



**REPORT
OF THE AUDIT OVERSIGHT
COMMISSION
FOR 2016**

Warsaw, 26 April 2017

Pursuant to Article 64(5) of *the Act of 7 May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight* (Journal of Laws of 2016, item 1000, as amended) the AOC, by the 30 April of the following year, shall draft 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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Audit Oversight Commission

Key information

The Audit Oversight Commission (AOC) is a collective body of public administration established by virtue of the *Act of 7th May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight*.

Since 2009 the AOC has been exercising public oversight over:

- statutory auditors;
- audit firms and
- the organisation of self-government of statutory auditors - NCSA.

The main tasks of the AOC include:

- **supervising the inspections of audit firms performed by the NCSA**, including in particular: the approval of annual inspection plans of audit companies performing statutory audit activities in public-interest entities, approval of inspection team composition and approval of inspection reports;
- **performing own *ad hoc* inspections of audit firms** in case of receiving information about irregularities of performing the profession by statutory auditors and activity of audit firms;
- **supervising other activities of NCSA governing bodies**, in particular through: approval of resolutions of the NCSA governing bodies in cases specified in the Act and a possibility to appeal to the administrative court against resolutions of the NCSA governing bodies which are not subject to approval;
- **pursuing international cooperation in the scope of oversight over statutory auditors and audit firms**, including in particular, with the European Commission and oversight bodies from other states.

The AOC consisting of nine members takes decisions at meetings convened at least once per month. As at 31 December 2016 the composition of the AOC was as follows:

- **AOC Chairman:** Wiesław Janczyk, Secretary of State at the Ministry of Finance;
- **Deputy Chairman of the AOC:** Tomasz Piwowarski, the representative of the FSA;

and other **AOC members:**

- Joanna Dadacz, the representative of the Minister of Finance;
- Radosław Ignatowski, the representative of the NCSA;
- Agnieszka Janc, the representative of the WSE;
- Piotr Kamiński, the representative of the organisations of employers;
- Ilona Pieczyńska-Czerny, the representative of the FSA;
- Waldemar Szmidt, the representative of the Minister of Justice.

INTRODUCTION

In 2016, the process of extending the scope of the Audit Oversight Commission's tasks started. Since 17 June 2016, Regulation (EU) 537/2014 has been directly applicable, pursuant to which, among others, new obligations were imposed on audit firms auditing financial statements of public-interest entities, and the role of the public oversight body was strengthened.

In 2016, the AOC:

- undertook measures aiming at termination of the process of audit firms' inspections carried out by the self-government of statutory auditors - NCSA pursuant to the currently effective regulations;
- started the preparations to take over certain tasks from the NCSA and pursue new tasks.

Oversight over inspections in audit firms

Inspections in audit firms represent a key element of public oversight. Until June 2016, operating tasks in this scope were assigned to the self-government of statutory auditors which accomplished the overall inspection plan for 2016, while maintaining the ultimate responsibility of the AOC.

New regulations - challenges for the AOC

In 2016, works related to the national regulations implementing UE provisions were carried out (amended EU Directive 2006/43/EC and Regulation EU 537/2014). The AOC presented comments in the legislative process. Since 17 June 2016, the majority of provisions of Regulation (EU) 537/2014 have been directly applicable in Poland. The AOC is the body responsible for the execution of tasks envisaged in this regulation. One of the first tasks was the preparation of the report in the scope of statutory audits in Poland performed for public-interest entities. The report was adopted by the AOC on 15 June 2016 and submitted to the EC and other EU institutions. As a result of the new requirements, as of 17 June 2016 members - persons who are practising statutory auditors were dismissed from the AOC. In the second half of 2016, the AOC commenced its activities aimed at preparation of the body to the implementation of new tasks as well as strengthening of the AOC Office through starting the recruitment for positions of inspectors. At the same time, it should be indicated that it will be possible for the AOC to undertake operating activities after entry into force of detailed national regulations.

International cooperation

In 2016, changes in the scope of cooperation at the EU level took place. The transformation of the EGAOB into the CEAOB was performed. Pursuant to Regulation (EU) 537/2014, a new form of cooperation between oversight authorities from EU Member States was established. The CEAOB also includes a representative of ESMA. The EBA and EIOPA shall have a status of observers. The transformation means the extension of the cooperation on the European level by adding the coordination activities. Another aspect of changes on the EU level is the incorporation of the EAIG, so far independent, into the CEAOB under the formula of a sub-group for control.

Strengthening of the cooperation between public oversight authorities on the global level has also occurred. In 2016, important decisions concerning changes in the

structure and functioning of IFIAR were made. One of them was the selection of Japan as the permanent seat of IFIAR. A new formula for calculating a membership fee was also approved, developed with the participation of the AOC Office. In 2016, the implementation of the project financed by Switzerland under the SPCP was completed. This project was implemented from 2009 by the World Bank. Beneficiaries of the project included the AOC, the NCSA and statutory auditors.

Planned activities adopted by the AOC for 2017:

- implementation of activities based on currently applicable regulations;
- preparation for implementation of new regulations;
- supporting the process of building a team of inspectors and other specialists in the AOC Office on behalf of the public oversight body;
- development of assumptions for systemic solutions supporting the provision of the oversight;
- development of the inspection methodology and risk analysis-based inspection procedures in the area of internal quality control, auditing separate and consolidated financial statements adjusted to the specific nature of various PIEs, as well as development of administrative procedures of inspection;
- enhancing the cooperation with the Polish Financial Supervision Authority in connection with granting it the competence in the scope of oversight over the process of selecting audit firms performing audits of financial statements by supervisory bodies of public-interest entities;
- carrying out a dialogue with audit firms subject to direct AOC oversight.

What is the content of the report for 2016?

In the first part of the report, the public oversight system in Poland is presented, including the analysis of the market of audit firms. Chapter two presents background information concerning the composition, financing and support of the AOC. The next part of the report contains detailed information related to the AOC activities - measures within the quality assurance system, disciplinary proceedings, cooperation with other bodies, both on the national and international level. In chapter four, the evaluation of the committees of the professional self-government of statutory auditors for 2016 is presented. The last part of the report contains the AOC action plan for 2017.

LIST OF ABBREVIATIONS AND ACRONYMS

ABBREVIATION/ ACRONYM	FULL NAME
CEAOB	Committee of European Auditing Oversight Bodies
EAIG	European Audit Inspection Group
EBA	European Banking Authority
EGAOB	European Group of Auditor's Oversight Bodies
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Markets Authority
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
ISQC 1	International Standard on Quality Control 1
IASs	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

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 17 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 L 157, 9.06.2006, p. 87, as amended), hereinafter referred to as Directive 2006/43/EC¹;
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on Specific Requirements Regarding Statutory Audit of Public-Interest Entities and Repealing Commission Decision 2005/909/EC (OJ L 158, 27 May 2014, p. 77), hereinafter referred to as Regulation 537/2014.

Act of Law

The Act of 7 May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight (Journal of Laws of 2016, item 1000 as amended), hereinafter referred to as the Act.

Other

- The Accounting Act of 29 September 1994 (Journal of Laws of 2016, item 1047, as amended), hereinafter referred to as the Accounting Act;
- Regulation of the Minister of Finance of 15 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 3 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 21 March 2010 on the Constitution of the National Chamber of Statutory Auditors, amended by Resolution No. 46 of the 7th National Assembly of Statutory Auditors of 26 June 2015, hereinafter referred to as the NCSA Constitution.

1.2. System characteristics

The tasks of the public oversight system are implemented by:

¹On 16 June 2014, Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts entered into force (OJ L 158, 27.05.2014, p. 196). The Member States were obliged to implement the provisions of the aforementioned Directive by 17 June 2016.

- the Audit Oversight Commission (AOC) – the public oversight body;
- the National Chamber of Statutory Auditors (NCSA) – the professional self-government, the committees 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 includes 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 statements² 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;
- 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;
- pursuing international cooperation, including in particular, with the European Commission, oversight bodies from other EU Member States and third countries.

² The terms: **entities authorised to audit financial statements** and **audit firms** are applied interchangeably herein.

Regulation (EU) 537/2014, imposed new tasks on the AOC, besides conducting inspections and imposing penalties and fines in relation to statutory auditors and audit firms auditing financial statements of public-interest entities, arising directly from the Regulation, among others, in the scope of cyclical monitoring of the market of auditing financial statements of public-interest entities. Accordingly, on 15 June 2016 the AOC adopted the *Report on changes in Poland on the market of providing services in the scope of statutory audits for public-interest entities*, which was submitted to the European Commission and other EU institutions indicated in Article 27 of EU Regulation.

In connection with the new tasks in the scope of international cooperation, the AOC has also actively engaged in the new form of cooperation of oversight authorities at the European Union level - the Committee of European Auditing Oversight Bodies (CEAOB). The kick-off meeting of CEAOB was held on 12 July 2016. More information concerning this issue is presented in section 3.6. In this context, it should be indicated that the provisions of the currently binding Act shall apply to the extent of their compliance with the provisions of Regulation (EU) 537/2014.

An important element of the public oversight system is also 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 adopted in agreement with the Examination Committee, approved by the AOC.

Pursuant to Article 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;
- confirming the fulfilment of the conditions related to professional experience;
- 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;
- considering applications for passing the examinations;
- assessing equivalence referred to in Art. 5(4) of the Act.

The Examination Commission consists of 19 members, including:

- 10 representatives of the Minister of Finance;
- 7 representatives recommended by the NCoSA;
- 2 representatives recommended by the FSA.

Pursuant to Article 8(6) of the Act, the Examination Committee for Candidates for Statutory Auditors submits a report on activity to the AOC³.

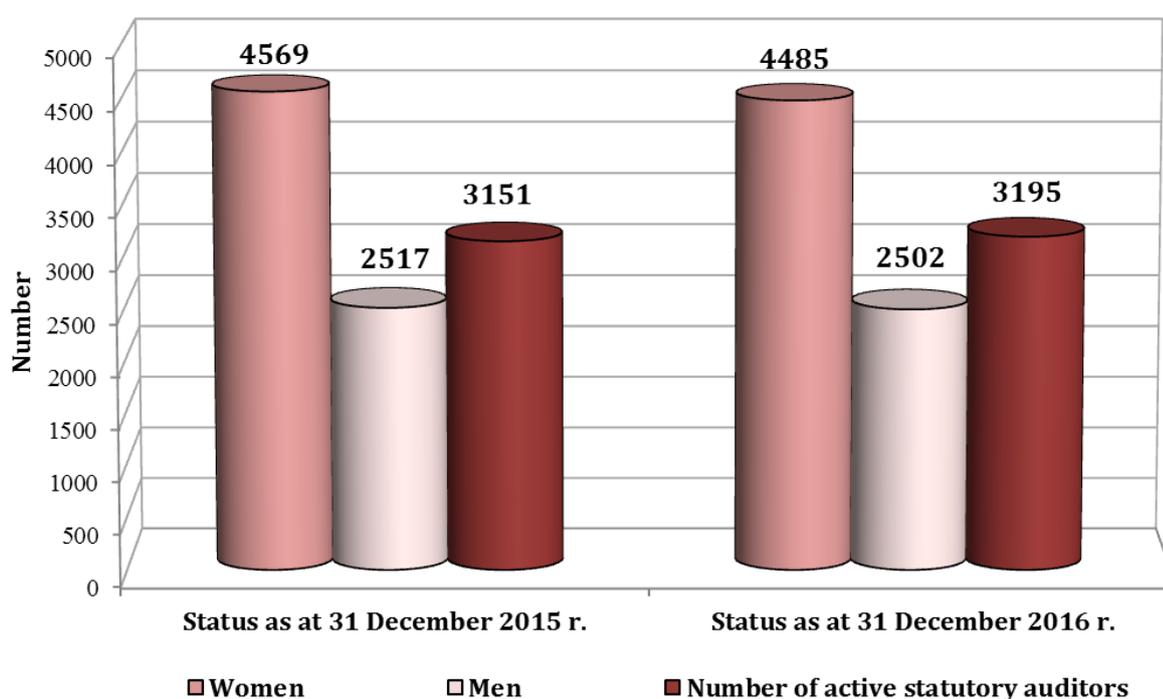
³ *Report on the Activity of the Examination Committee for Candidates for Statutory Auditors for the Period from 01 January 2016 to 31 December 2016* is available on the website of the AOC: www.kna.gov.pl (which is a part of the MF website).

1.3. Background information on the market of audit services

Statutory auditors

As at 31 December 2016 the register of statutory auditors comprised 6,987 statutory auditors (including 4,485 women and 2,502 men), which is a decline by 99 statutory auditors as compared to the end of 2015. Among statutory auditors entered in the register of statutory auditors, 3,195 persons declared to be professionally active (46 %). As compared to the end of 2015 that number increased by 44 persons. The average age of a statutory auditor as at 31 December 2016 was 56, similar to the previous year. The comparison of the number of statutory auditors is shown in the figure below.

Number of statutory auditors in 2015 - 2016



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

In 2016, 13,607 candidates for statutory auditors (including 1,022 recruited in 2016, and 12,585 - in the previous years) participated in the qualification procedure for candidates for statutory auditors.

In 2016, the qualification procedure was completed by 103 candidates, which means that they passed the diploma exam and acquired the right to apply to the NCoSA to be entered in the register of statutory auditors.

In the period from 1 January 2016 to 31 December 2016, pursuant to the NCoSA resolutions, 139 people were entered in the register of statutory auditors (including 1 entry related to an individual holding qualifications to perform the profession of a statutory auditor acquired abroad, recognised by EU Member States, following passing of the exam in economic law pursuant to Article 5(3) of the Act), 238 statutory auditors were struck off the register of statutory auditors, including:

- 183 upon request;

- 55 due to death.

As compared to the end of 2015, the number of entries into the register of statutory auditors decreased by 63 entries, at the same time, the number statutory auditors struck off the register of statutory auditors increased by 19.

Entities authorised to audit financial statements

As at 31 December 2016 the list of entities authorised to audit financial statements comprised 1,587 entities authorised to audit financial statements. As compared to the end of 2015, the number of entities authorised to audit financial statements dropped by 25 entities.⁴

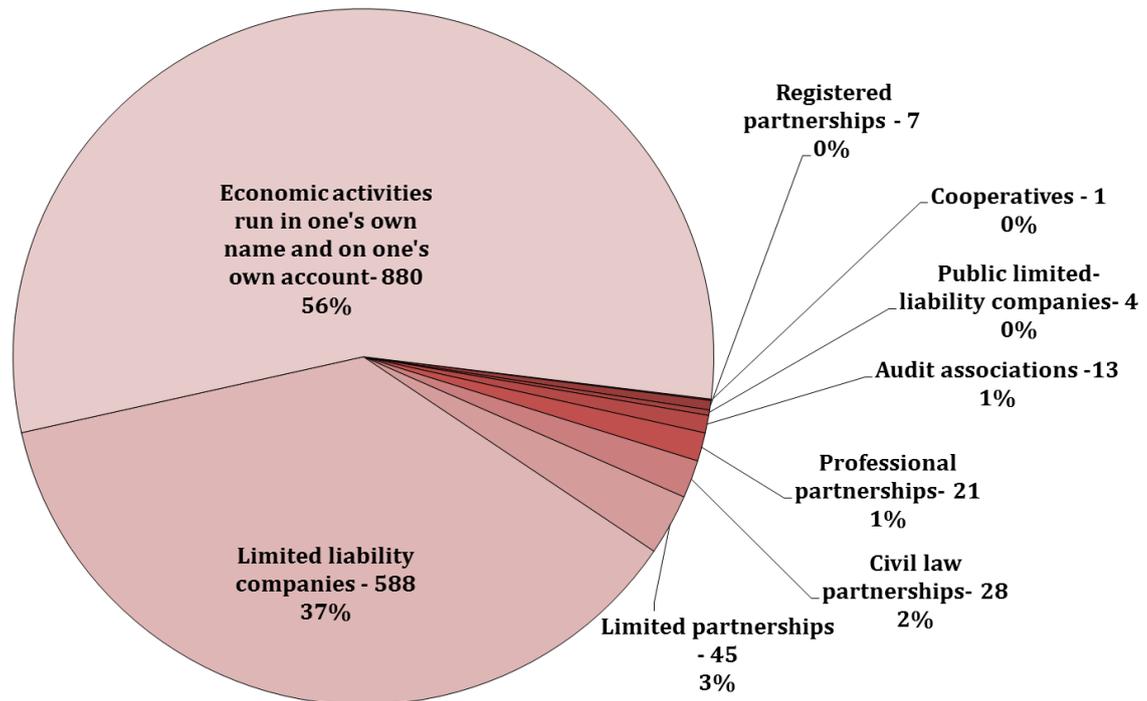
In the period from 1 January 2016 to 31 December 2016, pursuant to the NCoSA resolutions, 63 entities were entered in the list of entities authorised to audit financial statements, whereas 89 entities were struck off the list of entities authorised to audit financial statements, including:

- 77 upon request;
- 3 upon the request of the NAOC due to refusing to undergo an inspection;
- 1 in connection with the NAOC decisions based on inspection results;
- 3 due to the death of statutory auditors running the authorised entities as activity in their own name and on their own account;
- 5 due to striking the statutory auditor off the register (lack of statutory auditor in economic activity).

The figure below shows the division of entities authorised to audit financial statements by business activity form as at 31 December 2016.

⁴ The figures provided take into account the validity of decisions concerning the entries.

Breakdown of entities authorised to audit financial statements according to business activity form as at the end of 2016



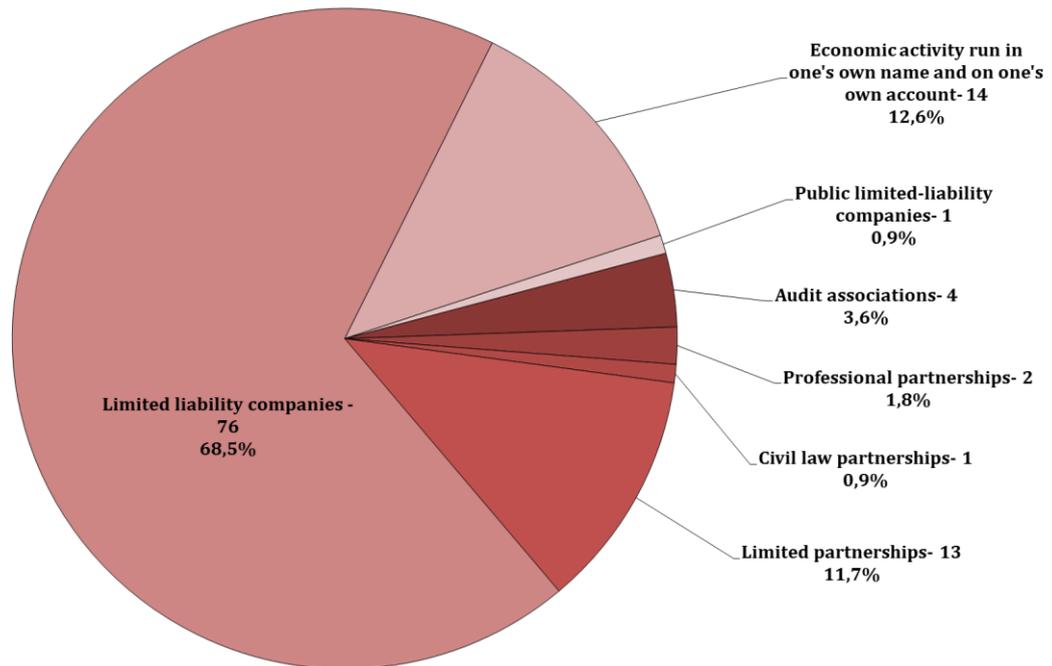
Source: own compilation of the AOC Office based on the NCSA data.

The prevailing business activity form of entities authorised to audit financial statements is economic activity run in their own name and on their own account (56%). At the same time, the largest number of entities authorised to audit financial statements which perform audit activities in other forms is comprised by limited liability companies (37%).

The figure below shows the breakdown of entities authorised to audit financial statements performing statutory audit activities also in public-interest entities by business activity form as at 30 December 2016.⁵

⁵ 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 statutory audit activities in public-interest entities, available on the website of the NCSA, updated as at 30 December 2016.

Classification of entities authorised to audit financial statements performing audit activities in public interest entities according to business activity form as at 30 December 2016



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

As at 31 December 2016 there were approx. 1,337 public interest entities in Poland (as defined in Article 2(4) of the Act), including:

- issuers of securities admitted to trade in a regulated market of a EU Member State, having their registered office within the territory of the Republic of Poland (421, excluding issuers which simultaneously belong to the category of public-interest entities indicated below);
- national banks, branches of credit institutions, and branches of foreign banks (622);
- SCUs (41);
- insurance companies and head offices of insurance companies, and reinsurance companies (62);
- electronic money institutions (0);
- open pension funds and general pension societies (24);
- open-end investment funds, specialised open-end investment funds, and public closed-end investment funds whose investment certificates were acquired or purchased by means of public offering or introduced into an alternative trading system (123);
- 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 (44).⁶

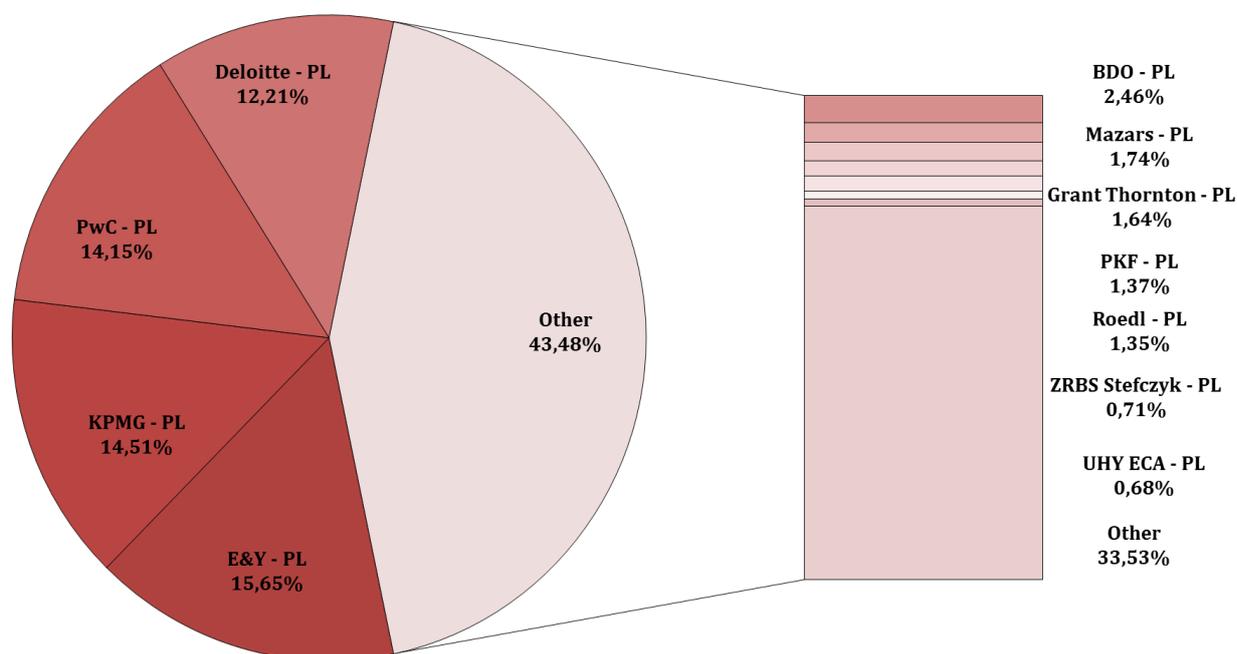
⁶ Prepared based on the data received from the FSA Office.

Revenue of audit firms

Revenue acquired by entities authorised to audit financial statements in 2016 generated due to performing statutory audit activities⁷ amounted to: **PLN 688 million**.

Below the market share of the biggest Polish audit firms is presented⁸ in terms of revenue generated in 2016. However, it should be taken into account that the presented breakdown refers to the revenue generated from all audit activities performed by the particular audit firms, and not only to the revenue due to audits of financial statements.

Market share in terms of revenues gained in 2016 due to performing audit activities



⁷ Based on the data arising from settlements of the annual oversight fee for 2016, or – should there be no settlements – from the reports referred to in Article 49(3) of the Act submitted by 29 March 2017 to the NCSA by entities authorised to audit financial statements.

⁸ The abbreviated names of Polish audit firms shall mean: **BDO - PL** – BDO Sp. z o.o. and BDO Polska Sp. z o.o.; **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., Ernst & Young Audyt Polska Sp. z o.o. and Ernst & Young Usługi Finansowe Audyt Sp. z o.o.; **Grant Thornton - PL** – Grant Thornton Frąckowiak Sp. z o.o. Sp. k., Grant Thornton Frąckowiak Sp. z o.o., Grant Thornton Polska Sp. z o.o. Sp. k. and Grant Thornton Polska Sp. z o.o.; **KPMG - PL** – KPMG Audyt Sp. z o.o. Sp. k., KPMG Audyt Services Sp. z o.o 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. Sp. k.; **PwC - PL** – PricewaterhouseCoopers Sp. z o.o. and PricewaterhouseCoopers Polska Sp. z o.o.; **Roedl - PL** – Roedl Audit Sp. z o.o.; **UHY ECA - PL** - UHY ECA AUDYT Sp. z o.o., UHY ECA AUDYT Sp. z o.o. Sp. k., UHY ECA PODATKI Sp. z o.o. and UHY ECA Podatki Sp. z o.o. Sp. k.; **ZRBS Stefczyk - PL** – Związek Rewizyjny Banków Spółdzielczych im. Franciszka Stefczyka [Audit Association of Cooperative Banks of Franciszek Stefczyk Cooperative Audit Association]; **ZRBS Poznań - PL** – Związek Rewizyjny Banków Spółdzielczych w Poznaniu [Audit Association of Cooperative Banks in Poznań Cooperative Audit Association]; **Beskidzki SZR - PL** – Beskidzki Spółdzielczy Związek Rewizyjny [Audit Association of Cooperative Banks of Beskidy Cooperative Audit Association].

Source: own compilation of the AOC Office based on data for 2016 submitted by entities authorised to audit financial statements to the NCSA.

Polish audit firms of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) generated 56.5% of all revenue due to performance of statutory audits and audit related services gained by all Polish audit firms (which represents a growth by 1 percentage point against the previous year).

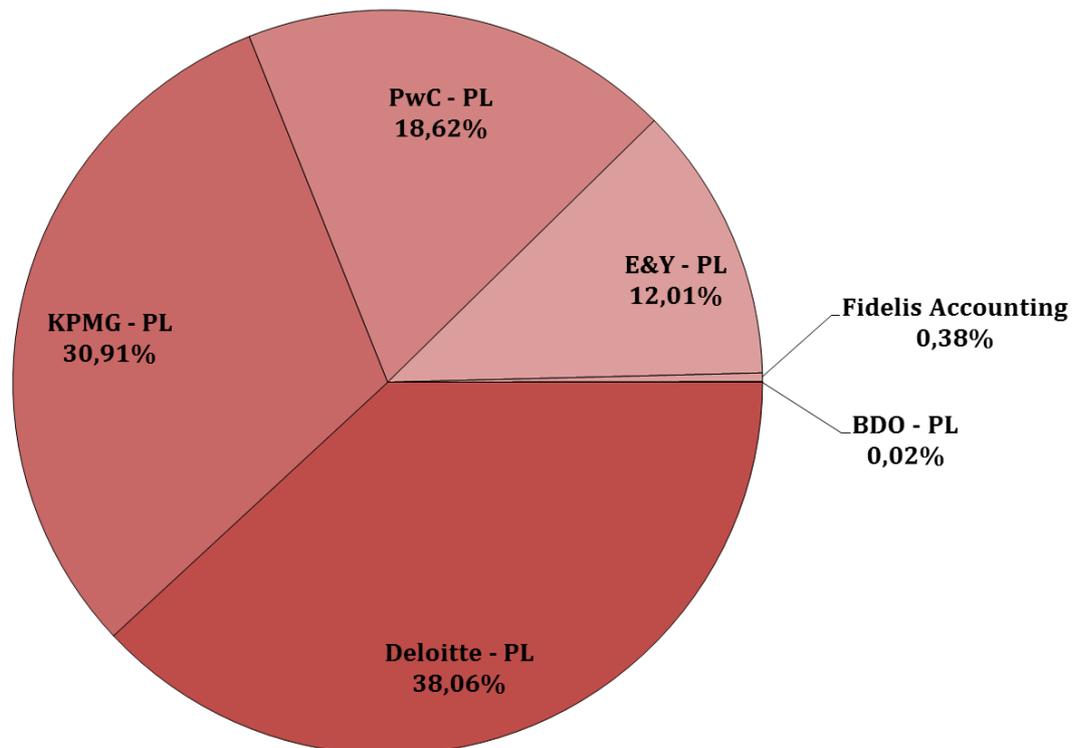
1.4. Analysis of the market of entities authorised to audit financial statements

The market share of the biggest audit firms in Poland was analysed with regard to the banking, insurance, pension and listed companies sector. The reference data are financial statements for 2015 of economic entities in the said types of sectors. However, it should be taken into account that the said financial statements were audited by audit firms in 2016, or in some cases even later. This means that in general the audit firms generated revenue due to performing the said audits in 2016 or even later.

Auditors of the banking sector

First, the market share of the biggest Polish audit firms auditing financial statements of Polish commercial banks is presented, for which the market measure is the amount of assets as at 31 December 2015 (the total assets for all commercial banks amount to **PLN 1,376,474 million**).

Market share in terms of assets of commercial banks whose annual financial statements for 2015 were subject to auditing by audit firms

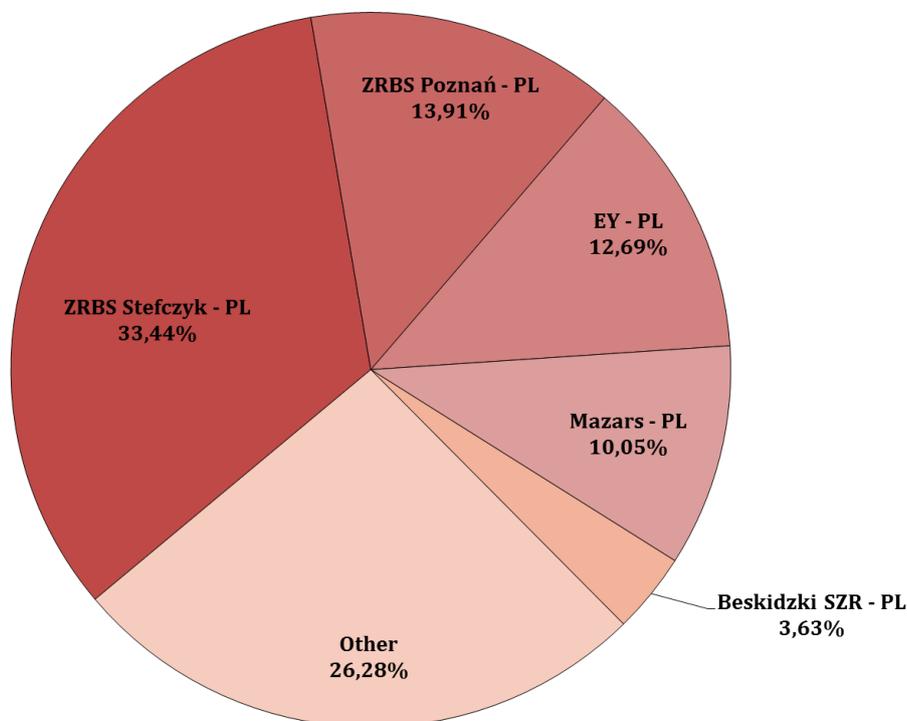


Source: own compilation of the AOC Office based on the FSA Office data.

Polish audit firms of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements for 2015 of commercial banks whose total assets amounted to 99.6% (which is the level similar to the previous year).

On the other hand, the market share of the biggest Polish audit firms auditing financial statements of Polish cooperative banks, for which the market measure is the amount of assets as at 31 December 2015 is as follows (the total assets for all cooperative banks amount to **PLN 139,720 million**).

Market share in terms of assets of cooperative banks whose annual financial statements for 2015 were subject to auditing by audit firms



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

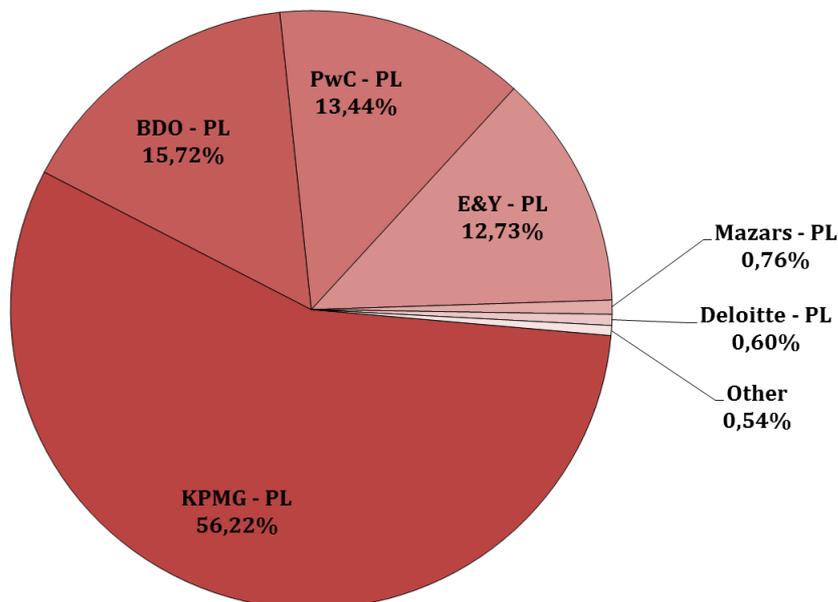
The audit associations indicated, i.e. ZRBS Stefczyk; ZRBS Poznań and Beskidzki SZR audited 2015 financial statements of cooperative banks whose total assets amounted to 50.98% (which is the level similar to the previous year).

Auditors of the insurance sector

For the insurance sector the market share of the biggest audit firms auditing financial statements of Polish insurance companies is presented, for which the market measure is the amount of gross written premium for the period from 1 January to 31 December

2015 (the total gross written premium for all insurance companies amounts to **PLN 54,817 million**).

Market share in terms of gross written premium collected by insurance companies whose annual financial statements for 2015 were subject to auditing by audit firms



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

As a consequence, Polish audit firms of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited 2015 financial statements of insurance companies whose total gross written premium reached 82.99%, which makes a growth by almost 14 percentage points against the previous year. In relation to the previous year, a significant growth in share of BDO from 1.68% to 15.72% should be also emphasised.

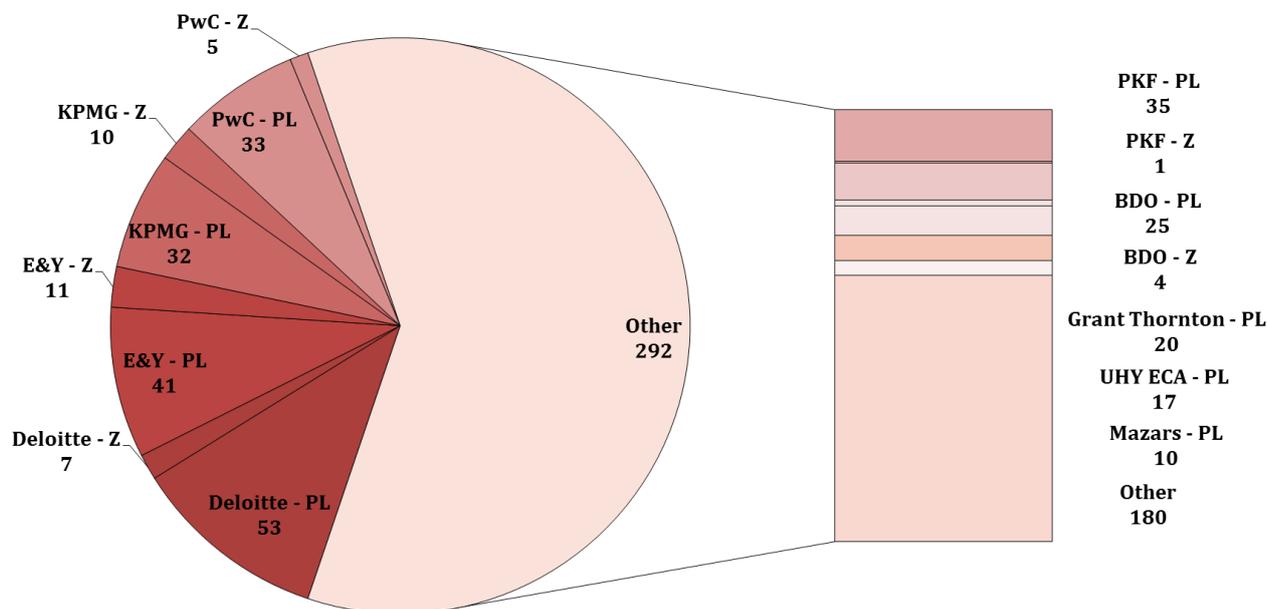
Auditors of the listed companies sector

This aspect of the analysis presents the market share of the audit firms auditing financial statements of WSE-listed companies, for which the market measure is the market capitalisation as at 31 December 2015.

The figure below shows the market share of the biggest Polish and foreign audit firms⁹ in terms of the total capitalisation of WSE-listed companies (the capitalisation of all companies at the WSE amounted to **PLN 1,082,863 million**).

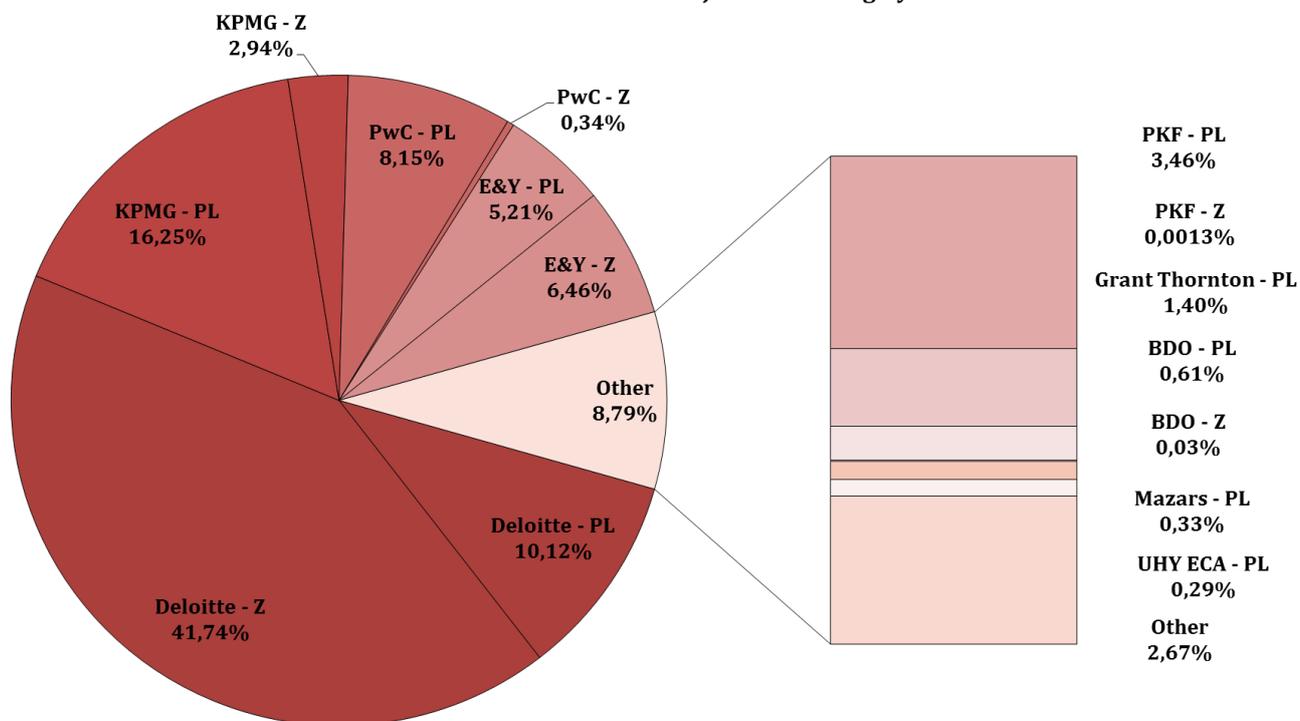
⁹In the compilation, the foreign audit firms are grouped in the following way by the audit firm network to which they belong: **BDO - Z; Deloitte - Z; E&Y - Z; KPMG - Z; Mazars - Z; PwC - Z**. Audit firms from the EU Member States are not subject to oversight of the AOC. Foreign audit firms from non-EU countries are subject to oversight of the AOC if registered by the AOC.

Market share in terms of number WSE-listed companies whose annual financial statements for 2015 were subject to auditing by audit firms



Source: Source: own compilation of the AOC Office based on the data from *Rocznik giełdowy 2016* [Stock Market Yearbook 2015] www.gpw.pl/analizy_i_statystyki and data obtained from the FSA Office.

Market share in terms of capitalisation of WSE-listed companies whose annual financial statements for 2015 were subject to auditing by audit firms



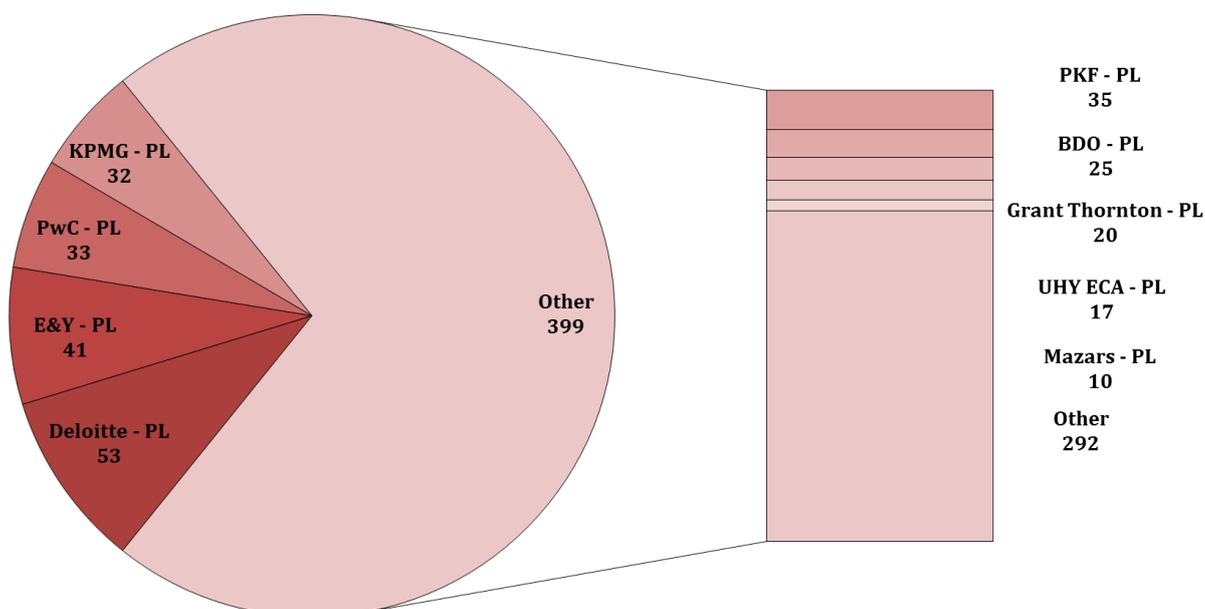
Source: Source: own compilation of the AOC Office based on the data from *Rocznik giełdowy 2016* [Stock Market Yearbook 2015] www.gpw.pl/analizy_i_statystyki and data obtained from the FSA Office.

As a result, Polish and foreign audit firms from the network of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited 2015 financial statements of 39.7% of all WSE-listed companies (192 companies out of 484), whose capitalisation as compared to the entire stock market amounted to 91.2%, which makes a growth by 2 percentage points against the previous year.

Should only Polish companies of the so-called Big Four be taken into consideration, they audited financial statements of 159 companies, whose market capitalisation amounted to 39.7% of the entire stock market, which represents a decline by 1.2 percentage point against the previous year.

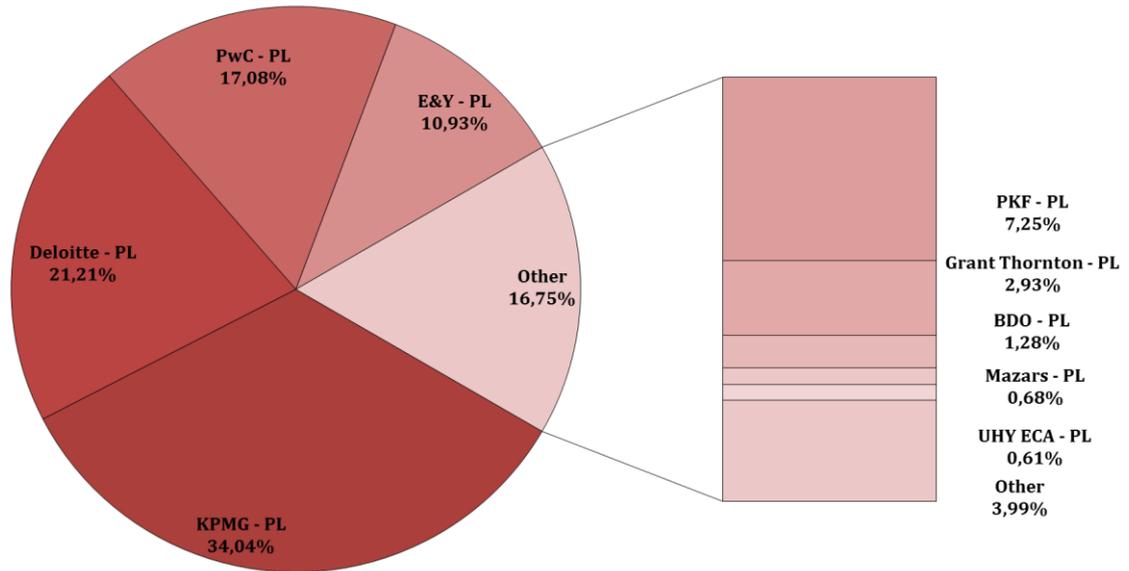
Should only data concerning the **Polish audit firms auditing financial statements of Polish WSE-listed companies** be taken into consideration, the market share is as follows (the capitalisation of Polish companies at WSE amounted to **PLN 516,785 million**).

Market share in terms number of Polish WSE-listed companies whose annual financial statements for 2015 were subject to auditing by audit firms



Source: Source: own compilation of the AOC Office based on the data from *Rocznik giełdowy 2016* [Stock Market Yearbook 2015] www.gpw.pl/analizy_i_statystyki and data obtained from the FSA Office.

Market share in terms total capitalisation of Polish WSE-listed companies whose annual financial statements for 2015 were subject to auditing by audit firms

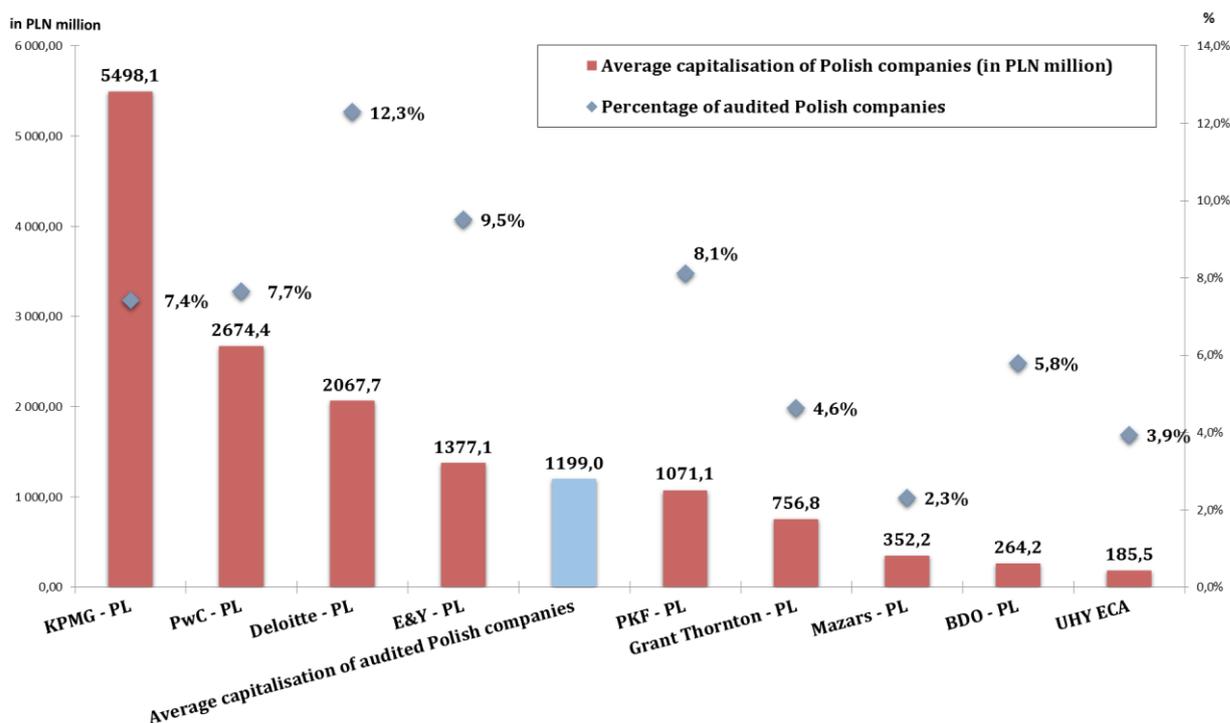


Source: Source: own compilation of the AOC Office based on the data from *Rocznik giełdowy 2016* [Stock Market Yearbook 2015] www.gpw.pl/analizy_i_statystyki and data obtained from the FSA Office.

The Polish companies of the so-called Big Four audited financial statements of companies whose market capitalisation amounted to 83.3% as compared to the total capitalisation of all Polish WSE-listed companies 159 companies out of 431), which constitutes a decline by almost 3.5 percentage points against the previous year.

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

Breakdown in terms of average capitalisation and the percentage of Polish WSE-listed companies whose annual financial statements for 2015 were subject to auditing by audit firms



Source: Source: own compilation of the AOC Office based on the data from *Rocznik giełdowy 2016* [Stock Market Yearbook 2015] www.gpw.pl/analizy_i_statystyki and data obtained from the FSA Office.

Based on the above figure, it can be concluded 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.

2. AUDIT OVERSIGHT COMMISSION

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

The AOC acts within plenary sessions, which are convened and chaired by the Chairperson or the Deputy Chairperson. 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 2 July 2013.

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

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

Pursuant to the new requirements of Regulation (EU) 537/2014, practising statutory auditors may not act as members of a public oversight authority. Accordingly, pursuant to decision No. 9/DR of the Minister of Finance of 20 July 2016, the following persons were dismissed with the effectiveness of 17 June 2016: Ms Ewa Jakubczyk-Cały, Mr Jacek Hryniuk and Mr Sławomir Mirkowski.

In 2016 the AOC composition was as follows:

- Mr Piotr Nowak, the AOC Chairman, the representative of the Minister of Finance (dismissed as of 4 April 2016);
- Mr Wiesław Janczyk, the AOC Chairman, the representative of the Minister of Finance (appointed as of 4 April 2016);
- Ms Dagmara Wieczorek-Bartczak, the AOC Deputy Chairwoman, the representative of the FSA (dismissed as of 30 June 2016);
- Ms Joanna Dadacz, the representative of the Minister of Finance;
- Mr Jacek Hryniuk, a representative of the NCSA (dismissed as of 17 June 2016);
- Ms Ewa Jakubczyk-Cały, a representative of the WSE (dismissed as of 17 June 2016);
- Mr Piotr Kamiński, the representative of the organisations of employers;
- Mr Sławomir Mirkowski, a representative of the NCSA (dismissed as of 17 June 2016);
- Mr Tomasz Piwowarski, a representative of the FSA, Deputy Chairman of the AOC (appointed to act in this capacity as of 19 July 2016);
- Mr Waldemar Szmidt, the representative of the Minister of Justice;
- Ms Ilona Pieczyńska-Czerny, a representative of the FSA (appointed as of 21 July 2016);
- Ms Agnieszka Janc, a representative of the WSE (appointed as of 21 July 2016);
- Mr Radosław Ignatowski, a representative of the NCSA (appointed as of 21 July 2016)¹⁰.

Objectives

In accordance with 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 objective of the AOC activity is to arrange an efficiently operating public oversight system, including primarily the provision of the audit quality assurance system.

The reform of the audit at the EU level limited a possibility to assign tasks in the scope of public oversight to the self-government in relation to audits of financial statements of public-interest entities, consequently, the AOC took over direct oversight over statutory auditors and audit firms auditing public-interest entities with respect to statutory audits of public-interest entities.

At the same time, it should be noted that pursuant to Article 63 of the Act, the AOC remains the authority competent for the purposes of Regulation (EU) 537/2014.

2.2. AOC Office

The AOC does not have its own, separate public office. Pursuant to the provisions of Article 65(3) of the Act: *The AOC shall perform its tasks with the assistance of an*

¹⁰ Biographical notes of the current AOC Members can be viewed on the website of the MF BIP: www.mf.gov.pl ➔ Activity [Działalność] ➔ Collective Bodies [Ciała kolegialne] in the AOC [KNA] section, tab *Commission Composition and General Information [Skład komisji i informacje ogólne]*.

organisational unit responsible for accounting and auditing in the office supporting the Minister of Finance.

At the end of 2016 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;
- 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/CEAOB, EAIG and IFIAR based on the instructions agreed upon with the AOC, 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 6 September 2001 on Access to Public Information (Journal of Laws of 2015, item 2058 of 2016, item 34, 352, 996), 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 2016, the AOC Office performed tasks with a limited composition which comprised 13 FTEs (Deputy Director of the Accounting and Audit Department, and 12 employees) as at 31 December 2016.

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 31 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 revenue of the State budget associated with the activities of the AOC, gained in 2016.

Revenue in 2016 (in PLN)	
Share in oversight fees	1,762,448.00
Charges for entry in the register of statutory auditors from non-EU countries maintained by the AOC	2,000.00
Total revenues	1,764 448.00

Source: own compilation of the AOC Office.

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 from the budget of the MF Head Office not allocated directly to the AOC.

The expenditures allocated in the State budget (in Part 19) for 2016 to the operations of the AOC had been planned in the amount of PLN 539,000.00. The actual expenditures amounted to PLN 210,568.54, which constitutes 39% of the amount allocated. The expenditures were planned with the assumption of growth of AOC needs arising from the expected increased tasks, which would also mean the growth of employment within the AOC Office.

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:

- no need arose to use specialised expert opinions from external sources;
- not all funds allocated for costs of translations from foreign languages, and other services were used;
- a part of AOC expenditures was financed with the use of the SPCP funds.

The total expenditures of the AOC at the end of 2016 amounted to PLN 210,568.54 and were lower by PLN 25,586.83 as compared to 2015.

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 positions of the AOC Office employees¹¹.

The table below shows the total expenditures of the AOC and the AOC Office arising out of the AOC activity in 2016.

Expenditures in 2016 (in PLN)	
Remuneration of the AOC Members ¹²	128,000.00
Remuneration and remuneration-related items of the AOC Office employees	1,306,663.74
Foreign business trips of the AOC Members and the AOC Office employees	47,380.23
Domestic business trips of AOC Office employees	3,173.55
Costs of maintaining the job positions of the AOC Office employees	79,872.08
Purchase of materials and services	18,942.30
Training of the AOC Office employees	9,935.00
Translations	2,380.46
Expenditures due to court proceedings	757.00
Total expenditures	1,597 074.36

Source: own compilation of the AOC Office.

In 2016, the amount of revenue of the State budget due to the operations of the AOC exceeded the amount of expenditures by PLN 167,373.64.

At the same time, it should be taken into consideration that under the SPCP activities directly related to the AOC were financed (in 2016, in particular, the following expenditures should be listed: membership fee paid to IFIAR, a conference concerning the role of audit committees, workshop concerning the implementation of the Directive). According to the estimates, expenditures in 2016 in this area amounted to approximately PLN 583,000.00 (including personnel costs of the World Bank employees or consultants directly related to those activities). Should those activities be financed from the State budget, the overall estimated costs of the AOC operations could amount to approximately **PLN 2,180,000.00**.

¹¹The said costs do not cover expenditures incurred by other organisational units of the MF (e.g. Legal Department or Logistics Office), and other expenditures constituting a part of the general expenditures of the MF (e.g. use of rooms for the AOC sessions).

¹²Pursuant to Article 71(1) of the Act, the AOC Members receive a monthly remuneration for participation in its meetings. This remuneration may not exceed the level of the minimum wage for work which is announced pursuant to the Act of 10 October 2002 on the Minimum Wage and was determined under the Regulation of the Prime Minister of 14 September 2012 on the Amount of Minimum Wages in 2013 at a level of PLN 1,600.00 (Journal of Laws item 1026). In accordance with Article 4 item 2 of the Act of 31 July 1981 on Remunerating Persons on State Management Positions (Journal of Laws of 2011, No. 79, item 430, No. 112 item 654 and Journal of Laws of 2015 item 1348 and item 1960): *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.*

3. AOC ACITIVITY IN 2016¹³

In 2016, the AOC held 15 plenary sessions, during which the total of 153 resolutions were adopted¹⁴.

Pursuant to Article 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 2016* was adopted by the AOC at a session on 16 December 2015 by Resolution No. 181/2015.

Pursuant to Article 64(5) of the Act *the AOC shall draft, by the 30 April of the following year, 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. The report is published on the MF website.*

The *AOC Report for 2015* was adopted by the AOC at a meeting on 27 April 2016 by Resolution No. 46/2016, 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 *AOC Action Plan for 2017*, attached hereto, was adopted by the AOC at a meeting on 21 December 2016 by Resolution No. 141/2016.

In 2016 the AOC acts under the Regulations of 10 July 2013 adopted by the Resolution No. 183/2013 amended by the Resolution of 3 September 2014 No. 219/2014.

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

At the EU forum, works in the scope of new regulations concerning statutory auditors, audit firms and public oversight were finalised. In 2014, Directive 2006/43/EC was amended and the new Regulation (EU) 537/2014 was adopted. The provisions of the amended directive as well as certain provisions of the EU Regulation require transposition to the national law¹⁵. In case of the EU Regulation, the obligation of direct application of the majority of its provisions started as of 17 June 2016.

The key amendments introduced under the aforementioned acts of law include, among others: a mandatory rotation of audit firms in public-interest entities, a ban on rendering so-called prohibited services to the audited client, a limit of remuneration for services other than prohibited and a limit of remuneration received from one client, a prohibition for people practising the profession to be a member of the management of a public

¹³ Public information concerning the AOC, including among others decisions made during the sessions, action plans for the following year, or annual reports, can be found on the website: www.kna.gov.pl (which is a part of the MF website).

¹⁴The amount of 153 does not include final and conclusive administrative decisions and rulings concluding administrative proceedings. The reason is that 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.

¹⁵ The determined deadline of the transposition is 17 June 2016.

oversight body and no possibility to carry out an inspection of audit firms auditing public-interest entities by the professional self-government of statutory auditors.

In 2016, works in the scope of preparation of national drafts of implementing provisions were carried out by the MF. Within the framework of conducted consultations, the *Draft Act of 11 April 2016 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight* was submitted to the AOC. The AOC presented its position on the draft on 5 May 2016.

3.2. AOC activity within the quality assurance system

Approval of inspection plans

The Inspection Plan for 2016 for entities authorised to audit financial statements which perform audit activities in public interest entities was approved by the AOC on 16 December 2015. The Plan provided for carrying out inspections in 54 entities. The Plan was drafted according to the recommendations of the AOC and it took into consideration, inter alia, entities:

- for which 2016 is the last year in the 3-year inspection cycle, according to the interpretation adopted by the NAOC for Article 26(3)(1) of the Act that the time limit of the three-year cycle of inspection is counted from a year in which the entity performed audit activities in public-interest entities;
- from the so-called Big Four which are covered by inspection in annual cycles, due to their significant share in the market of auditing services and control associations auditing financial statements of cooperative banks.

Until the day of publication of this report, the AOC has not approved the annual inspection plan for 2017 in entities authorised to audit financial statements which perform statutory audit activities in public-interest entities, due to the lack of adopted national provisions governing the rules of performing the aforementioned inspections, pursuant to which the AOC would be authorised to determine the annual inspection plan in the aforementioned entities.

Monitoring of the execution of the Annual Inspection Plan

At the beginning of 2016, the AOC requested the NAOC to provide the schedule of implementation of planned inspections in entities authorised to audit financial statements which perform statutory audit activities in public-interest entities in 2016. The detailed schedule submitted by the NAOC indicated that the said scheduled inspections were to be conducted by 10 June 2016.

The AOC monitored the implementation process of the inspection plan for 2016, based on monthly information received from the NAOC concerning the performance of the inspection plan in entities authorised to audit financial statements which perform audit activities in public-interest entities.

The monthly information submitted to the AOC indicated that the NAOC:

- carried out 17 inspections by the end of February 2016;

- carried out 28 inspections by the end of March 2016;
- carried out 38 inspections by the end of April 2016;
- carried out 49 inspections by the end of May 2016;
- carried out 53 inspections by the end of June 2016.

The planned inspection was not carried out in one entity which was struck off the list of entities authorised to audit financial statements on its own request.

The inspections planned for execution in 2016 in entities authorised to audit financial statements which perform audit activities in public-interest entities, were performed by the NAOC prior to the day of entry into force of Regulation (EU) 537/2014 on specific requirements regarding statutory audit of public-interest entities, i.e. before 17 June 2016.

Approval of inspectors designated to perform particular inspections

The AOC approved inspectors designated to perform particular inspections based on an application submitted by the NAOC. The AOC approved inspectors designated to perform particular inspections in 2016 at the meeting on 16 December 2015 (20 inspections) and on 17 February 2016 (34 inspections).

The AOC also approved changes in the composition of the inspectors' team requested by the NAOC: on 23 March 2016 for 1 inspection and on 14 April 2016 in relation to 14 inspections.

Approval of candidates for inspectors

In 2016, the AOC did not approve candidates for NAOC inspectors.

Participation in inspections carried out by the NAOC

In accordance with Article 26(6) of the Act, on 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 2016, an employee of the AOC Office participated in two planned inspections as an observer. During the observation, the employee of the AOC Office used a possibility to have access to any documentation and did not find any irregularities in relation to the process of the inspection executed by the NAOC controllers in his presence.

AOC Inspections

In 2016, the AOC did not carry out unplanned inspections under Article 74 of the Act.

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.

In 2016, copies of the following documents were attached to the planned inspection reports submitted to the AOC: the inspection protocol, objections raised by the entity inspected, the position of the NAOC towards the objections of the entity inspected, the inspection protocol on the implementation of recommendations and the post-inspection statement.

The duration of the process of approving individual inspection reports depends on the amount of audit documents which were subject to inspection (in accordance with the NAOC decision no. 41/2012 of 7 March 2012, 1 to 6 audit documentation sets were selected to the sample, whereas pursuant to the NAOC decision no. 58/12/2016 of 14 January 2016, 1 to 5 audit documentation sets were selected to the sample), the quality of documents submitted to the NAOC and issues identified in the course of the inspection. As a rule, this process comprises the following stages:

- a) the AOC Office analysing the inspection report with the documents attached thereto;
- b) applying to the NAOC by the AOC for additional explanations or documentation in the case of ambiguities found in the documents received by the AOC Office;
- c) the AOC Office analysing the received explanations and documents;
- d) applying to the NAOC by the AOC for changes to be introduced in the content of the inspection report and/or in the content of the post-inspection statement;
- e) verification of changes introduced by the NAOC by the AOC Office;
- f) undertaking any other activities by the AOC aimed at achieving the objective of the inspection process and protecting the public interest;
- g) approving or refusing to approve the inspection report by the AOC.

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 2 July 2004 on the Freedom of Economic Activity (Journal of Laws of 2016, items 1829, 1948, 1997, 2255);
- 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 explanations, evaluations, inspection files, and other documents received by the AOC;
- the substantive legitimacy of the NAOC position concerning the reservations of the entity inspected;
- the completeness of findings in the post-inspection statement;
- the proportionality of post-inspection measures,
- formal and legal compliance of the inspection report.

Due to the statutory requirements concerning ensuring a possibility for a statutory auditor who does not participate in the audit of the financial statements to follow the process, and finding the justification for the opinion issued on the financial statements, the AOC expressed the opinion that the audit procedures not reflected in the audit documentation had not been performed.

The AOC *requests additional explanations, assessments, documents, and potentially, inspection files* in case of doubts as to the facts of the case (including considering of information flowing from the market) or the description of irregularities in the inspection protocol, and in case of ambiguous assessments of the facts presented in the

received documents. In 2016, the AOC requested the NAOC to provide additional explanations to 5 reports of planned inspections.

In 2016, the AOC requested that *changes be introduced* to the reports of planned inspections in the following cases:

- occurrence of formal and legal errors in the report (in case of 5 reports of planned inspections); the AOC requested the amendment/change of information in the report, so that this information is compliant with other documents attached to the report;
- disproportional post-inspection actions planned by the NAOC towards a key statutory auditor (in the case of 8 reports of planned inspections); the AOC requested introduction of the change consisting in filing a motion to the NDS, mainly due to the infringement of Article 65 (6) of the Accounting Act, lack of sufficient and relevant evidence of the examination of statements defined in item 13 of NSA 1 in material areas of the financial statements and the infringement of the independence and impartiality principles;
- disproportional post-inspection actions planned by the NAOC towards a verifier who is a statutory auditor (in case of 5 planned inspections); the AOC requested introduction of the change consisting in filing a motion to the NDS, due to the fact that the final review of the quality of audit commissioning did not reveal any irregularities arising from the planned inspection report;
- disproportional post-inspection actions planned by the NAOC towards an entity inspected (in case of 10 planned inspection reports); the AOC requested introduction of a change consisting in filing a motion to the NCoSA for imposing sanctions on the entity inspected due to the failure to draft and/or lack of effective implementation of the internal quality control system by the entity inspected.

In 2016, the AOC also addressed directly the inspected entities (in case of 7 reports of planned inspections), notifying the NAOC, in order to present the position of the AOC regarding selected issues identified during the analysis of the inspection report in a given entity and in order to recommend the improvement of the internal control system in the scope indicated.

Until 31 December 2016 the NAOC provided the AOC with 53 reports of planned inspections conducted by the NAOC in 2016 in entities auditing public-interest entities (the inspection plan provided for inspections to be conducted in 54 entities, whereas 1 entity was not subject to the inspection due to having been struck off the list).

In 2016, the AOC considered 69 reports from planned inspections and 2 reports from unplanned inspections conducted in 2014-2016. The table below shows the status of the reports considered by the AOC in 2016.

Status of reports of planned inspections considered by the AOC in 2016	Quantity	including those concerning inspections in the year:		
		2016	2015	2014
Approved with no changes	29	4	16	9
Approved after introducing changes	11	1	2	8
Refusal to approve	1	-	-	1
Acknowledged, not subject to the approval process	9	4	4	1
Pending changes requested by the AOC to be introduced	7	-	-	7
Requiring additional explanations or documents	12	1	11	-
Total considered in 2016	69	10	33	26

Source: own compilation of the AOC Office.

The table below shows the number of inspection reports included on the agenda of the AOC meetings in individual quarters of 2016:

	I	II	III	IV	Total
Number of reports included on the agenda of the AOC meetings in individual quarters of 2016	38	13	3	32	86

Source: own compilation of the AOC Office.

The difference between the number of reports considered and included on the agenda 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 introduced by the NAOC.

In 2016, the AOC refused to accept one report of planned inspection carried out by the NAOC in 2014, in connection with significant doubts concerning the accuracy of the inspection process conducted by the NAOC in the entity.

In 2016 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:

- active participation in the legislative process related to national regulations implementing the provisions of the European audit reform (amended Directive 2006/43/EC and the new Regulation (EU) 537/2014);
- raising objections to the NCoSA Resolution no. 728/18/2016 NCoSA of 27 September 2016 amending the NSAs no. 1 and 2, which are used by entities authorised to audit financial statements other than entities performing audits of financial statements of public-interest entities (PIE) – to audit separate and consolidated financial statements drawn up for the financial year commencing on 1

January 2016 and later. Significant comments referred to the compliance of the amended NSAs with the Accounting Act;

- as of 17 June 2016, Regulation (EU) 537/2014 is directly applied in Poland. The AOC which has been providing public oversight over statutory auditors and audit firms in Poland since 2009, is a body responsible for performing tasks envisaged in that Regulation. Accordingly, on 15 June 2016 the AOC adopted the Report concerning changes in Poland on the market of providing services in the scope of statutory audits for public-interest entities, which was submitted to the European Commission and other EU institutions. As a result of entry into force of the new requirements, as of 17 June 2016 members - persons who are practising statutory auditors were dismissed from the AOC. In the second half of 2016, the AOC started intensive activities aimed at preparing the public oversight authority to the implementation of new tasks imposed under the implemented audit reform in the EU. They have focused, among others, on the development of the AOC action plan as well as strengthening of the recruitment to positions of controllers fulfilling the requirements imposed by the provisions of Regulation (EU) 537/2014;

2. activities involving the entity inspected, statutory auditors or the entity audited:

- informing the FSA of the infringement of the impartiality and independence principle at a level of the entity authorised to audit financial statements, found during a planned inspection of the NAOC;
- applying to the FSA for providing information, due to the financial market oversight pursued by the FSA, concerning selected public-interest entities whose financial statements were audited by entities controlled and the audit documentation from such audits was subject to the NAOC inspection, in particular, information indicating the risk of bankruptcy, threat to business continuity, introduced receivership, recovery programmes implemented by those public-interest entities;
- providing entities controlled with the AOC position in relation to selected issues identified during the process of approving inspection reports in those entities, with the simultaneous recommendation concerning the improvement of the internal quality control in the scope indicated;
- submission of the notification to the relevant District Prosecutor's Office of justified suspicion of a crime committed by a statutory auditor under Article 78 of the Accounting Act, consisting in drawing up opinions on financial statements not compliant with the actual status and accounting books of the financial institution, constituting basis for their drawing up, or its financial and economic situation;
- informing the NCoSA that an entity controlled committed acts (identified in the report of the inspection carried out in 2014 by the NAOC) which would result in filing a motion by the NAOC to the NCoSA for imposing sanctions on the aforementioned entity as referred to in Article 27(1)(3) of the Act on statutory accountants, if entity were not struck off from the list of entities authorised to audit financial statements;
- applying directly to the NDS with the motion to institute explanatory proceedings referred to in Article 37 (2) of the Act against 5 statutory auditors, in connection with the notifications received from the FSA;
- applying to the NDS in order to acquire information required for the monitoring of the stage of disciplinary proceedings carried out by the NDS, initiated directly by the AOC as well as initiated on request of the NAOC;

3. recommendations concerning the control process, including, among others:

- at the beginning of 2016, the AOC adopted a harmonised NAOC approach to the classification of findings of conducted inspections into material and negligible irregularities, developed on the order of the AOC. The objective of the classification developed was to guarantee consistency and transparency in inspections while evaluating the irregularities found as negligible. The developed model solution in the scope of classification of irregularities has been used by the NAOC inspectors since 1 January 2016. In response to the AOC inquiry, the NAOC also presented a formalised approach applicable in 2016 for the purpose of communicating negligible irregularities which are not disclosed in the inspection report to inspected entities;
- providing the NAOC with the post-inspection statement related to the inspection performed in 2015 by the AOC in an entity authorised to audit financial statements which performs audit activities in public interest-entities, to be used for information purposes in connection with the planned inspection scheduled by the NAOC in the entity inspected in 2016;
- issuing recommendations to the NAOC concerning the improvement of implemented procedures in the scope of selecting the inspectors to perform inspections in entities auditing financial statements of financial institutions. Such procedures should guarantee the selection of an inspector with the relevant professional competence and maintaining due diligence while executing the inspection. The AOC has also recommended on-going verification of inspection procedures applicable while controlling the financial audit activities related to financial institutions. The above mentioned verification is required for improving the quality of the oversight of the statutory auditor activity and operations of entities authorised to audit financial statements in the future;
- issuing recommendations to the NAOC concerning the improvement of existing procedures in the scope of drawing up working documentation of conducted inspections in order to enable full recovery of the audit trail under the inspection process performed;
- providing the NAOC with the AOC observations made during the analysis of the planned inspection report of 2016 and during the analysis of additional information/documents provided by the NAOC. Those observations referred to the issues which were not included in the planned inspection report, whereas, according to the AOC's assessment, constituted an additional confirmation, among others, of an irregularity found in the planned inspection report related to an inadequately operating internal quality control system in the entity. At the same time, the AOC committed the NAOC to attach those observations to the motion for imposing a sanction on the entity, which was to be submitted by the NAOC to the NCoSA, following the approval of the said planned inspection report by the AOC;
- applying to the NAOC for providing detailed information concerning the inspection activities performed in 2016 and conclusions drawn in relation to areas/issues covered by the AOC recommendations, issued prior to selected planned inspections;
- applying to the NAOC for providing argumentation for the failure to include issues identified by the AOC during the analysis of the inspection documentation acquired from other sources (for instance: the argumentation of the failure to state irregularities in the inspection report in the scope of infringement of Article 49 of the Act by the controlled entity, with the simultaneous planned filing of a motion by the NAOC to the NCoSA for imposing a sanction in connection with the

infringement of Article 49 of the Act by such entity inspected or argumentation for NAOC recognising the approach of the key statutory auditor as appropriate in relation to the settlement of the in-kind contribution of an organised part of an enterprise to the newly established company in exchange for its shares, in the accounting books of the audited entity).

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 in 2016:

- 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;
- lack of documentation of the independence and impartiality of all audit team members;
- performing the statutory audit of the financial statements based on the resolution concerning the selection of an entity authorised to audit the financial statements, adopted contrary to the provisions of the Accounting Act;
- violation of Article 65(6) of the Accounting Act, i.e. no possibility for the statutory auditor not participating in the audit of the financial statement to follow its process and find justification for the issued opinion on the financial statements;
- lack of sufficient and relevant evidence for auditing the reliability of statements referred to in section 13 of the NSA 1 as regards material areas of the financial statements;
- issuing an opinion with no reservations on the financial statement which was not signed off or which was signed off in an incomplete way by the head of the entity and no written justification of the refusal to sign it off has been attached thereto;
- issuing an opinion of the audit on a date earlier than the date of drawing up the financial statement being subject to the opinion;
- issuing an opinion of the audit including explanations which could constitute a form of concealed objections;
- incorrect planning of the audit (including, among others, determining and application of significance indicators or identification and determining of the risk level);
- lack of sufficient and relevant evidence for auditing events which occurred after the balance sheet date;
- lack of sufficient and relevant evidence of auditing the contingent liabilities and claims;
- lack of sufficient and relevant evidence of auditing transactions with related parties;
- lack of sufficient and relevant evidence of estimated data auditing;
- lack of sufficient and relevant evidence for auditing the risk of abuse, fraud, and law violations;
- lack of sufficient and relevant evidence for auditing the opening balance in case of auditing the financial statement of an entity for the first time;

- lack of sufficient and relevant evidence of auditing the entity's ability of business continuity;
- issuing an incorrect type of opinion of the audit, i.e. the opinion with the explanation instead of the opinion with the objection, or the negative opinion, due to occurrence of serious threats for business continuity, of which the entity did not inform or which the entity communicated in the financial statement in an incomplete way;
- self-control, i.e. the review of the quality of orders for auditing financial statements of public-interest entities, was performed by the key statutory auditor;
- failure to eliminate the material irregularities at the stage of the final review of the audit quality;
- incomplete designing and implementation of the rules and procedures of SQC in elements related to staff monitoring and management, including, in particular, with respect to the issue of appointing a key statutory auditor and team members assigned for the execution of the order;
- incompleteness and inaccuracy of the transparency report, incompleteness and non-compliance of data recognised in the list of entities authorised to audit the financial statements;
- incompleteness of financial statements, mainly with regard to disclosures in additional explanatory notes and incompleteness of the activity report, including mainly in the scope of disclosures related to 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 clause and in relation to the statement that no limitations of the scope of the audit occurred (or what type of limitations occurred);
- accepting an incomplete declaration of the head of the entity, mainly in the scope of confirming the responsibility of the head of the entity for the reliability and compliance of the financial statements with the adopted accounting policy adopted by the entity;
- lack of documented cooperation with the audit committee in the public-interest entity.

Moreover, entities authorised to audit the financial statements should perform an in-depth analysis of the issue of their membership in the network, since irregularities in this area were relatively frequent. The AOC emphasises that the relevant findings in this area are extremely important for the identification of threats to maintaining the impartiality and independence.

The list of irregularities presented above raises doubts regarding the accuracy of the development and/or effectiveness of SQC implementation in the entities inspected. Therefore, in the opinion of the AOC, all entities authorised to audit financial statements should take the above findings into consideration while monitoring the effectiveness of SQC operation.

Other issues concerning the process of planned inspections

Inspections conducted by the NAOC in 2016 focused, among others, on the following issues:

- the inspection covered audit documents from audits of separate financial statements;
- the classification of irregularities broken down into material and negligible was used, whereas negligent irregularities were not included in the inspection report.

Unplanned inspections

In 2016, the AOC did not order any unplanned inspections to be carried out by the NAOC.

In February 2016, the NAOC carried out one unplanned inspection in an entity authorised to audit financial statements which perform audit activities in public-interest entities, which was ordered by the AOC in 2015, in connection with the acquired information concerning irregularities in auditing of financial statements of the financial institution. The inspection revealed a series of irregularities. As a result of the inspection conducted, the NAOC submitted a motion to the NDS for institution of disciplinary proceedings against the key statutory auditor. As a result of the AOC recommendation, the NAOC introduced an amendment to the report of the aforementioned unplanned inspection, consisting in the requirement to file a motion to the NDS to institute disciplinary proceedings against the key statutory auditor who performed the final review of the quality of the order and the motion to the NCoSA for imposing sanctions on the entity inspected.

In total, in 2016 the AOC approved 2 reports of unplanned inspections. One report was related to the unplanned inspection of 2016 described above, whereas the second one was related to the unplanned inspection carried out by the NAOC in 2015 which was also ordered by the AOC, in connection with the acquired information on irregularities in the audit of the financial statement of the same financial institution. Within the framework of the unplanned inspection of 2015, the NAOC identified a number of significant irregularities, as a result of which it decided to file a motion to the NDS for institution of the disciplinary proceedings against the key statutory auditor and the motion to the NCoSA for imposing sanctions on the controlled entity. Within the process of approval of the said report, the AOC applied for introduction of the amendment to its content, consisting in the requirement to file a motion to the NDS to institute disciplinary proceedings against the key statutory auditor who performed the final review of the quality of the order.

3.3. AOC activity within disciplinary proceedings

The AOC, as the body exercising public oversight over the NCSA (Article 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 (Article 32(1) sentence 2 of the Act), is informed about the dates of hearings of the NDC (Article 38(1) of the Act) in which the AOC representatives have the rights to participate (Article 38(2) of the Act). Furthermore, the NDC serves the AOC ex officio with the issued rulings and the statements of reasons thereof (Article 40(2) of the Act), against which the AOC may appeal in a regional court – a labour and social insurance court (Article 41(1) of the Act).

In 2016, the AOC submitted 8 applications to the NDS for instigating explanatory or disciplinary proceedings, and in 4 cases it submitted letters to be considered by the NDS or NDC, in accordance with the competence.

Furthermore, under Article 27(3) of the Act, the AOC filed 26 motions to the NAOC for submitting applications to the NDS for instigating disciplinary proceedings.

In 2015, 6 disciplinary proceedings were pending, in which the AOC was entitled to act as a party.

The proceedings in which the AOC was authorised to act as a party comprised both proceedings before the NDC, NDS and before common courts, i.e. regional courts and appellate courts.

In 2016, the following rulings were issued in the aforementioned proceedings:

- in one case - the NDC accepted the appeal of the AOC against the NDS ruling discontinuing the disciplinary proceedings and waived the contested rulings and referred them back to the NDS for reconsideration. While reconsidering the case, the NDS discontinued the disciplinary proceedings;
- in one case - the appellate court upheld the ruling of the regional court acquitting the statutory auditor from the alleged committing of the prohibited act;
- in two cases - the appellate court waived the contested rulings and discontinued the proceedings due to the statute of limitations for criminality of the acts;
- in one case - the NDC recognised the statutory auditor as guilty of the alleged infringement and imposed a fine;
- In one case pending before the appellate court, no ruling was issued in 2016.

3.4. Oversight over other activity of the professional body of statutory auditors

In April 2016, the AOC read the reports on activity of the particular NCSA bodies in 2015, accounting for their contents and evaluating them in the AOC Report for that year.

The representatives of the NCoSA and NAOC were invited to meetings and/or 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 committees of the professional body.

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 committees of the professional body. AOC sessions in 2016 considered 577 resolutions of the NCoSA and 1 resolution of the NIAC.

In 2016, acting pursuant to Article 72 of the Act, the AOC approved the total of 8 resolutions of the committees of the professional body; the AOC raised an objection to one resolution of the NCoSA. The objection raised by the AOC was related to Resolution no. 728/18/2016 of the NCoSA amending the resolution concerning the national standards on auditing. The objection, in particular, referred to the compliance of the national standards on auditing with the provisions of the Accounting Act. The NCoSA took the AOC objections into consideration, as a result of which Resolution no.

825/21a/2017 amending the resolution concerning the national standards on auditing was approved at the AOC meeting on 4 January 2017 by the AOC Resolution No. 18/2017.

Exercising its competence defined in Article 64(1)(5) of the Act, the AOC contested two NCoSA resolutions - concerning the payment associated with performing a site visit and concerning the payment for the preparation of a review. Both resolutions were adopted with no legal basis. The NCoSA fully recognised the appeal and waived the resolutions, accordingly, the Regional Administrative Court (WSA) discontinued the proceedings before the administrative court.

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 Article 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 Article 64(1)(5) of the Act occur, the AOC adopts a resolution on appealing against the respective resolution to an administrative court. In 2016, the AOC did not find any premises justifying contesting of the NCoSA resolutions regarding the entry or striking off.

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 connection with the aforementioned competence, the AOC periodically performs the verification of the files of administrative proceedings.

At its session on 15 September 2016, the AOC adopted Resolution no. 96/2016 *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 05 September 2016, 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 grounds to conclude that there are prerequisites to submit an objection under Article 10(6) of the Act, or to appeal under Article 64(1)(5) of the Act. The AOC also submitted comments stemming from the analysis of the documentation submitted to the NCoSA.

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 2016 the AOC considered 8 appeals against the Resolutions issued by the NCoSA. The NCoSA Resolutions contested under the appeal referred to:

- in 1 case - refusal of striking off the list of entities authorised to audit financial statements. The AOC recognised that the aforementioned appeal was inadmissible;
- in 1 case - striking off the list of entities authorised to audit financial statements. The AOC waived the contested resolution and discontinued the first instance proceedings in their entirety;
- in 6 cases - imposing a fine on an entity authorised to audit financial statements. While considering the appeals against the aforementioned resolutions, the AOC sustained the challenged Resolution in 3 cases, waived the contested Resolution in its entirety in 1 case and issued the decision on the case in question, imposing a fine, waived the contested resolution and referred the case for reconsideration whereas in 1 case - it issued the decision stating the failure to meet the time limit to submit the appeal.

Exercising its rights of a body of higher rank in cases considered by the NCoSA, the AOC also examined 4 complaints:

- In 1 case - against the NCoSA ruling refusing to suspend the pending administrative proceedings, stating that the aforementioned complaint is inadmissible;
- in 1 case – against the failure of the NCoSA to deal with the case timely, recognising the complaint as groundless;
- in 2 cases - against the failure to deal with the case timely and the lengthiness of proceedings, recognising the complaints as justified.

Moreover, the AOC considered 10 motions as a body of higher rank in cases adjudicated by the NCoSA:

- in 1 case - concerning reopening the proceedings, leaving the motion without being recognised;
- in 1 case - concerning reopening the proceedings, deciding to refuse the waiver of the ruling;
- in 1 case - concerning reopening the proceedings, deciding to refuse the reopening of the proceedings;
- in 1 case - concerning reconsideration of the case based on the application for reopening of the proceedings, deciding to sustain the contested ruling;
- in 1 case - concerning recognising of invalidity of the NCoSA resolution, deciding to recognise its invalidity;
- in 1 case - concerning issuance of the certification, deciding to refuse issuing of the certification;
- in 1 case - concerning re-establishment of the time limit, deciding to refuse re-establishment of the time limit;
- in 1 case - concerning the continuation of the oversight proceedings, deciding to refuse taking the aforementioned motion into account;
- in 1 case - concerning making the public information available, deciding to leave the motion without being recognised;
- in 1 case - concerning the waiver of the decision, deciding to discontinue the proceedings on the case in their entirety.

In 2016, 3 administrative decisions and two rulings issued by the AOC were appealed against to the Regional Administrative Court in Warsaw.

3.5. Cooperation with the FSA

In 2016, 5 notifications concerning a possible violation of law/ finding irregularities in auditing activities performed by the statutory auditors in favour of financial market institutions were submitted to the AOC. In 2016, the AOC considered 8 FSA notifications, including 4 notifications from 2016, and continued examining 4 notifications from 2015. Within the oversight exercised over the performance of the profession of a statutory auditor and the activity of entities authorised to audit financial statements, the AOC, in response to information received from the FSA in 2016:

- delegated an employee of the AOC office to participate in the observation of the planned inspection carried out in 2016 by the NAOC in the entity referred to in one FSA notification. The scope of the material of this inspection was covered by the FSA recommendations concerning its extension by additional issues arising from the FSA notification;
- submitted the notification to the relevant District Prosecutor's Office of justified suspicion of a crime committed by the key statutory auditor under Article 78 of the Accounting Act, consisting in drawing up opinions on financial statements not compliant with the actual status and accounting books of the financial institution, constituting basis for their drawing up, or its financial and economic situation;
- applied directly to the NDS with the motions to institute explanatory proceedings referred to in Article 37 (2) of the Act against 5 statutory auditors, in connection with justified reservations of the FSA concerning the quality of services provided by them;
- by means of committing the NAOC to amend the inspection reports, stimulated the strengthening of the NAOC post-inspection measures, as a result of which against entities authorised to audit financial statements indicated in 3 FSA notifications, motions were filed to the NCoSA for imposing sanctions on those entities, whereas against 4 statutory auditors acting as verifiers, the NAOC submitted applications to the NDS for institution of disciplinary proceedings;
- provided the NAOC with its observations made during the analysis of the documentation and explanations concerning the planned inspection in the entity indicated in the FSA notification. Those observations referred to issues which were not included in the planned inspection report. At the same time, the AOC committed the NAOC to attach those observations to the motion for imposing sanctions on the controlled entity since they constituted an additional confirmation, among others, for the irregularity found in the planned inspection report, concerning the incorrectly operating internal quality control system in this entity;
- in case of 1 notification, informed the FSA that the RDS has already initiated the disciplinary proceedings against the statutory auditor, in connection with the infringements indicated in this notification, on request submitted by one of the shareholders of the company referred to in the notification;
- submitted 3 notifications to the FSA.

In addition, the AOC read and acknowledged the position of the FSA, provided to the AOC for information in 2016, concerning auditing of financial statements of insurance and reinsurance companies for 2015.

In connection with the risk analysis conducted during the examination of inspection reports in entities which perform audit activities in public-interest entities, in 2016 the

AOC applied to the FSA for providing information, due to the financial market oversight pursued by the FSA, concerning selected public-interest entities whose financial statements were audited by entities inspected and the audit documentation from such audits was subject to the NAOC inspection, in particular, information indicating the risk of bankruptcy, threat to business continuity, introduced receivership, recovery programmes implemented by those public-interest entities.

3.6. International cooperation of the AOC

Cooperation within the European Union

In 2016, the transformation of EGAOB into CEAOB affected the cooperation at the EU forum. Pursuant to Regulation (EU) 537/2014, a new form of cooperation between oversight authorities from EU Member States was established - the Committee of European Auditing Oversight Bodies (CEAOB). The CEAOB comprises not only representatives of the oversight bodies but also a representative of the ESMA. EBA and EIOPA have a status of observers.

The transformation means the extension of the cooperation at the European level by coordination activities in the scope of pursued oversight over statutory auditors and audit firms.

The last meeting of the EGAOB was held on 25 February 2016. The main works in 2016 within the EGAOB comprised the preparation to the launch of the CEAOB activities and agreement on the common methodology for all EU Member States in the scope of preparation of the market monitoring report.

The first meeting of the CEAOB took place on 12 July 2016. The second meeting was held on 25 November 2016. The AOC is represented in the CEAOB by one of its members. In the initial period of its activity, the CEAOB accepted documents related to its functioning, in particular, the by-laws, and determined the action plan until the end of 2017. Within the CEAOB, five subgroups in the following scope were established:

- assessment of equivalence and adequacy;
- standards on auditing of financial statements;
- inspections;
- market monitoring;
- investigations and sanctions.

Employees of the AOC Office were appointed to the works in subgroups for inspections and market monitoring.

In 2016, the AOC also participated in the activities of the European Audit Inspection Group (EAIG). The EAIG comprised representatives of public oversight bodies from EU Member States and Norway, Switzerland and Liechtenstein. The EC acted as an observer. The objective of the EAIG was, first of all, the exchange of experience and provision of coherent actions within the inspections of audit firms conducted in particular countries.

In 2016, AOC representatives took part in three EAIG meetings: on 16-17 March, on 14-15 June and on 9 November.

The most important initiatives undertaken within the group in 2016 referred to:

- collecting irregularities in the EAIG database related to post-inspection findings;
- procedures of inspection of the internal quality control system in audit firms within the Common Audit Inspection Methodology (CAIM);

- inspection methodology for auditing consolidated financial statements and inspection of auditing estimated values under the CAIM;
- exchange of knowledge in the scope of methodology of inspection of audit firms and experience stemming from inspections carried out by oversight bodies belonging to the EAIG;
- exchange of experience acquired while conducting common inspections of audit firms with the American oversight body (PCAOB);
- communication with the biggest networks of audit firms, including, in the scope of irregularities identified during inspections of individual networks of audit firms, collected in the EAIG base and in the scope of corrective measures applied;
- communication with international organisations establishing standards for performing the profession of a statutory auditor.

The meeting on 9 November 2016 was the last meeting of the EAIG. Activities pursued by the EAIG so far are continued by the subgroup for control established within the CEAOB. AOC representatives took part in the kick-off meeting of the subgroup which was held on 10 November 2016.

Within the bilateral relations, on 3 June 2016, a member of the AOC had a meeting with the head of the British oversight body. The goal was to discuss future cooperation of oversight bodies in Europe.

On 5 October 2016, a meeting of European professional organisations of statutory auditors for quality assurance was held in Athens. It was organised by the Institute of Chartered Accountants in England and Wales (ICAEW). An employee of the AOC Office participated in the meeting.

Cooperation with third countries¹⁶

On 29 November - 2 December 2016, Poland hosted a delegation from Egypt. Representatives of Egyptian ministries and the oversight body of audit firms visited Poland on invitation of the AOC within a study tour held under the European project concerning the strengthening of the profession of a statutory auditor and account in Egypt. Earlier the Egyptians visited Spain, Great Britain, Belgium, France and Germany.

In the framework of the visit, within the activities of the MF and the AOC, the guests were introduced into the system of accounting and auditing in Poland as well as current and future regulations related to public oversight over audit firms. The delegation also visited the Accountants Association in Poland and the NCSA where it became acquainted with the organisational structure of both institutions and the scope of their operations.

Each year in Washington, the American oversight body (PCAOB) organises a conference. The conference participants are the representatives of oversight bodies over statutory auditors and audit firms from various countries. The conference has mainly a 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 other countries.

¹⁶ Third countries, i.e. States other than the EU Member States.

At the conference organised on 12-14 December 2016, the AOC was represented by the AOC member.

Membership of the AOC in IFIAR

The IFIAR established in 2006 is a forum of cooperation of global range. Members of the IFIAR comprise public oversight bodies from 52 states or territories, including 31 bodies operating in Europe. The primary goal of the organisation is to enable the members sharing information concerning the audit market and practical experience in the scope of independent regulatory activity, focusing on inspections of audit firms. The stances expressed by the organisation are not legally binding upon the members thereof. The AOC was enrolled to the group of IFIAR members in 2011.

In 2016, important decisions concerning changes in the structure and functioning of the IFIAR were made. One of them was the selection of the permanent seat of the IFIAR. At the beginning of 2016, representatives of candidate states held a series of bilateral meetings with AOC members and representatives of the AOC Office. The decision concerning the selection of the future seat was made during the IFIAR plenary meeting in London on 19-21 April 2016. Japan was ultimately selected. A new formula for calculating a membership fee was also approved, developed with the participation of the AOC Office employees. The Chairman of the AOC participated in the IFIAR meeting. Following the plenary meeting, on 22 April 2016, the IFIAR workshop on sanctions and investigations was held, attended by an employee of the AOC Office.

In 2016, IFIAR also published two annual documents: IFIAR report for the preceding year and the global report concerning the results of inspections in the biggest networks of audit firms¹⁷.

Swiss-Polish Cooperation Programme

On 28-29 September 2016, a workshop for employees of oversight bodies from the European states (Czech Republic, France, Germany, Poland, Romania, Slovakia, Slovenia, Hungary and Great Britain) was organised. Besides employees of the AOC Office, members of the AOC also participated in the workshop. The issues discussed during the workshop included: implementation of the regulations, internal systems of quality assurance in audit firms, statutory auditors' principles of ethics and business models of the biggest audit firms.

On 22 November 2016, the AOC, in cooperation with the World Bank, organised a conference at the WSE, dealing mainly with the subject of audit committees.

The conference was opened by the Chairman of the AOC. Presentations were delivered by persons invited by the AOC and both discussion panels were moderated by the AOC members. The aim of the conference was to support members of audit committees in more effective fulfilment of their functions as well as to improve communication and cooperation between audit committees and statutory auditors, regulatory bodies and stakeholders. Participants of the conference included members of audit committees as

¹⁷Both documents are available on the IFIAR website: <https://ifiar.org>.

well as members of supervisory boards, members of management boards of companies, statutory auditors and representatives of the public sector.

In 2016, the implementation of the project on *Building the institutional and legal capacity in the scope of financial reporting and audit in the private sector*, financed under the SPCP, was completed. This project was implemented from 2009 by the World Bank.

Beneficiaries of the project included, among others, the AOC, the NCSA and statutory auditors. Within the project, the AOC received various forms of support, within which the following initiatives should be mentioned:

- 3 conferences concerning the audit committees organised at the WSE - consequently, best practices in the scope of adequate functioning of audit committees were promoted;
- 4 study tours of AOC Office employees - in order to get acquainted with the methods of organisation and functioning of public oversight bodies in other states;
- 3 workshops for the AOC which helped, among others, to establish a new action strategy and information policy of the AOC;
- support to the AOC membership in IFIAR.

The support to the NCSA should be also highlighted, in particular:

- financing of the IT software for the NCSA which would facilitate its functioning;
- preparation of the NCSA institutional evaluation - a document aiming at improvement of the NCSA;
- development of the methodology for inspection of audit firms;
- elaboration of the quality assurance manual for small audit firms.

Statutory auditors had the opportunity to participate in a cycle of free training courses on International Financial Reporting Standards and IAS.

3.7. Other oversight-related activity of the AOC

Oversight over audits of financial statements significant for the Polish market, performed by audit firms registered outside Poland

At the session on 12 October 2016, based on the earlier adopted approach, the AOC performed a review of audit firms performing audits of financial statements:

- third country, WSE-listed companies;
- WSE-listed companies from EU Member States.

The provisions of the law define directly the AOC tasks only in relation to audit firms from third countries auditing financial statements of WSE-listed companies from third countries.

In this scope, in relation to statutory auditors registered by the AOC and the audit firm from Canada, the AOC took the decision on continued reliance on the Canadian oversight.

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

Pursuant to Article 87(1) of the Act, an entity authorised to audit financial statements, by 31 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 Article 87(2) of the Act, the information referred to in paragraph 1 is provided by the NCoSA to the AOC by 15 February of each year. In addition, in the first quarter of each year, the NCoSA supplements the said information on exceeded deadlines and submitted adjustments.

The information provided by the NCoSA indicates that:

- in 2015, 83 entities informed about signing a contract(s) for performing audit activities with public interest entities;
- 20 entities submitted P10 form containing irregularities.

In 2016, the AOC sent letters reminding about the obligation arising out of Article 87(1) of the Act to 9 entities which in the previous reporting period, i.e. in 2015, failed to meet the statutory deadline.

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

Pursuant to the provisions of Article 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 Article 66(5) of the Accounting Act is possible only if reasonable grounds exist. The obligation applies both to mandatory contracts for audit or review of the financial statements and to optional contracts.

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

The information provided to the AOC shows that in 2016 a contract for audit or review of financial statements was terminated in 156 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 74 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 audit;¹⁸
- in 46 cases the contract was terminated by agreement of the parties;
- in 53 cases, the terminating party was the ordering entity, and in 52 cases - the entity authorised to audit financial statements;
- in 5 cases, the parties failed to provide information regarding the party terminating the contract;
- in 45 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:

¹⁸ In some cases, the entity authorised to audit financial statements informs about the termination of several contracts with one entity.

- 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, change of the auditor to the firm with greater experience and scale of operations);
- financial issues (such as: the level of remuneration for the audit firm, lack of financial liquidity of the company);
- declaring the company/firm bankrupt, winding up;
- organisational issues involving changes in the structure of companies, due to which the entities are no more subject to the obligatory audit by a statutory auditor;
- resignation from the voluntary audit of the financial statements;
- failing to meet the contractual provisions (e.g. no possibility to meet the deadline of the audit provided for in the contract, failure to make the required documentation or information available to the auditor, no possibility of providing the financial statements by the ordering entity within the deadline provided for in the contract);
- filing a motion by the audit firm for striking off an entity from the list of entities authorised to audit the financial statements;
- incidental cases, such as:
 - ✓ personal reasons pertaining to the statutory auditor, mainly those related to poor health condition,
 - ✓ lack of possibility to contact the entity ordering the audit.

Considering complaints and applications

In 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 after the working hours of the office within the duty hours performed by the employees of the Programmes Management and Internal Control Office of the MF – respectively, as in relation to 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

In 2016, the AOC continued the discussion concerning the implementation of information policy, adopting Resolution no. 77/2016 concerning the AOC mission and vision at the first stage.

AOC mission

Relying on the professional knowledge and experience, tested methodology and international standards, the Audit Oversight Commission provides independent

oversight of statutory auditors, audit firms and self-government of statutory auditors. The Audit Oversight Commission cares for correct auditing of financial statements, in particular, of key economic entities.

AOC vision

The Audit Oversight Commission focuses its activities on building trust to financial information. Acting in the public interest, the Audit Oversight Commission strives to ensure the highest quality and reliability of audits of financial statements. Accordingly, the Audit Oversight Commission contributes to the protection of investors' interest, accuracy of activity of key economic entities and security of economic trade.

Information about the current activity of the AOC, including information concerning the decisions taken at the particular AOC meetings, can be found on the AOC MF website www.kna.gov.pl (which is a part of the MF website).

In connection with the introduction of the NSAs, in the wording of IASs, pursuant to the NCoSA resolution, the AOC requested the NCoSA to present the analysis of compliance of national standards of auditing, rules of internal quality control as well as the principles of professional ethics of statutory auditors, with the provisions of Directive 2014/56/EU and Regulation (EU) 537/2014.

In connection with the entry into force of Regulation (EU) 537/2014, the AOC indicated to the NCoSA the need of informing statutory auditors and audit firms of key issues arising from the directly applied Regulation, emphasising that:

- the Regulation refers only to audits of financial statements of public-interest entities;
- the provisions of the Regulation will apply to audits of financial statements of public-interest entities for periods commencing on 17 June 2016 or later. The entity conducting audits of financial statements of public-interest entities is bound to apply the rules of internal quality control taking into account the requirements arising from the Regulation throughout the entire period the audited financial statement refers to;
- due to the specific nature of the Regulation and the legislative process ongoing in Poland, the application obligation refers to the provisions of the Regulation which do not introduce an option for Member States, may be applied directly and, consequently, will not be repeated (specified in more detail) in the national law.

4. EVALUATION OF ACTIVITY OF THE NCSA BODIES WITHIN THE PUBLIC OVERSIGHT SYSTEM IN 2016¹⁹

4.1. NAOC activity

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. The activities of the AOC in 2016 comprised, first of all: planned inspections, inspections of implementation of recommendations and unplanned inspections in entities authorised to audit financial statements.

The control procedures used by the NAOC are available on the NCSA website. In view of the ongoing changes, the existing NCSA control procedures require supplementing/ improving, among others, in the area of controlling the documentation of the audit of the consolidated financial statement and in the area of their adjustment to the NSAs according to the wording of International Audit Standards (IAS) and the ISQC 1.

An essential issue is also the development of consistent solutions to be applied in the future in the inspection processes executed by the AOC and the NAOC after the implementation of the provisions arising from the European audit reform.

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

The Inspection Plan for 2016 comprised 54 entities, whereas 1 entity did not undergo the inspection due to having been struck off the list of entities authorised to audit financial statements on its own request (in 2015, the NAOC carried out 55 planned inspections). Reports of 53 inspections were submitted to the AOC by the end of 2016.

In 2016, as a result of inspections conducted in key areas related to the effectiveness of the quality control system (QCS), the quality of audit documentation and the accuracy of the authorised entity's activities, the following most frequent irregularities were found.

In the QCS inspection, comprising such aspects as design, implementation and effectiveness of operation, the most frequent irregularities were related to the incompleteness of designing the rules and procedures in individual elements of the QSC as well as the lack of effective QSC effects in the following areas:

- accepting and continuation of orders;
- ethical requirements;
- implementation of the orders, including mainly the review of order quality;
- staff management, including mainly the appointment of the key statutory auditor and team members foreseen for the execution of the order;

¹⁹The activity report prepared by the NAOC, NDS, NDC, NIAC, and information received from the NCoSA is available at the PIB MF website: www.mf.gov.pl ➔ Activity [Działalność] ➔ Collective Bodies [Ciała kolegialne] the AOC [KNA] section under the Reports [Sprawozdania] tab.

- monitoring.

Irregularities in the scope of the QCS were found in case of 12 entities inspected – 23% of the population (in 2015 – 10 entities inspected, i.e. 18% of the population).

The inspection of quality of 153 sets of audit documentation drawn up by 132 statutory auditors (in 2015 - 196 sets of audit documentation drawn up by 163 statutory auditors), on the other hand, showed frequent lack of adequate and sufficient evidence corroborating the reliability of findings indicated in section 13 of the NSA 1 – in 14 % of audit documentation sets inspected (in 2015 - 11%); Other relatively frequently recurring irregularities were recorded in the scope of audit planning and errors in the declaration of the head the entity, in connection with the failure to adjust its wording to section 29 and 82 (f) of the NSA 1 - in 16% of audit documents (in 2015 – 13%).

A significant number of irregularities was related to the audit of activity report of the entity - in 10% of inspected audit documentation sets (in 2015 - 5%), as well as the accuracy of the opinion and report of the audit - in 18% of inspected documentation sets (in 2015 - 13%). The inaccuracy of the opinion was most commonly associated with the entity's capacity to continue operations.

Irregularities in the scope of the quality of audit documents were found in case of 82 audit documentation sets in 27 entities inspected, i.e. in 51% of the population of inspected entities (in 2015 – 98 audit documentation sets in 26 entities, i.e. 47% of population of entities inspected). The total number of detected irregularities amounted to 212 in 153 audit documentation sets (in 2015 - 115 significant irregularities in 196 audit documentation sets).

The most frequent irregularities identified by the NAOC in the area of activity of an authorised entity include: inaccuracy of the report referred to in Article 87(1) of the Act - 8% of entities inspected (in 2015 - no irregularities of this type), incompleteness and untimeliness of publication of the transparency reports - 6% of entities inspected (in 2015 - 5%), incompleteness and incompatibility of data indicated in the list of authorised entities - 6% of entities inspected (in 2015 - 4%).

Irregularities in the scope of performance of the authorised entity were found in case of 11 entities inspected, i.e. 21% of the population (in 2015 – 6 of entities inspected, i.e. 11% of the population). The total number of detected irregularities amounted to 17 (in 2015 - 12).

10 entities inspected submitted objections to the reports of inspections carried out in 2016 (in 2015 - 10 entities). In each case, the NAOC sustained the legitimacy of irregularities found in the report of irregularities control.

In case of 23 planned inspections of 2016, the NAOC did not see the need to submit the post-inspection recommendations to the entity (in 2015 - 29 inspections). The NAOC concluded the remaining 30 planned inspections with the issuance of recommendations as well as submission of 14 applications to the NDS for instigating disciplinary proceedings against key statutory auditors and planned submission of 6 motions to the NCoSA concerning imposing of the sanctions on entities in the form of a fine.

The main grounds for the applications to the NDS submitted by the NAOC were the irregularities concerning the insufficient and inadequate documentation of the audit of statements referred to in section 13 of the NSA 1, the defectiveness of the opinion on the audit in connection with the assessment of the entity's capacity to continue operations, and an incorrect and insufficient documentation of the audit.

Moreover, in 2016 the NAOC submitted one motion to the NDS concerning the inspection carried out in 2015 and 22 motions based on AOC recommendations concerning planned inspections performed in 2014-2016.

By the end of 2016, the NAOC submitted one motion to the NCoSA concerning the inspection carried out in 2014 and 5 motions based on AOC recommendations concerning planned inspections performed in 2013-2014.

Planned inspections in other entities authorised to audit financial statements

In 2016, the NAOC conducted planned inspections in 252 other entities authorised to audit financial statements out of 278 adopted in the inspection plan, drawn up taking into account risk analysis and the statutory inspection cycle (in 2015, the NAOC carried out 127 planned inspections). The planned inspection was not carried out in 26 entities authorised to audit the financial statements, among others, due to striking the entity off the list - in 14 cases; death of the statutory auditor conducting the activity on own account and on own behalf - in 1 case; acquiring information on performing audit activities by an entity for public-interest entities - in 2 cases; failure of the entity to submit to the inspection - in 2 cases; postponing of the date of performing the inspection by the NAOC - in 7 cases. The inspection plan was implemented in accordance with the schedule adopted by the NAOC.

In case of 64 inspections the NAOC did not see the need to submit the post-inspection recommendations to the entity (in 2015 - 42 inspections). In one case, the post-control recommendations were not addressed to the entity inspected due to its earlier striking off the list of entities authorised to audit the financial statements. The remaining 187 planned inspections were concluded by issuing the recommendations as well as by: submission of 39 motions to the NDS for institution of disciplinary proceedings against statutory auditors from 31 entities inspected; submission of 28 motions to the NCoSA for imposing sanctions on entities inspected, including a fine - in 19 cases, a fine and communicating information on this fine to the public - in 2 cases; decision on temporary prohibition to perform audit activities - in 1 case, striking the entity inspected off the list and communicating information on this penalty to the public - in 1 case.

For inspection, the NAOC selected audit documents taking risk assessment into consideration. The NAOC paid special attention to the mandatory including in the inspection of the documentation related to the audit of financial statements of companies holding shares listed in the alternative trading system. Activities of the NAOC took into account signals received from the WSE management.

Inspections of implementation of recommendations in entities authorised to audit financial statements which perform audit activities in public-interest entities

In the case of identifying material irregularities in the course of inspection, the NAOC immediately provided entities inspected with post-inspection statements, including the recommendations, determining a 3-month time limit for the elimination of irregularities. In total, in 2016, the NAOC submitted post-inspection statements to 30 entities inspected (in 2015 - to 26 entities). In 2016, the NAOC carried out 20 inspections regarding the implementation of the recommendations (in 2015 – 161 inspections regarding the implementation of the recommendations). In each case, the NAOC recommendations were implemented.

Unplanned inspections

In 2016, the NAOC carried out one unplanned inspection in an entity authorised to audit financial statements which performs audit activities in public-interest entities, ordered by the AOC in 2015. In connection with the irregularities found, the NAOC addressed the post-inspection statement to the entity inspected and submitted a motion to the NDS for instigating disciplinary proceedings against the statutory auditor. As a result of the AOC recommendation, the NAOC introduced an amendment to the aforementioned report of the unplanned inspection, consisting in the requirement to file a motion to the NDS for instigating disciplinary proceedings against the statutory auditor who performed the final review of the quality of the order and the motion to the NCoSA for imposing sanctions on the entity inspected.

In 2016, the NAOC also carried out 1 unplanned inspection in an entity authorised to audit financial statements which does not perform audits in public-interest entities, in connection with its incomplete implementation of post-inspection recommendations after the planned inspection of 2015. The inspection was concluded by issuing the post-inspection statement including the recommendations, the motion to the NDS for instigating disciplinary proceedings, the motion to the NCoSA for imposing sanctions on the entity inspected and the announcement of an inspection in 2017.

Other activities undertaken by the NAOC

In 2016, the NAOC organised 4 training courses for peer-reviewers and inspectors in the following areas:

- the documentation submitted to the NDS, selected templates of the correspondence, the list of irregularities, archiving methods, editing rules, organisational issues;
- the rules of performing the inspection, appointment of NAOC inspectors, elements of the NAOC strategy and distribution of tasks among NAOC members;
- SQC procedures of an entity authorised to audit the financial statements, the procedures regarding controlling the documentation of separate and consolidated financial statements, formal and legal control procedures and their classification as significant or insignificant irregularities, use of final templates for inspection documents, organisation of work in teams of inspectors and cooperation with NAOC members supervising the inspections, specific nature of the inspection of documentation of financial statement audit of a small entity;

- consolidation of financial statements, taking into account the aspect of inspection of the audit of consolidated financial statements.

At the end of 2016, the team of inspectors consisted of 2 individuals (besides the head of inspectors' team). The team of inspectors conducting inspections in other entities under contracts of mandate consisted of 69 individuals.

In the 4th quarter of 2016, the *Action Plan* project was completed, co-financed from the SPCP funds, under which the NAOC received co-financing for the development of the *NAOC inspection manual* and under which the training for the NAOC was financed concerning the system of quality control in legal regulations and the requirements of ISQC 1 and IAS in terms of the inspection of the quality assurance system.

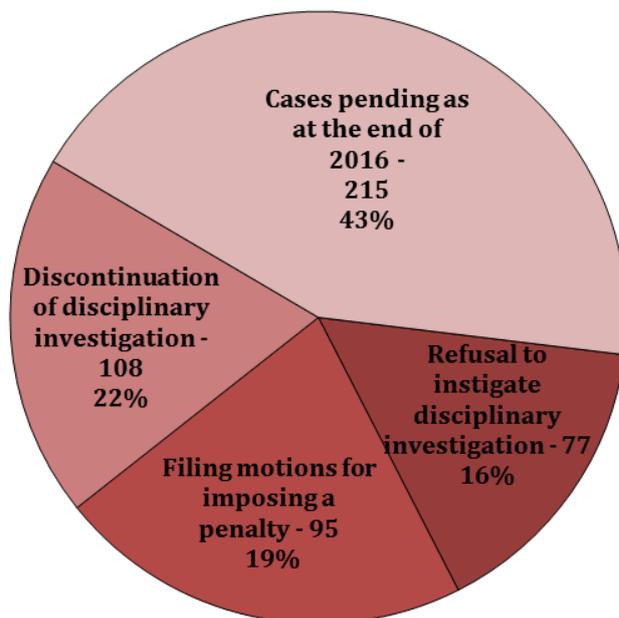
In 2016, representatives of the NAOC participated in 3 workshops aimed at exchange of experience in the scope of self-government and public oversight among member institutions of the Quality Assurance Network – Audit. Moreover, the Institute of Chartered Accountants in England and Wales (ICAEW) offered a possibility of participation in inspections performed by this organisation to members of the aforementioned network.

4.2. Activity of the NAOC

Pursuant to Article 25(2) of the Act, the NDS has the capacity of the prosecutor in disciplinary proceedings. In 2016, the NDS received 170 applications for instigating disciplinary proceedings and 2 cases concerning reopening the proceedings based on the NDC ruling, 77 of which referred to the failure to meet the obligation of mandatory in-service training by statutory auditors. 68 motions were received from the NAOC after conducted inspections and site visits in entities authorised to audit the financial statements. The NCoSA submitted 78 motions to the NDS for instigating disciplinary proceedings. The AOC submitted 10 motions. In 16 cases, the motions for instigating disciplinary proceedings in 2016 came from entities other than those referred to above (statutory auditors, economic entities, natural persons). A motion for instigating disciplinary proceedings shall also mean a motion for instigating explanatory proceedings conducted under Article 37(1) of the Act.

Conducting 495 cases in 2016, the NDS, including its deputies, concluded 280 cases by filing 95 motions for sanctions to the NDC; 108 cases were discontinued, in 77 cases, the initiation of the investigation was refused.

Outcome of disciplinary proceedings conducted by the NDS in 2016



Source: own compilation of the AOC Office based on the NDS report for 2016.

In 2016, the NDS closed 185 cases, excluding drawing up the motions for imposing sanctions, by issuing a ruling on refusal to instigate the disciplinary proceedings (77 cases) or on discontinuation of disciplinary proceedings (108 cases). The basis for issuing the said rulings was Article 17§1(1) of the Code of Administrative Proceedings (in 41 cases), Article 17§1(2) of the Code of Administrative Proceedings (in 2 cases), Article 17§1(3) of the Code of Administrative Proceedings (in 109 cases), Article 17§1(5) (in 6 cases) and Article 17§1(11) of the Code of Administrative Proceedings (in 27 cases).

The motions for imposing a penalty submitted by the NDS to the NDC were related to the following issues:

- in 28 cases submitted by the NCoSA, the motions referred to statutory auditors who did not participate in mandatory in-service training in 2014 (27 cases) and 2015 (1 case), which constitutes a violation of the obligation defined in Article 4(1)(2) of the Act and Chapter 130.3 of the Code of Ethics for Professional Accountants of the IFAC,
- in 58 cases submitted based on the NAOC motions and in 4 cases submitted by the AOC, as well as in 5 cases submitted based on applications of other entities, the infringements referred to:
 - ✓ the Act on statutory auditors - Article 4 (1)(1), (3), (5) (obligations of statutory auditors), Article 4(3) and (5), Article 10, Article 49(1) (failure to implement the

- system of internal quality control), Article 49(2) (compliance with the principles of ethics, principles of independence and financial auditing standards), Article 49(3)(3) (incorrect preparation of annual reports of the entity), Article 50 (1) and (2) (no valid civil liability insurance contract), Article 56 (1) and (3)(7), Article 56 (2)(4) and (5)(failure to maintain the principles of independence and impartiality), Article 60(2) (underestimated remuneration for auditing services provided), Article 61(2) (incorrect documenting of the audit of consolidated financial statements) and Article 88 (2) and (3) (failure to fulfil the obligations related to cooperation with the audit committees),
- ✓ Accounting Act - Article 4(1), Article 4(1)(3), Article 4(3), Article 8(2), Article 10(1)(2), Article 35, Article 45(2) and (4), Article 48, Article 49(2), Article 49 (2)(1), (2), (3), (4) and (7), Article 52(2), Article 53(3), Article 54(1), Article 56(3) and (4) (consolidated statements), Article 65(1) to (7), Article 65(2)(4), Article 65(3)(1), Article 65(5)(5), Article 66(2), Article 66(4)(7), Article 67(1),
 - ✓ NSA 1 - General rules of auditing financial statements - item II(10), (12), item III (13), (13)(a)-(g), (14), (15), (16), (17), (18), (19), (22), (24), (25) (method of auditing), item IV (27), (28), (29), (29), (30), (31), (evidence for audit), item V (whole) and sections (33), (34), (35), (36)(a), (36)(e), (36)(i), (37), (38), (38)(b), (39), (40) (planning the audit), item VI (41), (42), (44), (44)(b), (45), (46), (47), (48), (49), (49)(b),(c), (d), (g), (h), (i), (50), (52) (special problems of the audit), item VII(whole) (abuse, errors, violations of law), item IX (61), (62), (64), item X (65), (66), (68), (69), (70), (70)(b), (70)(c), (71), (71)(c), (72), (72)(b), (72)(c), (72)(d), (72)(e), (72)(f), (73) (opinion), item XI (75), (76), (76)(a), (b), (c), (d), (f), (g), (h), (j) (report), item XII (78), (79), (80), (80)(i), (81), (82), (82)(a), (82)(b), (82)(e), (82)(i), (82)(c), (82)(f), (84), (85), (87) (audit documentation), item XIII (89) (communication with audit committees), item XIV (99) (contract for auditing financial statements), item XVI(113) (audit in financial sector entities),
 - ✓ NSA no. 2 - Auditing consolidated statements and NSA no. 3 - General principles of review of financial statements/abridged financial statements and performance of other certifying services, indicated violations concerning the specific nature of this type of audit activities,
 - ✓ professional ethics rules - the IFAC Code of Ethics for Professional Accountants - item 100.5 (a)-(e) (basic rules), with special attention to item 110.2 (integrity), item 120.1 and 280.1 (objectivity), item 130.4 and 130.5 (professional competence and due care), item 150.1 (professional behaviour), item 230.1 and 230.2 (second opinions) and chapter 290 – Independence – Assurance Engagements, as well as item 9.2 (determining remuneration), with violation of the rules of professional ethics in force until 31 December 2011, in accordance with NCoSA Resolution no. 1426/33/2009 of 3 November 2009,
 - ✓ rules of internal quality control specified by NCoSA Resolution No. 1378/32/2009 of 13 October 2009 on the rules of internal quality control. i.e. item 2(30), (31) (development and implementation of quality control procedures),
 - ✓ § 16(1) of Regulation of the Minister of Finance of 12 December 2001 concerning specific rules of recognition, measurement methods, scope of disclosure and method of presentation of financial instruments (Journal of Laws of 2015, item 1850, as amended) - measurement of financial assets,

- ✓ International Standard on Assurance Engagements 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information - item 10 (Agreeing on the Terms of the Engagement) and item 36(a)-(e) (Reasonable Assurance - execution of services providing reasonable assurance based on sufficient and relevant evidence),
- ✓ International conceptual assumptions of assurance engagements and external audit - items 56-59 (assurance of information acquired in the course of the audit under Article 87 of the Act of 5 November 2009 on cooperative credit unions - Journal of Laws of 2012, item 855, as amended),
- ✓ Act of 15 December 2000 on housing cooperatives (Journal of Laws of 2013, item 1222, as amended) - Article 6(1) (determining the value of revenues and costs of GZM).

In the scope of motions received from the NAOC and from economic entities and natural persons, violations of the Accounting Act were disclosed, mainly related to:

- ✓ drawing up opinions and reports which do not arise from the audit documentation gathered in the course of the audit and in the manner preventing the statutory auditor not participating in the audit from following its process and finding the justification for the opinion expressed on the audited financial statement, which makes the infringement of Article 65(6),
- ✓ non-disclosure of cases of incorrectly prepared reports on activities of the entity referred to in Article 49(2).

In 2016, under Article 37(4) of the Act and Article 335 of the Code of Administrative Proceedings, the NDS submitted to the NDC 50 applications for imposing a penalty stating the penalty agreed upon with the accused statutory auditor. In 2016, the NDC positively adjudicated the majority of the cases.

The court proceedings also covered complaints against the decisions of the Spokesman. In 2016, 2 complaints against the decisions of the Spokesmen were filed to the NDC concerning the discontinuation of the disciplinary investigation, including the files of the case; one of the cases, following its examining by the Court, was returned to the NDS, who discontinued it once again. The second case is pending. The NDC also considered 2 cases discontinued by the NDS in 2015. The NDC referred them for reconsideration by the NDS and those cases were discontinued again.

In 2016, 10 appeals against the NDC rulings were lodged to courts of labour and social insurance, including one filed by the Spokesman and the remaining ones - by the accused party. Among the aforementioned cases, 3 cases were validly concluded, i.e. in two of them, the common court sustained the effectiveness of the NDC ruling and in one case - it dismissed the appeal. In one of the cases, the regional court ruled out that the files should be returned for reconsideration by the NDC, however, the Accused lodged an appeal. Thus, out of the above listed cases, 7 cases are pending to be considered in 2017, including 6 cases in regional courts and 1 - in the appellate court.

Moreover, in 2016, 10 cases were proceeded in regional courts, for which appeals were lodged in the previous years and all those cases were closed with valid rulings, i.e.: 6 cases were discontinued, in 2 cases - NDC rulings were sustained and in 2 cases, the NDC ruling was replaced by other ruling. In the reporting year, the proceedings in 3 cases were also discontinued, where the parties lodged an appeal to appellate courts and 1 cases ended by sustaining the verdict of the regional court, i.e. the acquittal. Moreover, 2 cases in which the appeal was lodged in 2016 are pending.

Summing up - as at 31 December 2016, 6 cases in regional courts and 3 cases in the appellate court are pending.

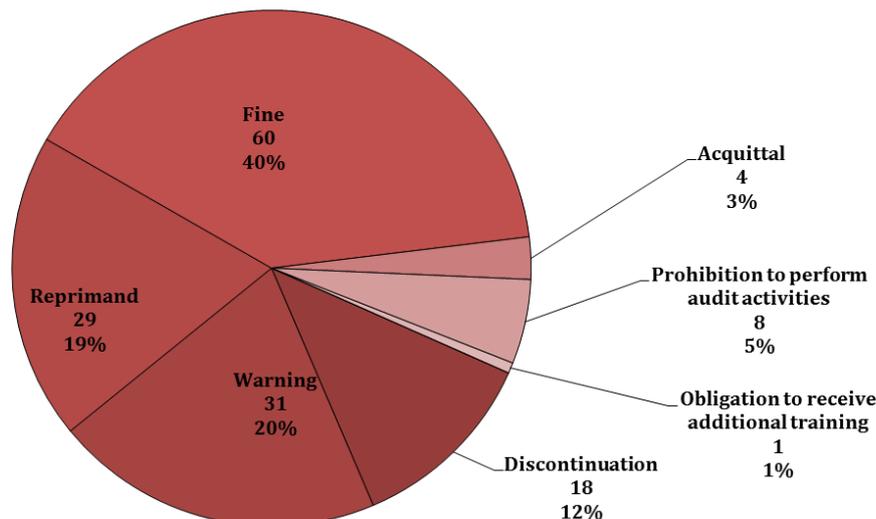
4.3. Activity of the NDC

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

In 2016, the NDC issued 179 rulings, including 164 final rulings concluding the proceedings. The NDC ruled as follows:

- penalty of warning – 31;
- penalty of warning and the obligation to receive additional training – 1;
- penalty of reprimand – 29;
- fine – 60;
- penalty of a prohibition to perform audit activities for the period of 1 year – 6;
- penalty of a prohibition to perform audit activities for the period of 3 year – 2.

NDC rulings concluding disciplinary proceedings in 2015



Furthermore, the NDC:

- discontinued the proceedings in 18 cases;
- acquitted the accused in 4 cases;
- adjourned the hearing in 15 cases;
- dismissed the complaint filed and sustained the NDS ruling in 1 case;
- left the complaint against the decision of the NDC Chairperson without considering in 2 cases;
- considered the submitted complaint and waived the NDS decision on discontinuation of the disciplinary proceedings in 2 cases;
- dismissed the complaint filed and sustained the NDS ruling in 1 case;
- left the complaint against the decision of the NDS without considering in 1 case;

- waived the decision of the NDC Chairperson and sustained the NDS decision on refusal to recognise the applicant as an aggrieved party in 1 case;
- waived the decision of the NDC Chairperson and referred the case for reconsideration in 1 case;
- waived the NDS decision on discontinuation of the disciplinary investigation in 1 case;
- dismissed the complaint against the decision of the NDC Chairperson in 2 cases;
- dismissed the complaint against the decision of the NDC in 1 case.

The Chairman of the NDC, while formally controlling lodged complaints against decisions of the NDS on refusing to recognise the reporting party as an aggrieved party, in 3 cases ordered a refusal to accept the appellate measure due to the lodgement thereof by an unauthorised person.

Among 97 cases lodged by the NDS in 2016 to be considered by the NDC, in 79 cases a final and conclusive ruling was issued, and 18 cases were referred to be considered in the next year.

4.4. Activity of the NCoSA

In 2016 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.

As at 31 December 2016, 1 administrative proceedings were pending concerning striking off from the register of statutory auditors and 3 proceedings concerning striking off from the list of entities authorised to audit the financial statements.

At the same time, in the reporting period, the NCoSA issued the decision concerning adopting the procedure of entry in the list of entities authorised to audit the financial statements.

The NCoSA activity related to proceedings concerning entry in the register of statutory auditors and striking off the register is described in more detail in section 1.3.

In addition, the NCoSA undertook activities aimed at settlement of statutory auditors from the fulfilment of their obligation related to mandatory in-service training in 2016. It was found that in 2016 this obligation referred to 7,086 statutory auditors, whereas 1,386 statutory auditors did not fulfil the obligation of mandatory in-service training. In relation to those statutory auditors, the NCoSA undertook various measures, including the planned referral of the case to the NDS in order to instigate the proceedings in

relation to 1,058 statutory auditors as at the day of submission of the information by the NCoSA.

In 2016, in accordance with the binding regulations concerning the mandatory in-service training for statutory auditors arising from the Act of 9 May 2014 on Facilitating Access to Performing Certain Regulated Professions (Journal of Laws of 2014, item 768, as amended) and from the Regulation of the Minister of Finance of 21 November 2014 on Mandatory In-Service Training of Statutory Auditors (Journal of Laws of 2014 item 1730), the NCoSA adopted 2 resolutions, issued the announcement and the decision, including, in relation to the thematic scope of the mandatory professional training for statutory auditors, the topics and the number of hours acknowledged by individual forms of self-education, the organisational and methodological guidelines, as a part of the mandatory professional training for statutory auditors.

Taking into consideration the adopted regulations, in 2016 training in the scope of mandatory in-service training for statutory auditors could have been provided by the NCoSA and authorised entities entered to the list maintained by the NCoSA.

In the reporting, period the NCoSA conducted two inspections of the mandatory in-service training aimed at controlling the compliance with the rules arising from the provisions of Regulation by authorised entities.

In 2016, the NCoSA adopted 5 resolutions in the scope of the qualification procedure for candidates for statutory auditors, and concerning the functioning of the Examination Committee.

In the reporting, period the NCoSA carried out works in the scope of amendment to the national standards of auditing, whereas the resolutions in the said case were adopted at the beginning of 2017.²⁰

In the period from 1 January 2016 to 31 December 2016, the NCoSA did not adopt any resolutions concerning the rules of the internal quality control system of the entity authorised to audit the financial statements.

Moreover, in 2016 the NCoSA issued the guidelines for statutory auditors, mainly in the scope of auditing financial statements through announcements as well as conducted activities aimed at preparation of statutory auditors to the application of international standards of auditing, e.g. through publishing alerts on the website of the professional self-government

In 2016, the NCoSA did not adopt any resolutions concerning the principles of professional ethics of statutory auditors, however, following the adopting of resolution no. 206/6/2016 of 3 November 2015 *amending the resolution concerning the principles of professional ethics of statutory auditors*, on 26 January 2016, the NCoSA issued Announcement no. 3/2016 *concerning entry into force of Resolution no. 206/6/2015 of the National Council of Statutory Auditors of 3 November 2015 r. amending the resolution concerning the principles of professional ethics of statutory auditor*,

²⁰ Under Resolution no. 825/21a/2017 amendments related to the national standards of auditing no. 1 and no. 2 were introduced (originally adopted by the NCoSA in 2010). Under Resolution no. 913/22a/2017 amendments related to the national standards of auditing according to the wording of International Audit Standards (IAS) were introduced (adopted by the NCoSA in 2015). Both amendments resulted mainly from the amended provisions of the *Accounting Act* (they referred, among others, to Article 65 of this Act).

indicating therein the most significant amendments arising from the amendment to the IFAC Code of Ethics for Professional Accountants.

Moreover, the NCoSA carried out works (initiated in 2015) related to the translation of a uniform text of the IFAC Code of Ethics for Professional Accountants, contained in the IFAC Handbook 2015.

In addition, in 2016 the NCoSA adopted the position *concerning the implementation of the rules of determining the remuneration for financial auditing services provided by entities authorised to audit the financial statements* –, including the justification. The position contains recommendations of good practice nature, arising directly from the principles of professional ethics of statutory auditors and the Act.

In the period from 1 January 2016 to 31 December 2016 the NCoSA, under Article 27(1)(3) of the Act, adopted 20 Resolutions *concerning imposing a fine on an entity authorised to audit the financial statements* (including, in two cases, the Resolutions simultaneously referred to the additional penalty consisting in publication of information on the irregularities found and penalties imposed on the entity). Among entities penalised, 9 entities were the authorised entities performing auditing activities in public-interest entities. At the same time, in the said period, the NCoSA did not adopt any resolutions on a prohibition to perform audit activities by authorised entities.

In addition, in the reporting period, the NCoSA adopted:

- 1 resolution *concerning the refusal to impose a fine on the entity authorised to audit the financial statements*,
- 1 resolution *concerning the refusal to impose a penalty on the entity authorised to audit the financial statements consisting in the prohibition to perform auditing activities for a period of 18 months and the publication of information concerning detected irregularities and penalties imposed on such entity*,
- 1 resolution *concerning imposing of a fine on the entity authorised to audit the financial statements and discontinuation of the proceedings*,
- 3 resolutions *concerning discontinuation of the administrative proceedings related to the motion for imposing of a fine on the entity authorised to audit the financial statements*.

In 2016, as a result of pending administrative proceedings, the NCoSA resolved 30 cases (23 cases from 2015 and 7 cases from 2016). 33 cases passed for consideration in 2017 (1 case from 2014, 3 cases from 2015 and 29 cases from 2016), among which:

- 15 referred to the cases arising from the NAOC motion for imposing of a fine on the authorised entity (pursuant to Article 27 (3)(a) of the Act),
- 13 referred to the cases arising from the NAOC motion for imposing of a fine on the authorised entity, including the publication of information concerning detected irregularities and penalties imposed on the authorised entity, as the additional penalty (pursuant to Article 27(3)(a) and (d) of the Act),
- 1 referred to the case arising from the NAOC motion for imposing of a fine on the authorised entity, including the publication of information concerning detected irregularities and penalties imposed on the authorised entity, as the additional penalty (pursuant to Article 27(3)(a) and (d) of the Act),
- 1 referred to the case arising from the NAOC motion for ruling out the prohibition to perform auditing activities by the authorised entity for a period of 1 year, including the publication of information concerning detected irregularities and

- penalties imposed on the authorised entity, as the additional penalty (pursuant to Article 27(3)(b) and (d) of the Act),
- 1 referred to the conducted administrative proceedings concerning striking off the statutory auditor (pursuant to Article 11(1)(3) in conjunction with Article 5(2)(3) of the Act),
 - 1 referred to reopening of the proceedings in the case arising from the NAOC motion concerning striking off the authorised entity from the list (pursuant to Article 54(1)(5) of the Act),
 - 1 referred to reopening of the proceedings in the case arising from the NAOC motion for imposing of a fine on the authorised entity (pursuant to Article 27 (3)(a) of the Act).

In the scope of the annual oversight fee in the reporting period, the NCoSA issued 2 communications: No. 8/2016 of 15 March 2016 *on the minimum amount of the annual oversight fee for 2016*, and communication No. 9/2016 of 15 March 2016 *on the manner of proper completion of the annual settlement of the annual oversight fee for 2016*.

At the same time, in 2016 the NCoSA published on the website of the self-government, a spread sheet facilitating accurate calculation of the annual oversight fee for 2016.

Among other significant decisions adopted by the NCoSA in 2016, the following acts should be mentioned:

- Resolution No. 820/21/2016 of 13 December 2016 concerning the amount of fees for entry into the list of entities authorised to audit financial statements in 2017, in which it determined the fee at a level of PLN 1,500.00 – as in the previous year;
- Resolution No. 819/21/2016 of 13 December 2016 on the amount of membership contribution of statutory auditors in 2017, in which it determined the membership contribution at a level of PLN 440.00;
- Resolution No. 563/14/2016 of 7 June 2016 concerning the approval of the NCSA financial statements for 2015. The NIAC²¹ adopted the opinion concerning the NCSA financial statements for 2015 by Resolution no. 1/2016 of 3 June 2016.

From the point of view of the AOC, while summarising the activity of the NCoSA, special emphasis should be placed on activities undertaken by the NCoSA supporting statutory auditors and entities authorised to audit the financial statements - in connection with the new challenges arising from the adoption of national standards of auditing according to the wording of International Audit Standards, and from the EU audit reform. In this context, the need for further works concerning the compliance of national standards of auditing, rules of internal quality control as well as the principles of professional ethics of statutory auditors, with the provisions of Directive 2006/43/EU and Regulation (EU) 537/2014 should be highlighted.

A slight decline in the number of persons entered in the register of statutory auditors in 2016 should be also stressed, where in the reporting period it amounted to 139 persons and a year earlier, i.e. in 2015, it reached 202 persons.

²¹The report on activity of the NIAC in 2015 is available at the AOC website: www.kna.gov.pl (which is a part of the MF website).

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 continues to grow as compared to the previous year. In 2015, this number reached 1,126, whereas in 2016, the number of persons who failed to fulfil the obligation to take the minimum number of hours of the mandatory in-service training amounted to 1,386 individuals.

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 NCoSA should continue to care for the adequate selection of topics of the mandatory in-service training, as well as high quality of training conducted by the entities authorised.

AOC ACTION PLAN FOR 2017

Considering the need for:

- high level performance of the profession of a statutory auditor as the basis for provision of reliable information in financial statements of economic operators,
- coherence of activities of public oversight bodies over audit in the European Union in order to enhance security of the economic trade,
- measures arising from the implementation of *Directive 2014/56/EU amending Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts* (OJ L 158 of 27.5.2014, p. 196) and the application of *Regulation 537/2014 on Specific Requirements Regarding Statutory Audit of Public-Interest Entities* (OJ L 158 of 27.5.2014, p. 77, including the corrigendum in OJ EU L 170 of 11.6.2014, p. 66),

the Audit Oversight Commission (AOC) plans implementation of the following tasks in 2017:

1. Carrying out AOC activities based on the currently applicable regulations, in particular in the scope of:
 - planned and unplanned inspections conducted by the National Audit Oversight Committee (NAOC) in 2016 and in the previous years, including:
 - analysis of reports on inspections in audit firms auditing the financial statements of the public-interest entities (PIEs), based on the schedule approved at the AOC meeting on 12 October 2016, envisaging the termination of this process by 30 June 2017,
 - monitoring of implementation of the NAOC motions for imposing sanctions on statutory auditors and audit firms arising from inspection reports approved by the AOC,
 - disciplinary, administrative and court proceedings subject to consideration in 2017 by the AOC and bodies of professional self-government of statutory auditors, in particular, those arising from irregularities while performing audits of financial statements of the PIEs.
2. Undertaking measures aimed at preparing the public oversight body - the AOC, to the implementation of the new tasks resulting from the EU audit reform, in particular, in the scope of:
 - tasks taken over by the public oversight body from the professional self-government of statutory auditors, related to conducting of planned inspections in entities auditing the financial statements of the PIEs and imposing sanctions in connection with irregularities while auditing financial statements, of the PIEs, including:
 - supporting the process of building a team of inspectors and other specialists on behalf of the public oversight body,

- development of assumptions for system solutions supporting the provision of the oversight, including, inter alia, planning and conducting of inspections in supervised entities, monitoring of the inspection process, gathering information on supervised audit firms,
 - development of the inspection methodology and risk analysis-based inspection procedures in the area of internal quality control, auditing separate and consolidated financial statements adjusted to the specific nature of various PIEs, as well as development of administrative procedures of inspection,
 - development of the plan of inspections of audit firms performing audits of financial statements of the PIEs for 2017,
 - adjustment of the rules of performance of the oversight body to new tasks and regulations, including, in the scope of the AOC by-laws and the rules of conducting the proceedings before the AOC.
3. Conducting the AOC activities based on new national regulations arising from the implementation of the EU audit reform (as of the date of their entry into force), in particular, in the scope of:
 - development of the plan of inspections of audit firms performing audits of financial statements of the PIEs for 2017,
 - imposing sanctions on statutory auditors and audit firms in connection with irregularities found while auditing financial statements of the PIEs,
 - enhancing the cooperation with the Polish Financial Supervision Authority (FSA) in connection with the planned granting it the competence in the scope of oversight over the process of selecting audit firms performing audits of financial statements of the PIEs by the supervisory bodies of the PIEs,
 - conducting a dialogue with audit firms auditing financial statements of the PIEs, reporting directly to the public oversight body.
 4. Monitoring of activities of the National Council of Statutory Auditors (NCoSA) in the scope of regulations adopted under the resolutions, concerning, inter alia, standards of performance of the statutory auditor profession, classification procedure for candidates for statutory auditors, entering and striking off statutory auditors and audit firms, in-service training of statutory auditors, in particular, in the scope of their compliance with the provisions of the legal acts.
 5. Analysis of other resolutions issued by the bodies of the National Chamber of Statutory Auditors (NCSA), in particular, in terms of their compliance with the applicable acts of law.
 6. Considering appeal measures against the resolutions issued by NCSA bodies, submitted by the parties and the analysis of the disciplinary case law against statutory auditors, in particular, in terms of considering the need for AOC involvement in the proceedings as a party.

7. Developing international cooperation, including in particular within the Committee of European Auditing Oversight Bodies (CEAOB), the International Forum of Independent Audit Regulators (IFIAR) and with selected public oversight bodies from the European Union and from third countries, in particular, in the scope of improvement of inspection procedures in audit firms.

8. Activities aimed at promoting audit as a basis for provision of reliable information in financial statements, in particular, through:
 - creating the information policy of the AOC aimed, in particular, at informing the key stakeholders about the tasks and operations of the public oversight,
 - participation of the AOC representatives in conferences and debates concerning financial reporting and auditing,
 - development of a new formula of AOC reporting, including the annual AOC report.

9. Examining complaints and applications submitted to the AOC by citizens.

10. On-going execution of tasks arising from applicable acts of law.