



# REPORT OF THE AUDIT OVERSIGHT COMMISSION FOR 2013

Warsaw, 23 April 2014

In accordance with Art. 64 paragraph 5 of *the Act of 7 May 2009 on statutory auditors and their self-government, entities authorized to audit financial statements and public oversight* (Journal of Laws No. 77, item 649, as amended) the AOC develops, until 30 April of the following year, an annual report covering comprehensive information on the functioning of the quality assurance system, the outcome of disciplinary proceedings against auditors and penalties imposed on entities authorized to audit financial statements.

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## **LETTER OF THE CHAIR OF THE AUDIT OVERSIGHT COMMISSION**

The Audit Oversight Commission exercises public oversight over the execution of work by statutory auditors, the activities of entities authorised to audit financial statements and the activities of the self-government of auditors – the National Chamber of Statutory Auditors. The system of public oversight focuses on auditing financial statements, including in particular public interest entities. This is to ensure high quality audit of financial statements and helps to maintain and increase the confidence of market participants in these statements. A high level of service and compliance with auditing standards are basic requirements to ensure confidence in the auditors - a profession of public trust - providing services in relation to financial reporting.



The Audit Oversight Commission bears the ultimate responsibility for the proper functioning of the system of public oversight, also in relation to the tasks assigned to the self-government, which include: keeping the register of statutory auditors and entities authorised to audit financial statements, inspecting the entities authorised to audit financial statements under the quality assurance system, conducting disciplinary proceedings against statutory auditors.

2013 started the implementation of the second three-year inspection cycle, covering the years 2013-2015, in entities authorised to audit financial statements, performing audits in public interest entities. Recognizing the improvements in the activities of the National Oversight Committee it should be noted that there are still problems in the approval by the Audit Oversight Commission reports from audit carried out by the self-government authority. The Audit Oversight Commission repeatedly applied to the National Audit Oversight Committee for clarification regarding inspection or to amend the contents of the reports. In addition, it systematically pointed to the need to develop a comprehensive inspection procedures based on risk assessments.

In terms of disciplinary proceedings conducted by the self-government bodies: the Disciplinary Spokesman and the Disciplinary Court, the Audit Oversight Commission took actions to draw the attention to the need to shorten the waiting periods for considering cases and improve the effectiveness of disciplinary proceedings.

In order to ensure high quality work of statutory auditors, actions of the Audit Oversight Commission continued in cooperation with the Financial Supervision Authority towards statutory auditors performing audits of financial statements of Savings and Credit Unions. In 2013, at the request of the Audit Oversight Commission, the National Audit Oversight Committee has carried out unplanned inspections in entities authorised to conduct external audits of Savings and Credit Unions selected by the Audit Oversight Commission. The results of these inspections will be summarised in 2014.

On the initiative of the Audit Oversight Commission, the scope of mandatory training of auditors for the year 2014 was extended and now includes issues related to accounting and auditing of housing co-operatives and Savings and Credit Unions.

Given the need for the implementation in Poland of International Standards on Auditing, the Audit Oversight Commission monitored further actions of the self-government resulting from earlier findings. The intention for 2014 is to complete this process.

Audit Oversight Commission continued its efforts to promote financial audit as the basis of reliable information in financial statements. In order to broaden the knowledge of oversight authorities in companies regarding the co-operation with auditors, on 10 January 2013 the Audit Oversight Commission organised together with the World Bank and the Warsaw Stock Exchange a conference entitled: *The Audit Committee – A key link in the financial reporting and auditing process*, addressed to members of audit committees.

In 2013, the Audit Oversight Commission continued to develop and strengthen its cooperation with other international oversight authorities, in particular through participation in the plenary sessions of the International Forum of Independent Audit Regulators (IFIAR), meetings of the European Group of Auditors' Oversight Bodies (EGAOB) and meetings of the European Audit Inspection Group (EAIG).

2013 was a year of change in the term of office of the Audit Oversight Commission. Members of the first term, as well as the Office supporting them, created the foundations of an independent and the effectively functioning public oversight system in Poland from the beginning. Members of the second term of the Audit Oversight Commission are faced with new challenges related to e.g. the reform of the functioning of financial audits at the level of the European Union aimed at further strengthening the independence of auditors and audit firms, improving the quality of audits, reducing conflicts of interest and to strengthen public oversight, particularly in relation to audits of financial statements of financial institutions and listed companies.

I am convinced that the activities of the Audit Oversight Commission will contribute to increasing the quality of auditing of entities under public oversight, thereby increasing the security of business.

Chair of the Audit Oversight Commission  
Dorota Podedworna-Tarnowska, PhD

## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>ABBREVIATION</b>	<b>FULL NAME</b>
EAIG	European Audit Inspection Group
EGAOB	European Group of Auditor's Oversight Bodies
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
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
NCSA	National Council of Statutory Auditors
NDS	National Disciplinary Spokesman
NDC	National Disciplinary Court
NSAs	National Standards on Auditing
MF	Ministry of Finance
ISAs	International Standards on Auditing
PCAOB	The Public Company Accounting Oversight Board
SCU	Savings and Credit Unions
SPCP	Swiss - Polish Cooperation Programme
EU	European Union
Office of the FSA	Office of the Financial Supervision Authority
PIB MF	Public Information Bulletin of the Ministry of Finance





## **1. Public Oversight System**

### **1.1. Legal basis of the system**

#### **Directive**

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. EU L 157 of 9 June 2006, page 87, as amended), hereinafter referred to as Directive 2006/43/EC.

#### **Act**

The Act of 7 May 2009 on statutory auditors and their self-government, entities authorized to audit financial statements and public oversight (Journal of Laws No. 77, item 649, as amended), hereinafter referred to as the Act.

#### **Other**

- The Accounting Act of 29 September 1994 (Journal of Laws of 2013, item. 330, as amended), hereinafter referred to as the Accounting Act,
- The Ordinance of the Minister of Finance of 15 January 2010 on the inspection of the profession of statutory auditors and activities of entities authorised to audit financial statements (Journal of Laws No. 16, item. 83), hereinafter referred to as the Inspection Ordinance,
- The Ordinance of the Minister of Finance of 29 December 2009 on the qualification procedure for auditors (Journal of Laws of 2014, item 391), hereinafter referred to as the Ordinance on the qualification procedure
- The Ordinance of the Minister of Finance of 3 December 2009 on compulsory 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 Statute of the National Chamber of Statutory Auditors, hereinafter referred to as the Statute of the NCSA.

### **1.2. System characteristics**

The public oversight system comprises the following elements:

- The Audit Oversight Commission (AOC) – the public oversight authority;
- The National Chamber of Statutory Auditors (NCSA) – the professional self-government, to whose bodies, by the will of the legislator, some tasks regarding public oversight were assigned. The bodies of the NCSA are:
  - ✓ The National Assembly of Statutory Auditors,
  - ✓ The National Council of Statutory Auditors (NCSA),
  - ✓ The National Audit Oversight Committee (NAOC),
  - ✓ The National Disciplinary Court (NDC),

- ✓ The National Disciplinary Spokesman (NDS),
- ✓ The National Internal Audit Committee (NIAC).

In accordance with the Act, the competencies of the Audit Oversight Commission include:

- approving resolutions issued by the NCSA in the cases specified in the Act, including those related to:
  - ✓ the National Standards on Auditing,
  - ✓ the rules for internal quality control of entities authorised to audit financial statements,
  - ✓ professional ethics of statutory auditors,
  - ✓ the rules of disciplinary proceedings against statutory auditors,
  - ✓ the rules for mandatory professional training for statutory auditors,
  - ✓ the rules of operation of the Examination Committee and other regulations with respect to the qualification procedure for candidates for statutory auditors,
- approval of annual inspection plans prepared by the NAOC for entities authorised to audit financial statements<sup>1</sup>, performing audits in public interest entities and approving candidates for inspectors prior to their employment and inspectors, designed for individual inspections,
- approving the results of inspections carried out in the entities authorised to audit financial statements, auditing in public interest entities and participation as an observer in selected inspections performed by the NAOC,
- carrying out (on its own), if it becomes aware of irregularities, inspection of the performance of the profession of statutory activities of entities authorised to audit financial statements,
- participating as a party in disciplinary proceedings against statutory auditors conducted by the NDS and the NDC,
- registration of statutory auditors and entities authorised to audit financial statements from third countries,
- challenging in the administrative court resolutions of bodies of the NCSA that are not subject to approval,
- inspecting documents forming the basis for the National Council of Statutory Auditors for passing resolutions concerning the entry in the register of statutory auditors or entry of entities authorised to audit financial statements to the list of entities authorised to audit financial statements,
- international co-operation, in particular with the European Commission, the oversight authorities of other EU Member States and third countries.

An important element in the public oversight system is the Examination Committee for candidates for statutory auditors, appointed by the Minister of Finance. The Examination Committee works under the Act, the Regulation on the qualification procedure and resolutions of the National Council of Statutory Auditors and approved by the AOC.

In accordance with Art. 7 of the Act, the tasks of the Examination Committee include:

- conducting examinations for statutory auditors, including the final (diploma) exam,

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<sup>1</sup> Names: **entities authorised to audit financial statements** and **audit firms** are used interchangeably in the text of the report.

- ascertaining, at the request of a candidate for a statutory auditor, the completion of an apprenticeship and application,
- determination of test questions, case studies and preparation of examination sets for individual exams, including the final examination for candidates for statutory auditors,
- considering appeals against exam results,
- carrying out examinations for natural persons possessing the rights to perform the profession of an auditor obtained in another EU Member State or in a third country,
- assessing the equivalence referred to in Art. 5 paragraph 4 of the Act.

Due to the expiry on 1 December 2013 of the 4-year term of the Examination Committee, the Minister of Finance by the Decision No. 25/DR of 26 November 2013, pursuant to Art. 6 paragraph 1 and Art. 8 paragraph 1 of the Act, appointed the members of the Examination Committee for another term.

The Examination Committee includes 19 persons, including:

- 10 representatives of the Minister of Finance (including 4 persons who are not employees of the Ministry of Finance selected from academics),
- 7 representatives recommended by the National Council of Statutory Auditors (from statutory auditors entered in the register)
- 2 representatives recommended by the FSA.

In accordance with Art. 8 paragraph 6 of the Act, the Examination Committee for candidates for statutory auditors submits a report on its activities to the AOC<sup>2</sup>.

### **1.3. Basic information on the audit services market**

#### **Statutory auditors**

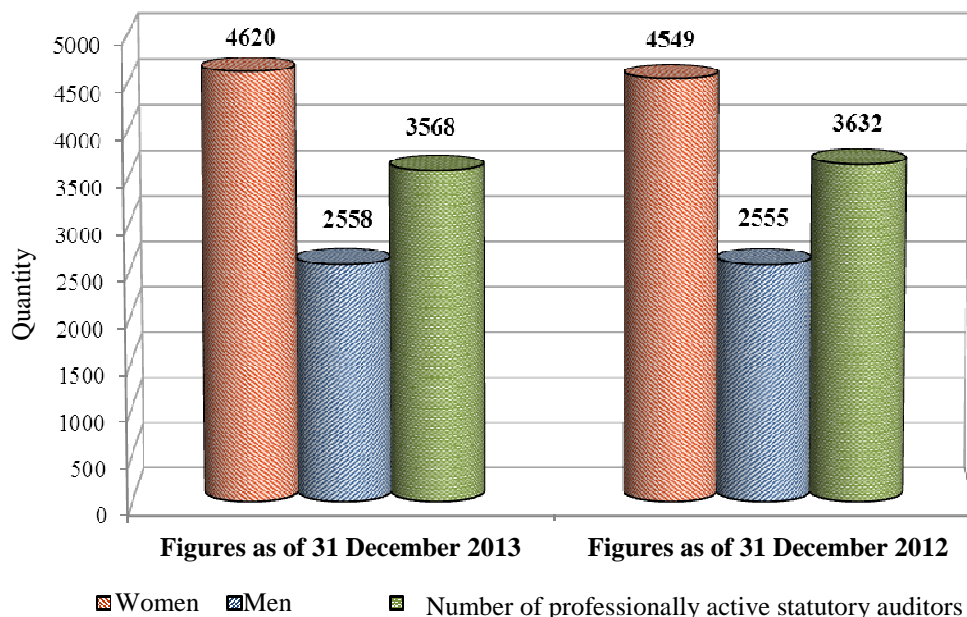
As of 31 December 2013 there were 7 178 auditors in the register of statutory auditors (including 4 620 women and 2 558 men), which means an increase compared to the end of 2012 by 74 auditors. Among the registered auditors, 3 568 persons declared to be professionally active. Compared with the end of 2012 this number fell by 64 persons. The average age of an auditor as of 31 December 2013 was 55 years and was one year lower as compared to the end of the previous year.

A comparison of changes in the number of auditors is presented in the chart below.

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<sup>2</sup>Report on the operation of the Examination Committee for candidates for statutory auditors for the period from 1 January 2013 until 31 December 2013, is located on the website of the PIB MF ➔ Operation ➔ collective bodies in the AOC section in the Reports tab.

### Comparison of changes in the number of statutory auditors in 2012-2013



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

In 2013 the qualification process for candidates for statutory auditors was attended by 11 256 candidates (including 996 recruited in 2013 and 10 260 in the previous years). Compared to the end of 2012, this is an increase by 744 candidates for statutory auditors.

In 2013, 231 persons completed the qualification procedure, i.e. passed the diploma exam and obtained the right to apply to the National Council of Statutory Auditors for an entry into the register of statutory auditors - which is an increase by 55 persons compared to 2012.

In the period from 1 January 2013 to 31 December 2013 on the basis of resolutions of the National Council of Statutory Auditors, 236 people were validly entered into the register of statutory auditors, (there were no entries on the basis of Art. 5 paragraphs 3 or 4 of the Act), 162 statutory auditors were removed from the register of auditors, including:

- 130 at their request,
- 30 due to their death,
- 2 due to non-compliance with the conditions referred to in Art. 5 paragraph 2 item 3 of the Act.

Compared with the end of 2012, the number of entries in the register of statutory auditors increased by 62 entries, while the number of deletions from the register of statutory auditors decreased by as much as 245 deletions.

### Entities authorised to audit financial statements

As of 31 December 2013 the list of entities authorised to audit financial statements included 1 669 entities authorised to audit financial statements. Compared with the end of 2012, the number of entities authorised to audit financial statements decreased by 35 entities.

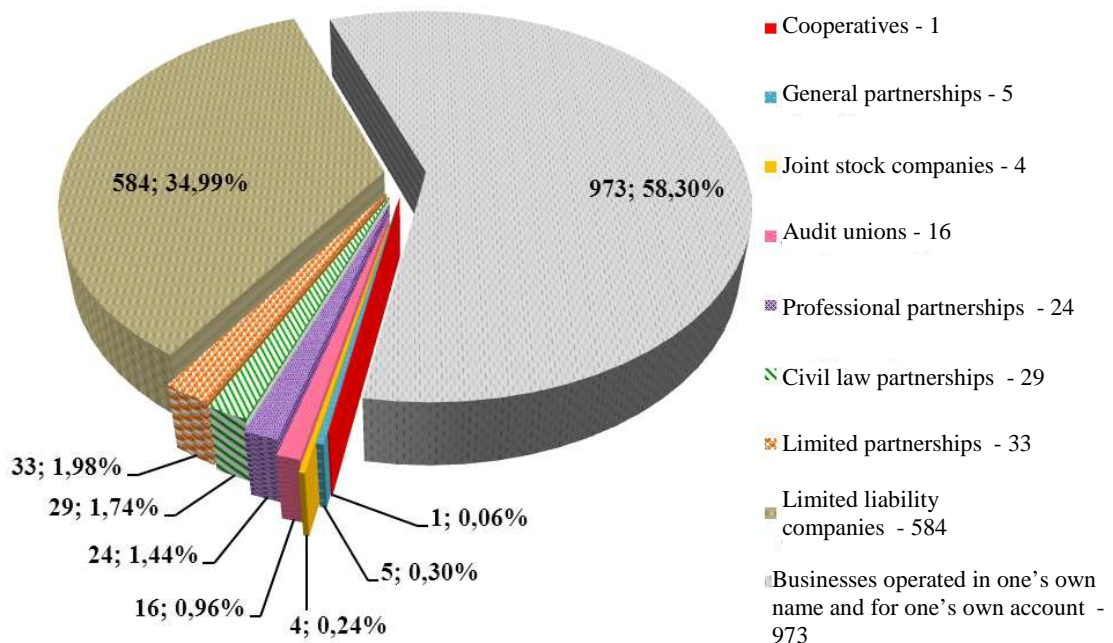
In the period from 1 January 2013 to 31 December 2013, by means of resolutions of the National Council of Statutory Auditors, 69 entities authorised to audit financial statements were included in the list of entities authorised to audit financial statements, while 107 entities were removed from the list of entities authorised to audit financial statements, including:

- 86 at their request,
- 1 due to the absence of a valid contract of liability insurance referred to in Art. 50 paragraph 1 of the Act,
- 2 due to the failure to submit to the inspection referred to in Art. 26 of the Act,
- 9 based on AOC decisions,
- 1 at a request of the NAOC (pursuant to Art. 54 paragraph 1 item 6 of the Act),
- 8 due to death of auditors running authorised entities in the form of a business run in their own name and for their own account.

Compared with the end of 2012, the number of entries of entities authorised to audit financial statements into the list of entities authorised to audit financial statements increased by 1 entry, while the number of deletions of entities authorised to audit financial statements from the list of entities authorised to audit financial statements decreased by 42 deletions.

Below is a graph showing the division of entities authorised to audit financial statements according to the form of business as of 31 December 2013.

**Division of entities authorised to audit financial statements by the form of business as the end of 2013**

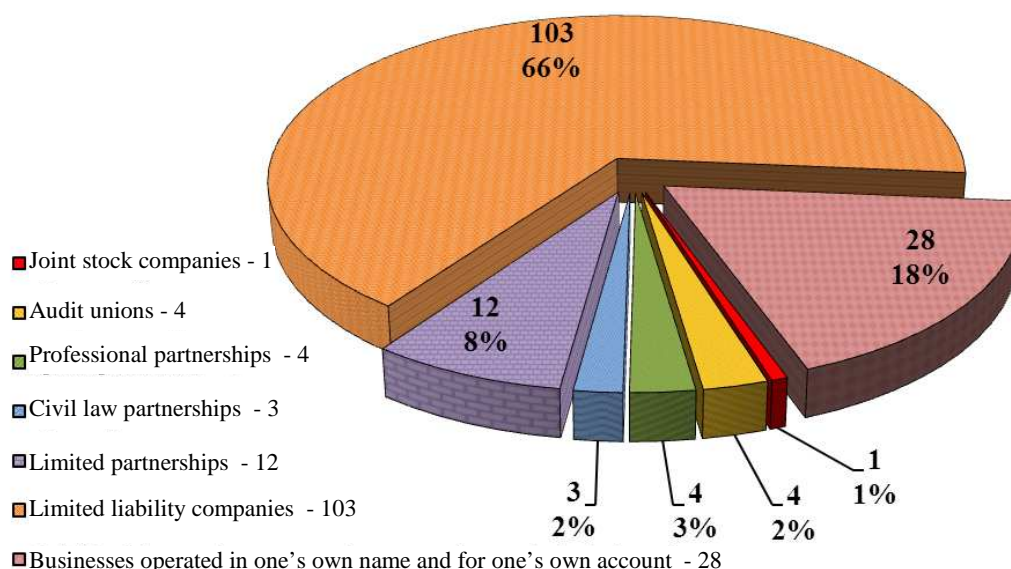


Source: Own compilation of the Office of the AOC based on data from the NCSA.



Distribution of entities authorised to audit financial statements performing auditing in public interest entities according to the form of business as of 21 November 2013 is shown in the graph below<sup>3</sup>.

**Division of entities authorised to audit financial statements performing audit activities in public interest entities by the form of business - as of 21.11.2013**



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

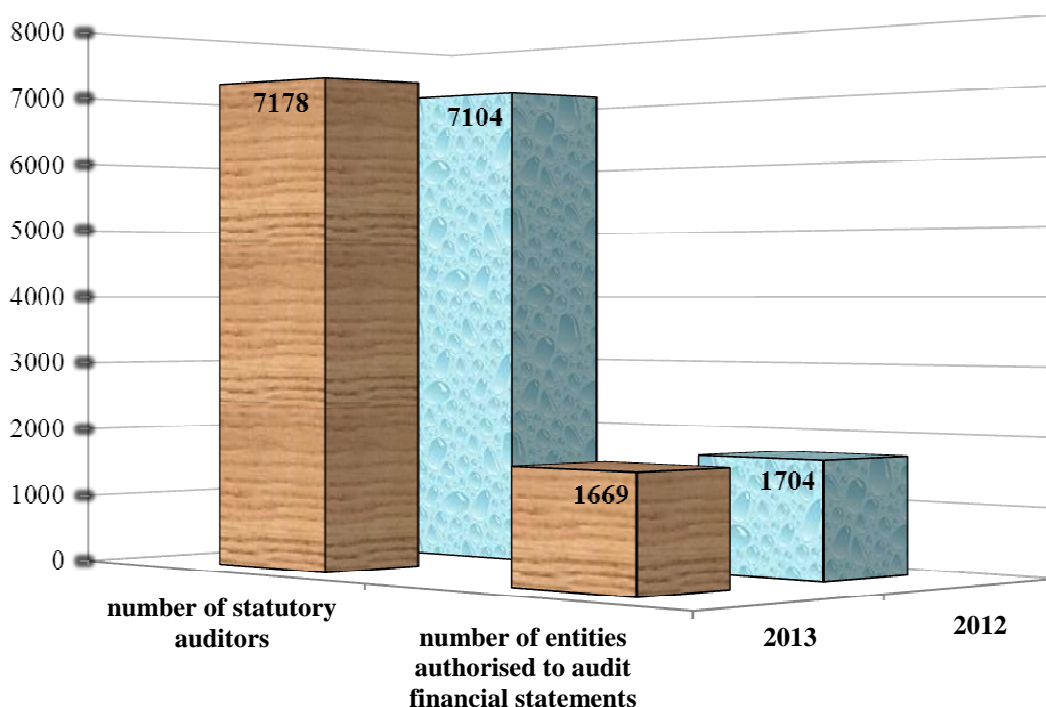
In accordance with Art. 2 item 4 of the Act, "public interest entities" should be understood as:

- issuers of listed securities in markets regulated by the EU States which have their registered office in the Republic of Poland, with the exception of local government units,
- domestic banks, branches of credit institutions and branches of foreign banks,
- co-operative savings and credit unions,
- insurance companies and main branches of insurance companies and reinsurance companies,
- electronic money institutions,
- open pension funds and general pension societies,
- open investment funds, open specialised investment funds and closed investment funds whose public investment certificates have not been admitted to trading on a regulated market,
- entities conducting brokerage activities, with the exception of entities operating exclusively in terms of reception and transmission of orders to buy or sell financial instruments or investment advice.

<sup>3</sup> The presented information is developed on the basis of a list of entities authorised to audit financial statements, at least once in 3 years, performing audits in public interest entities, available at the NCSA website, updated on 21 November 2013. Entities deleted from the list of entities authorised to audit financial statements are not included.

The following chart shows a comparison of changes in the numbers of statutory auditors and entities authorized to audit financial statements.

**Comparison of changes in the number of statutory auditors and entities authorised to audit financial statements in 2012-2013**



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

Data based on the partly verified by the Office of the NCSA statements referred to in Art. 49 paragraph 3 of the Act<sup>4</sup> shows that in 2013, 25 883 audits of financial statements were carried out, including 21 319 mandatory and 4 564 optional.

Revenues generated by entities authorised to audit financial statements in 2013 from financial audit activities amounted to PLN 686 164 154.94, including revenues of entities authorised to audit financial statements, performing audits in public interest entities: PLN 525 615 073.33.

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

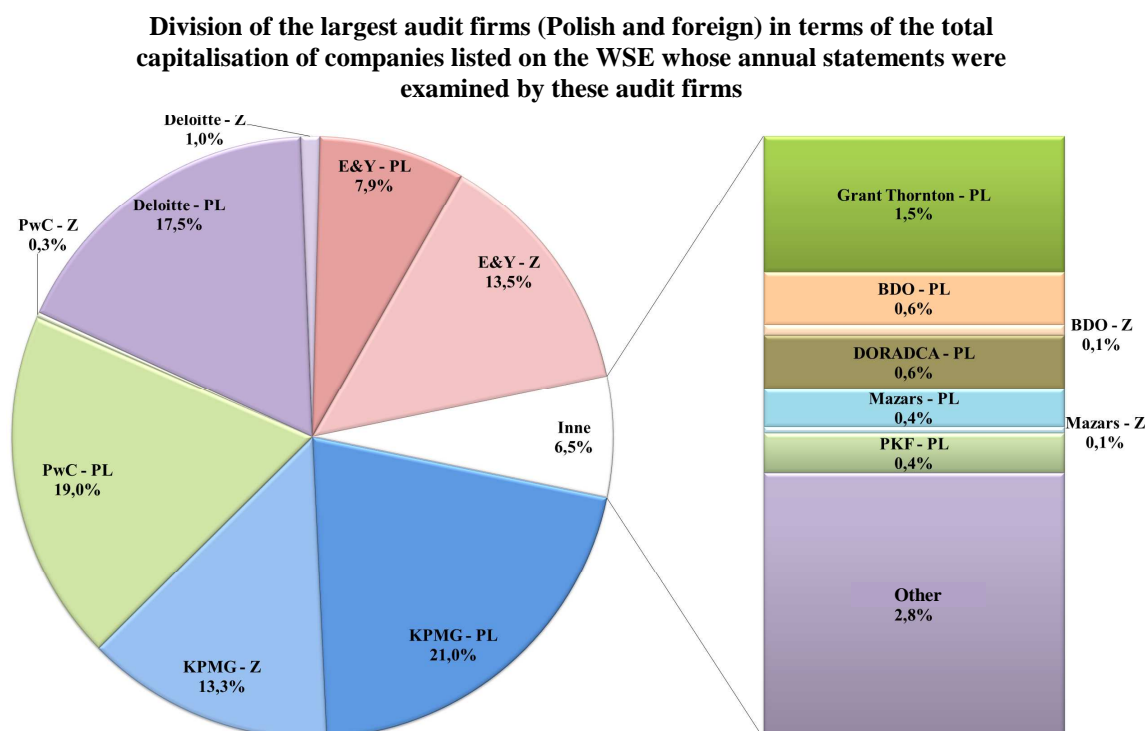
An analysis of the market of the largest audit firms in Poland was based on several criteria. The main reference was data regarding the WSE. Market capitalisation of listed companies according to the data as of the end of 2012 and information about audit firms auditing the annual financial statements of listed companies for 2012 (the accounting year for some companies does not coincide with the calendar year) were taken into account.

<sup>4</sup> By 20 March 2014 1 365 financial statements were sent, representing approximately 76.9% of the expected number of all statements.

The second aspect of the analysis was revenues of audit firms in respect of financial audit activities as indicated in annual oversight fee forms oversight for 2012 submitted to the NCSA.

Compared to a similar analysis contained in the report of the AOC for 2012, the scope of the included data has been expanded with the largest foreign audit firms auditing the financial statements of foreign companies listed on the WSE.

The graph below shows the distribution of the largest audit firms (Polish<sup>5</sup> and foreign<sup>6</sup>) in terms of the total capitalisation of companies listed on the WSE whose annual statements were audited by given audit firms or their networks.



Source: Own compilation of the Office of the AOC based on data from the *Stock Exchange Yearbook 2013 statistical data for 2012* ([www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)) and own data.

In total, Polish and foreign companies from the networks of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements for 2012 in 34.8% of all companies listed on the WSE (152 companies out of 437), whose capitalization to the whole exchange was 93.5%. When taking into account only Polish firms from the so-called Big Four, they audited financial statements of 131 companies whose market capitalisation amounted to 65.4% of the entire stock market.

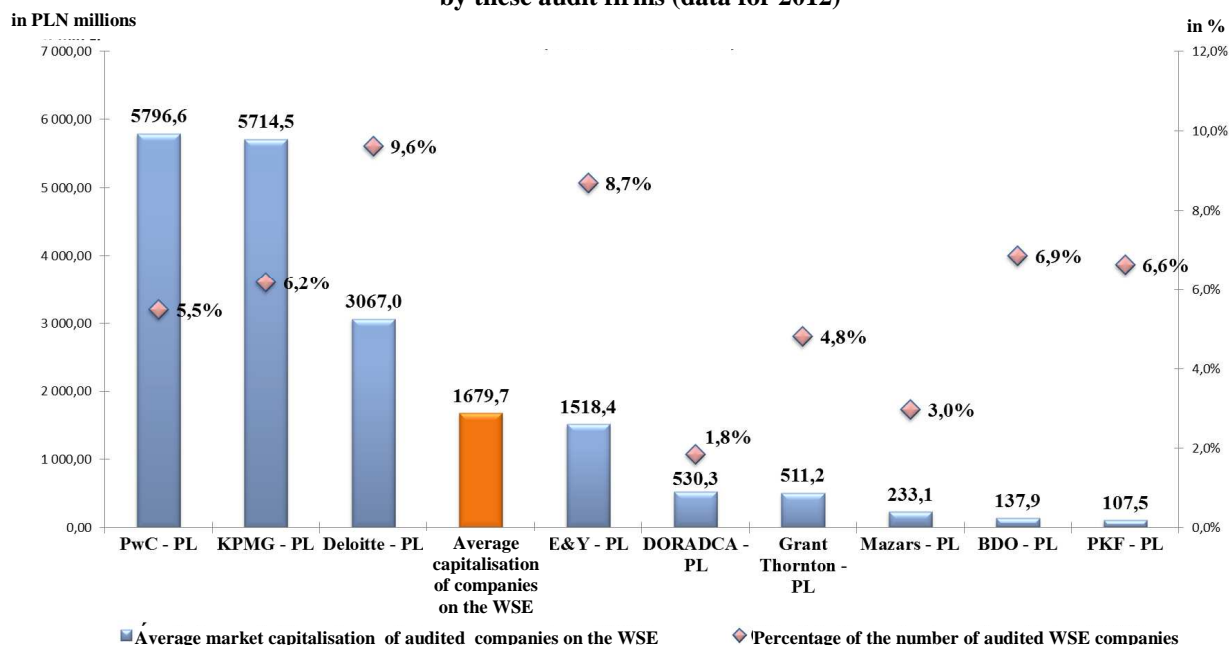
<sup>5</sup> Hereinafter the abbreviated names of Polish audit firms mean the following:: **Deloitte - PL** – Deloitte Polska Sp. z o.o. Sp. k.; **DORADCA - PL** – DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o.; **E&Y - PL** – Ernst & Young Audit Sp. z o.o. Sp. k.; **Grant Thornton - PL** – Grant Thornton Frąckowiak Sp. z o.o. Sp. k. and Grant Thornton Frąckowiak Sp. z o.o.; **KPMG - PL** – KPMG Audyt Sp. z o.o. Sp. k. and KPMG Audyt Sp. z o.o.; **Mazars - PL** – Mazars Audyt Sp. z o.o. and Mazars Expertise Sp. z o.o.; **PKF - PL** – PKF Audyt Sp. z o.o. and PKF Consult Sp. z o.o.; **PwC - PL** – PricewaterhouseCoopers Sp. z o.o.; **Roedl - PL** – Roedl Audit sp. z o.o.

<sup>6</sup> The study groups foreign audit firms according to the network of audit firms to which they belong: **BDO - Z**; **Deloitte - Z**; **E&Y - Z**; **KPMG - Z**; **Mazars - Z**; **PwC - Z**.



The below graph shows the distribution of the largest Polish audit firms auditing financial statements of companies listed on the Warsaw Stock Exchange in terms of average market capitalisation and the number of the audited companies.

**Division of the largest Polish audit firms in terms of the average capitalisation and percentage of companies listed on the WSE whose annual statements were audited by these audit firms (data for 2012)**

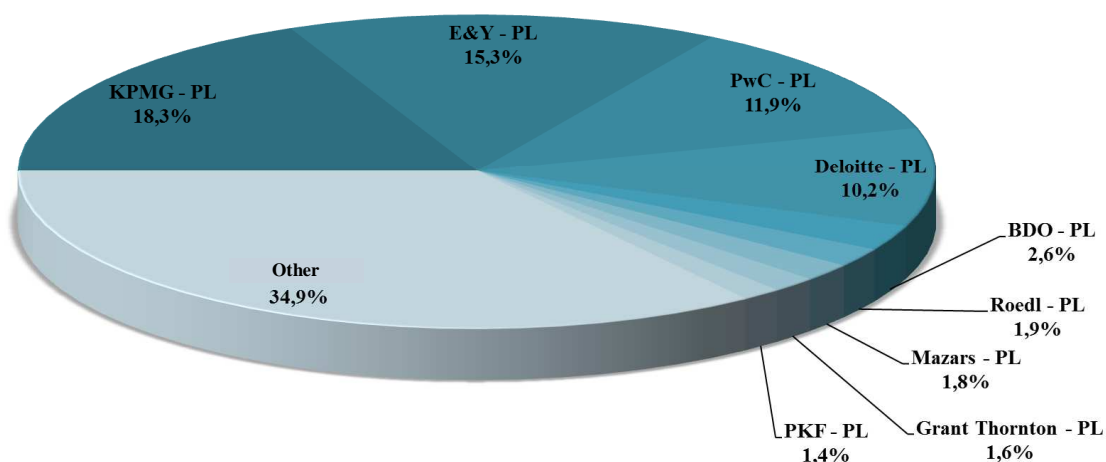


Source: Own compilation of the Office of the AOC based on data from the *Stock Exchange Yearbook 2013 statistical data for 2012* ([www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)) and own data.

Based on the above graph it can be seen that Polish companies from the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements of the largest companies listed on the WSE.

The chart below shows the breakdown of the biggest Polish audit firms in terms of revenues from financial audit activities for 2012 (as of 28 February 2014, total revenues of all Polish audit firms amounted to PLN 711 417 551).

**Division of the largest Polish audit firms in terms of revenues from performing financial audit activities (data for 2012)**



Source: Own compilation of the Office of the AOC based on data from annual settlements for oversight fee for 2012 submitted to the NCSA.

Polish companies from the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) received 55% of all revenues from financial auditing gained by Polish audit firms.

## **2. THE AUDIT OVERSIGHT COMMISSION**

The AOC is a public authority, independent in its action, collegial, financed from the state budget. It is established under Art. 63 of the Act.

The AOC operates in plenary sessions, which are summoned and chaired by the chairman or the deputy chairman. Adopting resolutions always takes place at the meetings. Under the Act, the AOC meetings are held at least once a month.

### **2.1. Composition**

The AOC includes 9 members appointed by the Minister of Finance for a 4-year term.

In accordance with the Act, members of the AOC represent the following entities:

- The Minister of Finance - 2 persons, including the chairman of the AOC, with the rank of the secretary or undersecretary of state at the Ministry of Finance,
- FSA – 2 persons, including the deputy chairman of the AOC,
- The Minister of Justice – 1 person,
- The NCSA – 2 persons,
- Employers' organizations – 1 person,
- WSE – 1 person.

The Act sets out the conditions to be met by members of the AOC. Each member of the AOC:

- is a Polish citizen,
- enjoys full civil rights,
- graduated from a university in the Republic of Poland or a foreign school of higher education recognised in Poland as equivalent,
- has an impeccable reputation,
- has the authority, knowledge and experience relevant for auditing, which give a guarantee of proper execution of tasks,
- is not convicted by a valid sentence of intentionally committed crime or a tax offence.

In addition, the Act states that the majority of the members of the AOC, for at least three years before the appointment and in the course of the term of office, cannot perform auditing activities, have voting rights in an entity authorised to audit financial statements, nor be a member of the management board or the supervisory board in an entity authorised to audit financial statements.

On 1 July 2013, the first 4-year term of the AOC appointed by the Minister of Finance with the Decision No. 20/DR/09 of 25 June 2009 ended.

The AOC's first term in 2013 was as follows:

- Mr Mirosław Sekuła, Chairman of the AOC, representative of the Minister of Finance (dismissed on 20 January 2013),

- Mr Janusz Cichoń, Chair of the AOC, representative of the Minister of Finance (dismissed on 6 February 2013),
- Mrs Dagmara Wieczorek-Bartczak, Deputy Chair of the AOC, representative of the FSA,
- Mrs Joanna Dadacz, representative of the Minister of Finance,
- Mr Bogdan Dębicki, representative of the NCSA,
- Mr Andrzej Herman, representative of the Minister of Justice,
- Mrs Ewa Jakubczyk-Cały, representative of the WSE,
- Mr Piotr Kamiński, representative of the employer's organisation,
- Mrs Maria Rzepnikowska, representative of the NCSA,
- Mr Tomasz Piwowarski, representative of the FSA.

Due to the expiry of the first term of the AOC, by the Decision No. 17/DR of 27 June 2013 the Minister of Finance appointed members of the AOC for the years 2013-2017.

The AOC's second term in 2013 included the following persons:

- Mrs Dorota Podedworna-Tarnowska, PhD, Chair of the AOC, representative of the Minister of Finance,
- Mrs Dagmara Wieczorek-Bartczak, Deputy Chair of the AOC, representative of the FSA,
- Mr Stanisław Chmielewski, representative of the Minister of Justice (appointed on 6 August 2013),
- Mrs Joanna Dadacz, representative of the Minister of Finance,
- Mr Jacek Hryniuk, representative of the NCSA,
- Mrs Ewa Jakubczyk-Cały, representative of the WSE,
- Mr Marek Kalinowski, professor, representative of the Minister of Justice, (dismissed on 6 August 2013),
- Mr Piotr Kamiński, representative of the employer's organisation,
- Mr Sławomir Mirkowski, representative of the NCSA,
- Mr Tomasz Piwowarski, representative of the FSA<sup>7</sup>.

## Objectives

In accordance with the Act, the AOC exercise public oversight over:

- the performance of the profession of the statutory auditor,
- activities of entities authorised to audit financial statements,
- the operation of the NCSA.

The aim of the AOC is the organisation of a well-functioning system of public oversight, including in particular the audit quality assurance system by defining appropriate legal and organisational as well as procedural standards.

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<sup>7</sup> Biographies of current members of the AOC may be found at the website of the PIB MF ➞ Operation ➞ Collective bodies in the AOC section in the *Commission composition and general information* tab .

## 2.2. The Office of the AOC

The AOC does not have its own office. In accordance with the provisions of Art. 65 paragraph 3 of the Act: *the AOC performs its tasks with the assistance of an organisational unit in the office servicing the Minister of Finance, responsible for accounting and financial auditing.*

As part of the Accounting Department of the Ministry of Finance, two organisational units forming the Office of the AOC operate since 2009, whose task is the substantive and administrative support of the AOC.

The Office of the AOC's task include:

- preparation of proposals for decisions on matters considered by the AOC, including analysis of the resolutions and inspection reports of entities authorised to audit financial statements submitted by the NCSA,
- preparation of draft documents for execution of AOC's resolutions,
- preparation of document drafts and decisions within the framework of administrative proceedings before the AOC and court proceedings regarding the AOC,
- preparation of draft procedures, reports and action plans for the AOC,
- participation as observers in inspections by inspectors employed by the NCSA in entities authorised to audit financial statements, performing audits in public interest entities, or carrying out under the authority of the AOC inspections if it becomes aware of irregularities in entities authorised to audit financial statements,
- maintaining working contacts in the area of international cooperation, in particular, participation in meetings of the EGAOB, EAIG and IFIAR based on the instructions agreed upon with the AOC and submitting reports of these meetings to the AOC, maintaining working contacts with oversight authorities from third countries to conclude agreements on cooperation and exchange of documents,
- carrying out works regarding the settlement of annual contribution to the state budget by the NCSA in the form of the 20% share of oversight fees paid by entities authorised to audit financial statements, performing audits in public interest entities,
- taking actions under the Act of 6 September 2001 on access to public information (Journal of Laws No. 112, item 1198, as amended), except for issuing administrative acts (which is the responsibility of the AOC),
- informing about the tasks of the AOC and applicable procedures in the AOC, as well as the decisions taken by the AOC including information about the AOC and its activities in a tab on the website of the MF,
- organisational support of the AOC (organisation of AOC's meetings, financial service to the AOC in the scope of planning and realising expenditures).

In 2013, the Office of the AOC carried out task in a limited composition including 11 posts (including Deputy Director of the Department of Accounting and 10 employees), despite the fact that 20 employees were predicted to support the AOC as indicated in the justification to the adopted act.

## 2.3. Budget

### Income

The Act provides that, in connection with the operation of the public oversight system, the state budget can generate income from the following:

- participation in oversight fees, in the amount of 20% of payments by entities authorised to audit financial statements that carry out audit in public interest entities, which is transferred by the NCSA to the account of the state budget in the period to 31 March,
- fee for entry to the kept by the AOC register of statutory auditors from third countries and 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.

Pursuant to Art. 30 paragraph 1 of the Act, the NCSA made a payment to the account of the state budget related to the participation in oversight fees due for 2012 on 28 March 2013 in the amount of PLN 1 631 475.00.

In connection with the decisions taken at the AOC meeting on 17 April 2013, the state budget received, pursuant to Art. 64 paragraph 1 item 4 in connection with Art. 97 paragraph 4 of the Act, registration fees for the registration of two auditors and one entity authorised to audit financial statements from third countries in the amount of PLN 6 000.00.

Pursuant to Art. 83 paragraph 1 item 2 letter a of the Act, in 2013, the AOC imposed a fine on 3 entities authorised to audit financial statements:

- a penalty of PLN 8 450.00 at the AOC meeting on 4 September 2013 (payment in 2013),
- a penalty of PLN 4 945.00 at the AOC meeting on 18 December 2013 (the entity applied to the AOC for reconsideration of the case),
- a penalty of PLN 2 070.00 at the AOC meeting on 18 December 2013 (payment in 2013).

**Total state budget income from operation of the AOC in 2013 amounted to PLN 1 645 925.00.**

### Expenditures

AOC activities are entirely financed from the state budget. Expenses related to the activities of the AOC include:

- 1) expenses from part 19 of the state budget - *the budget, public finance and financial institutions* for the functioning of the AOC within the budget of the Ministry of Finance,
- 2) expenditures from the budget of the Ministry of Finance not allocated directly to the AOC in the budget.

Expenditure allocated in the state budget (part 19) for 2013 for the activities of the AOC were planned in the amount of PLN **426 000**. The amount actually spent amounted to PLN **198 426.98**, which represents **47%** of the allocated amount.

Lower spending of funds provided for the AOC was primarily due to the following reasons:

- funds envisaged for travel within the country were not used, due to the fact that observers of the AOC, did not participate in inspections,
- the number of travels abroad was lower than expected,
- the costs of litigation in which AOC can potentially participate in fact proved to be significantly lower than expected,
- there was no need for using external expert opinions,
- costs of translations from foreign languages were reduced,
- expenditures on training of the Office of the AOC staff were reduced,
- expenditures on remuneration for the Members of the AOC were reduced as a result of the resignation from remuneration:
  - ✓ Mr Mirosław Sekuła, AOC Chair\*<sup>8</sup>,
  - ✓ Mr Bogdan Dębicki, NCSA representative, (voluntary resignation),
  - ✓ Mrs Dorota Podedworna-Tarnowska, PhD, AOC Chair\*,
  - ✓ Mr Stanisław Chmielewski, Undersecretary of state in the Ministry of Justice, representative of the Ministry of Justice \*,
- measures were taken to digitalise materials for meetings of the AOC, (which is associated with a significant reduction in the costs of providing materials, in particular the reduction of xerographic paper consumption).

Total expenditure of the AOC at the end of 2013 amounted to PLN 198 427 and was PLN 14 382 higher than in 2012.

The largest part of the expenditure in the amount of PLN 106 088 was allocated to remuneration of the members of the AOC. Compared to the previous year, the amount of these expenses decreased by PLN 1 096.

In accordance with Art. 71 paragraph 1 of the Act, the AOC members receive a monthly salary for participation in its meetings. This remuneration may not exceed the amount of the minimum wage, which is announced on the basis of the Act of 10 October 2002 on the minimum wage<sup>9</sup>.

The below graph shows the percentage share of individual expenditures of the AOC in 2013.

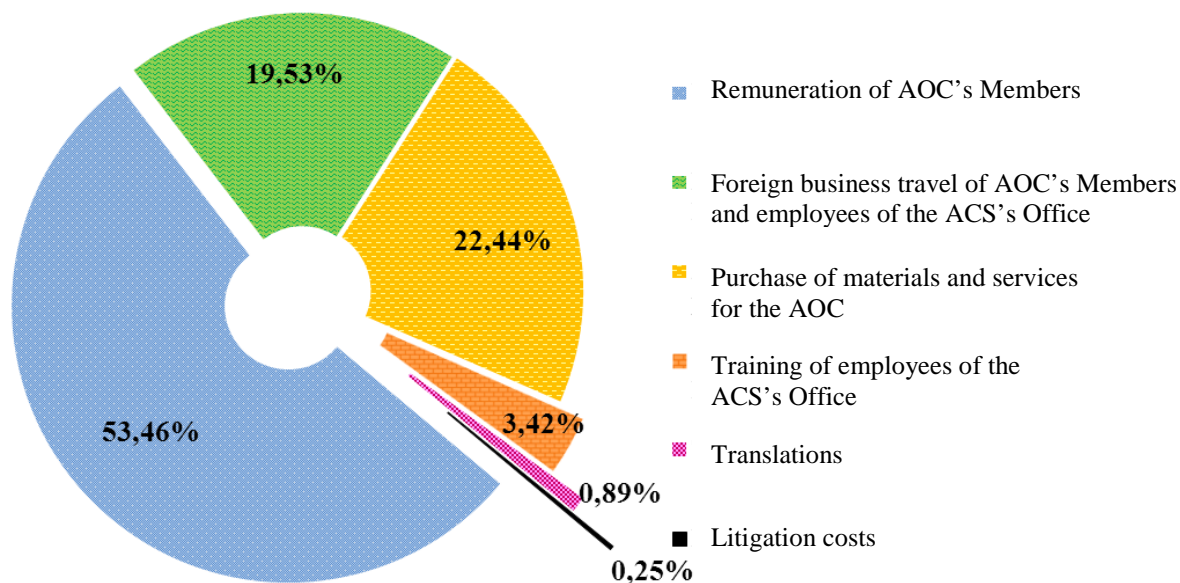
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<sup>\*8</sup> In accordance with Art. 4 paragraph 2 of the Act of 31 July 1981 on the remuneration of senior staff of state (Journal of Laws No. 20, item 101, as amended): *A person occupying a state managerial position who also serves another function is entitled to one selected remuneration provided for in the provisions of this Act or in separate regulations.*

<sup>9</sup> PLN **1,600** – Regulation of the Prime Minister of 14 September 2012 on the minimum wage in 2013 (Journal of Laws item 1026).



### Percentage structure of AOC's expenditures in 2013



Source: Own compilation of the Office of the AOC.

The expenditure from the budget of the MF and unallocated directly in the budget to the AOC consist of salaries and benefits for the staff of the Office of the AOC and the estimated cost of maintaining the work places of the Office of the AOC employees. These costs do not include expenses incurred by other organisational units of the Ministry of Finance (for example, the Legal Department, Administrative Office) and other expenses that are part of the overall expenditure of the MF (e.g., the use of meeting rooms for AOC's meetings).

Providing substantive and administrative support for the AOC in 2013 generated a total cost of PLN 1 193 742.71.

The largest part of the expenditure in this regard were costs of salaries and benefits in the amount of PLN 1 137 069.26. The costs of maintaining work places amounted to PLN 56 673.45.

The following table shows the total expenditure of the AOC and the Office of the AOC relating to the activities of the AOC in 2013.

EXPENDITURES in 2013 (in PLN)	
Remuneration of the members of the AOC	106 088.00
Foreign business travel	38 760.86
Purchase of materials and services	44 526.44
Training	6 780.40
Translations	1 771.28
Litigation costs	500.00
Salaries and benefits for employees of the Office of the AOC	1 137 069.26
Costs of maintaining work places of employees of the Office of the AOC	56 673. 45
<b>Total expenditures</b>	<b>1 392 169.69</b>

**In 2013, the amount of state budget income associated with the operation of the AOC exceeded the amount of expenditure by PLN 253 755.31.**

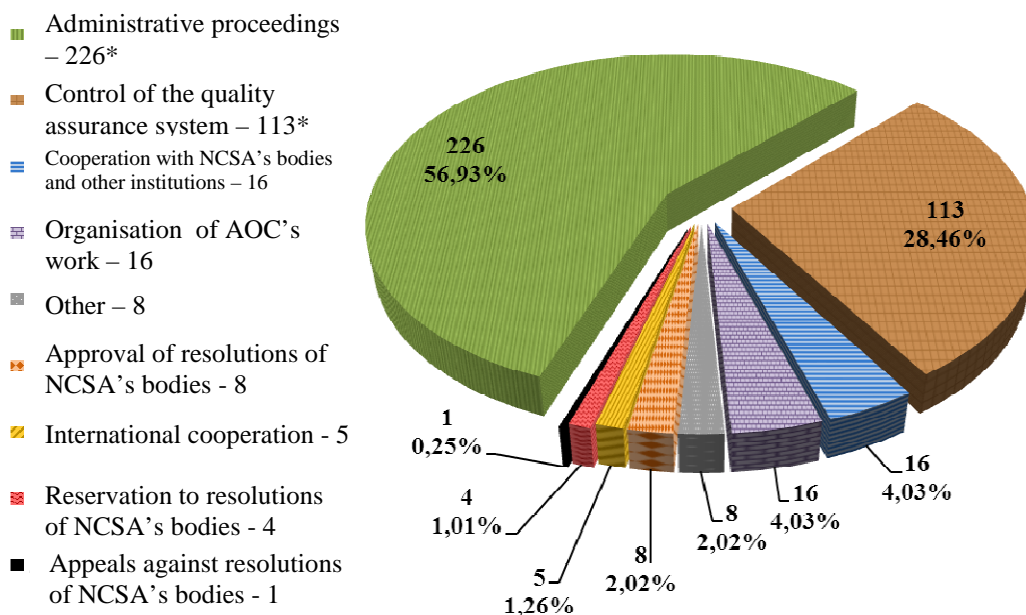


### 3. OPERATION OF THE AOC IN 2013<sup>10</sup>

In 2013 there were 16 plenary meetings of the AOC held, during which a total of 397 resolutions were adopted.<sup>11</sup>

The below chart shows the number of resolutions adopted in 2013, broken down by subject matter and their percentage share.

**AOC's resolutions in 2013 by subject matter of the case**



Source: Own compilation of the Office of the AOC.

\* Administrative proceedings, including:

- resolutions including a decision on an administrative case – 107,
- a resolution on the extension of the deadline for resolving the case – 116,
- other – 3.

\*\* Inspection of the quality assurance system, including:

- approval of an inspection report – 45 resolutions,
- change of the content of the inspection report, request for clarifications and information – 44 resolutions,
- recommendations for the NAOC – 13 resolutions,
- approval of inspectors – 4 resolutions,
- inspection plan – 2 resolutions,
- other – 5 resolutions.

<sup>10</sup> Public information on the AOC, including: decisions taken at the meetings, action plans for the next year, annual reports can be found on the website of the PIB MF ➔ Activities ➔ Collective bodies in the AOC section.

<sup>11</sup> The number 397 does not include administrative decisions issued by the AOC and orders ending administrative proceedings. These decisions are taken at AOC's meetings including resolutions documenting the decisions taken by the AOC in a given case, which resolutions were included in the above number of adopted resolutions.

In accordance with Art. 64 paragraph 4 of the Act, the AOC prepares before the end of each calendar year, information on the planned activities for the next year in the field of public oversight, which is published on the website of the Ministry of Finance. AOC's Action Plan for 2013 was adopted by the AOC at its meeting on 19 December 2012 by Resolution No. 198/2012.

In accordance with Art. 64 paragraph 5 of the Act, the AOC prepares before 30 April of the following year, an annual report covering comprehensive information about the functioning of the system of quality assurance, the results of the disciplinary proceedings against statutory auditors and penalties imposed on entities authorised to audit financial statements. The report is published on the website of the Ministry of Finance.

The AOC's Report for 2012 was adopted by the AOC at its meeting on 17 April 2013 by Resolution No. 105/2013.

The first term of the AOC, at the last meeting on 21 June 2013, adopted by Resolution No. 167/2013 the information on the *Summary of the First Term of the AOC in 2009-2013 (Podsumowanie pierwszej kadencji KNA w latach 2009-2013)*, which is attached as Appendix 1 to this report.

Starting the second term, at its meeting on 10 July 2013, the AOC adopted by Resolution No. 183/2013 new *Rules of the AOC (Regulamin KNA)*, repealing the previous rules (i.e. overruling AOC's resolution No. 78/2012 of 14 March 2012 on the Rules of the AOC). In addition, after reviewing the existing rules of operation, the AOC has taken a number of resolutions authorising Members of the AOC and AOC's Office staff to act on behalf of the AOC in issues related to the implementation of the statutory tasks, and the Director of the Legal Department of the Ministry of Finance to take certain actions on behalf of the AOC.

AOC's Action Plan for 2014, attached as Appendix 2 to this report, was adopted by the AOC at its meeting on 18 December 2013 by Resolution No. 360/2013.

### **3.1. Actions of the AOC within the scope of the quality assurance system**

#### **Approval of inspection plans**

On 17 October 2012, the AOC approved the annual inspection plan for 2013 developed by the NAOC for entities authorised to audit financial statements performing auditing in public interest entities in accordance with Art. 64 paragraph 1 item 2 of the Act within the next 3 year inspection cycle for 2013-2015. It provided for inspections in 74 entities. As a result of the implemented procedures as well as the adoption by the NAOC of the interpretation of Art. 26 paragraph 3 item 1 of the Act that the period of the three-year inspection cycle is counted from the year in which the entity performed auditing activities in public interest entities, the inspection plan was modified.

At its meeting on 25 September 2013, the AOC eliminated from the NAOC's plan four entities that were deleted from the list of entities and took into in the modified inspection plan 16 entities which should be inspected due to the approaching period of

three years counted from the implementation of activities in public interest entities, approving the final number of 86 entities for inspections.

The inspection plan for the remaining entities referred to in Art. 26 paragraph 3 item 2 of the Act was acknowledged by the AOC on 16 January 2013 and took into account 404 entities to inspect by NAOC's inspectors.

In August 2013, the AOC addressed the Chairman of the NAOC with a recommendation to present the date of transfer of the inspection plan of entities authorised to perform audits in public interest entities for 2014, indicating the criteria for selection of entities entitled to perform audits based on risk analysis and actions taken by the NAOC, aimed at eliminating from the above mentioned plan entities that improperly provided information in the form P10 to the National Council of Statutory Auditors.

In October 2013, the AOC sent detailed guidelines to the NAOC on the inspection plan in entities authorised to audit financial statements, performing audits in public interest entities for 2014, which stated, inter alia, that:

- the inspection plan for 2014 should be developed based on the final list of entities the received from the National Council of Statutory Auditors which on the basis of Art. 87 paragraph 1 of the Act (form P10) submitted information on contracts signed in the preceding year regarding the performance of auditing activities in public interest entities, checked and verified with information (form P11) submitted by authorised entities pursuant to Art. 49 paragraph 3 of the Act,
- the firms of the so-called Big Four and audit unions that audit the cooperative banks should be subjected to inspections in yearly cycles.

On 27 November 2013, the AOC approved the annual inspection plan for 2014 for entities authorised to audit financial statements, performing audits in public interest entities, which provides for 52 entities for inspection by the NAOC and takes into account, inter alia, the above AOC's guidelines in this regard.

### **Monitoring of the implementation of the annual inspection plan**

The AOC monitored on a current basis the situation regarding the implementation of the annual inspection plan, discussing the information submitted quarterly by the NAOC on the progress in its implementation, as well as the approval of the subsequent inspection reports. On the basis of provided information, the NAOC carried out 28 inspections before the end of the first quarter of 2013, 47 before the end of the second quarter, 61 - the third quarter and 84 inspections before the end of the fourth quarter. Due to fortuitous events occurring in an entities included in the inspection plan for 2013, inspections were not performed in two entities. One of them was included in the inspection plan for 2014, the second is subject to removal from the list of entities (procedure was suspended due to force majeure, i.e. death of one of the owners / partners – a statutory auditor).

### **Approving inspectors appointed for particular inspections**

With regard to inspections planned for 2013, the AOC, pursuant to Art. 64 paragraph 1 item 8 of the Act, approved inspectors assigned to 23 inspections during its meeting on 5 December 2012 to 9 inspections on 16 January 2013 (a single entity has been deleted from the list of entities), 39 inspections on 13 February 2013, 16 inspections on 25

September 2013. On 4 September 2013, a change of one of the previously approved two inspectors to inspect two entities was made.

### **Approving candidates for inspectors**

In 2013, based on Art. 64 paragraph 1 item 8 of the Act, the AOC did not approve candidates for NAOAC's inspectors. There were no new candidates proposed by the NAOAC.

### **Participation in inspections performed by the NAOAC**

At the request of the AOC, in accordance with Art. 26 Paragraph 6 of the Act, employees of the Office of the AOC may participate as observers in planned inspections carried out by the NAOAC. In 2013, the AOC did not take these actions due to limited human resources of the Office of the AOC as well as a significant amount of reports from planned and unplanned inspections analysed by the AOC and received information on irregularities in the performance of the profession of the statutory auditor and the activities of entities authorised to audit financial statements.

### **Approving inspections reports**

In 2013, the AOC analysed 28 reports from planned inspections and 1 unplanned inspection carried out by the NAOAC in 2012 in entities authorised to audit financial statements, performing audits in public interest entities, including:

- 5 reports were acknowledged by the AOC, as the inspections found that the inspected entities did not engage in the activities of auditing public interest entities, despite prior submission of information resulting in including these entities in the inspection plan for 2012,
- 23 reports were approved, but with respect to the 10 reports before they were approved, the AOC recommended to the NAOAC the introduction of changes, by means of an annex, to the content of these reports, and in relation to one report, approval took place once the AOC obtained additional explanations from the NAOAC,
- 1 inspection report was not approved by the end of 2013, due to the introduction of changes to its content in connection with the resolution adopted by the AOC to refer applications to the NDS for the initiation of disciplinary proceedings against a statutory auditor and an application to the National Council of Statutory Auditors to impose on the entity sanctions referred to in Art. 27 paragraph 1 item 3 of the Act.

In 2013, the AOC also carried out an analysis of 43 reports of planned inspections of entities authorised to audit financial statements of public interest entities identified in the inspection plan for 2013. Following the analysis, the AOC approved 22 reports of planned inspections. On behalf of the AOC, the NAOAC made changes to the content of 20 inspection reports and provided clarifications to 13 inspection reports (as well as to minutes of the inspections). In addition, the AOC verified 1 inspection report containing information that the inspected entity did not perform financial auditing activities in public interest entities despite prior submission of information resulting in the inclusion of this subject in 2013 in the inspection plan of entities auditing public interest entities. Accordingly, the AOC acknowledged the report, because it was not subject, in accordance with the Act, to the approval procedure due to the fact that it did not related to inspection of audit documentation from auditing of a public interest entity. The AOC also refused to approve one report of a planned inspection. The AOC did not find

justification in the explanations by the NAOC regarding the inspection findings in the scope of the correctness of lowering the level of inspection risk in the audit documentation that was the subject of inspection and inclusion of audit policies and procedures the specificity of the computer system used by the audited entity.

It should be emphasised that the inspection reports were not regularly submitted to the AOC after the completion of the inspections, which resulted in delays in the approval of inspection reports and taking follow-up activities by the NCSA. At the end of 2013, 75 of 84 reports were submitted.

In the process of approval of inspection reports the AOC pays particular attention to the compliance of the audit documentation the requirements set out in Art. 65 paragraph 6 of the Accounting Act, i.e.:

- providing traceability of the course of the audit to a statutory auditor not involved in it,
- justification of the opinion from the audit.

The NSAs as well as professional judgment are used as evaluation criteria.

In connection with statutory requirements that the opinion from the audit follows the documentation collected and developed in the course of the audit, the AOC is of the opinion that audit procedures not included in the audit documentation were not performed.

The quality control process regarding financial auditing activities also aims at educating and improving the quality of auditing activities carried out in the future. Therefore, the AOC draws attention of entities authorised to audit financial statements and of statutory auditors to the following irregularities in audit reports analysed by the AOC due to the fact that they produce a range of negative effects of a formal and legal nature for the audited entities and their owners and are of fundamental importance for the quality of the audit:

- violation of the principles of independence and impartiality at the level of the entity authorised to audit financial statements in connection with performing by the same person the function of a member of the management board or the supervisory authority of the entity authorised to audit financial statements and the function of a board member or member of the supervisory authority of the entity whose financial statements were audited by this entity,
- incorrect planning of the audit,
- lack of evidence on the reliability of the statements listed in item 13 of the NSAs No. 1 relating to the essential elements of the financial statements,
- lack of evidence of auditing events that occurred after the balance sheet date,
- lack of evidence of auditing the risk of fraud and violations of the law,
- inadequacy of performed alternative procedures in the case of non-participation in observing the physical inventory.

At the same time the AOC notes that these irregularities relate to the audit documentation and on their basis conclusions cannot be drawn as regards the financial statements being audited, including its compliance with the rules laid down as the basis of their preparation. They should be read also in the context of the functions of the public oversight over statutory auditors and audit entities authorised to audit financial statements and to the system of audit quality assurance.

During the analysis of audit reports, the AOC also found repeated irregularities which if not eliminated at the stage of reviewing the quality of the audit order, raises doubt as to



the correctness of the development or effective implementation of internal quality control system:

- incomplete financial statements and activity reports in the scope of disclosures relating to financial instruments constituting a significant portion of the financial statements and the lack of reference to this fact in the opinion and report from the audit,
- non-compliance of the opinion and audit report with the formal requirements laid down by the Accounting Act and the NSAs.

In the opinion of the AOC, all entities authorised to audit financial statements should consider the above recommendations in the process of monitoring the effectiveness of the internal quality control system.

In 2013, the AOC - as a result of the analysis of reports from planned inspections of entities authorised to audit financial statements - decided to apply to the NDS for referral of 16 requests for initiation of disciplinary proceedings against statutory auditors auditing financial statements on behalf of entities under the planned inspections and to the National Council of Statutory Auditors for referral of 18 requests for the imposition of sanctions on the inspected entities resulting from Art. 27 paragraph 1 item 3 of the Act due to the lack of development or ineffective functioning of the internal quality control system.

In 2013, the AOC several times provided the NAOC with recommendations on inspections carried out in entities authorised to audit financial statements, performing audits in public interest entities. The recommendations focused in particular on the following issues:

- appropriate classifying of irregularities in the absence of documented procedures required by the NSAs No. 1 and irregularities associated with the operation of the internal control system for the execution of the audit engagement,
- evaluating in the inspection reports the effectiveness of the implementation of the internal quality control system by the inspected entities,
- indicating by the inspectors in the inspection protocols procedures and rules of the inspected entities that were not effectively implemented,
- notifying the National Council of Statutory Auditors immediately about the recommended corrections of the information referred to in Art. 87 paragraph 1 of the Act included in follow-up statements,
- presentation of the NAOC's policy when conducting inspections of audit documentation from audits of banks, savings and credit unions, and other entities for which funds are an essential part of the economic process in the scope of the participation of auditors in the observation of physical inventory of these funds,
- proper performance of inspections on the implementation of recommendations based not only on information provided by the inspected entity on the removal of irregularities but also on its actual performance (for example, in conjunction with a planned inspection) and drawing in the protocol of implementation of the recommendations adequate conclusions from the facts observed during the inspection,
- introducing effective procedures for monitoring and verification of inspection protocols and follow-up statements for the proper formulation of irregularities in the documents,

- standardisation of the NAOC's approach to the inspected entities in the case of the same scope and nature of the irregularity and proper formulation of irregularities and allegations,
- developing uniform policies and procedures for various types of irregularities in order to ensure equal treatment of inspected entities,
- appropriate formulation of irregularities which do not arise directly from the regulations and are the best market practice in the opinion of the NAOC,
- contents of inspection forms for inspections carried out by inspectors and peer reviewers, and procedures for the carrying out inspections and procedures for inspecting the implementation of recommendations,
- intensification of work on modifying existing procedures and setting the date of preparation and transfer to the AOC of comprehensive procedures, including audits conducted in accordance with ISAs in connection with the opinions issued on the basis of these standards,
- taking into account in the conducted inspections the recommendations on areas of particular risk and inspection of audit documentation relating to consolidated financial statements, as well as grouping and collecting the findings on audits for the purpose of surveys and reports submitted to IFIAR and the EAIG,
- considering comments following the analysis of inspection reports when drawing up subsequent inspections forms, inspections reports, follow-up statements and motions submitted to the NDS.

The AOC also provided the NAOC with recommendations on the scope of information in the inspection report, sending drafts of follow-up statements and the preparation of the planned motions to the NDS and National Council of Statutory Auditors in order to allow for possible changes to these documents, the scope of information in the drafts of follow-up statements, as well as the working date of submitting the inspection report to the AOC (within two months from the date of signing the inspection report by the inspected entity).

Not all AOC's recommendations were implemented by the NAOC until the end of 2013.

### **3.2. AOC's actions within the scope of disciplinary proceedings**

The AOC, acting pursuant to Art. 37 paragraph 2 of the Act, requested the NDS to initiate explanatory proceedings against 5 statutory auditors (in 2012 against 6 auditors) in connection with the charges against them.

In the framework of the rules under Art. 27 paragraph 3 of the Act, in 16 cases the AOC applied to the NAOC for a referral to the NDS of requests to initiate disciplinary proceedings against statutory auditors and in one case an extension of an earlier motion. In 2013, the AOC monitored on a current basis 2 ongoing proceedings in which it started to participate as a party in the previous years, taking place in two district courts and proceedings in the Court of Appeal in which the AOC started to participate as a party in October 2013.

Charges in the above mentioned cases related to:

- issuing an opinion with reservations with no indication of the financial consequences,

- failure to challenge nonexistent or unreliable states of assets contained in the financial statements of the audited entity, and failure to maintain the independence of the audit,
- failure to maintain independence and impartiality when conducting the audit at the level of an authorised entity.

In 2013, the subjects of meetings of the AOC were more than 150 judgments and decisions sent by the NDC which were made in relation to statutory auditors.

These related to:

- failure to observe the obligation to undergo professional training for statutory auditors in the 2011/2012 training cycle,
- complaints against the decision of the NDC,
- complaints against the decision of the NDS,
- breaches of professional ethics by statutory auditors,
- violations of the Accounting Act,
- violations of the Act,
- decisions to postpone hearings,
- decisions to uphold the contested decision,
- decisions to return files to the NDS for supplementation,
- decisions on breaks in hearings,
- decisions to leave the motion without consideration.

In accordance with Art. 41 of the Act, the decisions of the NDC may be also appealed against by the AOC to a district court having jurisdiction over the place of residence of the accused, the and social security labour court, as the court of first instance - within 14 days from the date of delivery of the decision with a justification. The AOC did not find grounds for appealing against the above judgments. However, in two cases, the AOC sent to the district court pleadings presenting its position on the pending cases.

In accordance with Art. 38 paragraph 2 of the Act, the representative or representatives of the AOC may be present at hearings conducted before the NDC. The AOC used the aforementioned right allowing staff of the Office of the AOC to participate in 10 trials, during which 3 cases were considered.

These cases related to:

- the failure to specify the extent and impact of the challenged impairment loss in the audit of a financial institution,
- a breach of the NSAs during auditing the statements of a financial institution,
- failure to challenge nonexistent or unreliable states of assets contained in the financial statements of the audited entity and failure to maintain the independence of the audit,

As part of the oversight, pursuant to Art. 64 paragraph 3 in relation to Art. 63 paragraph 2 item 3 of the Act, the AOC applied to the NDS for clarification as to the results of these disciplinary cases, actions taken, provision of information on cases referred by the AOC, as well as applied for giving reasons for delays in considering the cases. In three cases it applied to the NDS and the NDC for submitting of records of the considered cases.

The AOC also invited representatives of the NDS and NDC to meeting during which issues concerning the ongoing cooperation of the NDS, NDC, NAOC and AOC were



discussed, as well as the need to shorten the duration of the cases and improve the effectiveness of disciplinary proceedings.

Members of the AOC and employees of the Office of the AOC participated in quarterly meetings organised by the NDS and NDC during which issues related to the severity of the disciplinary proceedings conducted by the Spokesmen, the principles of internal quality control in entities authorised to audit financial statements and their use in the disciplinary proceedings, the scope and the advisability of appointing experts in matters specific to a certain industry, the requirements for applications of the accused for punishment in the case of voluntary submitting to punishment, in accordance with Art. 37 paragraph 4 of the Act were discussed.

The AOC modified the existing arrangements relating to its role and participation in the ongoing disciplinary proceedings before the NDS and NDC - resolutions were adopted authorising the AOC members and employees of the Office of the AOC to represent the AOC.

in disciplinary proceedings in which the AOC started to participate as a party, as well as to participate in hearings before the NDC and to have access to the files of disciplinary proceedings against statutory auditors at every stage of the proceedings and request information about the outcome of the disciplinary proceedings as well as the establishment of proxies to represent the AOC in proceedings before common courts of law.

### **3.3. Oversight of the operation of the self-government of statutory auditors**

In March 2013, the AOC got acquainted with reports on the operation of individual bodies of the NCSA in 2012, taking into account their content and making its assessment in the AOC's report for the year.

One of the topics discussed with the NCSA in 2013 was financing of activities in the field of oversight of the NCSA. In January 2013, the AOC invited the Head of the National Council of Statutory Auditors and the Chair of the NIAC to a meeting in order to discuss the financial situation of the NCSA in connection with funding shortages NCSA after the surplus in previous years, mainly as a result, according to the representatives of the NCSA, of the cost of intensified inspections in 2012 in order to implement the 3-year inspection plan. Accordingly, the issue of the causes of this situation and forecasts for subsequent years was discussed. Representatives of the NCSA drew particular attention to the problem of fees for oversight, stressing that they are not low, but still insufficient. According to information provided at the meeting, the so-called minimum fee in the amount of 20% of the average wage in the domestic economy paid by certain entities which do not audit public interest entities is inadequate to the costs of oversight, since the total fees paid by the above entities was only sufficient to cover the costs of delegation of inspectors. At the same time attention was drawn to the very low recoverability of litigation costs and financial penalties. It was found that there are no threats to the tasks from the area of oversight by the self-government.

## **Inspection of resolutions of NCSA's bodies**

As a part of oversight of the operation of the self-government of statutory auditors, the AOC performed on a current basis inspections of resolutions submitted by the bodies of the self-government. The agenda of the AOC's meetings in 2013 were 632 resolutions of the National Council of Statutory Auditors, 5 resolutions of the NAOC and 1 resolution of the NIAC.

In 2013, acting pursuant to Art. 72 of the Act, the AOC approved a total of 8 resolutions of bodies of the self-government (only resolution of the National Council of Statutory Auditors) and raised objections to 1 resolution of the NAOC and 3 resolutions of the National Council of Statutory Auditors.

AOC's reservations related to the following resolutions:

- No. 42/2012 of the NAOC of 19 December 2012 on adopting the template of the report of inspections conducted by controllers and inspectors.  
The AOC found, inter alia, that the above resolution violates the law, since the template of the protocol of control does not contain the elements specified in Art. 80 paragraph 2 and Art. 27 paragraph 9 item 3 of the Act. Limiting the content of the protocol only to the findings of irregularities is not sufficient, and the AOC, while issuing its opinion on inspection reports should be able to familiarise itself with the inspection activities made by the inspectors and the actual state determined on their basis resulting from the audit documentation of the inspected entity.
- No. 1414/22/2012 of the National Council of Statutory Auditors of 3 December 2012 amending the resolution on procedures for granting permission to conduct mandatory professional training for statutory auditors.  
The AOC considered that the above-mentioned resolution shows signs of errors, because it contains provisions whose interpretation may give rise to serious doubts. The AOC decided to present to the National Council of Statutory Auditors the reservations regarding the content of the resolution, requesting that the National Council of Statutory Auditors clarify the terms indicated by the AOC.
- No. 1666/27/2013 of the National Council of Statutory Auditors of 9 April 2013 on the rules for internal quality control in the entity authorised to audit financial statements, which the National Council of Statutory Auditors introduced as the International Standard on Quality Control 1 applicable in Poland.  
The AOC concluded that the regulation presented by the National Council of Statutory Auditors in the above resolution undermines the public interest.
- No. 1667/27/2013 of the National Council of Statutory Auditors of 9 April 2013 on the NSAs through which the National Council of Statutory Auditors introduced the ISA as the NSAs.  
The AOC concluded that the regulation presented by the National Council of Statutory Auditors in the above resolution undermines the public interest and shows signs of errors.

In considering the above resolutions No. 1666/27/2013 and 1667/27/2013, the AOC concluded that the action of the National Council of Statutory Auditors to introduce the ISAs as the NSAs are desirable. In addition, the AOC, indicating in detail the objections to the content of the resolution, pointed out that the precision and clarity of the

resolution on the NSAs is essential for the proper functioning of the quality assurance system and disciplinary proceedings against statutory auditors. Any ambiguity in terms of established auditing standards may cause doubts, both for statutory auditors e.g. regarding the correctness of audits of financial statements, as well as bodies performing inspections, which could result in the inapplicability of statutory sanctions against auditors and entities authorised to audit financial statements. Therefore the National Council of Statutory Auditors, adopting the resolution on the NSAs should keep in mind the precision and clarity of its provisions. In the first place, it is important to determine all the elements of the NSAs and use a correct network of concepts consistent with the provisions of the Act with unambiguous content and scope for the recipients of the standards, with well-formed transitional provisions. The AOC presented similar reservations in relation to the resolution on the principles of internal quality control in entities authorised to audit financial statements.

After notifying the reservations to the resolutions No. 1666/27/2013 and 1667/27/2013, the AOC monitored the actions of the National Council of Statutory Auditors for the adoption of the ISAs. In September 2013, a working meeting of the AOC with representatives of the National Council of Statutory Auditors was held, devoted to the preparation of projects of relevant resolutions. After the meeting, the Chair of the AOC requested from the Head of the National Council of Statutory Auditors for information relating to the activities undertaken by the National Council of Statutory Auditors, however, until the end of 2013 the National Council of Statutory Auditors did not presented AOC any subsequent resolutions for approval.

In addition, acting on the basis of Art. 64 paragraph 1 item 5 of the Act, the AOC adopted 1 resolution on challenging before an administrative court the resolution No. 43/2013 of the NAOC of 16 January 2013 amending the resolution on the Rules of operation of the NAOC, after previous requests to the NAOC to remedy the breach of law. The AOC considered that the above-mentioned resolution violates paragraph 19 section 4 of the Statute of the NCSA by failing to indicate in the Rules of the NAOC justified cases as a result of which it is acceptable to vote via the Internet, and by failure to specify in the Rules of the NAOC the principles and procedures for voting via the Internet. In response to the request by the AOC, the NAOC, by means of Resolution No. 45/2013, repealed on 13 March 2013 the Resolution No. 43/2013 of 16 January 2013 amending the resolution on the Rules of the NAOC. Then the NAOC adopted Resolution No. 46/2013 of 10 April 2013 amending the resolution on the Rules of the NAOC.

### **Activities in the area of registration of statutory auditors and audit entities authorised to audit financial statements**

The AOC, within the framework of the oversight, verifies all resolutions of the National Council of Statutory Auditors on the entry into the register of statutory auditors and entry to the list of entities authorised to audit financial statements regarding the occurrence of the conditions set out in Art. 64 paragraph 1 item 5 of the Act, which provide the basis for challenging the resolution before the administrative court. In addition, the AOC examines whether there were other reasons not specified in the Act attesting that a person or entity should be entered respectively into the register of statutory auditors or the list of entities authorised to audit financial statements. The same applies to resolutions concerning the removal from the register of auditors and the

list of entities authorised to audit financial statements. This means that in the event of an occurrence of the conditions of art. 64 paragraph 1 item 5 of the Act, the AOC adopts a resolution challenging the resolution before the administrative court. In 2013, the AOC did not find evidence to justify an appeal against resolutions of the National Council of Statutory Auditors on the entry or deletion before the administrative court. The AOC took, however, the actions described above in connection with appeal proceedings as regards resolutions of the National Council of Statutory Auditors.

In the case of detection of the existence of circumstances indicating illegitimacy of making an appropriate entry in the register of statutory auditors or the list of entities authorised to audit financial statements, the AOC has the ability to exercise the right of objection and issue an administrative decision in this regard. So far, the AOC has not exercised its right to object.

Therefore, in justified cases, a verification is made regarding the administrative files, in particular in the areas indicated in the documents addressed by the AOC to the National Council of Statutory Auditors.

At its meeting on 16 October 2013, the AOC adopted a resolution on *the transfer of case files on the entries in the register of statutory auditors* to inspection documentation constituting the basis for entries.

The National Council of Statutory Auditors sent, along with the resolutions of the National Council of Statutory Auditors on the entry in the register of statutory auditors taken between 24 September 2013 and 18 October 2013, also the related files and procedures of the National Council of Statutory Auditors in this regard. The AOC considered that the analysis of the abovementioned resolutions (case files) does not give grounds to conclude that there are premises to object on the basis of Art. 10 paragraph 6 of the Act, or the challenge on the basis of Art. 64 paragraph 1 item 5 of the Act. At the same time, the AOC determined that next year, the inspection will include documents from the qualification procedure.

Oversight of granting the auditor's certification was also carried out by examining resolutions of the National Council of Statutory Auditors concerning the qualification procedure for candidates for statutory auditors (in large part subject to approval by the AOC) and by analysis of reports submitted to the AOC by the Examination Committee.

In 2013, the AOC considered 24 appeals against the resolutions of the National Council of Statutory Auditors on the entry or removal from the register or list, to which the provisions of the Code of Administrative Procedure apply<sup>12</sup>:

- in 10 cases, the contested resolution of the National Council of Statutory Auditors was repealed and it was decided to delete the entity authorized to audit financial statements from the list,
- in 6 cases the resolution of the National Council of Statutory Auditors was upheld,
- in 4 cases, the contested resolution of the National Council of Statutory Auditors was repealed and the proceedings were discontinued,

<sup>12</sup> Whenever the Code of Administrative Procedure is mentioned the Act of 14 June 1960 on the Code of Administrative Procedure (Journal of Laws of 2013, item 267) is meant.

- in two cases the contested resolution of the National Council of Statutory Auditors was repealed and the case was submitted for reconsideration by a first instance body,
- in one case the appeal was found inadmissible,
- in 1 case failure to observe time limits of appeal was found.

Furthermore, 1 case was left unconsidered due to failure to supplement the lack of a document.

4 of the abovementioned AOC's decisions were contested in 2013 by a party in the administrative court, of which three cases were considered by the Administrative Court in Warsaw, which dismissed the complaint against the decisions of the AOC (file no. VI SA/Wa 1304/13, VI SA/Wa 1430/13, VI SA/Wa 1755/13). In one of these cases (VI SA/Wa 1304/13) the party appealed to the Supreme Administrative Court.

At the end of 2013, three appeal proceedings regarding resolutions of the National Council of Statutory Auditors were pending, of which one is on hold to await the decision of the Supreme Administrative Court, and 1 proceeding following an appeal against a decision by the National Council of Statutory Auditors regarding refusal to suspend administrative proceedings.

On the basis of consideration of appeals against the resolutions of the National Council of Statutory Auditors regarding the deletion from the list of entities authorised to audit financial statements, and also taking into account the experience of the implementation of the inspection plan, the AOC also sent to the bodies of the NCSA, in particular the National Council of Statutory Auditors and the NAOC, documents relating to the procedure to be performed by bodies of the NCSA in the event that an entity included in the inspection plan applies for deleting from the list.

### **3.4. Cooperation with the FSA**

In 2013, on the basis of information received from the FSA on the objections raised in regard to auditors' opinion on the audited financial statements or the possible violations of the law in the course of audit of financial statements of financial institutions, the AOC - within the framework of the performed oversight of the performance of the profession of the statutory auditor and operation of entities authorised to audit financial statements - addressed:

- the NAOC with a request to perform inspection, within the scope of unplanned inspection in entities for 2013 – of audit documentation from an audit of financial statements to which the FSA objected,
- the NAOC with guidelines for inclusion in the inspection plan for 2014 three entities that carried out audits of financial statements in financial institutions and - in the opinion of the FSA - signalled irregularities in the approach of auditors to auditing these statements can affect the quality of the reports and opinions issued from the audit of the financial statements,
- the NDS with a request for initiating explanatory proceedings against the auditor examining the financial statements to which the FSA raised questions,
- the NDS with a request to provide information regarding the stage of the proceedings is the case in connection with the notification made by the FSA on the objections to the results of an audit of the financial statements for 2012 of a financial institution.



The AOC addressed the FSA - after receiving an analysis from the National Council of Statutory Auditors - with information about the minimum elements of a statement of an entity authorised to audit financial statements on the compliance of methods and principles for valuation of fund's assets described in the information prospectus with the regulations on accounting in investment funds, as well as the consistency and completeness of these rules with the adopted investment policy of the fund. The issue of assessing the accuracy of the statements arose against the background of the analysis by the AOC of a report of inspection of audit documentation evidencing other services relating to confirmation by the entity authorised to audit financial statements of compliance of methods and principles of valuation of the assets of a sub-fund within the framework of an open investment fund.

The AOC also considered a letter from the FSA regarding suspicions of misconduct of an entity authorised to audit statements in the scope of compliance with the law and other regulations on auditing and operation of entities authorised to audit financial statements, in particular with the code of ethics, auditing standards and the quality control standards, which according to the FSA hindered the performance by the Commission of its statutory tasks related to oversight of the information obligations of issuers of securities admitted to trading on the regulated market. In this case, the AOC applied to the NAOA for an urgent unplanned inspection in the two entities authorised to audit financial statements covering audits carried out in relation to the prospectus of the entity and the service certifying regarding estimated and projected consolidated financial information, as well as activities by a special auditor.

In addition, the AOC acknowledged a letter by the FSA addressed to the Presidents of banks on the standardisation of the rules in the accounting policy with respect to settlements of remuneration from insurance.

In connection with FSA's information about the problems identified during the analysis of external audit reports of savings and credit unions in the scope of interpretation of accounting law and recognition of certain economic events and the interpretation of the above provided by the FSA, the AOC, in a statement issued in April 2013, supported the abovementioned interpretation and committed statutory auditors auditing financial statements of savings and credit unions for 2012 to take it into account during the audits and to check whether it was used by the Boards of savings and credit unions in preparing the financial statements for that year.

As part of monitoring the quality of external audits in savings and credit unions and in relation to information received from the FSA on non-uniform methodology used by statutory auditors in its realisation, the AOC applied to the NAOA in May 2013, to inspect the documentation of external audits. The inspection covered 13 entities authorised to audit financial statements and 23 documentations from external audits. Until the date of this report, the results of the evaluation process of the abovementioned inspection by the AOC was not fully completed.

At the same time, the AOC informed Mr Jan Vincent-Rostowski, Deputy Prime Minister and Chairman of the Financial Stability Committee of the action taken against auditors auditing savings and credit unions.

### **3.5. AOC's international cooperation**

#### **Cooperation within the European Union**

The main forum for cooperation with the oversight authorities of the EU Member States is the EGAOB, an advisory body to the European Commission. The EGAOB brings together public oversight bodies operating in the EU Member States. The EGAOB was established by the European Commission's decision of 14 December 2005 and aims to provide effective coordination of public oversight over statutory auditors and audit firms.

The EGAOB meets in plenary session organised and supported by the European Commission, which draws up the agenda of each of them and prepares relevant documents. EGAOB meetings are an opportunity for exchange of views between representatives of various public oversight bodies and the European Commission.

In 2013, representatives of the AOC participated in EGAOB meetings on 11 September and on 22 November and in the meeting of EGAOB's preparatory subgroup on 9 July. The main topic of these meetings was the cooperation with public oversight authorities from third countries (in particular with the American public oversight body – the PCAOB), including issues such as transfer of documents and registration of audit firms from third countries.

#### **Cooperation with the American public oversight body - PCAOB**

In 2013, the AOC continued the talks started in 2011 at the initiative of the American side on an agreement regulating the transfer of documents and the so-called joint inspections.

In addition, representatives of the AOC participated on 18-20 November 2013 in the annual conference of the International Audit Regulatory Institute in Washington organised by the PCAOB. The participants of the conference were representatives of the oversight authorities over statutory auditors and audit firms from different countries. The conference has primarily educational values in the scope of methodology and results of activities of the PCAOB. During the conference a meeting of the Chair of the PCAOB and the Chair of the AOC took place, regarding the importance of cooperation of oversight bodies.

#### **AOC's membership in IFIAR**

Created in 2006, IFIAR is a forum for global cooperation, which serves coordination purposes and operates on a voluntary basis. IFIAR members are public oversight bodies of dozens of countries, including 27 bodies operating in Europe<sup>13</sup>. This organisation is primarily designed to allow members to share information on the audit market and the practical experience of independent regulatory activities, focusing on inspections of audit firms. Positions expressed by the organisation are not legally binding on its members.

In 2011, the AOC was accepted as a member of IFIAR. In 2013, representatives of the AOC participated in a plenary meeting of IFIAR on 14-17 April in the Netherlands and in inspection workshops, which took place in Zurich on 4-6 March 2013. The annual

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<sup>13</sup> Data from 2013

IFIAR inspection workshops are primarily a platform for exchange of experiences and knowledge on the inspection of audit firms, including inspection techniques.

In 2013, the first annual report of the IFIAR for the preceding year was published<sup>14</sup>, including the contribution to the most important events in the field of public oversight and financial auditing in Poland.

### **Participation in EAIG's work**

The AOC participates in the work of the EAIG, which was formed as a separate from the EGAOB in 2011. The EAIG is composed of representatives of public oversight authorities from the EU Member States plus Norway and Switzerland. The European Commission has an observer status. The purpose of the EAIG is primarily to exchange experiences and to ensure coherence of actions in the framework of inspections of entities authorised to audit financial statements in individual states.

Key initiatives of the group in 2013 are:

- creating a tool for collecting the results of inspections in an electronic form – a database of inspection findings,
- exchange of knowledge in the field of inspection methodology and experience of inspections,
- taking the decision to develop the Common Audit Inspection Methodology, hereinafter referred to as the CAIM,
- communication with the largest audit networks and international organisations setting the standards for auditors.

In view of the growing importance of the activities undertaken by the EAIG, the members decided on giving them a legal form. Objectives and principles of actions within the EAIG are described in the general terms of cooperation and the principles of operation of the database of inspection findings. These documents were adopted and approved by the AOC respectively in July and September 2013.

The database of post-inspection findings will collect significant irregularities identified by individual public oversight authorities during inspections in audit firms operating within the 10 largest audit networks in Europe (PwC, KPMG, Deloitte, EY, BDO, Grant Thornton, Nexia, Baker Tilly, Mazars, Moore Stephens) in regard of auditing of public interest entities. Its aim is to identify:

- irregularities repeated in all audit networks,
- irregularities repeated in a given audit network,
- problems in the application of individual professional standards by audit firms.

The database of post-inspection findings will enable the development of a common approach to the abovementioned issues and will be an effective tool in the dialogue of the EAIG with audit networks, the profession of statutory auditors, the IAASB and the IESBA.

The project CAIM aims at developing common procedures for conducting quality control of audits of financial statements. The first phase of the project includes the methodology of the internal quality control system of entities authorised to audit financial statements. A representative of the AOC is involved in the CAIM project within the group reviewing and accepting the created procedures.

<sup>14</sup> IFIAR's annual report for 2012 is available at:

<https://ifiar.org/IFIAR/media/Documents/General/About%20Us/IFIAR%20Member%20Updates%202013/IFIAR-Annual-Report-2012.pdf>.



AOC's representatives participated in the meetings of the EAIG on 19-20 March 2013, 18-19 June 2013 and 26-27 November 2013.

### **Registration of statutory auditors and entities authorised to audit financial statements from third countries**

In accordance with the provisions of Art. 95 paragraph 1 of the Act, the AOC is the authority maintaining the register of statutory auditors from third countries and the list of entities authorised to audit financial statements from third countries.<sup>15</sup>

On 17 April 2013, the AOC registered KPMG LLP based in Canada as an entity authorised to audit financial statements from a third country and two statutory auditors from Canada, who are partners of KPMG LLP, based in Canada, as statutory auditors from the third country.

The registrations took place in relation to the audit by KPMG LLP, based in Canada, the consolidated financial statements of Serinus Energy (former Kulczyk Oil Ventures Inc.), registered in Canada, listed on the main market of the Warsaw Stock Exchange.

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

Therefore, the AOC directionally determined that it is appropriate to carry out further actions and explanations in order to use its powers under Art. 99 paragraph 2 of the Act.

### **The Swiss-Polish Cooperation Programme**

In 2013, activities were continued under the SPCP, whose one of the beneficiaries is the AOC. On 10 January 2013, a conference was held entitled *A key link in the financial reporting and auditing process* organised by the World Bank and the AOC (financed by the SPCP and AOC).<sup>16</sup>

In 2013 implementation of the IT system supporting the NCSA's actions in the field of public oversight was finalised, particularly in regard to registration and oversight of statutory auditors, which is partly financed by the SPCP, including the possibility of access to the system for the AOC.

Study visits in public oversight bodies in other countries were also continued. In 2013, employees of the Office of the AOC got acquainted with the functioning of public oversight in the Netherlands (March 13-15), along with a representative of the NAOC, and in Norway (23-25 April). As a summary of these and previous visits on 9-10 December 2013, a workshop was held in Vienna with the participation of employees of the Office of the AOC's and representatives of the NAOC.

Moreover, the participation of an employee of the Office of the AOC in IFIAR's inspection workshops was funded from the SPCP.

<sup>15</sup> Forms can be found on the website of the PIB MF ➔ Operation ➔ Collective bodies in the AOC section in the *Forms* tab

<sup>16</sup> More information about the AOC conference in the AOC's Report for 2012 on page 33, available on the website of the PIB MF ➔ Operation ➔ Collective bodies in the AOC section in the *Reports* tab.

### 3.6. Other supervisory activities of the AOC

#### Measures to improve the quality of audits of financial statements

With a view to improving the quality of audits of financial statements, the AOC addressed the National Council of Statutory Auditors in 2013 with a request to extend the thematic mandatory professional training for statutory auditors for 2014 on issues related to:

- the specifications of housing cooperatives, in particular concerning the management of housing associations' property resources, funds to finance these resources and the scope of information in the financial statements of housing cooperatives, the rules of presentation of financial data in the financial statements of housing cooperatives and the principles of preparing these statements,
- accounting and financial audits in financial institutions, in particular in savings and credit unions.

In July 2013, the AOC issued a statement directed to auditors performing audits in housing cooperatives on taking into account during the performance of audit activities in these entities the provisions of the system regulations setting out the principles of financial management of these entities, as defined in the Act on housing cooperatives, as well as the statutes of cooperatives and in the provisions of the accounting Act.

#### Control of entities authorised to audit financial statements in terms of reporting obligations

In accordance with Art. 87 paragraph 1 of the Act, an entity authorised to audit financial statements submits to the National Council of Statutory Auditors, on or before January 31 of each year, information on contracts signed in the preceding year for performing auditing activities in public interest entities.

In accordance with Art. 87 paragraph 2 of the Act, the information referred to in paragraph 1, is submitted by the National Council of Statutory Auditors to the AOC before 15 February each year.

On the basis of information provided by the National Council of Statutory Auditors and after adjustments made during the year:

- 114 entities informed about signing of an agreement/agreements for performing auditing activities in public interest entities in 2012,
- 11 entities submitted the P10 form after the deadline specified in Art. 87 paragraph 1 of the Act,
- 26 entities submitted the P10 form containing omissions,
- 2 entities qualified contracts incorrectly.

Entities which in 2013 did not comply with the deadline prescribed by the act or incorrectly qualified signed contracts, were sent by the AOC letters to remind them of the obligation under Art. 87 paragraph 1 of the Act.

In relation to the three entities which once again failed to meet the deadline specified by the act, proceedings were initiated *ex officio* in order to issue an administrative decision referred to in Art. 83 paragraph 1 item 2 of the Act.

The AOC also adopted a methodology for setting the amount of fines in the event of irregularities in the implementation of the obligation under Art. 87 of the Act.

The AOC also sent a letter to the Head of the National Council of Statutory Auditors stating that due to the irregularities in filling out forms P10 for 2012, there is a need for issuing a notification, precisely defining the requirements for filling in particular boxes of the form P10 by entities. The National Council of Statutory Auditors accepted the notification at its meeting on 2 July 2013, placing it on the NCSA's website.

### **Inspection of the transparency of entities authorised to audit financial statements and of information put on their websites**

Art. 88 paragraph 1 of the Act requires the entities authorised to audit financial statements, performing audits in public interest entities, to put on their websites, within three months from the end of the financial year, a transparency report containing at least the information mentioned in Art. 88 item 1 letters a) to j) of the Act.

In 2013, the AOC adopted a procedure for analysing transparency reports of entities auditing public interest entities provided in the inspection plan approved by the AOC.

The AOC carried out a detailed analysis of the 15 subjects included in the inspection plan for 2013 and the three entities which realised the obligation under Art. 87 paragraph 1 of the Act with shortcomings.

On the basis of the performed analysis, the AOC found still occurring irregularities in the implementation of the obligation under Art. 88 item 1 letters a) to j) of the Act and addressed these entities with a request to verify the statements and fill in missing information and declarations.

The AOC also recommended to analyse the procedures for planned inspections, in particular for formal and legal inspection, in order to prepare possible guidelines for the NAOC and/or the National Council of Statutory Auditors regarding transparency inspection for 2014.

### **The implementation of the tasks related to the transfer of information to the AOC on termination on termination of contracts for audit services**

In accordance with the provisions of Art. 66 paragraph 7 of the Accounting Act, the AOC and the entity authorised to audit financial statements should be immediately informed by the head of the entity ordering the audit of termination of contracts for audit or review of financial statements. The termination of the agreement referred to in Art. 66 paragraph 5 of the Accounting Act is only possible in the event of the occurrence of a reasonable basis. The obligation applies to both contracts for audit or review of financial statements of an obligatory and optional nature.

Termination of the abovementioned contracts is possible only in the event of the occurrence of a reasonable basis. Differences of views on the application of accounting principles and auditing standards do not constitute valid grounds to terminate contracts.<sup>17</sup>

In order to properly fulfil the obligation to inform about termination of contracts, the AOC, by Resolution No. 153/2013 of 29 May 2013, issued a notification on the implementation of the obligation to provide information to the AOC on termination of contracts for audit services, and adopted a new form template so that the submitted information contained in particular:

<sup>17</sup> In order to standardise the content of the obtained information a form was developed, which is located on the website of the PIB MF ➔ Operation ➔ Collective bodies in the AOC section in the *Forms* tab.

- information whether the contract was terminated during the performance of the service,
- information on whether the terminated contract was the only contract with the entity of public interest concluded in a given year (to be completed by the entity authorised to audit financial statements).

At the same time, the AOC recommended to entities authorised to audit financial statements to inform the head of the entity ordering the audit of the obligation under Article. 66, paragraph 7 of the Accounting Act, in cases of termination of the contract.

In connection with the provisions of Art. 66 paragraph 7 of the Accounting Act, the AOC received information about the termination of contracts for audit services. They show that in 2013, in 136 cases contracts for audit or review of financial statements were terminated.

Analysis of information on the termination of contracts for audit services indicates that:

- generally the form available on the website of the PIB MF is used, although there are still cases of incomplete and imprecise information,
- not all information sent to the AOC by the parties to contracts contain additional new elements of the form, i.e.:
  - ✓ whether that contract was terminated during the performance of the service,
  - ✓ whether the terminated contract was the only contract with the entity of public interest concluded in a given year,
- in 36 cases, information about the termination of the contract for audit services was sent to the AOC by both parties,<sup>18</sup>
- in 88 cases, information about the termination of the contract was not provided by the entity ordering the audit, which may indicate the lack of knowledge of the obligation of entities subject to audit,
- in 12 cases, information about the termination of the contract as not provided by the entities authorised to audit financial statements,
- in 43 cases, termination of the contract was based on mutual agreement of the parties,
- in 19 cases, the contract was terminated during the performance of the service.

Reasons for termination of contracts, referred to by the parties, were, among others:

decisions taken by the companies to change the statutory auditor (often due to changes in ownership, changes in investment plans),

- financial issues (such as the amount of remuneration of the audit firm, delay in payment of remuneration, lack of will of the contractor to renegotiate the price of audits in subsequent years of the term of the contract),
- bankruptcy of the company/firm, liquidation or change in the structure of companies resulting in that they are no longer under the obligation of being audited by statutory auditors.

In some cases, the identified causes were:

- inability to meet the deadlines specified in the contract for audits (e.g. failing to submit complete financial statements for auditing),
- the transfer of rights and obligations arising under the contract to another entity belonging to the network,

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<sup>18</sup> In some cases, the entity authorised to audit financial statements indicates the termination of several contracts with one entity.

- loss of independence and impartiality of the statutory auditor,
- in one case, it was notified that the entity sends backlog information on termination of a contract for audit services, comprising a follow-up statement of the NAOC in relation to an inspection carried out in an audit firm.

### **Considering complaints and requests**

At its meeting on 6 March 2013, the AOC confirmed the procedure for receiving complaints and requests under the Code of Administrative Procedure addressed to the AOC. According to it, in order to provide explanations for those interested, it was determined that:

- receiving petitioners takes place during office hours by employees of the Accounting Department of the MF,
- receiving petitioners after office hours (on Wednesdays 4:15 p.m. – 6 p.m.) - takes place in the course of duty hours of the employees of the Bureau of Protection of the MF - respectively, as is the case for the MF,
- receiving petitioners with complaints and requests by members of the AOC is possible after prior notification by phone.

### **3.7. Supporting efforts to amend the regulations concerning the activities of statutory auditors and entities authorised to audit financial statements and public oversight of these activities**

Implementing in practice the provisions of the Act, the AOC recognised the need of their clarification. Accordingly, the AOC worked on changes to the act in the following areas: improving the functionality of the AOC, the effectiveness of supervisory activities, international cooperation, implementation of the ISAs. In addition, the AOC discussed the possible need for changes related to the possibility of carrying out inspections on audit documentation by the AOC outside entities' premises, the possibility of imposing sanctions on statutory auditors by the AOC, the introduction of mandatory rotation of entities authorised to audit financial statements, standardisation of terminology related to the ISA and taking into account changes in regulations in the EU and USA.

As a result of held discussions, the AOC concluded that it is appropriate to make changes focused on improving the functioning of the AOC and improving the effectiveness of the supervisory system, before the introduction of changes resulting from the legislative process currently ongoing at the European level.

As a result of the performed work, the AOC submitted to the Minister of Finance materials containing areas of change to the act proposed by individual Members of the AOC, for possible use in future legislative work.

In 2013, the AOC observed intensified work at the EU level in the field of legislative changes regarding the Directive 2006/43/EC and the draft Regulation of the European Parliament and of the Council on specific requirements regarding the financial statements of public interest entities.

The AOC followed the progress of work in the European Commission, the EU Council and the European Parliament on the main issues discussed in the framework of these institutions.



The EU reached an agreement relating to the reform of the audit market. Among the key changes to the of the compromise text are a mandatory rotation of audit firms in public interest entities, a restriction for performing services other than audit to the audited client, a limit on remuneration for allowed services and services from one client, a ban on the use of contractual clauses by third parties, a ban on the participation of practitioners in the management of oversight authorities and the ban on carrying out inspections of audit firms auditing public interest entities by the self-government of statutory auditors.

### 3.8. Educational and informative activities of the AOC

As part of the task of spreading knowledge in the field of financial auditing as well as to enhance the quality of financial reporting and oversight, on 10 January 2013, the AOC organised a conference entitled *Audit Committee – A key link in the financial reporting and auditing process*. The conference was attended by over 140 people, including members of audit committees of companies listed on the Warsaw Stock Exchange, members of supervisory boards and statutory auditors. There was presented Polish and international experience in improving the effectiveness of audit committees.

The main tool for conducting by the AOC of informative activities is its website [www.mf.gov.pl - PIB MF ➔ Operation ➔ Collective bodies – AOC section], maintained in a certain scope, as required by the Act of 6 September 2001 on access to public information (Journal of Laws No. 112, item 1198, as amended). In 2013, the contents of the website were put in a proper order and the transparency of the website was increased, which is the next step to create an independent AOC website.

In 2013, the AOC released three statements, annexing the resolutions of the AOC, relating to:

- AOC's position on the interpretation of selected issues of accounting law, addressed to the Boards of Savings and Credit Unions (*Resolution No. 106/2013 of the AOC of 17 April 2013*),
- the fulfilment of the obligation to provide information to the AOC on termination of contracts for audit services in accordance with Art. 66 paragraph 7 of the Accounting Act (*Resolution No. 153/2013 of the AOC of 29 May 2013*),
- the compliance with the system provisions by auditors performing audits in housing cooperatives (*Resolution No. 193/2013 of the AOC of 10 July 2013*).

To distribute information and reach the widest possible audience, the AOC's messages are published both on the main website of the PIB MF in the Messages tab, and in the AOC section - PIB MF ➔ Operation ➔ Collective bodies in the AOC section, in the Messages tab<sup>19</sup>.

<sup>19</sup>Link: <http://www.mf.gov.pl/ministerstwo-finansow/dzialalnosc/ciala-kolegialne/komisja-nadzoru-audytowego/komunikaty;jsessionid=4006D51E990A9433F5444746BE29517A>

## **4. EVALUATION OF ACTIVITIES OF NCSA BODIES UNDER PUBLIC OVERSIGHT IN THE YEAR 2013<sup>20</sup>**

### **4.1. NAOC Activities**

The year 2013 was the first year of the second cycle of inspections planned for entities performing financial audits in public oversight entities and the fourth year of a 6-year cycle for the other entities referred to in Article 26 section 3 item 2 of the Act. Inspection plans for the above mentioned entities have been posted on the NCSA website after approval by the AOC of the inspection plans of entities performing financial audits in public oversight entities.

In 2013 the inspections carried out on the basis of the annual audit plan for the entities authorised to audit financial statements, performing audits in public oversight entities included 86 entities. Inspections in two entities have not been carried out for reasons of force majeure. In one case, the inspection was limited to the formal and legal scope because the entity has not performed any financial audit activities in 2011-2013. When performing inspection, the NAOC inspected 274 documentations of financial audit activities, including 152 documentations of public oversight entities, of which:

- 47 regarded banks,
- 11 – SCU,
- 7 – investment funds,
- 9 – insurance companies,
- 3 – brokerage houses,
- 75 – other public oversight entities.

For 9 of the inspected entities, the inspection carried out in 2013 was the second inspection from the entry of the Law into force.

In 2013, 9 inspections of implementation of audit recommendations were also conducted. In all nine cases, the NAOC concluded that the recommendations were implemented.

During the planned legal and formal inspections conducted in 2013 in 84 entities, the NAOC found 230 irregularities in this area, especially in relation to:

- data reported to publication on the list of entities authorised to audit financial statements, conducted by the National Council of Statutory Auditors,
- the accuracy and timeliness of posting transparency reports on the website of the entity (Article 88 paragraph 1 of the Act),
- soundness of the development and effective functioning of the quality control system rules,
- correctness of the calculation and timely payment of the annual oversight fee,
- the accuracy of preparation and timeliness of transfer of reports of the entity to National Council Of Statutory Auditors (Article 49 paragraph 3 of the Act),
- completeness of information and timeliness of its submission to National Council Of Statutory Auditors (article 87 paragraph 1 of the Act)),
- signing of opinions and reports on the financial audit activities on behalf of the entity authorised to audit financial statements.

<sup>20</sup> Report on the activities prepared by the NAOC, NDS, NDC, NIAC, and information received from National Council of Statutory Auditors are available on the website PIB MF ➔ Operation ➔ Collegial in the AOC section in the Reports tab.



Planned substantive inspections regarding the documentation of the audit of financial statements showed most common irregularities in:

- documenting audit findings mentioned in point 13 of NSAs No. 1,
- completeness of the activity reports,
- rules of audit planning,
- compliance of the content of the report with the formal NSAs No. 1 requirements,
- taking into account the risks and the level of materiality,
- conducting audit and allowing the statutory auditor not involved in the audit to find a justification for the opinion on the audited financial statements,
- compliance of the auditor's opinion with the formal requirements of NSAs No. 1,
- audits of contingent liabilities and claims, engagement quality control.

Following the planned inspections carried out in 2012 and 2013, the NAOC in 2013 submitted accordingly 9 and 27 motions (including 1 at the request of the AOC) to initiate disciplinary proceedings against 36 key statutory auditors. The most common irregularities in the work of statutory auditors, which resulted in a motion, after the inspection, to the NDS included irregularities in the documenting audit findings mentioned in paragraph 13 of NSAs No. 1 and abnormalities resulting from the lack of effective and efficient implementation of the principles of quality control system.

The NAOC submitted in 2013 one motion to the National Council of Statutory Auditors to impose on the entity that has undergone a planned inspection in 2012, penalties resulting from Article 27 paragraph 1 point 3 of the Act. In the execution of the instructions of the AOC, the NAOC has prepared 14 draft proposals for the National Council of Statutory Auditors to impose a penalty on the entities authorised to audit financial statements in connection with irregularities concerning the quality control system.

The inspection plan for the other entities referred to in Article 26 paragraph 3 item 2 of the Act included 404 entities, and ultimately inspected 340 entities (due to the deletion of 32 entities from the list of entities authorised to audit financial statements, postponing the audit until 2014 due to illness of the statutory auditor - in the case of 17 entities, information on the conducting of audit in public interest entities - in the case of 11 entities, evading the inspection - 4 entities).

The NAOC sent follow-up recommendations to 221 entities, recommendations along with motions for disciplinary action against 30 statutory auditors, requests to National Council of Statutory Auditors to impose penalties on three entities, and in 86 cases, the inspections were completed with no comments.

In 2013, the NAOC inspectors have conducted unplanned inspections in entities authorised to audit financial statements indicated by the AOC, on behalf of which the statutory auditors have conducted an external audit at SCU on the basis of Art. 87 of the Act of 5 November 2009 on Credit Unions. Unplanned inspections were carried out in 13 entities, 23 audit documentations and their reports were inspected, prepared by 17 auditors. As a result of unplanned inspections, the NAOC forwarded to the AOC 13 inspection reports along with 13 drafts of follow-up reports and 11 draft motions to the NDS for disciplinary action against statutory auditors performing external auditing on behalf of the 7 entities.

In 2013, teams of inspectors and peer-reviewers consisted of an average of 11 and 74 people, correspondingly.

The AOC in 2013 sent the NAOC a recommendation to transfer all inspection reports of entities authorised to audit financial statements, performing audits in public oversight entities included in the inspection plan for 2013 before 31 October 2013. By the end of 2013, the NAOC sent the AOC 75 of 86 audit reports of entities authorised to audit financial statements covered by the plan for approval. Transferring audit reports to the AOC did not take place in a systematic manner, which did not serve to streamline the entire inspection process. Intensified activities related to the transfer of NAOC reports and annexes to the reports of the inspection to the AOC took place in the months of October - December 2013. In the case of violation of rules of the internal quality control system by an inspected entity, all motions (other than one made by the NAOC), referred to in article 27, paragraph 1 point 3 of the Act were directed to National Council of Statutory Auditors, compliant to the AOC's instruction. During 2013, the AOC repeatedly applied to the NAOC with the recommendations to take into account the inspection reports of the observations resulting from the analysis of the reports, including, in particular, from the second half of 2013, with the instructions to impose sanctions on the inspected entities in case of violation of Article 49 paragraph 1 of the Act, i.e. the lack of development or ineffective implementation of an internal quality control system. In the opinion of the AOC, the NAOC actions in this regard were not appropriate.

A verification of audit reports carried out by the AOC in 2013 repeatedly showed inconsistent approach of the NAOC to inspected entities in the case of the same scope and nature of irregularities, formulating irregularities and requests submitted to the NDS or National Council of Statutory Auditors, as well as to inspect the implementation of follow-up recommendations. In order to improve the quality of reports submitted for approval and ensure equal treatment of inspected entities, the AOC sent in 2013 to the NAOC a number of recommendations concerning mainly the introduction of procedures for verification of reports and the use observations resulting from the analysis of inspection reports in the preparation of the next reports, as well as for the development of uniform rules for classifying irregularities, the actual inspection of implementation of the follow-up recommendations of the audit e.g. in combination with another planned inspection.

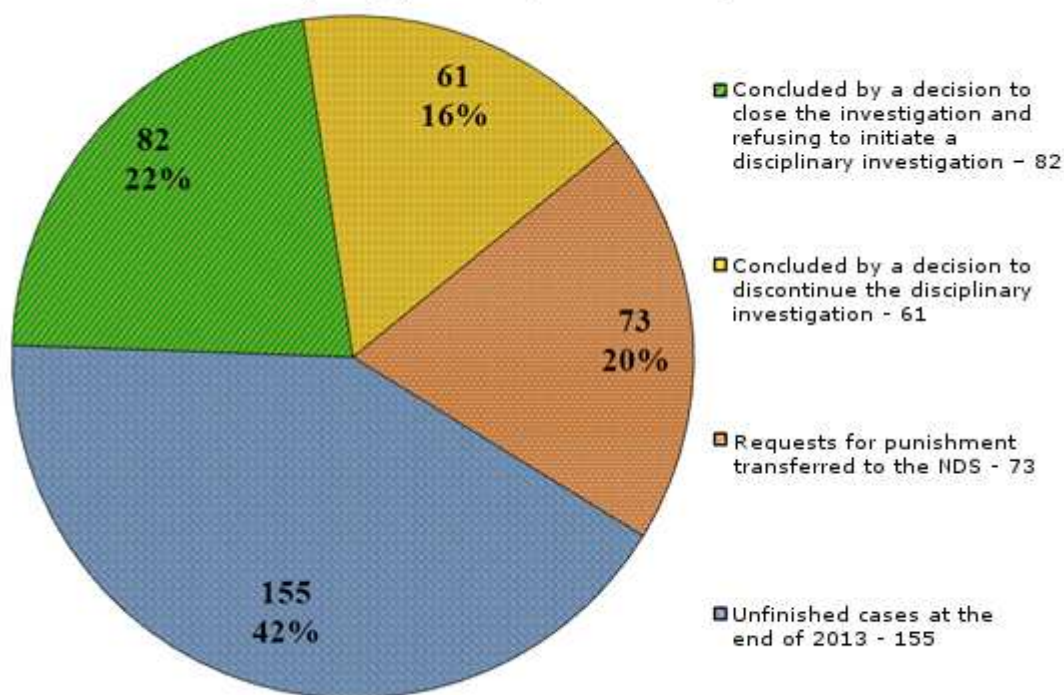
## **4.2. NDS Activities**

The NDS conducts explanatory proceedings and in accordance with Article 25 paragraph 2 of the Act is the prosecutor in disciplinary proceedings.

In 2013, the NDS together with his deputies ran 371 cases. In the period from 1 January 2013 to 31 December 2013, 239 motions for initiation of disciplinary proceedings were received by the NDS. In addition, the NDS ran 131 issues, which were not completed in the previous year and an additional 1 case (completed at the end of 2012), as returned by the Court in 2013 in order to complete the investigation of the disciplinary proceeding.

The chart below shows the results of disciplinary proceedings conducted by the NDS in 2013.

Results of disciplinary proceedings conducted by the NDS in 2013



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

Requests for initiation of disciplinary proceedings were directed by:

- National Council of Statutory Auditors (mainly related to cases of statutory auditors not participating in mandatory professional development in 2011 and 2012 - 142 motions and other matters) – 18 requests,
- NAOC – 139 requests,
- AOC – 13 requests,
- statutory auditors – 5 requests,
- economic entities – 23 requests,
- individuals – 20 requests,
- other (other units not listed above, including proceedings initiated ex officio) – 11 requests.

Of the 139 requests made by the NAOC, 50 were related to inspections carried out by peer-reviewers.

In the reporting period, compared to the previous year, the number of motions submitted by National Council of Statutory Auditors for failure to implement the statutory auditors' obligation of professional development has significantly decreased. National Council of Statutory Auditors sent 121 such requests, while in the previous year, 532 of these were sent.

Out of 73 requests for punishment submitted to the NDC:

- 22 cases brought by National Council of Statutory Auditors concerned statutory auditors who did not participate in mandatory professional development in 2011 and 2012, which constitutes a violation of Article 4 paragraph 1 point 2 of the Act, and violates paragraph 5.3 of the rules of professional ethics of statutory auditors, and, from 1 January 2012, section 130.3 of the Code of Ethics of the International Federation of Accountants (IFAC),

- 6 cases brought up by the AOC (by request of the FSA), 5 related to the implementation of audit of financial statements of SCUs with violation of the law, and one opinion (for the Police Department) in violation of professional competence and due diligence (point 3.1.b of principles of professional ethics for statutory auditors). During the SCUs audit, the following paragraphs were violated: point 66, 69, 70 NSAs no. 1, Article 35b, Article 65 paragraph 3 point 2, Article 65 paragraph 1-4, 5 point 7 of the Accounting Act, Article 56 paragraph 1, Article 4 paragraph 1 point 1 and 3 of the Act, point 5.1 and 5.2, point 2.2, point 3.1, point 4 of principles of professional ethics for statutory auditors,
- 37 cases brought up by the NAOC concerned the violations of Article 4 paragraph 1 point 1 and 5, Article 21 paragraph 2 point 3b, Article 49 paragraph 1, Article 50 paragraph 1-3, Article 56 paragraph 3-5, Article 60, Article 86 paragraph 9 and Article 88 point 2 and 3 of the act, Article 4a, Article 45 paragraph 2 and 3, Article 46 paragraph 1a, Article 48 and 48a paragraph 2, Article 49 paragraph 1 and 2 point 7, Article 52 paragraph 2-3, Article 56 paragraph 3-4, Article 64 paragraph 1, Article 65 paragraph 1, 3, 4, 6, Article 66 paragraph 4, 5 and 7 of the Accounting Act, professional practice standard no. 1, no. 5, NSAs no. 1, NSAs no. 3, internal quality control rules,
- 8 cases brought up by individuals concerned violations of Article 4 paragraph 1 and 3 of the Act, Article 12 paragraph 1 point 5, paragraph 2 point 6, Article 32 paragraph 1, Article 65 paragraph 1, 2 and 6 of the Accounting Act and principles of professional ethics for statutory auditors.

Out of 73 cases referred to the Court, at the end of 2013, the judgment was issued in 35 cases:

- 3 bans on performance of financial review for two years,
- 12 reprimands,
- 9 warnings,
- 10 fines,
- 1 discontinuation of proceedings.

In other cases they were appointed by the NDC to cause lists for 2014.

In 3 cases the NDC decided on returning the 3 cases to the Spokesman.

The NDS referred 20 motions to the Court for punishment that contain a form of punishment agreed with the statutory auditor, before the proceedings in front of the Spokesman, which is in accordance with Article 37 paragraph 4 of the Act. The Court did not consent to agree on penalties in two cases, undertaking the proceeding which ended in a ruling.

2 cases of complaints were brought by a party issuing the case to the NDC about the Spokesman's decision to close the investigation and refusing to initiate a disciplinary investigation.

The Court considered 3 cases of complaints about the Spokesman's decision to refuse to recognize the applicant as a victim.

There were no cases of limitation in the reporting period.

The NDS concluded 143 cases by issuing decisions on the closure of the investigation procedures and refusing to initiate the investigation and to discontinue disciplinary action. In more than 72% of these cases, the Spokesman concluded that the act committed or disciplinary offense is a negligible degree of social harm or no offense was committed or there is not enough data to prove the deed.

In 2013 two complaints were received about the conduct of disciplinary investigations in violation of regulations, the analysis of which the Spokesman entrusted to a three-person Spokesman Team, in accordance with paragraph 67 item 1 of the Rules of disciplinary proceedings against statutory auditors. In both cases, there was no infringement of the applicable procedure to be followed, and after examining the case files found that disciplinary investigations were conducted in accordance with applicable regulations. The issuers of the complaints were informed about the investigation results.

Currently, the common courts of law hold 8 appeals against decisions made by the NDC in accordance with Article 41 paragraph 1 of the Act, 5 of which are cases brought against decisions of previous years.

In 2013, the Spokesman participated in two hearings of appeal in two regional courts. In one case, the Commissioner appealed to the Court of Appeal, and also filed an answer to the district court for appeal counsel of the statutory auditor sentenced by the NDC for 2-year-old ban on performance of financial audit.

Comparing cases submitted by the NDS for the NDC in 2013 with 2012 it should be noted that the amount of cases directed to Court has indeed decreased (nearly three times less). However, upon analysis of their importance, it must be emphasized that from 205 cases made in 2012, 188 (92%) concerned the statutory auditors who did not participate in mandatory training in 2010 and 2011. Only 8% of submitted matters were of much greater importance. In 2013, the situation was far different, and the lack of mandatory training cases accounted for only 30% of the cases. Over 50% of cases sent to Court in 2013 was requested by NAOC, while in the previous year the figure was less than 3%, and AOC applications accounted for more than 8%, while a year earlier merely 1.5%. The labour intensity of cases conducted by the NDS has therefore dramatically increased. However, the situations of too lengthy proceedings still occurred in 2013, both at the stage of conducted explanatory proceedings and disciplinary investigations. The AOC repeatedly reminded the NDS about the need to comply with both the procedures and time limits set by law.

#### **4.3. NDC Activities**

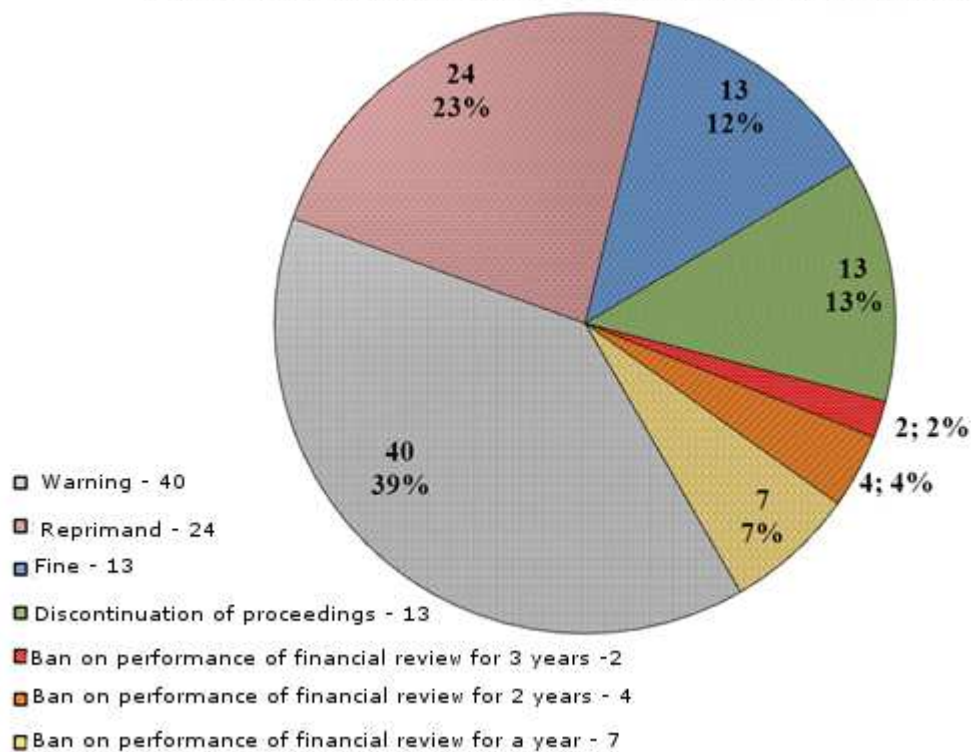
The NDC, in accordance with Article 24 paragraph 3 of the Act shall rule on disciplinary liability of statutory auditors.

In 2013, the NDC has issued 152 rulings, including 108 judgments that ended the proceedings. In two cases the Court presided over the case involving two inculpated, hence the Court sentenced two penalties in one case. The NDC also considered 7 complaints about the provisions of the NDS and the NDC.

The following chart shows the types of disciplinary sanctions in the judgments of the NDC in 2013.



Types of disciplinary sanctions in the judgments of the NDC in 2013.



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

In addition, the NDC:

- adjourned the hearings in 33 cases,
- interrupted the hearings in 6 cases,
- returned requests for punishment 5 times in order to supplement a disciplinary investigation by the NDS.

In addition, the NDC issued rulings of the rectification of protocol, rectification of decisions and reimbursement of travel expenses in connection with attendance at the hearing as a witness. In addition, the NDC recognized cases of removing judges from the adjudication panel (in one case excluding one of the members of the panel, and in the second case the case was deemed unfounded), and the exclusion of the NDS (claim was unfounded).

In 2013, the NDC considered 7 appeals against the rulings of the NDS and the NDC, resolving them as follows:

- upheld the decision of the NDS to refuse recognition of the notifier as a victim due to the fact that the notifier could not participate in the proceedings as a party,
- the complaint did not include and the decision the NDC made to leave the adopted measure of appeal without consideration was upheld,
- repealed rulings of the NDS under appeal twice to close the investigation and refusing to initiate the a disciplinary investigation and sent the case back to the NDS for another review,
- took into account the complaint of the NDS about the decision of the NDC to return files to be completed,
- left without consideration the adopted measure of appeal against the decision of the NDS to refuse recognition of the notifier as a victim,



- upheld the NDS order under appeal to leave the measure of appeal without consideration.

In 2013 the NDS directed 73 motions for punishment to the NDC. Among them, 36 cases were settled in 2013<sup>21</sup>, the remainder of unrecognized cases (37 cases) passed to be recognized in 2014. In 2013, the NDC considered 58 requests for punishment from 2012, all have been considered in 2013. Out of over 150 issued rulings of the NDC, only 8 cases were appealed to the district courts - labour and social security courts:

- in 3 cases the NDC ruling was upheld,
- In 5 cases, the matters are still pending before courts of appeal.

In 2013, the most common objects of the NDC rulings were violations of the law: the Act, the Accounting Act, NSAs No. 1, 3, 5, professional practice standard no. 1, NCSA Resolution No. 1378/32/2009 of 13 October 2009 on the principles of internal quality control and principles of professional ethics for statutory auditors.

In 2013, the inculpatory statutory auditors entered a no contest plea. 5 of inculpatory effectively made use of the no contest plea introduced into the disciplinary procedure. Additionally, 13 rulings were made in which the penalty was agreed at the NDS stage (5 such cases have been transferred to the next year). In two cases, the Court did not consent to the penalty agreed upon on such a basis.

The NDC recognized and issued a ruling in 23 cases out of 37 cases provided in 2013 by the NDS, by request of the NAOC, and transferred six cases by request of the AOC<sup>22</sup>, 1 case was substantially concluded, 4 are in progress, and one will be considered in 2014.

When comparing the rulings issued by the NDC in 2013 (152) with the previous year (241) a significant quantitative decline is noted. The analysis shows, however, that from 241 decisions issued in 2012, even 82% concerned the failed obligation to attend mandatory training (in 2013 they accounted for merely 45%), and the cases addressed in 2012 by the AOC and the NAOC accounted for only 15% (already 50% in 2013).

The assessment of procedural correctness and legitimacy of the Court is exercised through judicial oversight of district labour and social security courts, which adjudicate about the correctness of the principles of legal procedures and the methods used in Court rulings. In 2013, among more than 150 judgments issued by the NDC, only 8 cases have been subjected to the said validation control and are subject to the result of the appeal, of which the district courts - labour and social security courts in 3 cases upheld the decision of the NDC, and in 5 cases, matters are still underway before courts of appeal. In the previous period, the district court upheld the decision of the NDC only in 1 case, discontinued the proceedings in the present case in 1 case, changed the sentence in 2 cases, returned the case to re-examination by the NDC in 2 cases, the matter is still pending before a court of appeal in 5 cases.

#### **4.4. National Council of Statutory Auditors activities**

In 2013, the National Council of Statutory Auditors performed tasks in the field of public oversight, in particular:

<sup>21</sup> one order for return of the file to the NDS was included to the total number.

<sup>22</sup> in fact, there were 5 cases by request of the AOC, only 1 was merely passed by the AOC according to property.

- registration of statutory auditors and entities authorised to audit financial statements,
- the qualification procedure for candidates for statutory auditors,
- mandatory professional development for statutory auditors,
- National Standards on Auditing,
- annual oversight fee.

In the period from 1 January 2013 to 31 December 2013, through the decisions of the National Council of Statutory Auditors:

- 236 people have been validly entered into the register of statutory auditors (there were no entries on the basis of Article 5 paragraphs 3 or 4 of the Act),
- 162 statutory auditors were removed from the register of statutory auditors, including:
  - ✓ 130 on request,
  - ✓ 30 because of death,
  - ✓ 2 because of failure to meet the conditions referred to in Article 5 paragraphs 2 item 3 of the Act,
- 69 entities were entered on the list of entities authorised to audit financial statements,
- 107 of entities authorised to audit financial statements were removed from the list, including:
  - ✓ 86 on request,
  - ✓ 1 due to the absence of a valid contract civil liability insurance, referred to in Article 50 paragraph 1 of the Act,
  - ✓ due to the failure to undergo inspection, referred to in article 26 of the Act,
  - ✓ 9 based on the decision of the AOC,
  - ✓ 1 by request of the NAOA (pursuant to Article 54 paragraph 1, item 6 of the Act),
  - ✓ 8 because of the death statutory auditors conducting authorised entities in a business in its own name and for their own account.

As at 31 December 2013 three administrative proceedings were held regarding the removal from the register of statutory auditors and there were no administrative proceedings regarding the removal from the list of entities authorised to audit financial statements.

Also in 2013 the National Council of Statutory Auditors adopted the following announcements regarding registration of statutory auditors and entities authorised to audit financial statements:

- No. 18/2013 of 12 March 2013 on the transfer form (symbol - R5) notifying discontinuation of performing the profession by the statutory auditor, No. 28/2013 of 12 November 2013 on the adoption of the model form of a notice of discontinuation of performing the profession by the statutory auditor.

Additionally, in 2013, the National Council of Statutory Auditors developed the following procedures for the removal of entities from the list of entities authorised to audit financial statements:

- regarding the entities authorised included in the NAOC inspection plan - according to which the National Council of Statutory Auditors forwards requests for removal to the NAOC, which determines the possible need for inspection of the entity prior to its removal from the list of entities,
- applicable to all entities - according to which each request of the authorised entity for removal from the list of entities is analyzed in terms of the dates and results of the last inspection carried out by the NAOC in this entity and - when it is justified from the point of view of risk analysis – the National Council of Statutory Auditors requests the NAOC to conduct an inspection prior to the removal of an entity from the list.

For the purposes of the aforementioned procedures, the model form P9 has been changed, which is the template of application for the removal of the authorised entity from the list of entities authorised to audit financial statements (is attached as Annex to the Communication No. 25/2013 National Council of Statutory Auditors of 30 July 2013).

In 2013 the National Council of Statutory Auditors has passed two resolutions regarding the qualification procedure for candidates for statutory auditors and three resolutions concerning the functioning of the Examination Committee, in particular the resolution no. 1903/33/2013 of 24 September 2013 on the recommendation of the representatives of the NCSA to the Examination Committee (in connection with the expiry of 4-year term on 1 December 2013 of the Examination Committee).

Additionally, in 2013, the National Council of Statutory Auditors took action to regulate the mandatory professional development for statutory auditors in the field of:

- fulfilling by statutory auditors the duty of obligatory development:
  - ✓ resolution no. 1634/26/2013 of 12 March 2013 on the transfer of a list of statutory auditors to the NDS who in 2012 did not complete the training resulting from failure to complete the duty of professional training of statutory auditors for the year 2011 (this list included 8 auditors),
  - ✓ resolution no. 1635/26/2013 of 12 March 2013 on the transfer of a list of statutory auditors to the NDS who in 2012 did not fulfil obligations relating to professional training of statutory auditors (this list included 113 statutory auditors),
- the subject of mandatory professional training in 2014, undertaking in particular:
  - ✓ resolution no. 1561/25/2013 of 12 February 2013 on a range of subjects and a minimum number of hours of mandatory professional training for statutory auditors in 2014,  
The AOC approved the resolution of the National Council of Statutory Auditors. In addition, the AOC applied to the National Council of Statutory Auditors to consider the possibility of supplementing the list of themes proposed for mandatory professional training for statutory auditors with matters related to accounting and auditing of financial institutions, including SCUs, in particular, in relation to the irregularities in the work of statutory auditors auditing public interest entities.
  - ✓ resolution no. 1705/28/2013 of 8 May 2013 amending the resolution on range of subjects and a minimum number of hours of mandatory professional training for statutory auditors in 2014, (the scope, as recommended by the AOC has been

expanded by additional module: accountancy specifics and financial audit of SCUs),

- organizing mandatory professional training, particularly undertaking:
  - ✓ resolution No. 1562/25/2013 of 12 February 2013 repealing a resolution amending the resolution on the rules for obtaining authorisation to conduct mandatory professional training for auditors (the resolution repealed resolution no. 1414/22/2012 of 3 December 2012, in relation to which the AOC reported doubts),
  - ✓ resolution No. 2025/35/2013 of 12 November 2013 on the list of entities authorised to conduct mandatory professional training for statutory auditors in 2014 (repealing the resolution No. 1856/31/2013 dated 30 July 2013). In the resolution, the NCSA granted permission 15 units to conduct mandatory professional training for statutory auditors,
  - ✓ furthermore, e-learning was approved as one of the forms to complete mandatory professional training for statutory auditors in 2013.

The National Council of Statutory Auditors has also taken actions aimed at the settlement of auditors from the obligation of professional training in 2013. It was established that in 2013, the obligation concerned 6 942 statutory auditors, of which 473 auditors had not complied with the requirement of mandatory professional training, and towards 336 auditors the National Council of Statutory Auditors took action in 2014 to transfer those cases to the NDS.

In 2013, there were 18 individuals who were allowed by the National Council of Statutory Auditors to carry out mandatory professional training for statutory auditors, the number as compared to 2012 remained at the same level. Among these units 7 entities were authorised to audit financial statements received permission to host the 2013 mandatory professional training in the form of e-learning. The intention to conduct mandatory professional training of statutory auditors also reported 21 regional NCSA and 26 regional branches of the Association of Accountants in Poland. The National Council of Statutory Auditors conducted 8 visitations during the reporting period of mandatory professional trainings, aimed at enforcing compliance by units conducting training with principles described in the organizational and methodical guidelines.

In the period from 1 January 2013 to 31 December 2013 the National Council of Statutory Auditors has taken:

- resolution no. 1666/27/2013 of 9 April 2013 on the rules for internal quality control in the entity authorised to audit financial statements, on the basis of Article 21 paragraph 2 point 3 b of the Act, (introducing - as the principle of internal quality control in the entity authorised to audit financial statements - International Standard on Quality Control 1 - *Control the quality of companies performing audits and reviews of financial statements and performing other service orders and related attestation*, issued by the IAASB),
- resolution no. 1667/27/2013 of 9 April 2013 concerning the NSAs, pursuant to Article 21 paragraph 2 point 3 of the Act, (introducing - as NSAs - issued by the International Auditing and Assurance Standards Board (IAASB): ISA, International of standards review services and international standards of acceptance services).

In relation to the two resolutions the AOC raised objections at its meeting on 29 May 2013 - more details on pages 34 and 35 of this report.

The National Council of Statutory Auditors did not submit to the AOC subsequent resolutions in the field of financial audit standards or principles of internal quality control of the entity authorised to audit financial statements.

In addition, in 2013 the National Council of Statutory Auditors issued the following announcements:

- no. 20/2013 of 9 April 2013 regarding analysis of pro forma financial information, forecast results and estimated results as financial auditing activities;
- No. 22/2013 of 4 June 2013 on the possible use of certified electronic signature when signing the opinion and report on the financial statement audit.

In 2013, the National Council of Statutory Auditors did not take any resolutions on matters relating to the rules of professional ethics of statutory auditors, as well as resolutions on matters relating to disciplinary proceedings against statutory auditors.

In terms of sanctions imposed on entities authorised to audit financial statements the National Council of Statutory Auditors, at the request of the NAOC, filed as a result of the inspection, five resolutions have been undertaken in 2013:

- 4 resolutions concerning the removal of entities from the list of entities authorised to audit financial statements,
- 1 resolution to impose fines and a public disclosure of information on detected irregularities in the entity authorised to audit financial statements. This entity authorised to audit financial statements was carrying out financial audit activities in public interest entities in 2013. Both penalties were carried out.

In terms of the annual oversight fee during the reporting period National Council of Statutory Auditors has passed three resolutions, including resolution no. 2038/36/2013 of 26 November 2013 on the amount of the annual oversight fee t in 2014 (which sets the height at the level of 1.75% of the revenues of entities authorised to audit financial statements of the auditing procedures) and resolution no. 2041/36/2013 of 26 November 2013 on the default interest on overdue payments of the annual fee for oversight (in which the National Council of Statutory Auditors introduced statutory interest for late payment under the terms of the Act of 23 April 1964 - Civil Code).

Additionally, the National Council of Statutory Auditors released three announcements in this respect, in particular: no. 17/2013 of 12 February 2013 on the minimum amount of the annual fee for oversight in 2013, and no. 30/2013 of 2 December 2013 on the proper performance of the annual settlement of the annual fee for oversight for 2013.

In 2013 the National Council of Statutory Auditors adopted resolution no. 2037/36/2013 of 26 November 2013 on the amount of fees for entry into the list of entities authorised to audit financial statements in 2014, which determined the fee for entry on the list to be PLN 1500 - as in the previous year.

In addition, the National Council of Statutory Auditors adopted Resolution no. 1563/25/2013 of 12 February 2013 on the membership fee for statutory auditors in 2013, which determined the membership fee of PLN 352.00, as well as a lower membership fee of PLN 20.00.



The National Council of Statutory Auditors in 2013 adopted Resolution no. 1755/29/2013 of 4 June 2013 on the approval of the NCSA financial statements for the year 2012.

The NIAC<sup>23</sup> adopted resolution no. 1/2013 of 3 June 2013 on the adoption of an opinion on the NCSA financial statements for the year 2012.

In relation to these two resolutions the AOC drew attention of the NCSA to the financial loss presented in the following year. In 2012, a shortfall of funds occurred after the surplus in the previous years, mainly due to increased costs of inspections in 2012, in order to implement the 3-year audit plan. It was found that it is appropriate to continue to monitor the financial situation of the NCSA, to determine whether there will be danger to the performance of the tasks of oversight.

In 2013, the AOC considered 632 resolutions of the National Council of Statutory Auditors, of which:

- eight National Council of Statutory Auditors resolutions were approved (pursuant to Article 72 paragraph 1 of the Act),
- the National Council of Statutory Auditors raised objections in relation to three resolutions (based on Article 72 paragraph 1 of the Act),
- the AOC did not sue any of the resolutions of the National Council of Statutory Auditors to the administrative court (pursuant to Article 64 paragraph 1 point 5 of the Act).

From the AOC's point of view, summarizing the activities of National Council of Statutory Auditors, the ongoing (since 2011) process of adopting the ISAs by the National Council of Statutory Auditors through the NSAs should be emphasized. Another draft resolution presented by the National Council of Statutory Auditors in 2013 was met with AOC's reservations. Bearing in mind the need to implement the ISAs in Poland, the AOC held a meeting with the National Council of Statutory Auditors and monitored further actions of professional self-government resulting from the decisions made.

In terms of the obligation of professional training, it should be emphasized that once again the number of statutory auditors who failed to fulfil their obligation to undergo mandatory professional training has increased, compared to the previous year<sup>24</sup>. At the same time, it is advisable that the National Council of Statutory Auditors continues the disciplinary action towards statutory auditors failing to meet this obligation, which is essential for the quality of the financial audit activities. Taking action to make more flexible forms of training should be considered as positive, such as the introduction of training in the form of e-learning.

<sup>23</sup> Report on the activity of NIAC in 2013 is available on the website PIB MF ➔ Operation ➔ Collegial bodies in the AOC section, in the *Reports* tab.

<sup>24</sup> Number of statutory auditors who failed to fulfil their obligation to fulfil mandatory professional training, for which the National Council of Statutory Auditors directed the case to the NDS:

- **992** in the year 2010, pursuant to the National Council of Statutory Auditors resolution no. 4000/57/2011 of 29 March 2011,
- **532** in the year 2011, pursuant to the National Council of Statutory Auditors resolution no. 929/12/2012 of 6 March 2012,
- **113** in the year 2012, pursuant to the National Council of Statutory Auditors resolution no. 1635/26/2013 of 12 March 2013,
- **336** in the year 2013, pursuant to information from the National Council of Statutory Auditors, relayed in writing of 15 April 2014.



In connection with the indication of the AOC, the National Council of Statutory Auditors (in cooperation with other NCSA authorities) developed a procedure to be followed regarding the situation in which the entity authorised to audit financial statements has filed a request for removal from the list of entities after receiving information that it was placed in the inspection plan. The AOC is expected that the operation of the NCSA, in particular of the National Council of Statutory Auditors will allow minimizing the risks associated with the presence of deliberate removal requests by entities that wish to avoid inspection in this way.

## **SUMMARY OF THE AOC FIRST TERM IN THE YEARS 2009-2013**

On 1 July 2013, expires the first 4-year term of the Audit Oversight Commission (AOC), appointed by the Minister of Finance, acting under *the Act on Statutory Auditors, Their Self-Governing Organisation, Entities Authorised to Audit Financial Statements and on Public Oversight of 9 May 2009*.

The AOC is a collegial body of public administration, which conducts public oversight over the performance of auditing activities of entities authorised to audit financial statements and the activities of self-government of statutory auditors (National Chamber of Statutory Auditors - NCSA), to which bodies, by will of the legislature, were delegated certain tasks from the field of public oversight.

During the first term in the years 2009-2013, there were 83 plenary sessions of the AOC and it has undertaken a total of 745 resolutions. In the framework of public oversight, primarily to ensure high quality financial audit in the mentioned period, the AOC:

- created the framework for a well-functioning system of public oversight, by identifying relevant standards and legal-organizational and procedural measures, including, in particular the approval of resolutions issued by the NCSA on systemic issues, such as: National Standards on Auditing, principles of internal quality control of entities authorised to audit financial statements, principles of professional ethics of statutory auditors, the regulations of disciplinary proceedings against the auditors, the principles of mandatory professional training for statutory auditors, the principles of the actions of the Examination Commission and other regulations with respect to the qualification procedure for candidates for statutory auditors, as well as through the adoption of the Rules of the AOC and the resolutions authorising Members of the AOC and staff of the Office of the AOC to deal issues related to the implementation of the statutory duties on behalf of the AOC;
- developed the principle of the current cooperation with the NCSA, in order to make the best execution of the tasks of public oversight performed by the NCSA, including: keeping the register of statutory auditors and the list of entities authorised to audit financial statements, inspections of the entities authorised to audit financial statements as part of the quality assurance system, conducting disciplinary proceedings against statutory auditors;
- carried out activities aimed at ensuring the uniform principles of auditing, in particular endorsed the Code of Ethics for Professional Accountants of the International Federation of Accountants (IFAC), principles of professional ethics of statutory auditors as in force in Poland, to promote proper implementation of International Standards on Auditing (ISAs) and International Standard Quality Control (ISQC1), presenting objections to the resolutions submitted by the National Council of Statutory Auditors;
- approved the mandatory topics for annual training for statutory auditors, in order to adjust the requirements for statutory auditors to the needs arising from the changing market conditions;

- oversaw the implementation of the first 3-year inspection cycle (2010-2012) by the National Audit Oversight Committee (NAOC), covering 97 entities authorised to audit financial statements, performing audits in public interest entities, among others, by the approval of inspection plans and templates of inspection protocols, issuing recommendations on the inspections executed by the NAOC, approval of inspection reports;
- oversaw the process of granting the title of the statutory auditor and the registration of entities authorised to audit financial statements by, among others, considering resolutions of the National Council of Statutory Auditors on entry or removal in terms of the necessity to appeal to the administrative court, as well as considered appeals against the resolutions brought by the parties;
- developed procedures for the registration of statutory auditors and entities authorised to audit financial statements from third countries, made its first registration of the entity and the two auditors from Canada in order to oversee them in connection with the performance of the audit of financial statements of the company listed on the Warsaw Stock Exchange;
- filed requests to the National Disciplinary Spokesman (NDS) for the initiation of disciplinary proceedings against statutory auditors, representatives of the AOC participated in the hearings before the National Disciplinary Court (NDC);
- in cooperation with the Financial Supervision Authority has taken a number of actions against statutory auditors and entities authorised to audit financial statements auditing the financial statements of Savings and Credit Unions (SCUs) and conducting an external audit of SCUs, which resulted in:
  - ✓ motions to the NDS for the initiation of disciplinary proceedings against statutory auditors in connection with irregularities in the audit of SCUs' financial statements;
  - ✓ issuance of announcements about the need of statutory auditors to comply with the requirements of the Financial Supervision Authority when undertaking the aforementioned audit and the interpretation of the Ministry of Finance on selected issues of accounting law when conducting audits of SCUs' financial statements for 2012,
  - ✓ recommendation to the NAOC to carry out unplanned inspections in selected entities authorised to audit financial statements, which have carried out an external audit of SCUs,
  - ✓ extension of the themes of the mandatory professional training for statutory auditors in 2014 on issues related to the specifics of SCUs;
  - ✓ referring information by the Chairman of the AOC to Mr Jan Vincent-Rostowski, Deputy Prime Minister, Minister of Finance, Chairman of the Financial Stability Committee, on the activities carried out by the AOC in the field of SCUs;
- responded to signals from the market participants regarding irregularities in the services provided by statutory auditors and entities authorised to audit financial statements;
- performed tasks aimed at an increase of knowledge of supervisory bodies of business entities on the cooperation with the statutory auditors, in particular, co-organisation with the World Bank and the Warsaw Stock Exchange a conference addressed to the

members of audit committees *Audit Committees: key link in the process of financial reporting and auditing* on 10 January 2013;

- participated in the debate on the future of financial audit in the EU - in the context of a pending legislative process at the EU level, developed the position on the so-called Green Paper, afterwards considered the draft legislation, namely draft directive amending the Directive on Audit (2006/43/EC) and the draft regulation for audits of financial statements of public interest entities;
- discussed the possibility of changes in *the Act on Statutory Auditors, Their Self-Governing Organisation, Entities Authorised to Audit Financial Statements and on Public Oversight of 9 May 2009* aiming at the improvement of the performance of the public oversight system;
- was represented at various forums of international cooperation:
  - ✓ main forums of cooperation with public oversight of European countries is the European Group of Auditors' Oversight Bodies (EGAOB) and the European Audit Inspection Group (EAIG);
  - ✓ the AOC was approved in 2011 to become a member of the International Forum of Independent Audit Regulators (IFIAR);
  - ✓ AOC representatives participated in conferences organized by the American Public Company Accounting Oversight Board (PCAOB), and in study visits to public oversight bodies in the Netherlands, Ireland, Norway and Switzerland;

With regard to the financing of activities of the AOC, it should be stressed that they are fully covered from the state budget. At the same time in connection with the operation of the public oversight system to the state budget is paid, among others, the share in the oversight fees paid oversight by entities authorised to audit financial statements to the NCSA.

Substantive and organizational support is provided to the AOC by the Office of the AOC, i.e. the staff of the Accounting Department of the Ministry of Finance.

The AOC publishes on the website in the "Public Information Bulletin of the Ministry of Finance" (PIB MF ➤ Operation ➤ Collegial bodies in the AOC section) information on its activities, including the annual action plans and reports covering comprehensive information about the functioning of the public oversight system (including the results of the inspections in entities authorised to audit financial statements), as well as information on the decisions taken at the meetings of the AOC.

*Warsaw, 21 June 2013.*

## **AOC ACTION PLAN FOR THE YEAR 2014**

1. Taking action to ensure high quality work performed by statutory auditors and quality assurance systems in entities authorised to audit financial statements (audit firms), through, among others, improving the efficiency of inspections carried out by the National Audit Oversight Committee, in particular:
  - analysis of inspection reports of entities authorised to audit financial statements, performing audits in public interest entities,
  - participation in inspections carried out by the National Audit Oversight Committee,
  - making recommendations to the National Audit Oversight Committee in the area of inspection methodology and procedures.
2. Conducting activities aimed at ensuring the uniform principles of work performed by statutory auditors in Poland, in particular by:
  - supporting the implementation of International Standards on Auditing (ISAs) as the auditing standards of statutory auditors in Poland,
  - supervising the professional development of statutory auditors in particular on the range of mandatory training topics, to best match requirements set for statutory auditors to the needs arising from changing market conditions.
3. Overseeing the scope and subjects of the public oversight of the profession of the statutory accountant and entities authorised to audit financial statements, including the development of principles of oversight of audits of financial statements relevant to for the Polish market performed by foreign audit firms.
4. Review of the implementation of reporting obligations by entities authorised to audit financial statements.
5. Taking action to improve the effectiveness of disciplinary proceedings by developing a systematic approach, in particular:
  - a. analysis of the operation of the National Disciplinary Spokesman,
  - b. analysis of the case law of the National Disciplinary Court and common courts,
  - c. determining the priority areas of interest of the Audit Oversight Commission in the ongoing disciplinary proceedings,
  - d. evaluating the rules used by statutory auditors contained in the IFAC Code of Ethics in the context of ongoing disciplinary proceedings.
6. Oversight of the process for the approval of a statutory auditor, in particular by:
  - monitoring the procedure of registration of statutory auditors, including an analysis of the approach of the National Council of Statutory Auditors in verifying entry requirements for statutory auditors,
  - approving the resolutions of the National Council of Statutory Auditors specifying the scope, procedures and rules of conduct for candidates for statutory auditors,
  - getting acquainted with the procedures of the Examination Committee in terms of the qualification procedure for candidates for statutory auditors.
7. Actions to promote financial audit as the basis of reliable information in financial statements, in particular by:

- developing an information policy for the Audit Oversight Commission,
  - participation of representatives of the Audit Oversight Commission in conferences and debates on reporting and financial auditing,
  - organizing a conference on the role and importance of public oversight.
8. Developing international cooperation, including in particular:
- exchange of experiences on the functioning of the public oversight system,
  - development of priority directions of cooperation within the European Group of Auditors' Oversight Bodies (EGAOB), the International Forum of Independent Audit Regulators (IFIAR) and the European Audit Inspection Group (EAIG),
  - developing relationships with selected oversight authorities of the European Union and third countries, including the establishment of the principles of cooperation with the public oversight authorities of the U.S. and Canada in the field of oversight of audit firms.
9. Taking steps towards a developing a position with regard to changes in the regulations concerning the activities of statutory auditors and entities authorised to audit financial statements and public oversight over these activities resulting from the expected amendment in the law at the level of the European Union.
10. Developing resources to facilitate the implementation of tasks of the Audit Oversight Commission.
11. Measures to increase security of information received and produced by the public oversight system.
12. The current implementation of the tasks set out in *the Act on Statutory Auditors, Their Self-Governing Organisation, Entities Authorised to Audit Financial Statements and on Public Oversight of 9 May 2009* (Journal of Law no. 77, item 649, as amended)