compilation of the AOC Office based on the NCSA data.

The prevailing business activity form of entities authorised to audit financial statements is a business run in their own name and on their own account (57.68%). At the same time, the largest number of entities authorised to audit financial statements which perform audit activities in public interest entities is comprised by limited liability companies (68%).

The figure below shows the division of entities authorised to audit financial statements which perform audit activities in public interest entities by business activity form as of 12th March 2015⁸.

Entities authorised to audit financial statements which perform audit activities in public interest entities by business activity form – status as of 12th March 2015



Source: own compilation of the AOC Office based on the NCSA website data.

As of 31st December 2014 there were approx. 1,383 public interest entities in Poland (as defined in Art. 2(4) of the Act), including:

- issuers of securities admitted to trade in a regulated market of an EU Member State, having their registered office within the territory of the Republic of Poland, excluding local government entities (420);
- national banks, branches of credit institutions, and branches of foreign banks (38 national banks, 28 branches of credit institutions and branches of foreign banks, 2 associating banks, 565 cooperative banks);
- SCUs (51);
- insurance companies and head offices of insurance companies, and reinsurance companies (58);
- electronic money institutions (0);
- open pension funds and general pension societies (12+12);
- open-end investment funds, specialised open-end investment funds, and closed-end investment funds whose public investment certificates have not been admitted to trade in a regulated market (144);
- entities pursuing brokerage activity, excluding entities pursuing activity exclusively with regard to accepting and transferring orders of purchase or disposal of financial instruments or with regard to investment consulting (53)⁹.

⁸ The information presented has been compiled based on the list of entities authorised to audit financial statements which at least once within 3 years perform audit activities in public interest entities, available on the website of the NCSA, updated as of 12th March 2015.

The data based on the part of reports referred to in Art. 49(3) of the Act¹⁰ verified by the NCSA Office show that in 2014 30,087 audits of financial statements were carried out, including 25,222 mandatory and 4,865 optional ones.

The revenue generated by entities authorised to audit financial statements in 2014 due to performing audit activities¹¹ amounted to: PLN 671,206,188.95, including revenue of entities authorised to audit financial statements which perform audit activities in public interest entities: PLN 508,931,978.92.

1.4. Analysis of the market of entities authorised to audit financial statements

The market share of the biggest audit firms in Poland was analysed with regard to the banking, insurance, and listed companies sector. The reference data are financial statements for 2013 of economic entities in the said types of sectors (in certain cases the reporting year is shifted and then the reference is e.g. a reporting year ending on 30th June 2014). However, the said financial statements were audited by audit firms in 2014, or in some cases even later. This means that in general the audit firms generated revenue due to performing the said audits in 2014.

This is why it is appropriate to show the market share of the biggest audit firms also with regard to revenue earned in 2014. However, the presented division refers to the revenue generated due to all audit activities performed by the particular audit firms, and not only to the revenue due to audits of financial statements of the indicated types of economic entities.

Auditors of the banking sector

First, we present the market share of the biggest Polish audit firms¹² auditing financial statements of Polish commercial banks, for which the market measure is the amount of

⁹ The estimate data were calculated based on the data received by the MF from the FSA Office.

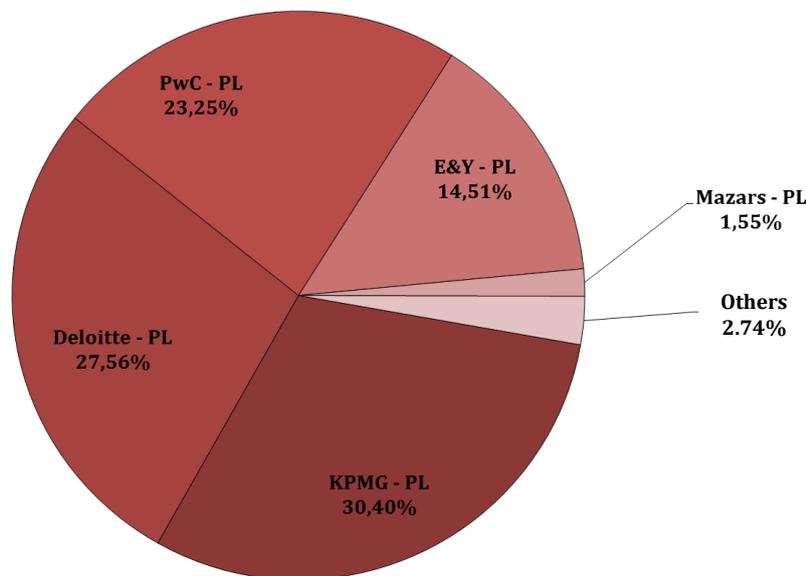
¹⁰ Until 13th March 2015 1,365 reports were sent, which constitutes approx. 83.5% of the expected number of all reports.

¹¹ Based on the data acquired from the correctly completed settlements of the annual oversight fee for 2014, or – should there be no settlements – from the reports referred to in Art. 49(3) of the Act submitted until 19th March 2015 by entities authorised to audit financial statements.

¹² Further herein, we use the following abbreviations and acronyms for the following Polish audit firms: **Deloitte – PL** – Deloitte Polska Sp. z o.o. Sp. k. and Deloitte Polska Sp. z o.o.; **E&Y – PL** – Ernst & Young Audyt Polska Sp. z o.o. Sp. k. and Ernst & Young Audyt Polska Sp. z o.o.; **Grant Thornton – PL** – Grant Thornton Frąckowiak Sp. z o.o. Sp. k. and Grant Thornton Frąckowiak Sp. z o.o.; **KPMG – PL** – KPMG Audyt Sp. z o.o. Sp. k. and KPMG Audyt Sp. z o.o.; **Mazars – PL** – Mazars Audyt Sp. z o.o. and Mazars Expertise Sp. z o.o.; **PKF – PL** – PKF Consult Sp. z o.o.; **PwC – PL** – PricewaterhouseCoopers Sp. z o.o. and PricewaterhouseCoopers Polska Sp. z o.o.; **Roedl – PL** – Roedl Audit Sp. z o.o.; **ZRBS Stefczyk – PL** – Związek Rewizyjny Banków Spółdzielczych im. Franciszka Stefczyka Spółdzielczy związek rewizyjny [Audit Association of Cooperative Banks of Franciszek Stefczyk Cooperative Audit Association]; **ZRBS Poznań – PL** – Związek Rewizyjny Banków Spółdzielczych w Poznaniu Spółdzielczy związek rewizyjny [Audit Association of Cooperative Banks in Poznań Cooperative Audit

assets as of 31st December 2013 (whereby the total amount of assets for all commercial banks is **PLN 1,277,166,469,090.00**).

Market share of the biggest Polish audit firms in terms of the total assets of commercial banks the financial statements for 2013 of which were audited by the particular audit firms

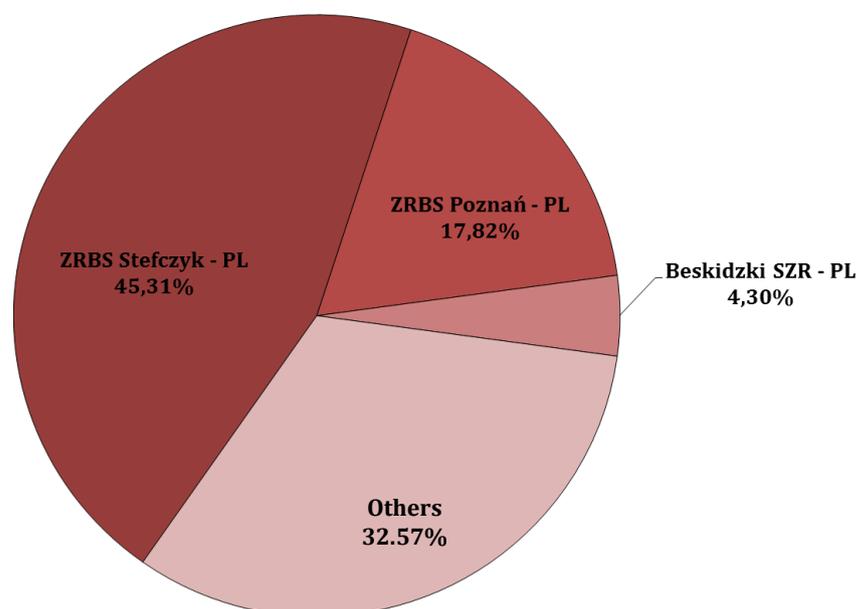


Source: own compilation of the AOC Office based on the FSA Office data.

In total, Polish audit firms of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements for 2013 of commercial banks whose total assets constituted 95.72%.

The market share of the Polish audit firms auditing financial statements of Polish cooperative banks, for which the market measure is the amount of assets as of 31st December 2013 is as presented below (whereby the total amount of assets for all cooperative banks is **PLN 96,531,234,652.00**).

Market share of the Polish audit firms in terms of the total assets of cooperative banks the financial statements for 2013 of which were audited by the particular audit firms



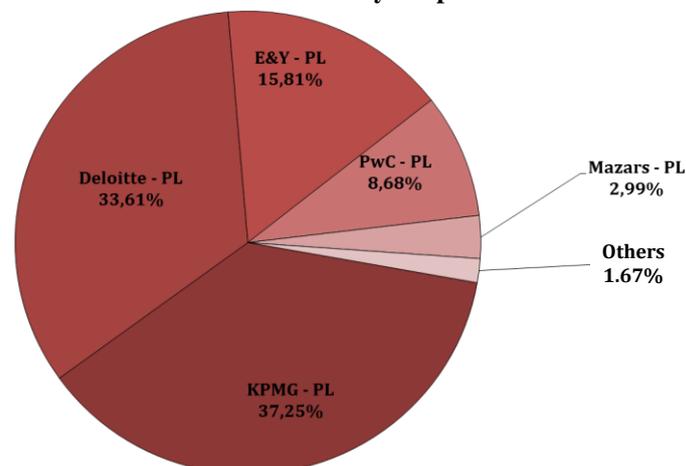
Source: own compilation of the AOC Office based on the FSA Office data.

The three audit firms shown above audited financial statements for 2013 of cooperative banks whose total assets constituted 67.43%.

Auditors of the insurance sector

For the insurance sector we show the market share of the biggest audit firms auditing financial statements of Polish insurance companies, for which the market measure is the amount of gross written premiums for the period from 1st January 2013 to 31st December 2013 (whereby the total amount of gross written premiums for all insurance companies is **PLN 57,866,589,900.00**).

Market share of the biggest Polish audit firms in terms of the gross written premiums collected by insurance companies the financial statements for 2013 of which were audited by the particular audit firms



Source: own compilation of the AOC Office based on the FSA Office data.

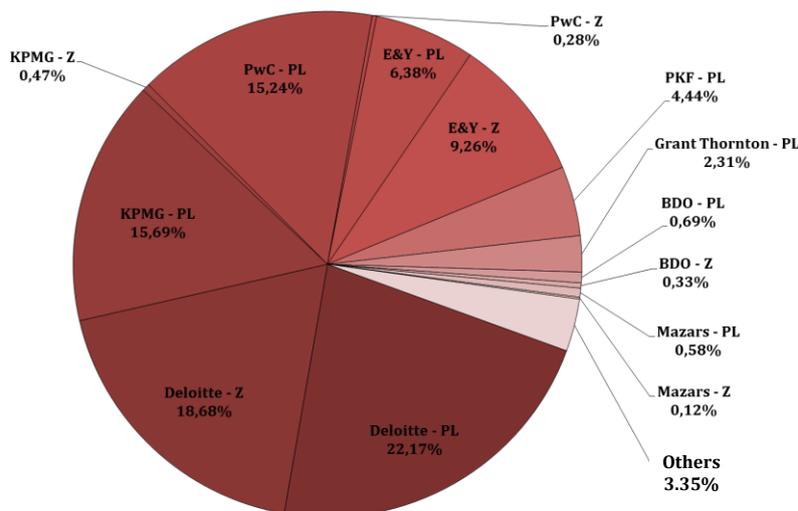
In total, Polish audit firms of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements for 2013 of insurance companies whose total gross written premiums constituted 95.35%.

Auditors of the listed companies sector

This part of the analysis presents the market share of the audit firms auditing financial statements of WSE-listed companies, for which the market share is the market capitalisation according to data as of 31st December 2013.

The figure below shows the market share of the biggest audit firms (Polish and foreign ones¹³) in terms of the total capitalisation of WSE-listed companies (Polish and foreign ones) whose annual financial statements were audited by the particular audit companies (whereby the capitalisation of all companies at the WSE amounted to **PLN 840,780,360,000.00**).

Market share of the biggest audit firms (Polish and foreign ones) in terms of the total market capitalisation of all WSE-listed companies the financial statements for 2013 of which were audited by the particular audit firms



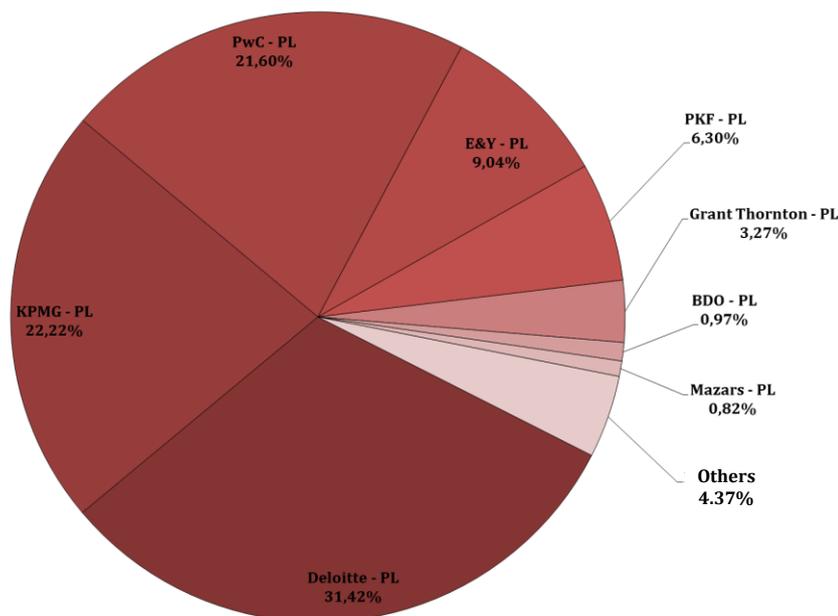
Source: own compilation of the AOC Office based on the data from *Rocznik giełdowy 2014 [Stock Market Yearbook 2014]* (www.gpw.pl/analizy_i_statystyki) and own data.

In total, Polish and foreign audit firms from the network of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements for 2013 of 37.1% of all WSE-listed companies (166 companies from among 448 ones), whose capitalisation as compared to the entire stock market amounted to 88.17%. Should we take into consideration only the Polish companies of the so-called Big Four, they audited financial statements of 136 companies, whose market capitalisation amounted to 59.48% of the entire stock market.

¹³ In the compilation, the foreign audit firms are grouped by the audit firm network to which they belong, as follows: **BDO – Z; Deloitte – Z; E&Y – Z; KPMG – Z; Mazars – Z; PwC – Z**. Foreign audit firms from the EU Member States are not subject to oversight of the AOC. Foreign audit firms from non-EU countries are subject to oversight of the AOC if registered by the AOC.

Should we take into consideration only data concerning the Polish audit firms auditing financial statements of Polish WSE-listed companies, the market share is as follows (whereby the capitalisation of Polish companies at WSE amounted to **PLN 593,464,450,000.00**).

Market share of the biggest Polish audit firms in terms of the total market capitalisation of the Polish WSE-listed companies the financial statements for 2013 of which were audited by the particular audit firms

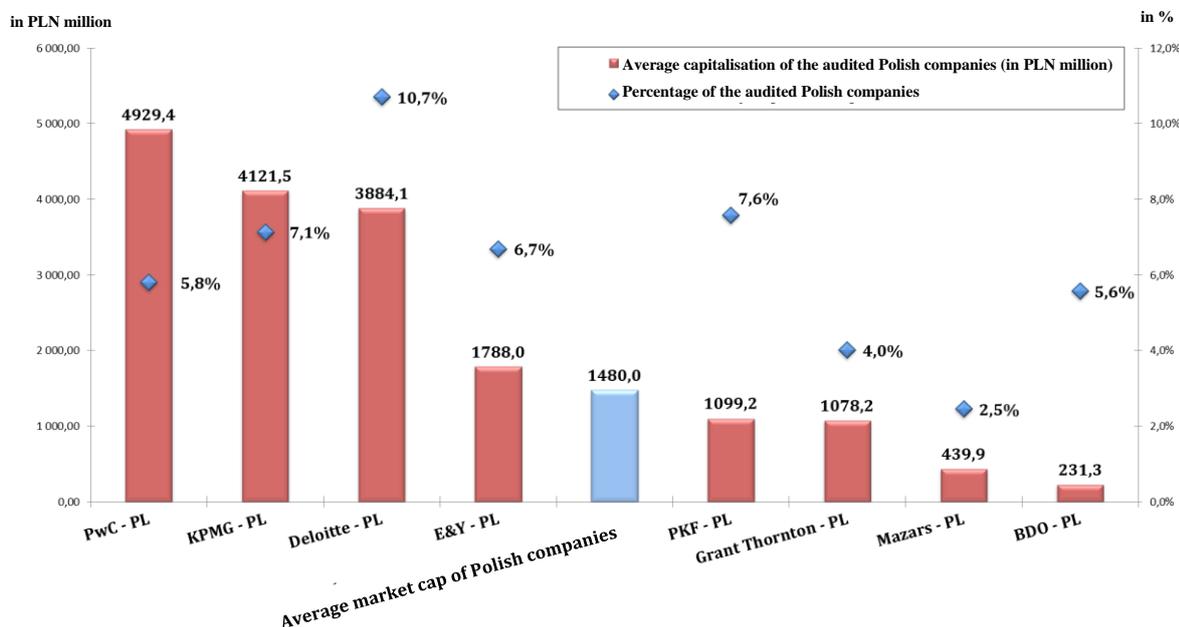


Source: own compilation of the AOC Office based on the data from *Rocznik giełdowy 2014 [Stock Market Yearbook 2014]* (www.gpw.pl/analizy_i_statystyki) and own data.

The Polish companies of the so-called Big Four audited financial statements of companies whose market capitalisation amounted to 84.28% as compared to the total capitalisation of all Polish WSE-listed companies.

The figure below represents the division of the biggest Polish audit firms in terms of average market capitalisation and the percentage of Polish companies whose financial statements were audited by those companies.

The biggest Polish audit firms in terms of average market capitalisation and the percentage of Polish WSE-listed companies the financial statements for 2013 of which were audited by the particular audit firms



Source: own compilation of the AOC Office based on the data from *Rocznik giełdowy 2014 [Stock Market Yearbook 2014]* (www.gpw.pl/analizy_i_statystyki) and own data.

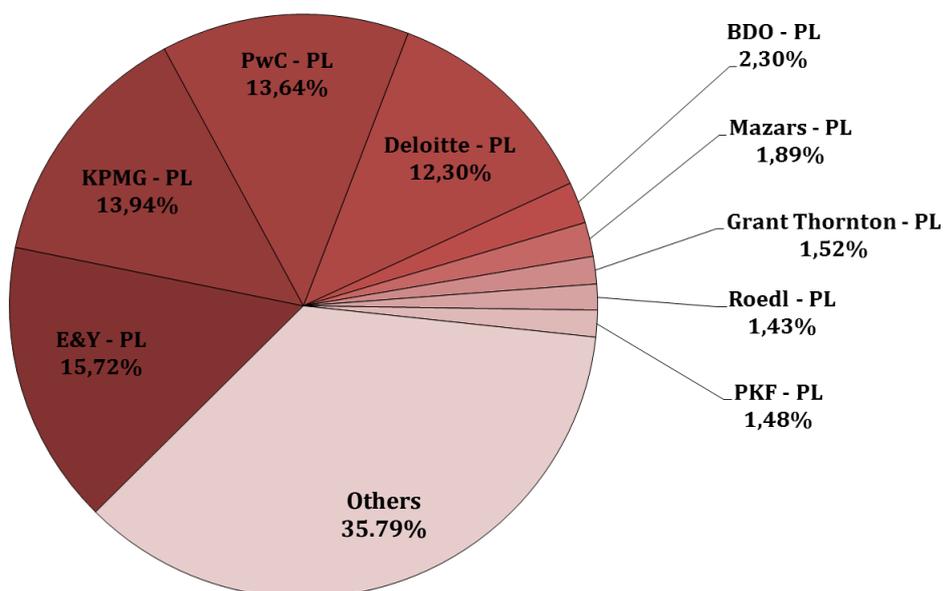
Based on the above figure, we can conclude that the Polish companies of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements of the biggest WSE-listed companies.

Revenue of audit firms

Here, the analysis concerns audit firms' revenue for 2014 generated due to performing audit activities shown in reports submitted by those firms to the NCSA (whereby the total revenues for 2014 of all Polish audit firms amounted to **PLN 671,206,188.95**).

The Polish companies of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) gained 55.6% of the total revenue due to performing audit generated by all Polish audit firms.

Share of the biggest Polish audit firms in the revenue generated in 2014 due to performing audit activities



Source: own compilation of the AOC Office based on the data for 2014 submitted by entities authorised to audit financial statements to the NCSA.

2. AUDIT OVERSIGHT COMMISSION

The AOC is a collective body of public administration, independent in its operations, established by virtue of Art. 63 of the Act.

The AOC acts within plenary sessions, which are convened and chaired by the Chairman or the Deputy Chairman. Resolutions are always adopted at the sessions. Pursuant to the Act, the AOC sessions are held at least once a month.

2.1. Composition

The AOC is composed of 9 members appointed by the Minister of Finance for the term of 4 years. The present, second, term of office of the AOC commenced on 2nd July 2013.

Pursuant to the Act, the AOC Members represent the following entities:

- the Minister of Finance by 2 persons, including the AOC Chair, in the position of a Secretary or Under-Secretary of State at the MF;
- the FSA by 2 persons, including the AOC Deputy Chair;
- the Minister of Justice by 1 person;
- the NCSA by 2 persons;
- organisations of employers by 1 person;
- the WSE by 1 person.

The Act sets forth the conditions to be met by the AOC Members. Each AOC Member:

- is the citizen of Poland;
- enjoys full civil rights;
- completed higher education studies within the Republic of Poland, or foreign higher education studies deemed equivalent in Poland;
- is of an impeccable reputation;
- has considerable standing, knowledge and experience relevant for auditing, which warrants proper performance of tasks;
- has not been convicted with a final and conclusive ruling for an intentional offence or a fiscal offence.

Furthermore, the Act sets out that the majority of the AOC Members, at least 3 years before being appointed as a Member and during their term of office, may not perform audit activities, have the voting right at an entity authorised to audit financial statements, or be a member of the management board or supervisory board of an entity authorised to audit financial statements.

In 2014 the AOC composition was as follows:

- Ms Dorota Podeworna-Tarnowska, PhD, the AOC Chairwoman, the representative of the Minister of Finance;

- Ms Dagmara Wieczorek-Bartczak, the AOC Deputy Chairwoman, the representative of the FSA;
- Mr Stanisław Chmielewski, the representative of the Minister of Justice (dismissed as of 25th June 2014);
- Ms Joanna Dadacz, the representative of the Minister of Finance;
- Mr Jacek Hryniuk, the representative of the NCSA;
- Ms Ewa Jakubczyk-Cały, the representative of the WSE;
- Mr Piotr Kamiński, the representative of the organisations of employers;
- Mr Sławomir Mirkowski, the representative of the NCSA;
- Mr Tomasz Piwowarski, the representative of the FSA;
- Mr Waldemar Szmidt, the representative of the Minister of Justice (appointed as of 11th July 2014)¹⁴.

Objectives

Under the Act, the AOC exercises public oversight over:

- the performance of the profession of a statutory auditor;
- the activity of entities authorised to audit financial statements;
- the activity of the NCSA.

The AOC activity is aimed at arranging an efficiently operating public oversight system, including primarily an audit quality assurance system, by setting out proper legal, organisational, and procedural standards.

2.2. AOC Office

The AOC does not have its own, separate public office. Pursuant to the provisions of Art. 65(3) of the Act: *The AOC shall perform its tasks with the assistance of an organisational unit responsible for accounting and auditing in the office supporting the Minister of Finance.*

At the end of 2014 three organisational units were active within the Accounting and Auditing Department of the MF; those units constitute the AOC Office and their task is to support the AOC in substantive and administrative terms.

The tasks of the AOC Office include in particular:

- drafting proposals of rulings with regard to matters considered by the AOC, including analysing resolutions and reports on inspections of entities authorised to audit financial statements submitted by the NCSA bodies;
- preparing draft documents which execute the AOC resolutions;
- preparing draft letters, decisions, and orders within the administrative proceedings carried out by the AOC, and court proceedings concerning the AOC;
- appearing before administrative and common courts in cases in which the AOC is a party;

¹⁴ Biographical notes of the present AOC Members are on the website of the PIB MF ➔ Activity [Działalność] ➔ Collective Bodies [Ciała kolegialne] in the *AOC [KNA]* section, tab *Commission Composition and General Information [Skład komisji i informacje ogólne]*.

- preparing draft procedures, reports, and action plans of the AOC;
- participating in the capacity of observers in inspections carried out by inspectors hired at the NCSA in entities authorised to audit financial statements which perform audit activities in public interest entities, and carrying out inspections by authority of the AOC in case of receiving information about irregularities in entities authorised to audit financial statements;
- carrying out operating contacts within the area of international cooperation, in particular participating in sessions of the EGAOB, EAIG and IFIAR based on the instructions agreed upon with the ACO, and submitting reports on those sessions to the AOC, carrying out operating contacts with oversight bodies from third countries in order to conclude agreements on cooperation and document exchange;
- carrying out works concerning the settlement of the 20% share paid annually by the NCSA to the State budget in the oversight fees due from entities authorised to audit financial statements which perform audit activities in public interest entities;
- undertaking actions under the Act of 6th September 2001 on Access to Public Information (Journal of Laws No. 112, item 1198, as amended), excluding the issue of administrative acts (which lies within the competence of the AOC);
- informing about the tasks of the AOC and the procedures mandatory before the AOC, and about the decisions taken by the AOC, including informing about the AOC and its activity in the tab on the MF website;
- supporting the AOC in organisational matters (organising the sessions of the AOC, arranging the financial service of the AOC with regard to planning and making expenditures).

In 2014, the AOC Office performed tasks with a limited composition of 11 FTEs (including the Deputy Director of the Accounting and Auditing Department, and 10 employees). The statement of reasons for the adopted Act mentions the need to hire 20 employees.

2.3. Budget

Revenues

The Act provides that due to the functioning of the public oversight system the State budget may acquire revenues from the following sources:

- a 20% share in the oversight fees paid by entities authorised to audit financial statements which perform audit activities in public interest entities, which is transferred by the NCSA to the account of the State budget by 31st March;
- fees due to an entry into the register of statutory auditors from third countries kept by the AOC, and an entry into the list of entities authorised to audit financial statements from third countries;
- fines imposed by the AOC on entities authorised to audit financial statements.

The table below shows the total revenues of the State budget generated from the activity of the AOC.

Revenues in 2014 (in PLN)	
Share in oversight fees	1,626,311.00
Fees due to an entry into the register of statutory auditors from third countries kept by the AOC	4,000.00
Fines imposed by the AOC on entities authorised to audit financial statements	7,015.00 ¹⁵
Revenues in total	1,637,326.00

Expenditures

The AOC activity is funded entirely from the State budget. The expenditures arising out of the AOC activity include the following items:

- 1) expenditures from Part 19 of the State budget – *budget, public finance, and financial institutions*, allocated for the operations of the AOC within the budget of the MF Head Office;
- 2) expenditures not allocated directly to the AOC within the budget of the MF Head Office.

The expenditures allocated in the State budget (in Part 19) for 2014 to the operations of the AOC had been planned at the amount of PLN 387,000.00. The actual expenditures amounted to PLN 265,411.30, which constitutes 69% of the amount allocated.

The unused amounts were transferred back for the disposal of the MF Head Office on an ongoing basis.

The partial use of the financial resources provided for the AOC resulted mainly from the following reasons:

- the resources allocated for domestic travels were not used, among others due to the fact that the observers from the AOC did not participate in the inspections;
- no need arose to use specialised expert opinions from external sources;
- the costs of translations from foreign languages, and other services were limited;
- the expenditures for training of the AOC Office employees were reduced as there was no offering of open expert training events, as well as due to the participation in training with the use of the SPCP funds;
- the expenditures for remuneration of the AOC Members were reduced due to the waiver of remuneration of:
 - ✓ Ms Dorota Podedworna-Tarnowska, PhD, the AOC Chairwoman¹⁶,

¹⁵ The amount indicated results from an amendment made on 15th May 2015. The amount indicated previously in this category of revenues amounted to PLN 2,070.00.

¹⁶ Pursuant to Art. 4(2) of the *Act of 31st July 1989 on Remunerating Persons on State Management Positions* (Journal of Laws No. 20, item 101, as amended): *A person on a State management position who fulfils another function is entitled to single remuneration provided for in the provisions hereof or in separate provisions, whereby the remuneration is chosen by that person.*

- ✓ Mr Stanisław Chmielewski, the Under-Secretary of State at the MJ, the representative of the MJ¹⁷.

The total expenditures of the AOC as of the end of 2014 amounted to PLN 265,411.00 and were higher by PLN 66,984.00 as compared to 2013.

The largest part of expenditures, amounting to PLN 128,000.00, was designated for the remuneration of the AOC Members. Pursuant to Art. 71(1) of the Act, the AOC Members receive monthly remuneration for participating in the AOC sessions. The said remuneration may not exceed the amount of the minimum wage, announced under the Act of 10th October 2002 on Minimum Wage¹⁸.

The expenditures from the budget of the MF Head Office not allocated directly in the budget to the AOC include the cost of remuneration and remuneration-related expenditures of the AOC Office employees, as well as the estimated cost of maintaining the job positions of the AOC Office employee¹⁹.

The table below shows the total expenditures of the AOC and the AOC Office arising out of the AOC activity in 2014.

Expenditures in 2014 (in PLN)	
Remuneration of the AOC Members	128,000.00
Remuneration and remuneration-related items of the AOC Office employees	1,229,071.53
Foreign business travels of the AOC Members and the AOC Office employees	109,131.78
Costs of maintaining the job positions of the AOC Office employees	83,204.15
Purchase of materials and services	21,459.96
Training of the AOC Office employees	2,770.00
Translations	2,049.56
Expenditures due to court proceedings	2,000.00
Total Expenditures	1,577,686.98

In 2014, the amount of revenue of the State budget due to the operations of the AOC exceeded the amount of expenditures by PLN 59,639.02.

¹⁷ Ditto.

¹⁸ **PLN 1.600,00** – determined under the *Regulation of the President of the Council of Ministers of 14th September 2012 on the Amount of Minimum Wages in 2013* (Journal of Laws item 1026).

¹⁹ The said costs do not cover expenditures of other organisational units of the MF (e.g. Legal Department or Administrative Office), and other expenditures constituting a part of the general expenditures of the MF (e.g. the use of rooms for the AOC sessions).

3. AOC ACITIVITY IN 2014²⁰

In 2014, the AOC held 15 plenary sessions, where a total of 311 resolutions were adopted²¹. In the said year also 53 administrative decisions were issued (including 16 as a result of considering applications for reconsideration, and 8 as a result of considering appeals against the NCoSA resolutions), and 38 orders (including 15 as a result of considering applications for reconsideration, and 4 as a result of complaints and appeals against the NCoSA resolutions).

Pursuant to Art. 64(4) of the Act, the AOC, until the end of each calendar year, drafts information about the activities planned with regard to public oversight for the following year, which is published on the MF website. *The AOC Action Plan for 2014* was adopted by the AOC at a session on 18th December 2013 by Resolution No. 360/2013.

Pursuant to Art. 64(5) of the Act the AOC, until 30th April of the following year, drafts an annual report comprising comprehensive information on the operations of the quality assurance system, the results of disciplinary proceedings against statutory auditors, and on the penalties imposed on entities authorised to audit financial statements. The report is published on the MF website.

The AOC Report for 2013 was adopted by the AOC at a meeting on 23rd April 2014 by Resolution No. 117/2014, and then submitted to various institutions, among others to the President of the Republic of Poland, the Prime Minister of the Republic of Poland, the Sejm and the Senate [both chambers of the Polish Parliament], the FSA. On 22nd August 2014, *the AOC Report for 2013* was considered in the presence of the AOC representatives at a meeting of the Sejm's Permanent Sub-Commission for Monitoring Tax System.

Under Art. 70(4) of the Act, the detailed organisation and working mode of the AOC are determined by the regulations thereof adopted thereby at its first meeting. Due to an amendment to the organisational regulations of the Ministry of Finance and approval of the new internal organisational regulations of the Accounting and Auditing Department, the AOC, at a meeting on 3rd September 2014, adopted Resolution No. 219/2014 on amending the Regulations of the Audit Oversight Commission.

The AOC Action Plan for 2015, attached hereto, was adopted by the AOC at a meeting on 17th December 2014 by Resolution No. 284/2014.

²⁰ Public information concerning the AOC, including among others decisions made during the sessions, action plans for the following year, or annual reports, may be found at the PIB MF website ➔ Activity [Działalność] ➔ Collective Bodies [Ciała kolegialne] in the AOC /KNA/section.

²¹ The amount of 311 does not include final and conclusive administrative decisions in administrative proceedings issued by the AOC, as these rulings are made at the AOC sessions together with resolutions documenting the adoption by the AOC a ruling in a particular case, which resolutions are included in the above number of resolutions adopted.

3.1. New provisions of the EU law on statutory audits of financial statements

In 2014, the works pending on the EU forum were completed regarding legislative amendments to the Directive 2006/43/EC, and the draft Regulation of the European Parliament and the Council on Specific Requirements Regarding Financial Statements of Public Interest Entities (the said EU legal instruments entered into force on 16th June 2014).

The provisions of the amended Directive, and certain provisions of the Regulation will require transposition into the national law – the final deadline for implementation is two years since the entry into force thereof. In the case of the Resolution, the obligation to apply it directly will be valid following the lapse of two years since the entry into force thereof, that is since 17th June 2016.

The key amendments introduced with the said instruments include among others: a mandatory rotation of audit firms in public interest entities, a prohibition of rendering certain services other than audit for the audited client, a limit of remuneration for admitted services and for services from one client, a prohibition for contractual clauses to be applied by third parties, a prohibition for people practising the profession to be a member of the management of a public oversight body, and no possibility to perform an inspection of audit firms auditing public interest entities by the professional self-government of statutory auditors.

Due to the entry into force of the said legal instruments, the AOC discussed the matter, and on 3rd September 2014 adopted a stance on the future solutions regarding the operations of the body of public oversight over the audit in Poland, which was submitted to the Minister of Finance as the body responsible for presenting draft legal instruments implementing the new provisions of the EU law.

In its stance, the AOC referred primarily to the future scope of public oversight over statutory auditors and entities authorised to audit financial statements, the future model of the public oversight body, and the definition of public interest entities. The AOC underlined that while choosing the solutions it should be assessed which activities are of key importance within the public oversight, and how they can be executed most effectively in the light of the goal which is to assure the proper quality of services rendered by statutory auditors and entities authorised to audit financial statements, and thereby to contribute to the improvement of security of economic transactions, in particular in areas deemed significant from the point of view of public interest.

3.2. AOC activity within the quality assurance system

Approval of inspection plans

The Inspection Plan for 2014 for entities authorised to audit financial statements which perform audit activities in public interest entities was approved by the AOC on 27th November 2013. The Plan provided for carrying out inspections in 52 entities.

The Plan was drafted according to the recommendations of the AOC, it took into consideration the market share of the firms of the so-called Big Four which were covered with inspection in annual cycles, and control associations auditing cooperative banks.

On 17th December 2014 the AOC approved the Annual Inspection Plan for 2015 for entities authorised to audit financial statements which perform audit activities in public interest entities, which provided for 56 entities to be audited by the NAOC and takes into consideration among others the following entities:

- entities for which 2015 is the last year in the 3-year inspection cycle, according to the construal adopted by the NAOC for Art. 26(3)(1) of the Act that the time limit of the three-year cycle of inspection is counted since the year in which the entity performed audit activities in public interest entities;
- entities identified as a result of inspections carried out by controllers in 2014 which performed audit activities in public interest entities;
- entities performing audit activities for investment funds.

Monitoring of the execution of the Annual Inspection Plan

The AOC monitored on an ongoing basis the situation of executing the Inspection Plan for 2014, at the beginning on a quarterly basis, discussing the information submitted by the NAOC concerning the inspection beginning, the threats and advancement of that process, and undertaking proper actions to enable the NAOC the execution of the Annual Plan. In August 2014 the AOC, due to the risk of non-performance of the said Plan, obliged the NAOC to provide the AOC, including for the information of the NCoSA, with monthly information about the performance of the Inspection Plan in entities authorised to audit financial statements which perform audit activities in public interest entities, starting in July 2014.

Based on the monthly information submitted to the AOC, by the end of July 2014 the NAOC carried out 18 inspections, by the end of August 2014 – 24 inspections, by the end of September 2014 – 33 inspections, by the end of October 2014 – 40 inspections, by the end of November 2014 – 45 inspections, and by the end of December 2014 – 50 inspections. The planned inspections were not carried out at 2 entities which refused to subject themselves to the inspection.

In order to monitor the performance of inspections planned for 2015 in entities authorised to audit financial statements which perform audit activities in public interest entities, in 2015 the AOC sustained the obligation for the NAOC to provide monthly information about the performance of the Inspection Plan and possible risks.

Approval of inspectors designated to perform particular inspections

The AOC approves inspectors based on an application submitted by the NAOC. In 2014 the AOC approved inspectors designated to perform inspection in 2014 at a meeting on 12th March 2014 (23 inspections) and on 23rd April 2014 (29 inspections).

Due to the sickness-related absence of inspectors, in the following months the AOC several times approved changes in the composition of the inspectors' team (June 2014 –

for 6 inspections, July 2014 – for 10 inspections, August 2014 – for 6 inspections, September 2014 – for 9 inspections, October 2014 – for 21 inspections).

Approval of candidates for inspectors

In August 2014 the AOC approved a candidate for an inspector of the NAOC, under the condition of acquiring independence from and impartiality towards the entity authorised to audit financial statements in which the candidate for an inspector was a shareholder and was a member of the Management Board, before being employed at the NCSA.

Participation in inspections carried out by the NAOC

Upon request of the AOC, the employees of the AOC Office may participate in the planned inspections carried out by the NAOC in the capacity of observers. In 2014 the AOC did not undertake any such activities due to the limited human resources at the AOC Office, and a considerable amount of reports on planned and unplanned inspections for 2013 analysed by the AOC, including the analysis of appendices to reports on planned inspections, and the NAOC explanatory remarks to the protocols from those inspections, as well as the received information and applications concerning the irregularities in performing the profession of a statutory auditor and the activity of entities authorised to audit financial statements.

Approval of reports on planned inspections

A report on a planned inspection in an entity authorised to audit financial statements which performs audit activities in public interest entities summarises the course of the inspection and describes the post-inspection actions of the NAOC. A report takes into consideration the inspection protocol, the reservations submitted by the entity inspected, the position of the NAOC towards those reservations, the inspection protocol on the implementation of recommendations, and draft versions of applications to the NDS, and the post-inspection statement in the case of reports on inspections held in 2013.

The process of approving an inspection report depends on the amount of working documents which were covered with the review during the inspection (in the reports reviewed in 2014 it amounted to 1 up to 11 sets of audit documentation), the quality of documents submitted by the NAOC, and the matters identified during the inspection. The process may include the following stages:

- a) the AOC Office analysing the inspection report with the documents attached thereto;
- b) applying to the NAOC or other bodies for additional explanations or documents in the case of ambiguities in the documents received by the AOC;
- c) the AOC Office analysing the received explanations and documents;
- d) requesting changes to be introduced;
- e) verifying the changes introduced;
- f) approving or refusing to approve the inspection report;

g) undertaking any other activities aimed at achieving the objective of the inspection process and taking into consideration the public interest.

Within the **analysis of an inspection report** the following items are assessed:

- the compliance of the entire inspection process with the Act and the Act of 2nd July 2004 on the Freedom of Economic Activity (Journal of Laws No. 173, item 1807, as amended);
- the completeness and adequacy of irregularities stated in the inspection protocol against the facts described in attachments to the inspection protocol (substantive inspection documents), the reservations submitted by the entity inspected, and the received explanations, evaluations, inspection files, and other documents by the AOC;
- substantive legitimacy of the NAOC position concerning the reservations of the entity inspected;
- the proportionality of post-inspection actions.

Due to the statutory requirements for the opinion from the audit to result from the documentation collected and developed during the audit, the AOC was of the opinion that the audit procedures not included in the audit documentation had not been performed.

The AOC **requests additional explanations, assessments, documents, and inspection files** in case of doubts as to the facts of the case or the description of irregularities in the inspection protocol, and in case of ambiguous assessments of the facts presented in the received documents. In 2014 the AOC requested the NAOC to provide additional explanations to 9 inspection reports. Additionally, the AOC submitted inquiries to the NCoSA on the application of the NSAs and entries to the register of statutory auditors.

The AOC requested that **changes be introduced** to the inspection reports in 2014 in the following cases:

- disproportional post-inspection actions planned by the NAOC towards a key statutory auditor (in 2014 towards 28 key statutory auditors in the case of 17 inspection reports) – in particular in the case of including in the inspection protocol an opinion that the audit documentation does not meet the requirements of Art. 65(6) of the Accounting Act, and when during the audit the obligation to participate in the observance of the physical inventory was not met, and no alternative procedures were conducted or the nature thereof was inadequate;
- disproportional post-inspection actions planned by the NAOC towards an entity inspected (in 2014 towards 17 entities inspected) – in particular in the case of including in the inspection protocol an opinion that the entity inspected had not drafted and/or effectively implemented an internal quality control system;
- stating that the facts arising out of the appendices to the inspection protocol or documents received indicate an irregularity which was not indicated in the inspection protocol (in 2014 this concerned 3 inspection reports).

In 2014 the AOC discussed 63 reports from planned inspections. It should be emphasised that reports on inspections carried out by the NAOC in 2013 were not regularly submitted to the AOC following the completion of the inspection (the last inspection report for 2013 was received by the AOC in October 2014), which resulted in delays in approving those reports by the AOC.

In the period from June to December 2014 the AOC received 46 reports out of 50 inspections conducted by the NAOC in 2014 in entities auditing public interest entities (the Inspection Plan provided for 52 entities to be inspected).

The table below shows the status of the reports for 2012 and 2013 as of 31st December 2014.

Status of Inspection Reports considered by the AOC in 2014 as of 31 st December 2014	Quantity	including those concerning inspections in the year:	
		2013	2012
approved with no changes	12	12	-
approved following changes	35	34	1 ²²
refusal to approve	4	4	-
sustaining the refusal to approve from 2013	1	1	
pending changes requested by the AOC to be introduced	5	5	-
requiring additional explanations or documents	5	5	-
acknowledged	1	1	-
Total	63	62	1

The table below shows the number of reports on planned inspections discussed at the AOC meetings in 2014

	I	II	III	IV	Total
Number of reports discussed by the AOC in particular quarters	31	18	16	27	92

The difference between the number of reports considered and discussed results from the fact that some of the reports were discussed several times during the year due to the explanations and documents received, as well as due to the changes to the inspection reports.

²² The AOC received an appendix to an inspection report from 2012 with the NAOC stance concerning reservations submitted by the entity inspected in September 2013. The AOC obliged the NAOC to consider the reservations of the entity inspected due to the complaint of the entity inspected in that respect submitted in February 2013.

The AOC refused to accept 5 reports on planned inspections carried out by the NAOC in 2013 (in one case the AOC sustained its decision to refuse made in 2013) due to:

- doubts as to the correctness of the inspection process in 1 entity, and documenting the statements from the inspection protocol in the inspection files;
- failing to achieve the inspection objectives provided for in the Act in connection with no non-compliance of the report on audit activities with the NSAs found during the inspection despite assessing that report in that respect in 1 entity;
- failing to introduce by the NAOC changes to the contents of 3 inspection reports and post-inspection statements requested by the AOC due to the irregularities found by the AOC while analysing the inspection reports and documents attached, which violates Art. 27(3) of the Act and Art. 29 of the Directive 2006/43/EC in conjunction with point 6b of the Commission Recommendation of 6th May 2008 on External Quality Assurance for Statutory Auditors and Audit Firms Auditing Public Interest Entities.

The AOC also undertook other activities aimed at the achievement of the inspection process objective and of the public interest. These included:

1. systemic activities:

- applying to the NCoSA for issuing a communication indicating the minimum of elements to be included in a statement of an entity authorised to audit financial statements on the coherence of methods and principles of valuation of an investment fund's assets;
- applying to the NCoSA for taking actions other than mandatory training due to a recurring failure to meet the obligation to participate in the observance of the physical inventory arising out of item 42 of the NSA 1, together with an instruction on the nature and scope of alternative procedures, including taking into consideration item 7 of the said standard – the NCoSA declared to issue a communication in the said respect;

2. activities involving the entity inspected or the entity audited:

- providing information for supervisory boards of entities audited about violating the principle of impartiality and independence at the level of the entity authorised to audit financial statements (found during a planned inspection, and resulting from the response of the supervisory board to the request to assess the prerequisites as to the completed financial year);
- sending the said information to the attention of economically affiliated entities;
- sending the said information to the attention of the FSA with regard to the auditing of financial statements of entities supervised by the FSA;
- informing the NAOC on violating the independence and impartiality by an entity authorised to audit financial statements concerning a completed financial year;
- informing the supervisory board of an inspected entity about the expectation for the circumstances resulting in independence and impartiality being violated at the level of the entity inspected to be removed by the entity inspected;
- informing an entity inspected about irregularities found during the process of approving the inspection report;
- applying to the NDS for instigating disciplinary proceedings due to irregularities found by the AOC while analysing the inspection report;

3. recommendations on the inspection process concerning among others:

- developing a policy and procedures of inspection concerning the observation of the physical inventory of cash within the audit of financial statements of economic entities for whom cash is the main element of the economic process, in order to unify the approach of inspectors in that respect;
- the documents included in the inspection files and their relation to the inspection protocol;
- a change in the rules of sampling the audit documentation for the purposes of inspection in the case of small inspected entities;
- providing reasons in the inspection report for the unplanned post-inspection actions towards a key statutory auditor, should it be found in the inspection protocol with appendices thereto that the audit documentation and the audit opinion do not meet the requirements of Art. 65(6) of the Accounting Act, a violation of item 42 of the NSA 1, a violation of item 13 of the NSA 1;
- the contents of the statement of reasons of applications for instigating disciplinary proceedings requested by the AOC;
- unification of the NAOC approach in the cases of same nature and scope of irregularities through effective verification by the NAOC of inspection protocols before sending them to the entities inspected in order to provide for due attention to the inspection process and proper formulation of draft post-inspection statements and draft applications with statement of reasons addressed to the NDS;
- verification during planned inspections carried out by inspectors and controllers in 2014 whether the internal control system of entities inspected correctly designates the group of people and entities to whom the rules provided for in Art. 56(4) in conjunction with Art. 56(3) of the Act are to be applied, in order to determine the independence and impartiality at the level of the entity authorised to audit financial statements, including taking into consideration item 5 of the NSA 1, the Code of Ethics, and the UE law;
- proper control of effectiveness of implementing the internal control system so that it meets the requirements of point 17(b) and 19 of the *Commission Recommendation of 6th May 2008 on External Quality Assurance for Statutory Auditors and Audit Firms Auditing Public Interest Entities*, in particular with regard to the sample size of the audit documentation inspected and the carrying out of the compliance testing of procedures, apart from the analysis of the audit documentation.

Material irregularities

The AOC draws the attention of entities authorised to audit financial statements and statutory auditors to the following irregularities in the inspection reports analysed by the AOC, as they bring extensive negative effects of formal and legal nature for the entities inspected and their owners, and they also are of fundamental meaning for the audit quality:

- violation of the independence and impartiality principles at the level of the entity authorised to audit financial statements because of one and the same person joining

the function of a member of the management board or the supervisory board of the entity authorised to audit financial statements with the function of a member of the management board or the supervisory board of the entity whose financial statements were audited by that entity;

- incorrect planning of audit;
- no evidence for auditing the reliability of statements referred to in item 13 of the NSA 1 as regards material elements of the financial statements;
- no evidence for auditing events after the balance sheet date;
- no evidence for auditing the risk of abuse, fraud, and law violations;
- failure to meet the obligation to participate in observing the physical inventory of stock;
- inadequacy of alternative procedures conducted in the case of failure to participate in observing the physical inventory of stock.

At the same time, the AOC finds that the above irregularities concern the audit documentation, and based thereon one may not conclude about the financial statements subject to audit, including about the compliance thereof with the principles indicated as the basis for the preparation thereof. These should be read also in the context of the functions fulfilled by the public oversight over statutory auditors and entities authorised to audit financial statements and the objective of the audit quality assurance system.

During the analysis of the inspection reports, the AOC also found recurring irregularities for which failing to remove them at the stage of reviewing the quality of engagement raises doubts as to the correctness of developing and/or the effectiveness of implementing the internal quality control system:

- incompleteness of financial statements and the report on activity with regard to disclosures of financial instruments constituting a material item of the financial statements, and no reference to that fact in the audit opinion and report;
- non-compliance of the audit opinion and report with the formal requirements specified by the Accounting Act and the NSAs, including in particular with regard to the issues described in explaining items and items concerning a different matter.

In the opinion of the AOC all entities authorised to audit financial statements should take the above into consideration while monitoring the effectiveness of operations of the internal quality control system.

Material issues concerning the process of planned inspections

Material issues concerning the process of planned inspections conducted by the NAOC in 2013:

- the audit documentation from the audit of consolidated financial statements was not subject to analysis;
- the criterion for the assessment of the audit documentation and the audit opinion issued were only the NSAs in the cases when the audit opinion suggested that the audit was conducted according to the NSAs and the ISAs;
- the criterion for the assessment of the internal quality control system of the entity inspected were only the "Rules of internal quality control of an entity authorised to audit financial statements" in the cases when the inspected entity in its transparency report declared that the internal quality control system is also based on the ISQC 1;

- the inspection of effectiveness of implementing the internal quality control system was based mainly on the review of audit documentation;
- incoherent approach of inspectors to analogous facts found during the inspection;
- lack of an in-depth analysis and assessment of the practices of the entities inspected, such as subcontracting the entire audit service, and the nature of connections between the statutory auditor and the entity authorised to audit financial statements based on a contract of civil law;
- various post-inspection actions in the case of equal assessments of audit documentation;
- lack of certain documents in the inspection files which have been described in the inspection protocol and the appendices thereto;
- inability to provide reasons by the NAOC for failure to undertake post-inspection actions in connection with decision-making through voting by that body.

Unplanned inspections

The AOC ordered unplanned inspections to be carried out by the NAOC. A decision to carry out an unplanned inspection is made in connection with applications submitted to the AOC by public administration bodies, natural and legal persons, or with provided information about irregularities in activities or opinions issued on behalf of entities authorised to audit financial statements.

In 2014 the AOC ordered 3 unplanned inspections to be carried out, including 2 in entities authorised to audit financial statements which perform audit activities in public interest entities, and 1 in a different entity authorised to audit financial statements. The NAOC carried out 2 of those inspections.

In the case of one inspection in an entity authorised to audit financial statements which performs audit activities in public interest entities, the NAOC refrained from inspection activities due to an objection submitted by the entity inspected. The NAOC found the arguments of the entity inspected to be reasonable, i.e. that the inspection by the NAOC may be carried out only with regard to the performance of audit activities. The AOC drew the attention of the NAOC to the fact that under Art. 26(2) of the Act, the substantive scope of activity of the NAOC covers the issues of compliance with the provisions and procedures related to the performance of audit activities by statutory auditors and the activity of entities authorised to audit financial statements. The AOC indicated that the word "including" means that the scope of issues specified in that provision (in Art. 26(2)(1) to (5)) does not constitute an enumerative catalogue. The said provision regards inspections referred to in Art. 26(3) of the Act, as well as to the unplanned inspections specified in Art. 26(10) of the Act ordered to be carried out by inspectors and controllers.

The substantive scope of the Act has not been limited only to the performance of audit activities by entities authorised to audit financial statements. Other services, not defined as audit activities, not demonstrating the nature of a certifying service, performed under Art. 48(2) of the Act, are also subject to inspection by the NAOC as they constitute the activity of an entity authorised to audit financial statements.

An entity authorised to audit financial statements signs a contract for performance of those services, and is responsible for performing those contracts. The NAOA, as a body controlling the activity of entities authorised to audit financial statements, is obliged to evaluate the activity of those entities in areas lying within the competence of the NAOA, meaning in particular with regard to the provisions of the auditing standards, other professional standards, the application of ethical rules which under Art. 56(3) and (4) of the Act also apply to those entities.

Due to the failure to carry out the said unplanned inspection, the AOC applied to the NDS for instigating explanatory proceedings against the statutory auditor who performed the service to have been subject to that inspection.

Additionally, in 2014 the NAOA conducted one inspection in an entity authorised to audit financial statements which performs audit activities in public interest entities, which was ordered by the AOC in December 2013.

By the date hereof, the AOC has not completed the analysis of one of the unplanned inspection reports.

In 2014 the AOC analysed unplanned inspection reports for inspections carried out in 2013 in 13 entities authorised to audit financial statements which carried out the opening audit at the SCU, which is detailed in item 3.5 of the report.

3.3. AOC activity within disciplinary proceedings

The AOC, as the body exercising public oversight over the NCSA (Art. 63(2)(3) of the Act), is vested with a range of rights with regard to disciplinary proceedings against statutory auditors. In particular, the AOC may join disciplinary proceedings as a party (Art. 32(1) sentence 2 of the Act), is informed about the dates of hearings of the NDC (Art. 38(1) of the Act) in which the AOC representatives have the rights to participate (Art. 38(2) of the Act). Furthermore, the NDC serves the AOC ex officio with the issued rulings and the statements of reasons thereof (Art. 40(2) of the Act), against which the AOC may appeal in a regional court – a labour and social insurance court (Art. 41(1) of the Act).

In 2014, acting under Art. 37(2) of the Act, the AOC submitted 7 applications to the NDS for instigating explanatory proceedings. Furthermore, under Art. 27(3) of the Act, the AOC applied to the NAOA for submitting applications to the NDS for instigating disciplinary proceedings against 28 statutory auditors.

In 2014 the AOC, under Art. 32(1) of the Act, joined one disciplinary proceeding before a regional court as a party.

In general, in 2014 the AOC participated as a party in 5 disciplinary proceedings, 1 of which was pending before the NDC, and the other 4 before common courts, i.e. regional courts and appellate courts. In 2014 the AOC submitted 1 appellate measure in the form of an appeal against a ruling issued by a regional court.

The charges in the said cases regarded in particular the issuance of an opinion on an audit of financial statements with a reservation while failing to indicate financial effects, failure to question non-existent or uncertain statuses of assets provided in the financial statements of the entity inspected, failure to maintain independence during the audit,

and failure to maintain the independence and impartiality at the level of the authorised entity during the audit.

The National Disciplinary Spokesman and the Deputy National Disciplinary Spokesman participated in an AOC session held on 12th February 2014. The subject of the discussion was the timeliness of instigating and carrying out disciplinary proceedings, cases pending before common courts due to an appeal of the NDS against the rulings of the NDC, explanation of reasons for refusing to instigate disciplinary proceedings, and a discontinuation of disciplinary proceedings conducted where the petitioner was the NAOC, the cooperation of the NDS with both the NAOC and the NDC.

The employees of the AOC Office participated in a conference of the NDS and NDC, during which the invited speakers (a judge, a prosecutor, and a lawyer) talked about the rules of evidentiary proceedings within the preparatory proceedings, the amendments to the Code of Criminal Proceedings, the responsibility of a statutory auditor in the light of the Act on Statutory Auditors and the ISA 250.

3.4. Oversight over other activity of the self-government of statutory auditors

In April 2014 the AOC read the reports on activity of the particular NCSA bodies in 2013, accounting for their contents and evaluating them in the AOC Report for that year.

The representatives of the NCoSA, NDS, NDC, and NAOC were also invited to meetings and sessions of the AOC to discuss current issues and meet the expectations of the AOC with regard to the performance of the public oversight tasks by the self-government bodies.

One of the topics concerning the oversight over the activity of the self-government of statutory auditors was the oversight fee. At a session on 21st May 2014 the AOC, while summarising the previous activities in that respect, adopted the rules and the manner of conduct to check whether the NCSA properly fulfils the obligation to transfer to the State budget account the share in the oversight fees due from entities authorised to audit financial statements which perform audit activities in public interest entities, and whether it subsequently transferred them to the NCSA bodies (NCoSA, NAOC, NIAC). Furthermore, the AOC applied to the NCoSA for providing information concerning the activities implemented and planned at the NCSA to provide for an efficient and correct settlement of shares in the annual oversight fees paid into the State budget account.

Based on the said rules, it was also checked whether the payments made by the NCSA due to the oversight fee for 2010 and 2011 were correct, which resulted in issuing orders on recognising an earlier overpayment of the NCSA towards the determined arrears arising out of the oversight fees for the controlled years.

Adoption of the International Standards on Auditing in Poland

One of important topics discussed with the NCoSA in 2014 was the process of adopting the International Standards on Auditing by the NCoSA as the national standards on auditing, which has been running since 2011. Having in mind the need to implement the ISAs in Poland, the AOC monitored the activities of the self-government arising out of the arrangements concluded, the Commission presented also its comments to the draft resolutions presented by the NCoSA.

The main questions touched upon in the correspondence and during the meetings concerned the date of application of the new national standards on auditing and the internal quality control rules in an entity authorised to audit financial statements. In the opinion of the AOC the dates of application of the standards and internal control quality rules should be adjusted to the actual ability of authorised entities, and requested the NCoSA to consider a possibility to introduce various dates of application of the ISAs and the International Standard on Quality Control 1 in the resolutions depending on whether an entity performs audit activities in public interest entities or not, whereby the AOC supported the possibility to switch voluntarily into the new standards and rules by the entities earlier, indicating the need to inform thereof the NAOC earlier. The AOC also pointed out the doubts concerning the correctness of translations, which may cause difficulties in the correct application thereof by statutory auditors, and as a consequence doubts of bodies carrying out inspections and applying sanctions. The AOC also voiced its expectations towards the NCoSA with regard to the systemic approach of the NCoSA to the further, successive introduction of the current standards into the Polish legal system, and the active participation of the NCoSA in the process of amending and drafting new standards by the International Auditing and Assurance Standards Board. The AOC emphasised the current and future activities of the NCoSA aimed at supporting statutory auditors and entities authorised to audit financial statements in implementing the new standards. The AOC expected from the NCoSA a confirmation that the manner of adopting the ISAs is compliant with the recommendations of the owner of copyrights to those standards, i.e. the International Federation of Accountants (IFAC)²³.

In that context, the AOC drew the NAOC's attention to the need to develop in the future certain inspection procedures with regard to the ISAs.

Control of resolutions of the NCSA bodies

Within the oversight of the activity of the statutory auditors' self-government, the AOC controlled on an ongoing basis the resolutions submitted by the self-government bodies. The subject of the AOC sessions in 2014 were 593 resolutions of the NCoSA, 6 resolutions of the NAOC, and 1 resolution of the NIAC.

In 2014, acting pursuant to Art. 72 of the Act, the AOC approved a total of 15 resolutions of the self-government bodies (14 resolutions of the NCoSA and 1 resolution of the NAOC), the AOC submitted reservations to 1 resolution of the NAOC and refused to approve 1 resolution thereof.

The reservations of the AOC concerned NAOC Resolution No. 47/2014 of 12th March 2014 on adopting a protocol template for inspections carried out by inspectors and controllers, and regarded among others the need to complete the resolution with

²³ On 1st April 2015 the AOC approved respective resolutions of the NCoSA.

inspection-related administrative procedures. In addition, the AOC requested the NAOC to act immediately on the reservations, for the AOC to be able to reconsider the said resolution at a next session.

As the reservations concerning the administrative procedures were not acted upon, the AOC with Resolution No. 171/2014 of 11th June 2014 refused to approve NAOC Resolution No. 49/2014 of 4th June 2014. The resolution on determining the protocol template for inspections carried out by inspectors and controllers (NAOC Resolution No. 52/2014 of 4th June 2014) was approved at a session of the AOC on 17th December 2014 with AOC Resolution No. 295/2014.

The issue of oversight measures of the AOC over the resolutions of the bodies was also the subject of an inquiry of the Human Rights Defender to the AOC. Replying to that letter, the AOC stated that, having in mind the remarks included in the Human Rights Defender's letter, the AOC is aware of the need to analyse, within the nearest amendment to the Act, the statutory solutions in force regarding the control of the self-government's resolutions, which may lead to the change thereof.

Activity regarding the registration of statutory auditors and entities authorised to audit financial statements

Within the oversight exercised, the AOC verifies all resolutions of the NCoSA concerning entries into the register of statutory auditors and entries into the list of entities authorised to audit financial statements in terms of prerequisites referred to in Art. 64(1)(5) of the Act, which constitute the basis to appeal against the resolutions to an administrative court. Furthermore, the AOC investigates whether there are any other prerequisites not to enter a person or an entity into the register of statutory auditors or the list of entities authorised to audit financial statements respectively. The same applies to resolutions concerning the striking off the register of statutory auditors and the list of entities authorised to audit financial statements. This means that should any prerequisites referred to in Art. 64(1)(5) of the Act occur, the AOC adopts a resolution on appealing against the respective resolution to an administrative court. In 2014 the AOC found no prerequisites constituting reasons for appealing against the NCoSA resolutions on entry or striking off to an administrative court.

Should any circumstances be found demonstrating an unreasonable entry into the register of statutory auditors or the list of entities authorised to audit financial statements, the AOC may exercise the right of objection and issue an administrative decision in that matter. In 2014 the AOC did not exercise the right to submit an objection.

Due to the said competence of the AOC, in reasonable cases the files of administrative proceedings are verified.

On a session on 1st October 2014 the AOC adopted a resolution *on submitting the files of proceedings concerning the entries into the register of statutory auditors* in order to control the documentation constituting the basis for the entry.

With the NCoSA resolutions on entries into the register of statutory auditors adopted on 23rd September 2014 the NCoSA submitted also files of administrative proceedings, and

the files of the qualification procedure, together with the current NCoSA procedures in that respect. The AOC decided that the analysis of the said resolutions gives no reason to conclude that there are prerequisites to submit an objection under Art. 10(6) of the Act, or to appeal under Art. 64(1)(5) of the Act. The AOC also submitted to the NCoSA remarks arising out of the analysis of the documentation submitted.

The oversight over the process of granting the rights of a statutory auditor was also exercised in form of considering the NCoSA resolutions on qualification procedure for candidates for statutory auditors (to a large extent approved by the AOC) and of analysis of the report submitted to the AOC by the Examination Committee.

In 2014 the ACO considered 10 appeals against the NCoSA resolutions on an entry into or striking off the register or the list, to which the provisions of the Code of Administrative Proceedings apply²⁴:

- in 7 cases the resolution of the NCoSA was sustained;
- in 1 case the appealed resolution of the NCoSA was annulled and the proceedings were discontinued;
- in 1 case the appeal was deemed inadmissible;
- in 1 case the failure to meet the time limit to submit the appeal was stated.

Furthermore, 2 complaints were considered against the orders of the NCoSA issued under administrative proceedings on striking off, 1 of which was annulled and 1 of which was sustained.

Exercising its rights of a body of higher rank, the ACO also deemed null a resolution of the NCoSA on annulling the resolution of the NCoSA on striking off the register of statutory auditors.

In 2014 8 of the said rulings of the AOC were appealed against by the party to an administrative court, of which 1 case was concluded in 2014 with a final and conclusive ruling of the Provincial Administrative Court in Warsaw, which disallowed the complaint concerning deeming the appeal inadmissible.

At the end of 2014 2 appellate proceedings against the NCoSA were pending.

3.5. Cooperation with the FSA

In 2014, based on the information received from the FSA concerning a possible violation of law while auditing financial statements of financial institutions, as well as the reservations submitted to the opinions of statutory auditors on the financial statements audited, the AOC – within the oversight exercised over the performance of the profession of a statutory auditor and the activity of entities authorised to audit financial statements – applied to:

- the NAOC for a substantive assessment of irregularities in the opinion on the audit of financial statements of an entity for 2012 found by the FSA, in the light of the inspection of audit documentation to the said opinion and in the light of the inspection files held by the NAOC;

²⁴ Any reference to the Code of Administrative Proceedings means a reference to *the Act of 14th June 1960 Code of Administrative Proceedings* (consolidated text: Journal of Laws of 2013, item 267).

- the NAOC to carry out in 2014 an unplanned inspection in an entity with regard to the audit documentation designated by the FSA;
- the NDS for instigating explanatory proceedings towards 2 statutory auditors auditing financial statements to which the FSA submitted reservations.

Furthermore, the AOC read and acknowledged a letter of the FSA informing about the publication of a report entitled "Compliance of financial statements of security issuers with the IFRS. Analysis performed in 2013."

Due to the information received from the FSA about an incoherent methodology applied by statutory auditors while performing an external audit at the SCU and within the monitoring of the performance quality of entities authorised to audit financial statements on behalf of which the statutory auditors performed the said audit, the AOC applied to the NAOC in May 2013 for inspecting the documentation of the external audit. The unplanned inspections of the NAOC covered 17 statutory auditors who pursuant to Art. 87 of the Act of 5th November 2009 on Savings and Credit Unions (Journal of Laws of 2012, item 855) carried out an external audit at 23 SCUs on behalf of 13 entities authorised to audit financial statements. The SCUs inspected constituted 55% of all SCUs and 90% of assets of the entire SCU system as of the date of the external audit. As a result of the inspection carried out, the NAOC presented 10 draft applications to the NDS for instigating disciplinary proceedings against the statutory auditors performing the said audit, which were sustained by the AOC in 2014.

Furthermore, following the analysis of the inspection reports and unplanned inspection protocols received from the NAOC, the AOC applied to the NAOC to extend one of the applications referred earlier to the NDS against one statutory auditor and to submit an application for instigating the disciplinary proceedings against another statutory auditor, and to apply to the NCoSA for imposing sanctions on the entity inspected on behalf of which the second statutory auditor carried out the service of an external audit, due to the incorrect operation of the internal quality control system in that entity. The AOC, pursuant to Art. 37(2) of the Act, applied also to the NDS for instigating explanatory proceedings towards another statutory auditor, due to irregularities arising out of the facts described by the inspectors in the unplanned inspection protocol concerning the external audit service performed based on the rules adopted in the contract between the entity inspected and the SCU.

In addition, the AOC requested the NAOC to take into consideration audit documentation from the audit of the SCU financial statements for 2012 and 2013 in the sample of the audit documentation inspected during the planned inspections carried out in 2014 in entities on behalf of which the statutory auditors performed the external audit at the SCU.

The AOC also informed the Minister of Finance about the results of the unplanned inspection at entities authorised to audit financial statements on behalf of which the statutory auditors performed the external audit at the SCU, as well as about the actions undertaken by the AOC following the said inspection.

3.6. International cooperation of the AOC

Cooperation within the European Union

The main forum of the cooperation with public oversight bodies of the EU Member States is the EGAOB, an advisory body of the European Commission.

The EGAOB associates public oversight bodies acting in the EU Member States. The EGAOB was established under Decision of the European Commission of 14th December 2005, and is aimed at efficient coordination of the system of public oversight exercised over statutory auditors and audit firms.

The EGAOB debates at plenary sessions organised and supported by the European Commission, which develops the agenda of each one thereof and prepares proper documents. The EGAOB sessions provide a chance to exchange views among the representatives of the particular public oversight bodies and the European Commission.

In 2014 the representatives of the AOC participated in the EGAOB sessions on 4th March (the session was joined with the session of the Audit Regulatory Committee), on 16th May, 1st July and 9th September.

The most important topic of those sessions was the cooperation with public oversight bodies from third countries (especially with the American public oversight body, the PCAOB, the representatives of which participated also in the discussions within some of the said sessions), the planned activities at the EU level in the context of implementing the new provisions of the EU law concerning the audit reform, in particular with regard to transforming the EGAOB into the Committee of European Auditing Oversight Bodies – the CEAOB). Due to the future commencement of the CEAOB works, a representative of the AOC participated also in a session of a sub-group of the EGAOB for establishing the CEAOB on 5th November 2014.

Furthermore, on 3rd October and 5th December 2014 the representatives of the AOC, accompanying the representatives of the Ministry of Finance, participated in the so-called transposition workshops organised by the EC, during which the group of the EU Member States discusses issues related to the particular new provisions of the EU law concerning the audit reform.

Within the bilateral cooperation, a delegation of the AOC led by the Chairwoman of the AOC participated in the celebration of the 5th anniversary of the operations of the Czech public oversight body held on 15th May 2014 in Prague.

Participation in the works of the EAIG

The AOC participates in the works of the EAIG, which emerged from the EGAOB in 2011. The EAIG consists of the representatives of public oversight bodies from the EU Member States, and Norway, Switzerland and Liechtenstein. The European Commission enjoys the status of an observer. The aim of the EAIG is first of all exchange of experience and provision of coherent actions within the planned inspections of entities authorised to audit financial statements in the particular countries. The cooperation and information exchange within the EAIG is organised based on the Terms of Reference of the European Audit Inspection Group (EAIG) and the Addendum to Article 4: EAIG Database on Inspection Findings.

The most important initiatives undertaken within the Group in 2014 are:

- collecting irregularities in the database on inspection findings;
- developing an inspection methodology of an internal quality control system of entities authorised to audit financial statements within the Common Audit Inspection Methodology, CAIM;
- exchange of knowledge concerning the inspection methodology and inspection experience;
- discussing effectiveness programmes of audit networks;
- communication with the biggest audit networks and international organisations establishing standards for the profession of a statutory auditor (IAASB, IESBA – International Ethics Standards Board for Accountants, PIOB – Public Interest Oversight Board).

The database on inspection findings collects material irregularities identified by the particular public oversight bodies during inspections in audit firms acting within 10 biggest audit networks in Europe (PwC, KPMG, Deloitte, EY, BDO, Grant Thornton, Nexia, Baker Tilly, Mazars, Moore Stephens) with regard to inspecting public interest entities. The aim thereof is to identify the following:

- irregularities recurring in all audit networks;
- irregularities recurring in a particular audit network;
- problems in applying particular professional standards by audit firms.

The database on inspection findings allows for developing a common approach towards the said issues, and is an effective tool in the dialogue carried out by the EAIG with audit networks, the milieu of statutory auditors, the IAASB, and the IESBA.

The Common Audit Inspection Methodology is a coherent approach to carrying out inspections at entities authorised to audit financial statements. The first stage of the project, which was completed in November 2014, covered an inspection methodology for the internal quality control system of an entity authorised to audit financial statements. The inspection methodology of the internal quality control system was developed based on the International Standard on Quality Control 1 and the Directive 2006/43/EC.

The CAIM is a methodology based on which the body carrying out the inspection may prepare detailed inspection procedures taking into consideration the issues provided for in the national law which have not been regulated in the said Directive.

A representative of the AOC participates in the CAIM project within a group supervising the process, reviewing and accepting the procedures developed. The inspection programmes of the CAIM are placed on the EAIG website:

http://www.eaigweb.org/pdf/EAIG_CAIM_Work_Programme_Suite.pdf²⁵.

²⁵ In January 2015 the AOC provided the NAOC with the CAIM with recommendation to adjust the procedures applied by the NAOC to the CAIM requirements, with a recommendation to adjust the inspection procedures in entities authorised to audit financial statements whose internal quality control system is based on the International Standard on Quality Control 1 to the CAIM by 31st December 2015.

The AOC representatives participated in the EAIG sessions on 1st and 2nd April 2014 in Lisbon, on 24th – 26th June 2014 in Copenhagen, and on 25th – 26th November 2014 in Madrid.

Cooperation with public oversight bodies from third countries

In 2014 the AOC continued the talks commenced in 2011 on the initiative of the American public oversight body, the PCAOB (Public Company Accounting Oversight Board), on concluding an agreement governing the provision of documents and the carrying out of the so-called common inspections. At the end of 2014 a draft text of the agreement agreed upon with the American party was submitted to the AOC. The agreement is to be signed in 2015.

Furthermore, representatives of the AOC, including the AOC Chairwoman, participated in the annual conference *International Audit Regulatory Institute* organised from 17th – 19th November 2014 in Washington by the American oversight body, the PCAOB. The conference participants were the representatives of bodies of oversight over statutory auditors and audit firms from various countries. The conference has mainly cognitive value with regard to methodology and the results of actions of the PCAOB, as well as with regard to important international events or significant initiatives of oversight bodies from different countries.

As a response to the request of the Swiss oversight body, the FAOA (Federal Audit Oversight Authority), the AOC provided information about the public oversight system in Poland, which is to be used in Switzerland for the purpose of comprehensive evaluations of equivalence as compared to a large group of countries, in order to possibly rely upon the oversight over statutory auditors in those countries.

Furthermore, operating contacts were held with the Canadian oversight body, the CPAB (Canadian Public Accountability Board), aimed at acquiring information needed for developing by the AOC the manner of covering with oversight in Poland an entity authorised to audit financial statements from Canada and registered by the AOC in connection with the audit of financial statements of a company registered in Canada and listed at the WSE for which Poland is the home country for the needs of fulfilling the issuers' information obligations.

Membership of the AOC in IFIAR

The IFIAR established in 2006 is a forum of cooperation of global range with coordinating nature. The members of the IFIAR are public oversight bodies from several tens of countries, including 30 bodies acting in Europe. The organisation is primarily aimed at allowing the members to share information concerning the audit market and practical experience in independent regulatory activity, focusing on inspections of audit firms. The stances expressed by the organisation are not legally binding upon the members thereof.

In 2011 the AOC was admitted as a member of the IFIAR. In 2014 representatives of the AOC participated in inspection workshops held from 10th to 12th March 2014 in Malaysia, and in a plenary session of the IFIAR from 7th to 9th April 2014 in the United

States. The annual plenary sessions of the IFIAR are the main forum of experience exchange and decision-making with regard to the organisation. The annual inspection workshops of the IFIAR are primarily the platform of experience and knowledge exchange with regard to inspecting audit firms, including inspection techniques.

In 2014 IFIAR yet for the second time published the following documents: the IFIAR Annual Report for the previous year, and the Report on Global Survey of Inspection Findings from inspections in the biggest networks of audit firms²⁶, which to a certain extent were drafted based on information provided by the AOC.

The AOC contributed also to 2 IFIAR projects on evaluation of compliance by the IFIAR members with certain basic rules of the IFIAR, and the analysis of the investigation and sanction systems functioning in the IFIAR member states addressed to statutory auditors and audit firms.

Swiss-Polish Cooperation Programme

In 2014 the activities within the SPCP, one of the beneficiaries of which is the AOC, were continued. In 2014 the AOC in cooperation with the World Bank carried out preparatory works to the conference *The Effective Audit Committee: Strengthening Controls, Managing Risk, and Improving Financial Reporting*, which was held on 16th January 2015. Also study visits in public oversight bodies in various countries were continued. In 2014 the employees of the AOC Office learned how the public oversight functions in France (on 29th and 30th September).

Furthermore, the resources of the SPCP were used to fund the participation of the AOC Office employees in the IFIAR inspection workshops.

3.7. Other oversight-related activity of the AOC

Oversight over registered statutory auditors and entities authorised to audit financial statements from third countries

Pursuant to the provisions of Art. 95(1) of the Act, the AOC is the body keeping the register of statutory auditors from third countries and the list entities authorised to audit financial statements from third countries.

On 2nd April 2014 the AOC registered another two statutory auditors from Canada, being the partners of KPMG LLP having its registered office in Canada, as statutory auditors from third countries.

The registered (in 2013) audit firm from Canada and the registered statutory auditors are subject to oversight exercised by the AOC, the provisions of disciplinary proceedings, and the quality assurance system obligatory in Poland.

²⁶ Both documents are available on the IFIAR website: <https://ifiar.org>.

The exceptions from being subjected to full oversight, including from carrying out inspections within the quality assurance system in the registered entities from third countries, are provided for in Art. 99(2) and Art. 100 of the Act, i.e. the AOC may rely on inspections carried out by the oversight body from a third country, or the AOC may refrain from registering statutory auditors and entities authorised to audit financial statements from third countries and thus from subjecting them to oversight.

Under the said provisions, the AOC developed in 2014 an approach to the manner of exercising the oversight, adopting temporarily to 2016 the approach of relying upon inspections carried out by the oversight body from a third country.

Activity aimed at improving the quality of audit activities

Having in mind the improvement of the quality of audit of financial statements, in 2014 the AOC applied to the NCoSA (apart from the systemic activity described in item 1 on page 34) for the following:

- providing information concerning the hitherto mandatory training received by statutory auditors on the topics related to the specifics of housing cooperatives, in particular the management of assets of a housing cooperative, the funds financing those assets, and the scope of information of financial statements of a housing cooperative, the principles of financial data presentation in financial statements of a housing cooperative and the rules of drafting such financial statements, as well as concerning the number of statutory auditors who received training in the said scope, and the currently planned training for statutory auditors regarding the said topics;
- explaining the entries into the register of statutory auditors, in the part regarding the form of performing the profession, of statutory auditors related to an entity authorised to audit financial statements non-compliant with the Act, with the analysis of the number of such entries as compared to other statutory auditors, in the context of relations of a statutory auditor performing their profession as a natural person in their own name and on their own account with an entity authorised to audit financial statements other than an entity authorised to audit financial statements which is constituted by that statutory auditor.

Inspection of entities authorised to audit financial statements with regard to reporting obligations

Pursuant to Art. 87(1) of the Act, an entity authorised to audit financial statements, by 31st January of each year, submits to the NCoSA information on the contracts for performing audit activities signed in the previous year with public interest entities.

Pursuant to Art. 87(2) of the Act, the information referred to in paragraph 1 is provided by the NCoSA to the AOC by 15th February of each year.

From the information provided by the NCoSA it follows that:

- in 2014 93 entities informed about signing a contract(s) for performing audit activities with public interest entities;
- 9 entities submitted P10 form including irregularities;
- 2 entities incorrectly qualified the contracts signed.

In the following months the NCoSA completed the said information, as it was receiving the adjustments and complementary information from the entities.

The AOC sent letters reminding about the obligation arising out of Art. 87(1) of the Act to a part of the entities which in 2014 failed to meet the statutory deadline.

With regard to one entity which yet another time failed to meet the statutory deadline, proceedings were instigated ex officio in order to issue an administrative decision referred to in Art. 83(1)(2) of the Act. And in one case an administrative decision issued in the previous year was sustained.

In addition, the AOC sent a letter to the NCoSA President, informing that due to the irregularities found in the completing of P10 forms for the year 2014, there is a need to issue another communication which would precisely specify the requirements as to completing the particular fields of P10 form by the entities. A proper communication was adopted by the NCoSA at a meeting on 25th June 2014 and placed on the NCSA website.

Control of transparency of entities authorised to audit financial statements and information placed on the websites thereof

Art. 88(1) of the Act imposes on entities authorised to audit financial statements which perform audit activities in public interest entities an obligation to place a transparency report including at least the information referred to in Art. 88(1)(a) to (j) on their websites, within 3 months of the end of the financial year.

The AOC analysed in detail 11 entities included in the Inspection Plan for 2014. As a result of the analysis, the AOC found that the majority of entities met the obligation arising out of the Art. 88(1)(a) to (j) properly.

The irregularities found concerned among others the lack of placing on their website the signature under the declaration on the policy applied by the entity authorised to audit financial statements concerning the independence assurance, including also the confirmation that the internal control of meeting the obligation of independence was carried out, as well as the signature under the management board's declaration on the effectiveness of operations of the internal quality control system, and under the declaration on the policy applied by the authorised entity concerning the in-service training of statutory auditors, or lack of placing the declaration itself. Some entities failed to place information about the membership/lack of membership to a network, or a description of the network on the indicated websites. Also lack of information was found concerning the indication of the statutory auditor responsible for drafting the report on behalf of the entity authorised to audit financial statements, and concerning the rules of remunerating the key statutory auditors and the management board members. Furthermore, an incoherent approach towards the level of detail and the manner of presenting the required information is visible – these remarks concern particularly small entities, and particularly those which are sole proprietorship.

The AOC requested the NAOC to provide information concerning the findings and conclusions from inspections regarding the meeting of the obligation arising out of Art. 88(1) of the Act.

Bearing in mind the significance of the transparency report for the audit services market, the activity in that respect will be continued in 2015.

Performance of tasks related to provision of information about terminating a contract for audit services to the AOC

Pursuant to the provisions of Art. 66(7) of the Accounting Act, the AOC should be immediately informed by the head of an entity ordering the audit and by an entity authorised to audit financial statements about the termination of the contract for audit or review of the financial statements. The termination of a contract referred to in Art. 66(5) of the Accounting Act is possible only if there is a reasonable ground therefor. The obligation concerns both the contracts for audit or review of the financial statements and optional contracts.

The termination of the said contract is possible only if there is a reasonable ground therefor. The differences in views on the application of accounting principles or audit standards do not constitute a reasonable ground for terminating a contract²⁷.

The information provided to the AOC shows that in 2014 a contract for audit or review of financial statements was terminated in 128 cases.

The analysis of information concerning the termination of contracts for audit services shows the following:

- in the majority of cases the form available on the PIB MF website is used;
- there are cases of incomplete and inaccurate information;
- in 43 cases the information on termination of a contract for audit services was sent to the AOC by both parties to the contract, i.e. both the entity authorised to audit financial statements, and the entities ordering the audit²⁸;
- in 57 cases the contract was terminated by agreement of the parties;
- in 42 cases the terminating party was the ordering entity, and in 25 cases the entity authorised to audit financial statements;
- in 3 cases the parties failed to provide information on the party terminating;
- in 1 case the contract for audit services extinguished by the operation of law;
- in 40 cases the contract was terminated during the performance of the service.

The reasons for contract termination referred to by the parties were among others as follows:

- decisions made by the companies on changing the statutory auditor (often due to changes in ownership structure resulting in changing the auditor in the entire capital group, change in investment plans);
- financial matters (such as: amount of remuneration for the audit firm, delay in paying the remuneration, no financial liquidity of the company);

²⁷ In order to properly meet the obligation concerning the information about contract termination, the AOC, by *Resolution No. 153/2013 of 29th May 2013*, issued a communication concerning the meeting of the obligation of providing the AOC with information on terminating a contract for audit services, as well as adopted a form template. The communication together with the form are available on the PIB MF website ➔ Activity [Działalność] ➔ Collective Bodies [Ciała kolegialne] in the *AOC [KNA]* section.

²⁸ In some cases the entity authorised to audit financial statements informs about the termination of several contracts with one entity.

- declaring the company/firm bankrupt, winding up;
- organisational matters involving changes in the structure of companies, due to which the entities are no more subject to obligatory audit by a statutory auditor;
- failing to meet the contractual provisions (e.g. no possibility to meet the deadline of the audit provided for in the contract, no possibility of providing the financial statements by the ordering entity);
- loosing independence by the statutory auditor, personal reasons of the statutory auditor, ethical matters.

Consideration of complaints and applications

In the case of the AOC, the following procedure of accepting complaints and applications applies under the Code of Administrative Proceedings:

- applicants are consulted within the working hours of the office by the employees of the Accounting and Auditing Department of the MF;
- applicants are consulted outside the working hours of the office within the duty hours performed by the employees of the Audit and Internal Control Office of the MF – respectively as in the case of the MF;
- applicants may be consulted for complaints and applications by the AOC Members following a prior telephone arrangement.

3.8. Education and information activity of the AOC

The AOC undertook activities aimed at promoting audit as the basis for reliable information in financial statements, among others by the participation of the AOC representatives in conferences and debates concerning financial reporting and auditing, as well as by preparing to another conference organised in cooperation with the World Bank within the SPCP addressed to the members of audit committees planned for 16th January 2015²⁹.

Within the activities aimed at developing an information policy, the AOC established the manner of acting in the scope of the communications issued. In 2014 the AOC issued 1 communication (AOC Resolution No. 91/2014 of 12th March 2014) on the ethical threats related to the activity of statutory auditors and entities authorised to audit financial statements as a statutory auditor for special cases. In the communication, the AOC emphasised the ethical risks arising at the part of the entities authorised to audit financial statements and statutory auditors if their appointment as an expert for special cases was made without written consent of the applying parties (minority shareholders), and indicated minimum measures reducing the ethical risk to an acceptable level.

Further actions were agreed upon (such as workshops for the AOC Members and the AOC Office employees within the SPCP) to better shape the information policy of the

²⁹ On 10th January 2013 the AOC in cooperation with the World Bank organised a conference *The Audit Committee: a key link in the financial reporting and audit process*.

AOC. Due to organisational reasons and a large amount of material current tasks, those activities were postponed to 2015.

Information about the activity of the AOC, including information about decisions made at the particular AOC meetings, may be found on the MF website [www.mf.gov.pl] – PIB MF [BIP MF] ➔ Activity [Działalność] ➔ Collective Bodies [Ciała kolegialne] the AOC [KNA] section.

4. EVALUATION OF ACTIVITY OF THE NCSA BODIES WITHIN THE PUBLIC OVERSIGHT SYSTEM IN 2013³⁰

4.1. NAOC activity

The activity of the NAOC includes planned inspections and inspections of implementation of recommendations within the quality assurance system, and unplanned inspections within the system of investigations and sanctions. The quality assurance system is the key element of the public oversight. The NAOC was entrusted with operational tasks in that respect, whereas the final accountability lies with the AOC.

Planned inspections at entities authorised to audit financial statements which perform audit activities in public interest entities

The Inspection Plan for 2014 included 52 entities, of which 50 were actually inspected. Two entities refused to be subject to an inspection. Therefore, the NAOC applied to the NCoSA for striking them off the list of entities authorised to audit financial statements. The inspection activities in registered offices of the entities inspected were completed by the end of the year. In 2014, the NAOC closed 47 inspections, and the remaining ones were closed by the end of February 2015.

In 2014 the NAOC developed new procedures for planned inspections, which were implemented during inspections in entities authorised to audit financial statements which perform audit activities in public interest entities. The said procedures were published and are available on the website of the NCSA.

The team of inspectors at the end of the year consisted of 10 people, including 1 person employed at 3/5 FTE.

Irregularities with regard to the scope of internal control were found in 48% of entities. In 18% of documentation sets irregularities were found concerning the review of the order quality.

The inspection covered 187 audit documentation sets in total drafted by 149 statutory auditors, including 35 documentation sets from audits of banks, 26 from audits of the SCUs, and 4 from audits of insurance companies.

The most frequent irregularities in the audit documentation concerned the following issues:

- collection of proper and sufficient evidence corroborating the findings arising out of item 13 of the NSA 1 – 32% of audit documents (52% of entities);
- auditing the report on activity – 32% of audit documents (54% of entities);

³⁰ The activity report prepared by the NAOC, NDS, NDC, NIAC, and information received from the NCoSA are available at the PIB MF website ➔ Activity [Działalność] ➔ Collective Bodies [Ciała kolegialne] the AOC [KNA] section in the tab *Reports [Sprawozdania]*.

- planning – 28% of audit documents sets (38% of entities);
- documenting the audit with regard to risk-sensitivity and applying significance level – 17% of audit documents (30% of entities).

Within the inspection of formal and legal issues, the most frequent irregularities were found in the area of completeness and timeliness of publication of the transparency report, the completeness and compliance of data demonstrated on the list of entities, the completeness and timeliness of providing information to the NCoSA.

In the third quarter of 2014 the Commission returned to the rule of immediate provision of the inspected parties with the post-inspection statements and the applications to the NDS.

Due to the inspections performed in 2014 post-inspection statements were sent to 38 entities. The NAOC submitted applications to the NDS for instigating disciplinary proceedings against 13 key statutory auditors in 2014, and another three applications in 2015.

The main grounds for the applications to the NDS are irregularities concerning the insufficient and improper documentation of the audit of statements referred to in item 13 of the NSA 1.

Furthermore, during the year 64 applications were submitted to the NDS from inspections performed in 2013, including 28 upon recommendation of the AOC.

In 2014, as the reports on inspections from 2013 were successively approved by the AOC, 32 applications were submitted to the NCoSA, including 31 upon recommendation of the AOC. Furthermore, 1 application was submitted upon recommendation of the AOC which concerned an inspection from 2012.

As of the status of March 2015, the AOC refused to approve in six cases, concerning inspections in 2013.

Planned inspections in other entities authorised to audit financial statements

The Inspection Plan for 2014 for other entities authorised to audit financial statements covered 407 entities. According to the report of the NAOC the plan was implemented in 100%. However, by the day of drafting this report, the NAOC has not formally completed the process of inspection in 1 entity. The inspections were carried out by a team of 80 controllers.

After 125 inspections, no post-inspection recommendations were submitted. 185 inspections were completed only with recommendations. Other inspections were completed with recommendations and/or the designation for inspection and/or the applications to the NDS and/or the applications to the NCoSA.

Inspections of the implementation of recommendations

By 11th March 2015 also 101 inspections concerning the implementation of recommendations were carried out.

In three cases the recommendations of the NAOC were not implemented, which resulted in applications for imposing a fine on the given entity.

Unplanned inspections

In 2014, as a result of the recommendation of the AOC, three unplanned inspections were carried out in entities authorised to audit financial statements which perform audit activities in public interest entities.

In one case the inspection activities were eventually refrained from as the NAOC accepted the objection of the entity (the subject of inspection was not the audit activity). In one case irregularities were found, as a result of which the entity was provided with a post-inspection statement.

During the year, as a result of the unplanned inspections from 2013 concerning the inspection of entities which had carried out the external audit of the SCU, and of recommendations of the AOC, the entities inspected were sent post-inspection statements. Applications to the NDS were formulated against 10 statutory auditors acting on behalf of 8 inspected entities. Upon recommendation of the ACO, an additional application to the NDS and an application to the NCoSA was submitted.

Also 5 unplanned inspections in other entities authorised to audit financial statements were initiated, of which 1 inspection upon request of the AOC, 2 inspections as a result of a meeting with the representatives of the WSE, and 2 upon initiative of the NAOC. One of the unplanned inspections was not effectuated due to reasons attributable to the entity subject to inspection.

1 inspection was completed with a post-inspection statement with recommendations, an application for instigating disciplinary proceedings, and an announcement of an inspection in 2015, 1 inspection was completed with a letter without recommendations, 1 inspection found no irregularities, and 1 inspection was completed with a letter with recommendations.

In 2014 meetings with statutory auditors were continued in Regional Branches, as was the training for inspectors, and the cooperation with the World Bank with regard to the review of procedures of the NAOC activity. Furthermore, the NAOC participated in meetings with representatives of the AOC, the FSA and the WSE, as well as in sessions of the NCSA.

It should be emphasised that the AOC started to analyse the reports on inspections in authorised entities which perform audit activities in public interest entities which were conducted in 2014, and therefore is not able to make a comprehensive evaluation of the activity of the NAOC in 2014. In item 3.2 hereof the AOC presented its comments to the process of planned inspections in entities authorised to audit financial statements which perform audit activities in public interest entities in 2013.

The inspection plans in 2014 were principally implemented in accordance with the adopted schedule, however not all reports were submitted to the AOC by the end of the year. The delays in submitting reports from inspections from 2013 by the NAOC, as well as requesting the NAOC multiple times for explanations and introducing changes into the reports, were the cause for the AOC to focus in 2014 on the continuation of approving the reports from inspection carried out by the NAOC in 2013. In the case of 6 reports the AOC refused to approve them.

The AOC welcomed the activities of the NAOC aimed at creating inspection procedures, for which it applied to the NAOC multiple times. It should be emphasised however that the new procedures do not cover all recommendations of the AOC, e.g. those concerning the taking into consideration of the audit of financial instruments, consolidation, or the specifics of the entities of financial sector.

Furthermore, certain differences arose between the AOC and the NAOC as to the scope of activity of the NAOC and the scope of the public oversight, the evaluation of the actual situation arising out of the inspection process, and the nature of post-inspection actions to be undertaken in the light of the inspection outcomes. In the opinion of the AOC, the above affects the effectiveness of the public oversight in Poland.

4.2. Activity of the NDS

Pursuant to Art. 25(2) of the Act, the NDS has the capacity of the prosecutor in disciplinary proceedings.

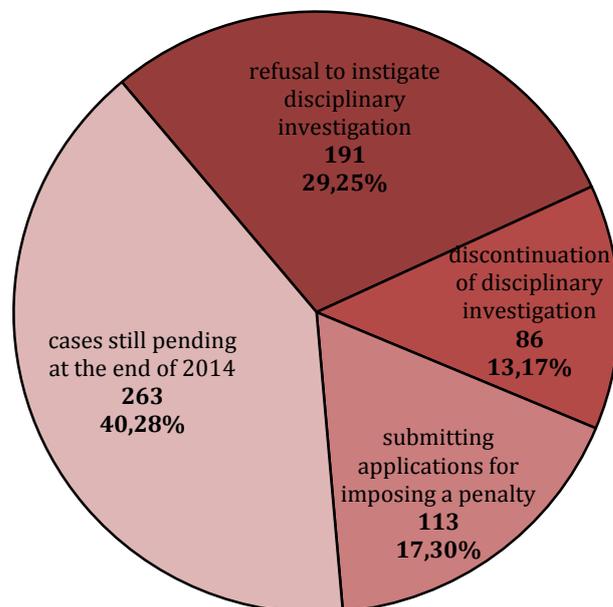
In 2014 the NDS received 499 applications for instigating disciplinary proceedings³¹, 336 of which concerned failure to meet the obligation of mandatory in-service training. Therefore, in 2014 the NDS received 163 applications for instigating disciplinary proceedings in cases other than failure to meet the obligation of mandatory in-service training.

In 2014 the NCoSA submitted 336 applications to the NDS for instigating disciplinary proceedings, the NAOC submitted 122 applications, and the AOC submitted 7 such applications. In 34 cases the applications for instigating disciplinary proceedings in 2014 came from entities other than those referred to above (statutory auditors, economic entities, natural persons).

Furthermore, in 2014 the NDS conducted 154 cases which were not completed in 2013, 31 of which concerned failure to meet the obligation of mandatory in-service training. Having the above in mind, it should be stated that in 2014 the NDS conducted 286 cases concerning issues other than failure to meet the obligation of mandatory in-service training.

³¹ An application for instigating disciplinary proceedings also includes an application for instigating explanatory proceedings conducted under Art. 37(1) of the Act.

Outcomes of disciplinary proceedings carried out by the NDS in 2014



Source: own compilation of the AOC Office based on the reports of the NDS for 2014.

In 2014 the NDS closed 277 cases by issuing an order on refusal to instigate, or on discontinuation of disciplinary proceedings. The basis for issuing the said rulings was Art. 17(1)(1) of the Code of Administrative Proceedings (in 20 cases), Art. 17(1)(2) of the Code of Administrative Proceedings (in 7 cases), Art. 17(1)(3) of the Code of Administrative Proceedings (in 186 cases), Art. 17(1)(4) (in 4 cases), Art. 17(1)(5) of the Code of Administrative Proceedings (in 9 cases), and Art. 17(1)(11) of the Code of Administrative Proceedings (in 51 cases).

The applications for imposing a penalty submitted by the NDS to the NDC concerned the following:

- in 64 cases – statutory auditors who did not participate in mandatory in-service training, which constitutes a violation of the obligation referred to in Art. 4(1)(2) of the Act, Chapter 130.3 of the Code of Ethics for Professional Accountants of the International Federation of Accountants (IFAC), and in NCoSA Resolution No. 1422/33/2009 of 3rd November 2009 on the rules of mandatory in-service training for statutory auditors amended with NCoSA Resolution No. 3957/56/2011 of 8th March 2011;
- in 5 cases – statutory auditors representing entities authorised to audit financial statements who in 2013 failed to meet the obligation of providing the NCoSA with reports on activity for 2012 and the settlement of the annual oversight fee (Art. 49(3) of the Act, Art. 4(1)(1) and (5) of the Act, and NCoSA Resolution of 29th March 2011 on the manner of calculating and paying the annual oversight fee amended with NCoSA Resolutions No. 1090/15/2012 and No. 1278/18/2012);
- in 44 cases:

- ✓ violations of the provisions of the Act, i.e. Art. 4(1)(3) and (5) (obligations of statutory auditors), Art. 49(1) (principles of internal quality control), Art. 49(3) (report on activity), Art. 50(1) and (2) (liability insurance), Art. 56(2) to (4) (independence of a statutory auditor), Art. 78(3) (obligation towards the NAOC inspection), Art. 86(9) of the Act, Art. 88(2) and (3) (cooperation with audit committees),
- ✓ violations of the provisions of the Accounting Act, i.e. Art. 45(3) (special reports), Art. 48(2) (additional information and explanatory notes), Art. 49(1) and Art. 49(2)(7) and (7a) (reports on activity of an entity), Art. 56(1) (consolidated statements), Art. 65(1), Art. 65(2)(4), Art. 65(3) and (4) (opinion), Art. 65(5)(7) (report), Art. 65(6) (consistence between the opinion, the report, and the audit documentation – audit of announcements and reports),
- ✓ violations of the NSAs 1, i.e. item I(8c) (criticism and professional scepticism), item II(10) and (12b) (aim of the audit), item III(13)(a) to (g), item III(14), (17) and (18) (manner of auditing), item IV(27) to (29) (evidence for audit), item V(34) to (35) and (37) to (40) (planning the audit), item VI(41) to (42) and (44) to (46) and (48) to (50) and (52) (special problems of the audit), item VII(53) and (54) (abuse, errors, violations of law), item VIII(59), item IX(64), item X(66), (70a), (71c), (72)(a), (d) to (f) and (h) to (i) (opinion), item XI(75) and (76)(a) to (f) and (h) (report), item XII(78) to (80), (80c), (81), (82)(e) to (f) and (85) (audit documentation), item XIII(88), (88)(a) to (b) and (89) (communication with audit committees), item XIV(90) to (94), (94)(a) to (b) (contracts for auditing financial statements), item XVI(111) (specifics of audit of public interest entities),
- ✓ violations of the rules of internal quality control specified with NCoSA Resolution No. 1378/32/2009 of 13th October 2009 on the rules of internal quality control. i.e. item 11 (responsibility of the head of the entity), items 30-31 (implementation of recommendations),
- ✓ violation of the Code of Ethics for Professional Accountants of the International Federation of Accountants (IFAC) as the rules of professional ethics of statutory auditors in force in Poland, i.e. item 100.5 – Fundamental Principles, and items (earlier in force) 2.2, 2.6, 3.1 – Fundamental Principles of Professional Ethics of Statutory Auditors, introduced by NCoSA Resolution No. 1426/33/2009 of 3rd November 2009.

In 2014, under Art. 37(4) of the Act and Art. 335 of the Code of Administrative Proceedings, the NDS submitted to the NDC 17 applications for imposing a penalty stating the penalty agreed upon with the accused statutory auditor. In 2014 the NDC considered 13 cases of the said applications for imposing a penalty, of which in 1 case the Court did not agree to rule a fine at the amount agreed upon.

Within the reporting period, in 4 cases the orders of the NDS on refusal to instigate disciplinary proceedings or discontinuation of disciplinary proceedings were appealed against by a complaint to the NDC. In 3 cases the NDC deemed the complaint unreasonable, and in 1 case the Court ordered the disciplinary proceedings to be continued. At the end of 2014 the complaints were lodged with the NDC against 1 order on continuing suspended proceedings, 2 orders on refusing to deem the applicant an aggrieved party, and 1 order on suspending disciplinary proceedings.

At the end of 2014 there were 13 disciplinary proceedings pending in common courts conducted against statutory auditors, i.e. 3 cases from 2012, 1 case from 2013, and 9 cases instigated by appeals against rulings of the NDC lodged in 2014, 10 of the said cases were instigated with appeals lodged by the accused parties, and 3 thereof are pending due to appeals lodged by the NDS. At the end of the reporting period 5 of the said cases pending before common courts were at the stage of an appellate court.

In the light of the above data, it should be underlined that a significant number of explanatory and disciplinary proceedings were conducted by the NDS in 2014, i.e. 653 cases. The fact that nearly 60% of the said proceedings, i.e. 390 cases, were closed in 2014 deserves a positive opinion. However, taking into consideration the independence of the NDS and the Deputies thereof provided for in Art. 45(2) of the Act concerning the conducting of proceedings in cases of disciplinary responsibility, it should also be noted that 71% of cases in 2014 (i.e. 277 cases) were closed either by refusing to instigate disciplinary proceedings (following explanatory proceedings) or by discontinuing the disciplinary proceedings at the stage of preparatory proceedings (i.e. discontinuation of a disciplinary investigation). And nearly 29% of cases in 2014 were closed by applying to the NDC for imposing a penalty.

4.3. Activity of the NDC

The NDC, pursuant to Art. 24(3) of the Act, rules in cases of disciplinary responsibility of statutory auditors.

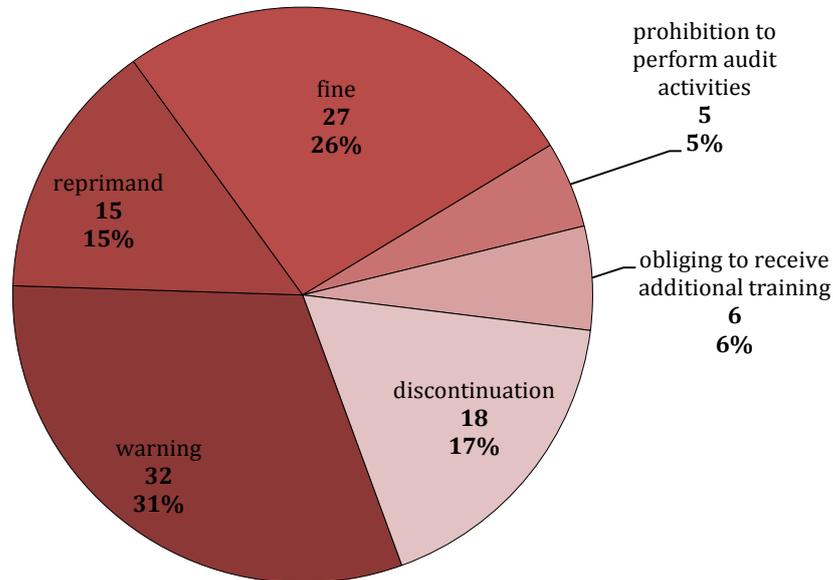
In 2014 the NDC issued 133 rulings, including 102 final and conclusive ones.

The NDC ruled as follows³²:

- penalty of warning – 32 times;
- penalty of reprimand – 15 times;
- fine – 27 times;
- penalty of a prohibition to perform audit activities for the period of 1 year – 3 times;
- penalty of a prohibition to perform audit activities for the period of 2 years – 1 time;
- penalty of a prohibition to perform audit activities for the period of 3 years – 1 time;
- obligation to receive additional training – 6 times.

³² The number of penalties imposed and the number of cases may not be consistent with each other due to multiple parties of proceedings and the possibility of ruling more than one penalty towards the accused party.

**Final and conclusive rulings of the NDC
in disciplinary cases in 2014**



Source: own compilation of the AOC Office based on the report of the NDC for 2014.

Furthermore, the NDC:

- discontinued the proceedings in 18 cases;
- returned the applications for imposing a penalty in 4 cases, for the disciplinary investigation to be completed by the NDS;
- adjourned the hearing 27 times;
- in 1 case the Court did not consider a complaint against the ordinance of the NDC Chairwoman on refusing to accept an appellate measure due to its lodgement by an unauthorised person;
- In 1 case the Court annulled the order of the NDS on closing explanatory proceedings and refusing to instigate disciplinary proceedings;
- in 1 case the Court sustained the order of the NDS on continuing suspended disciplinary proceedings;
- in 1 case the Court sustained the order of the NDS on discontinuing disciplinary proceedings;
- in 1 case the Court did not consider an accepted appellate measure.

The Chairwoman of the NDC, while formally controlling a lodged complaint against an order of the NDC on refusing to deem the appealing party an aggrieved party, in 3 cases ordered a refusal to accept the appellate measure due to the lodgement thereof by an unauthorised person.

Among 113 cases lodged by the NDS in 2014 to be considered by the NDC, in 60 cases a final and conclusive ruling was issued, and 53 cases were referred to be considered in the next year. In 2014 the NDC considered also 38 cases lodged by the NDS to be considered in 2013. Still, 3 cases lodged by the NDS in 2013 are awaiting consideration in 2015.

4.4. Activity of the NCoSA

In 2014 the NCoSA performed tasks regarding the public oversight, and in particular:

- recording procedure of statutory auditors and entities authorised to audit financial statements;
- mandatory in-service training for statutory auditors;
- qualification procedure for candidates for statutory auditors;
- national standards on auditing and the rules of internal quality control of entities authorised to audit financial statements;
- rules of professional ethics for statutory auditors and disciplinary proceedings against statutory auditors;
- imposing penalties on entities authorised to audit financial statements;
- annual oversight fee.

Within the period from 1st January 2014 to 31st December 2014, with the decisions of the NCoSA:

- 157 persons were finally and conclusively entered into the register of statutory auditors (no entries under Art. 5(3) or (4) of the Act were made);
- 196 statutory auditors were struck off the register of statutory auditors, including:
 - ✓ 147 upon request;
 - ✓ 48 due to death;
 - ✓ 1 due to failing to comply with the conditions referred to in Art. 5(2)(3) of the Act;
- 86 entities were entered into the list of entities authorised to audit financial statements;
- 109 entities authorised to audit financial statements were struck off the list, including:
 - ✓ 99 upon request;
 - ✓ 7 upon the request of the NAOC (due to refusing to undergo an inspection);
 - ✓ 2 due to the death of statutory auditors running the authorised entities as activity in their own name and on their own account;
 - ✓ 1 due to striking the statutory auditor off the register.

As of 31st December 2014 2 administrative proceedings were pending for striking off the register of statutory auditors and 2 administrative proceedings for striking off the list of entities authorised to audit financial statements.

Furthermore, in 2014 the NCoSA issued resolutions and communications concerning the recording procedure of statutory auditors and entities authorised to audit financial statements, including in the scope of specifying the templates of information and reports, and the correct fulfilling of reporting obligations.

Furthermore, in 2014 the NCoSA undertook activities concerning the mandatory in-service training for statutory auditors with regard to meeting the obligation of

mandatory in-service training by statutory auditors in 2013³³, and with regard to thematic scope and a minimum number of hours of mandatory in-service training for statutory auditors in 2015. Also e-learning was admitted as one of the forms of mandatory in-service training for statutory auditors in 2014³⁴. Due to the changes arising out of the Act of 9th May 2014 on Facilitating Access to Performing Certain Regulated Professions (Journal of Laws of 2014, item 768, hereinafter referred to as the "Deregulation Act"), the NCoSA adopted also 3 resolutions on mandatory in-service training, adapting the regulations of the self-government to the new provisions of the law.

The NCoSA also undertook activities aimed at accounting statutory auditors for the obligation of mandatory in-service training in 2014. It was determined that in 2014 the said obligation concerned 7,142 statutory auditors, of which 871 statutory auditors failed to meet the obligation of mandatory in-service training. The NCoSA undertook various measures against those statutory auditors, whereby in the case of 415 auditors their cases were submitted to the NDS in 2015, 192 persons were struck off the register in 2014, and 29 persons were struck off the register in 2015.

In 2014 there were 16 entities which obtained the consent of the NCoSA for conducting mandatory in-service training for statutory auditors (as compared to 2013 the number of entities decreased by 2 entities). Among those entities, 6 entities authorised to audit financial statements obtained the consent to organise in 2014 training in the scope of mandatory in-service training in the form of e-learning. The intent to conduct mandatory in-service training for statutory auditors was also declared by 22 Regional Branches of the NCSA and 26 Regional Branches of the Accountants Association in Poland. In the reporting period the NCoSA conducted 5 inspections of the mandatory in-service training aimed at controlling whether the entities conducting the training comply with the rules described in the organisational and methodological recommendations.

In 2014 the NCoSA adopted 11 resolutions concerning the qualification procedure for candidates for statutory auditors, and concerning the operations of the Examination Committee, including 8 resolutions aimed at adjusting to the amendments in the provisions of the Act arising out of the adoption of the Deregulation Act.

In that period the NCoSA carried out intense works on preparing resolutions introducing – as the national standards on auditing and the rules of internal quality control of an entity authorised to audit financial statements – the International Standards on Accounting, the International Standards on Review Engagements, and the International Standards on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance standards Board (IAASB) of the International Federation of Accountants (IFAC), as well as the International Standard on Quality Control 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related

³³ NCoSA Resolution No. 2260/41/2014 of 8th April 2014 on submitting to the National Disciplinary Spokesman the list of statutory auditors who in 2013 failed to meet the obligation of in-service training for statutory auditors – the list concerned 336 statutory auditors.

³⁴ Communication No. 32/2014 of 11th February 2014 on admitting e-learning as one of the forms of mandatory in-service training for statutory auditors in 2014.

Services Engagement. The said works covered among others translations of the new/amended standards of the IAASB IFAC which are to be covered by the said resolutions, and talks were conducted with the IFAC concerning the arrangements for enabling the NCSA to be granted rights for free publications and use of translations of the particular standards (a measure necessary in order to incorporate them into the Polish legal system).

In the period from 1st January 2014 to 31st December 2014 the NCoSA did not adopt any resolutions on the rules of professional ethics for statutory auditors. In that period however works were commenced on the translation of the amendments of a part of the version of the IFAC Code of Ethics for Professional Accountants mandatory for statutory auditors (the works concerned among others the following parts of the Code: Preface, Conflict of Interest, and the definition of the Engagement Team and Those charged with governance), which allow for the adoption by the NCoSA of the latest version of the IFAC Code as the rules of professional ethics for statutory auditors.

With regard to disciplinary proceedings, the NCoSA adopted Resolution No. 2676/50/2014 of 18th December 2014 amending the resolution on the regulations of disciplinary proceedings against statutory auditors (the resolution was not considered by the AOC by the end of the year).

In the period from 1st January 2014 to 31st December 2014 the NCoSA, under Art. 27(1)(3) of the Act, adopted 2 resolutions on imposing a fine on an authorised entity (at the amount of PLN 3,500.00 and PLN 4,650.00). This regarded authorised entities which perform audit activities in public interest entities. In the period in question, the NCoSA did not adopt any resolutions on a prohibition to perform audit activities by authorised entities.

As of 31st December 2014 32 administrative proceedings were pending on imposing a fine on authorised entities under Art. 27(1)(3)(a) of the Act.

In the reporting period the NCoSA adopted 2 resolutions with regard to the annual oversight fee: Resolution No. 2362/44/2014 of 24th June 2014 amending the resolution on the manner of calculating and paying the annual oversight fee, and Resolution No. 2589/48/2014 of 21st October 2014 on the amount of the annual oversight fee in 2015 (in which the fee was determined to be 1.75% of revenue generated by entities authorised to audit financial statements from performing audit activities).

In that respect the NCoSA issued additionally 2 communications: No. 33/2014 of 11th February 2014 on the minimum amount of the annual oversight fee for 2014, and No. 37/2014 of 24th June 2014 on the manner of proper completion of the annual settlement of the annual oversight fee for 2014.

In 2014 the NCoSA adopted Resolution No. 2590/48/2014 of 21st October 2014 on the amount of fees for entry into the list of entities authorised to audit financial statements in 2015, in which it determined the fee to be PLN 1,500.00 – as it was in the previous year. Furthermore the NCoSA adopted Resolution No. 2195/39/2014 of 11th February 2014 on the amount of membership contribution of statutory auditors in 2014, in which it determined the membership contribution to be PLN 360.00.

In 2014 the NCoSA adopted Resolution No. 2363/44/2014 of 24th June 2014 on approval of the financial statements of the NCSA for 2013. The NIAC³⁵ adopted Resolution No. 1/2014 of 23rd June 2014 on accepting the opinion on the financial statements of the NCSA for 2013.

Among other activities, the NCoSA adopted resolutions aimed at convening in 2015 the 8th National Assembly of Statutory Auditors.

Furthermore, the NCoSA issued the following communications in 2014:

- No. 41/2014 of 25th September 2014 on classifying investment funds to the category of public interest entities;
- No. 43/2014 of 21st October 2014 on the obligation to participate in observation of physical inventory.

From the point of view of the AOC, while summarising the activity of the NCoSA, special emphasis should be placed on the process of adopting the International Standards on Auditing by the NCoSA to be the national standards on auditing, which has been running since 2011. It seems that the operating cooperation between the AOC and the NCoSA in 2014 will bring the intended effect of adopting the new standards at the beginning of 2015³⁶.

Emphasis should also be placed on the fact that before the end of 2014 the NCoSA adjusted its regulations on the qualification procedure for candidates for statutory auditors and on the mandatory in-service training, arising out of the amendments to the Act introduced with the Deregulation Act.

Taking into consideration a large number of pending administrative proceedings arising out of the findings of inspections carried out in the previous years, it seems that the task related to imposing penalties on entities authorised to audit financial statements requires greater engagement of the NCoSA and effective cooperation between the NCoSA and the NAOC.

With regard to the in-service training obligation it should be emphasised that the number of statutory auditors who failed to meet the obligation of mandatory in-service training rose again as compared to the previous year³⁷. It is recommended to continue the NCoSA activity disciplining the statutory auditors who do not comply with the said obligation, which is important for the quality of performance of audit activities. The undertaking of actions aimed at making the forms of in-service training more flexible, such as introducing e-learning, should be deemed a positive step. It should also be expected that the new statutory regulations arising out of the Deregulation Act, allowing among others for the performance of the in-service training obligation partly in the form

³⁵ The report on activity of the NIAC is available at the PIB MF website ➡ Activity [Działalność] ➡ Collective Bodies [Ciała kolegialne] the AOC [KNA] section, in tab Reports [Sprawozdania].

³⁶ On 1st April 2015 the AOC approved respective resolutions of the NCoSA.

³⁷ The number of statutory auditors who failed to meet the obligation of mandatory in-service training against whom the NCoSA lodged cases with the NDS is as follows:

- **992** in 2010, pursuant to NCoSA Resolution No. 4000/57/2011 of 29th March 2011;
- **532** in 2011, pursuant to NCoSA Resolution No. 929/12/2012 of 6th March 2012;
- **113** in 2012, pursuant to NCoSA Resolution No. 1635/26/2013 of 12th March 2013;
- **336** in 2013, pursuant to NCoSA Resolution submitted with the letter of 15th April 2014;
- **415** in 2014, pursuant to NCoSA Resolution No. 2888/53/2015 of 10th March 2015.

of self-education, will facilitate effective performance of the obligation for statutory auditors. The NCoSA should care for the selection of proper topics of the mandatory in-service training, as well as high quality of training conducted by the entities authorised.

Noticeable are also activities of the NCoSA aimed at improving the performance of the reporting obligations and those related to the recording procedures and the oversight fee. However, still not all statutory auditors and not all entities authorised to audit financial statements perform reporting obligations in a correct, duly, and timely manner, which should be still a challenge for the self-government of statutory auditors.

AOC ACTION PLAN FOR 2015

1. Carrying out activities aimed at providing high quality of performance of the profession of a statutory auditor, and the quality assurance systems at entities authorised to audit financial statements (audit firms), among others through improving the effectiveness of operations of the National Audit Oversight Committee with regard to inspections, and in particular:
 - analysis of reports on inspections in entities authorised to audit financial statements which perform audit activities in public interest entities,
 - review of selected inspection files,
 - submitting recommendations to the National Audit Oversight Committee in the area of methodology and inspection procedures.
2. Carrying out activities aimed at providing coherent rules of performance of the profession of a statutory auditor in Poland, in particular through:
 - supporting the implementation of International Standards on Auditing (ISAs) as the standards of performing the profession of statutory auditors in Poland,
 - oversight over the in-service training of statutory auditors, in particular over the thematic scope of the mandatory in-service training, and the accounting period and minimum number of hours of such training.
3. Participating in the process of adjusting the national law and the public oversight body to the changes arising out of the European Union law, including:
 - providing opinions for draft instruments of the national law, in particular those regarding the tasks of the public oversight,
 - participating in the works at the European Union forum aimed at implementing the new provisions,
 - analysing possible, additional tasks of the Audit Oversight Commission arising out of the changes in the provisions of law at the level of the EU, and implementing them at the national level.

4. Determining the priority areas of interest of the Audit Oversight Commission in the disciplinary proceedings conducted.
5. Developing rules for covering with oversight audits of financial statements performed by audit firms registered outside of Poland and being of importance for the Polish market.
6. Overseeing the process of granting the rights of a statutory auditor and registering entities authorised to audit financial statements, in particular through the control of the procedure of entering into the register of statutory auditors and the list of entities authorised to audit financial statements.
7. Acting for the promotion of audit as the basis to provide reliable information in financial statements, in particular through:
 - creating the information policy of the Audit Oversight Commission aimed in particular at informing the key stakeholders about the tasks and operations of the public oversight,
 - participation of representatives of the Audit Oversight Commission in conferences and debates concerning financial reporting and auditing.
8. Developing international cooperation, including in particular within the European Group of Auditors' Oversight Bodies (EGAOB), the International Forum of Independent Audit Regulators (IFIAR), and the European Audit Inspection Group (EAIG), and with selected public oversight bodies from the European Union and third countries, particularly from the USA.
9. Developing resources which will streamline the performance of tasks of the Audit Oversight Commission.
10. Current performance of tasks specified in the *Act of 7th May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight* (Journal of Laws No. 77, item 649, as amended).