KOMISJA NADZORU AUDYTOWEGO

# REPORT OF THE AUDIT OVERSIGHT COMMISSION FOR 2015

**Warsaw, 27 April 2016**

Pursuant to Article 64(5) of *the Act of 7 May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight* (Journal of Laws of 2015, item 1011, as amended) the AOC, by the 30 April of the following year, shall draft an annual report comprising comprehensive information on the operations of the quality assurance system, the results of disciplinary proceedings against statutory auditors, and on penalties imposed on entities authorised to audit financial statements.

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# About the AOC - key information

The Audit Oversight Commission (AOC) is a collective body of public administration established by virtue of Article 63 of the *Act of 7th May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight* (Journal of Laws of 2015, item 1011, as amended).

Since 2009 the AOC has been exercising public oversight over:
- the performance of the profession of a statutory auditor;
- the activity of entities authorised to audit financial statements; and
- the activity of the NCSA.

The main tasks of the AOC include:
- approving annual inspection plans drafted by a NCSA body, related to performing the profession of statutory auditors and activity of entities authorised to audit financial statements which perform audit activities in public interest entities, and approving candidates for inspectors prior to their engagements, and inspectors designated to perform particular inspections;
- carrying out (by itself), in case of receiving information about irregularities, inspections of performing the profession by statutory auditors, and the activity of entities authorised to audit financial statements;
- approving resolutions adopted by the NCSA committees as specified in the Act;
- appealing to administrative court against resolutions of the NCSA bodies which are not subject to approval;
- handling international cooperation, including in particular, with the European Commission, oversight bodies from other EU Member States and third countries.

Members of the Audit Oversight Commission in 2015:
- Ms Dorota Podedworna-Tarnowska, the AOC Chairwoman, the representative of the Minister of Finance (dismissed as of 22 December 2015);
- Mr Piotr Nowak, the AOC Chairman, the representative of the Minister of Finance (appointed as of 30 December 2015);
- Ms Dagmara Wieczorek-Bartczak, the AOC Deputy Chairwoman, the representative of the FSA;
- Ms Joanna Dadacz, the representative of the Minister of Finance;
- Mr Jacek Hryniuk, the representative of the NCSA;
- Ms Ewa Jakubczyk-Cały, the representative of the WSE;
- Mr Piotr Kamiński, the representative of the organisations of employers;
- Mr Sławomir Mirkowski, the representative of the NCSA;
- Mr Tomasz Piwowarski, the representative of the FSA;
- Mr Waldemar Szmidt, the representative of the Minister of Justice.

# INTRODUCTION

**In 2015 the Audit Oversight Commission implemented a number of activities aimed at ensuring a high quality performance of the profession of a statutory auditor and systems for ensuring the quality of auditing in audit firms. Moreover, measures aiming at unification of the rules of performance of the profession in Poland were undertaken.**

**Oversight over inspections of the professional body**

In 2015 the AOC oversaw execution by the professional body of planned and unplanned inspections of statutory auditors and entities authorised to audit financial statements which perform audit activities in public interest entities. Within the framework of the second cycle of planned inspections, in 2013-2015, 189 inspections were performed under the AOC oversight. In the light of the objectives pursued by the said inspections, the following findings should be particularly emphasised:

- irregularities concerning violation of the impartiality and independence principles at the level of an entity;
- cases of failure to develop an internal quality control system by audit firms;
- no evidence of audit planning and evidence of auditing confirming statements arising out of the mandatory standards of performing the profession with regard to material parts of financial statements.

Due to the key importance of those irregularities, also for audits to be performed in the future, the AOC requested proper actions to be undertaken by committees of the professional body towards audit firms and key statutory auditors, respectively. The AOC also monitored the course of disciplinary proceedings against statutory auditors carried out by the court placed in the professional body, joining certain proceedings as a party. As regards those areas, in the times of eroded trust to financial institutions, it was important for the AOC, in cooperation with the FSA, to involve in measures undertaken against statutory auditors and audit firms auditing financial statements of Savings and Credit Unions and cooperative banks.

The AOC approved and monitored the execution of the annual inspection plan, approved inspectors designated to perform particular inspections as well as analysed inspection reports (including those from previous years). Moreover, the AOC performed one unplanned inspection upon receiving information on irregularities and ordered two unplanned inspections to be carried out by the professional body.

**Strengthening the oversight system**

In 2015 the AOC also conducted a number of systemic activities aimed at strengthening of performance of the public oversight system, quality and uniformity of performance of the profession of statutory auditors in Poland as well as building the trust to financial reporting and auditing.

In the reporting year, the process of adoption of the International Standards on Auditing and the International Standard on Quality Control 1 into the Polish legal system, continued since 2011, was completed. In 2015 the AOC approved resolutions in this area adopted by the professional body.

In connection with the conclusion of works on the EU reform of the public oversight system in mid-2014, in 2015 the AOC participated in the process of drafting the assumptions of the implementing act conducted by the Minister of Finance. The said


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works will be continued in the next year within the framework of providing the opinion on the draft act implementing the European Union legislation.

**International cooperation**

In 2015, the AOC continued international cooperation through participation in the works of, inter alia, the European Group of Auditors' Oversight Bodies (EGAOB), the European Audit Inspection Group (EAIG) and the International Forum of Independent Audit Regulators (IFIAR). Moreover, the AOC continued its cooperation with oversight bodies from other countries as well as with the World Bank.

In 2015, for the first time one of the EAIG meetings was organised in Poland. Representatives of 29 European public oversight bodies invited by the AOC took part in the meeting. In relation to IFIAR it should be indicated that this organisation is subject to transformation towards strengthening of its structure in order to adjust it to the global nature. The AOC takes part in discussions concerning the shape of the changes, and in 2015 representatives of the AOC participated in working activities related to the shape of the future membership fee.

**Challenges for 2016**

The year 2016 in the AOC activity is mainly the year of adjusting the performance of the public oversight body to the rules arising from the reform of the audit system. As of mid-2016 tasks related to performing inspections in audit firms auditing financial statements of public interest entities and imposing sanctions in connection with irregularities found during those inspections, will be carried out directly by a public oversight body. The adjustment to the new regulations through the development of the formula of exercising the imposed tasks is a key challenge for the AOC in the forthcoming year. In this area, measures aimed at strengthening of the AOC Office will be significant. Activities aimed at promoting audit as the basis for provision of reliable information in financial statements of economic operators will be also continued. For example, organising of the next conference concerning the role of audit committees and the need to strengthen the cooperation with statutory auditors and oversight bodies is planned, as a follow-up of two conferences on audit committees held in 2013 and 2015.

**What is the content of the report for 2015?**

In the first part of this report, the public oversight system in Poland is presented, including the analysis of the market of entities authorised to audit financial statements. Chapter two presents background information concerning the composition, financing and support of the AOC. The next part of the report contains detailed information related to the AOC activities - measures within the quality assurance system, disciplinary proceedings, cooperation with other bodies, both on the national and international level. In addition, education and information activity of the AOC is presented. In chapter four, the evaluation of committees of the professional body of statutory auditors for 2015 is presented. The last part of the report contains the AOC action plan for 2016.

# LIST OF ABBREVIATIONS AND ACRONYMS

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


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# 1. PUBLIC OVERSIGHT SYSTEM

## 1.1. Legal basis of the system

### EU legal instruments

- Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on Statutory Audits of Annual Accounts and Consolidated Accounts, Amending Council Directives 78/660/EEC and 83/349/EEC and Repealing Council Directive 84/253/EEC (OJ EU L 157 of 9 June 2006, p. 87, as amended), hereinafter referred to as Directive 2006/43/EC.
- Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts (OJ EU L 158 of 27 May 2014, p. 196), hereinafter referred to as Directive 2014/56/EU;[1]
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on Specific Requirements Regarding Statutory Audit of Public Interest Entities and Repealing Commission Decision 2005/909/EC (OJ EU L 158 of 27 May 2014, p. 77), hereinafter referred to as Regulation 537/2014.[2]

### Act of Law

The Act of 7 May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight (Journal of Laws of 2015, item 1011 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 Regulation of the Minister of Finance of 15 January 2010 on Inspection of Performing the Profession of Statutory Auditors and Activity of Entities Authorised to Audit Financial Statements (Journal of Laws No. 16, item 83), hereinafter referred to as the Inspection Regulation;
- The Regulation of the Minister of Finance of 3 December 2009 on Mandatory Civil Liability Insurance of Entities Authorised to Audit Financial Statements (Journal of Laws No. 205, item 1583);
- Resolution No. 5 of the Extraordinary National Assembly of Statutory Auditors of 21 March 2010 on the Constitution of the National Chamber of Statutory Auditors, amended by Resolution No. 46 of the 7th National Assembly of Statutory Auditors of 26 June 2015, hereinafter referred to as the NCSA Constitution.

[1] The Directive entered into force on 16 June 2014; the EU Member States are obliged to implement the provisions thereof by 17 June 2016.
[2] The Regulation shall apply as of 17 June 2016

## 1.2. System characteristics

The public oversight system consists of the following elements:

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

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

- approving resolutions adopted by the NCSA bodies as specified in the Act, including resolutions concerning:
  - ✓ the National Standards on Auditing (NSAs),
  - ✓ the rules of internal quality control of entities authorised to audit financial statements,
  - ✓ the rules of professional ethics of statutory auditors,
  - ✓ the regulations of disciplinary proceedings against statutory auditors,
  - ✓ the rules of mandatory in-service training for statutory auditors,
  - ✓ the regulations of the Examination Committee and other rules concerning the qualification procedure for candidates for statutory auditors;
- approving annual plans drafted by the NAOC concerning inspections in entities authorised to audit financial statements[3]which perform audit activities in public interest entities, and approving candidates for inspectors prior to their engagements, and inspectors designated to perform particular inspections;
- approving results of inspections carried out in entities authorised to audit financial statements which perform audit activities in public interest entities, and participating in certain inspections performed by the NAOC in the capacity of an observer;
- carrying out (by itself), in case of receiving information about irregularities, inspections of performing the profession by statutory auditors, and the activity of entities authorised to audit financial statements;
- participating as a party in disciplinary proceedings against statutory auditors carried out by the NDS and the NDC;
- registering statutory auditors and entities authorised to audit financial statements from third countries;
- appealing to administrative court against resolutions of the NCSA bodies which are not subject to approval;
- inspecting documentation constituting the basis for the NCoSA to adopt resolutions concerning entries of statutory auditors to the register of statutory auditors, or entries of entities authorised to audit financial statements to the list of entities authorised to audit financial statements;

[3] The names: ***entities authorised to audit financial statements*** and ***audit firms*** are applied interchangeably herein.


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- handling international cooperation, including in particular, with the European Commission, oversight bodies from other EU Member States and third countries.

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

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

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

The Examination Commission consists of 19 members, including:

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

Pursuant to Article 8(6) of the Act, the Examination Committee for Candidates for Statutory Auditors submits a report on activity to the AOC[4].

## 1.3. Background information on the market of audit services

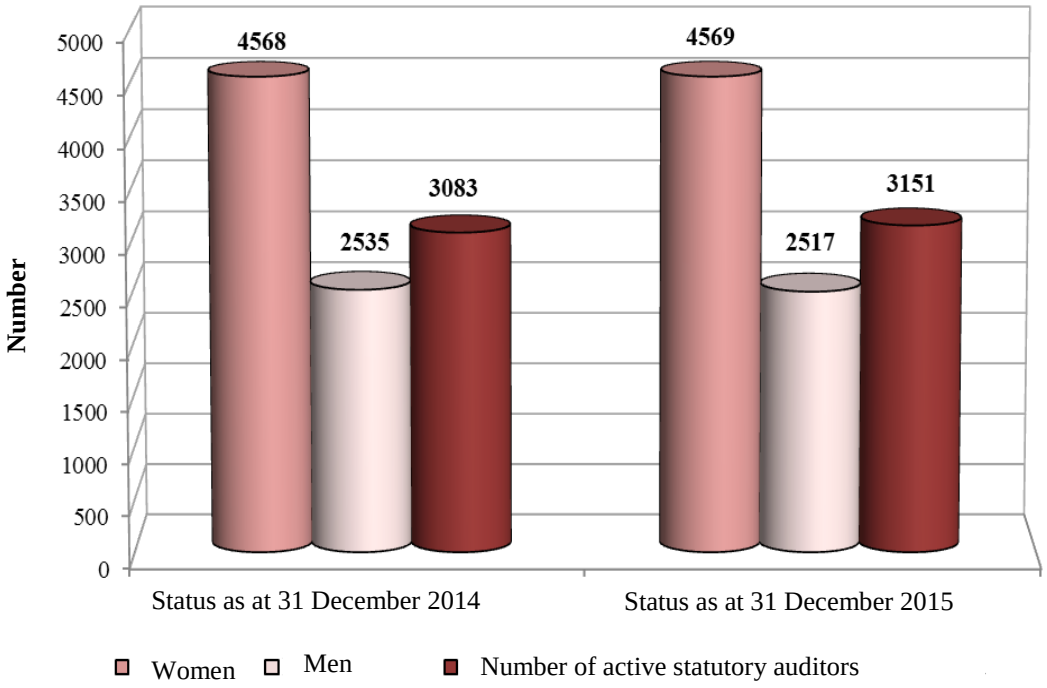
### Statutory auditors

As at 31 December 2015 the register of statutory auditors comprised 7,086 statutory auditors (including 4,569 women and 2,517 men), which is a decline by 17 statutory auditors as compared to the end of 2014. 3,151 individuals among the statutory auditors entered into the register of statutory auditors declared to be professionally active. As compared to the end of 2014 that number dropped by 68 auditors. The average age of a statutory auditor as at 31 December 2015 was 56, similar to the previous year.

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

[4] *Report on the Activity of the Examination Committee for Candidates for Statutory Auditors for the Period from 1 January 2015 to 31 December 2015* is available on the website of the PIB MF ➲ Activity [Działalność] ➲ Collective Bodies [Ciała kolegialne] in the AOC [KNA] section, tab *Reports [Sprawozdania]*.

**Comparison of changes in the number of statutory auditor in 2014-2015**




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

In 2014, 12,585 candidates (including 1,041 recruited in 2015, and 11,544 in the previous years) participated in the qualification procedure for candidates for statutory auditors. As compared to the end of 2014, it is a growth by 651 candidates for statutory auditors.
In 2015, the qualification procedure was completed by 71 candidates, which means that such number of candidates out of 73 individuals passed the diploma exam and acquired the right to apply to the NCoSA to be entered into the register of statutory auditors.

In the period from 1 January 2015 to 31 December 2015, pursuant to the NCoSA resolutions, 202 people were entered into the register of statutory auditors (no entries were made for individuals holding qualifications to perform the profession of a statutory auditor acquired abroad, recognised by EU Member States, following passing of the exam in economic law[5]), 219 statutory auditors were struck off the register of statutory auditors, including:

- 184 on request (185 individuals were struck off the register of statutory auditors pursuant to the NCoSA resolutions, however, in case of one individual, the AOC waived the NCoSA resolution concerning striking off the register in its entirety);
- 35 due to death.

As compared to the end of 2014, the number of entries into the register of statutory auditors increased by 45 entries, and at the same time the number statutory auditors struck off the register of statutory auditors increased by 23.

[5] In 2015 3 individuals took the exam in economic law binding in the Republic of Poland, one of them passed the exam.


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## Entities authorised to audit financial statements

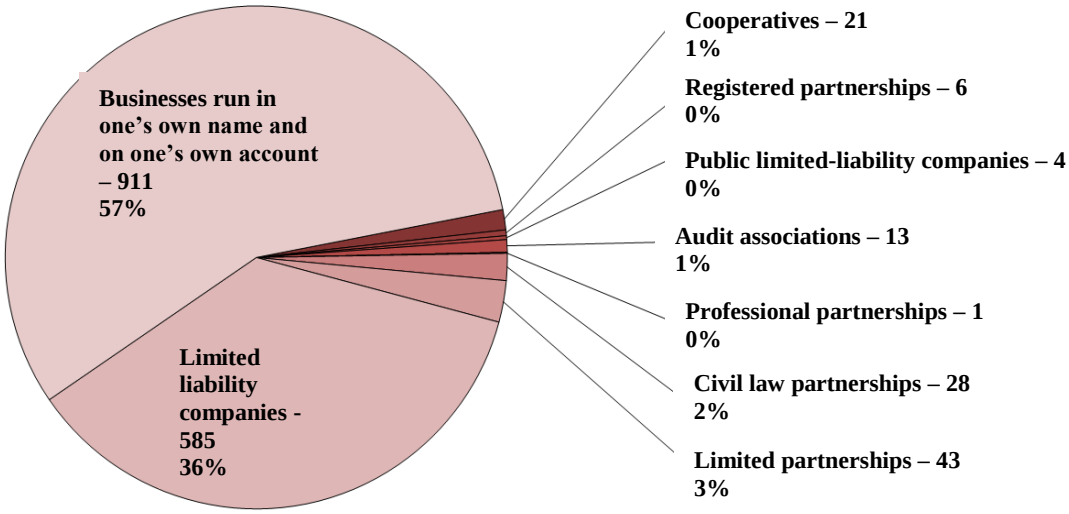
As at 31 December 2015 the list of entities authorised to audit financial statements comprised 1,612 entities authorised to audit financial statements. As compared to the end of 2014, the number of entities authorised to audit financial statements dropped by 19.[6]

From 1 January 2015 to 31 December 2015, pursuant to the NCoSA resolutions, 77 entities authorised to audit financial statements were entered into the list of entities authorised to audit financial statements, and 96 entities were struck off the list of entities authorised to audit financial statements, including:

- 78 upon request;
- 9 upon the request of the NAOC due to refusing to undergo an inspection;
- 3 in connection with the NAOC decisions based on inspection results;
- 2 in connection with the failure of the entity to settle the annual fee due to oversight and failure to conclude a civil liability insurance agreement;
- 3 due to the death of statutory auditors running the authorised entities as activity in their own name and on their own account;
- 1 due to striking the statutory auditor off the register (lack of statutory auditor in economic activity).

The figure below shows the division of entities authorised to audit financial statements by business activity form as at 31 December 2015.

**Classification of entities authorised to audit financial statements according to business activity form as at the end of 2015**



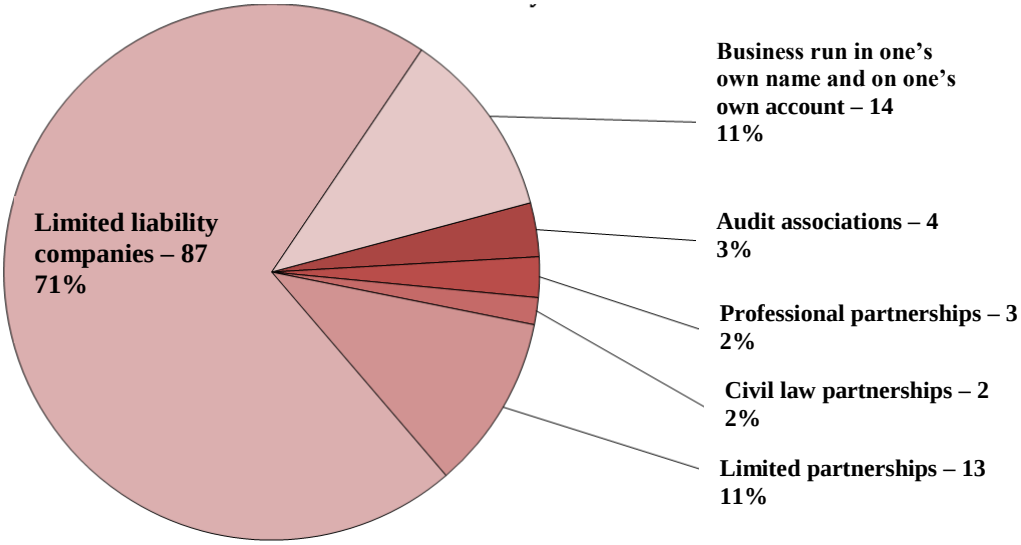

Source: own compilation of the AOC Office based on the NCSA data.

The prevailing business activity form of entities authorised to audit financial statements is a business run in their own name and on their own account (57%). At the same time, the largest number of entities authorised to audit financial statements which perform audit activities in other forms is comprised by limited liability companies (36%).

[6] The figures provided take into account the validity of decisions concerning the entries.

The figure below shows the division of entities authorised to audit financial statements which perform audit activities also in public interest entities by business activity form as at 5 January 2016.[7]

**Classification of entities authorised to audit financial statements performing audit activities in public interest entities according to business activity form as at 5 January 2016**




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

As at 31 December 2015 there were approx. 1,992 public interest entities in Poland (as defined in Article 2(4) of the Act), including:

- issuers of securities admitted to trade in a regulated market of an EU Member State, having their registered office within the territory of the Republic of Poland, excluding local government entities and public interest entities which simultaneously comply with the definitions presented below (424);
- national banks, branches of credit institutions, and branches of foreign banks (38 - commercial banks, 561 - cooperative banks, 27 - branches of credit institutions and branches of foreign banks);
- SCUs (48);
- insurance companies and head offices of insurance companies, and reinsurance companies (61);
- electronic money institutions (0);
- open pension funds (12) and general pension societies (12);
- open-end investment funds, specialised open-end investment funds, and closed-end investment funds whose public investment certificates have not been admitted to trade in a regulated market (757);
- entities pursuing brokerage activity, excluding entities pursuing activity exclusively with regard to accepting and transferring orders of purchase or disposal of financial instruments or with regard to investment consulting (52).[8]

[7] The information presented has been compiled based on the list of entities authorised to audit financial statements which at least once within 3 years perform audit activities in public interest entities, available on the website of the NCSA, updated as at 5 January 2016.

[8] The estimate data were calculated based on the data received by the MF from the FSA Office and contained on the website: www.knf.gov.pl .


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The data based on the part of reports referred to in Article 49(3) of the Act[9] verified by the NCSA Office show that in 2015 27,867 audits of financial statements were carried out, including 23,648 mandatory and 4,219 optional ones.

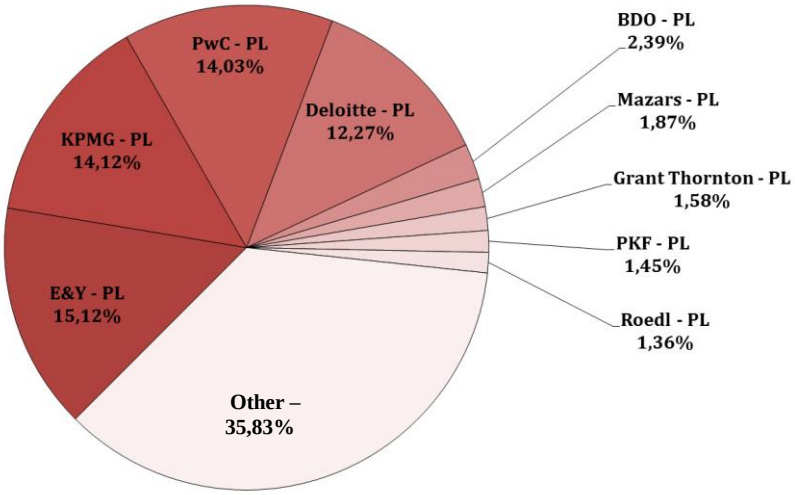
## Revenue of audit firms

Revenue acquired by entities authorised to audit financial statements in 2015 generated due to performing audit activities[10] amounted to: **PLN 663,556,042.98,** including revenue of entities authorised to audit financial statements performing audit activities in public interest entities: PLN 478,729,151.59.

Below the market share of the biggest Polish audit firms is presented[11] in terms of revenue generated in 2015. However, one should take into account that the presented division refers to the revenue generated due to all audit activities performed by the particular audit firms, and not only to the revenue due to audits of financial statements.
Polish audit firms of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) generated 55.5% of all revenue due to performance of auditing gained by all Polish audit firms.

[9] Until 15 March 2016 1,414 reports were sent, which constitutes approx. 82.9% of the expected number of all reports.
[10] Based on the data acquired from the correctly completed settlements of the annual oversight fee for 2015, or – should there be no settlements – from the reports referred to in Article 49(3) of the Act submitted until 15 March 2016 by entities authorised to audit financial statements.
[11] Further herein, we use the following abbreviations and acronyms for the following Polish audit firms: **BDO - PL** – BDO Sp. z o.o.; **Deloitte - PL** – Deloitte Polska Sp. z o.o. Sp. k. and Deloitte Polska Sp. z o.o.; **E&Y - PL** – Ernst & Young Audyt Polska Sp. z o.o. Sp. k. and Ernst & Young Audyt Polska Sp. z o.o.; **Grant Thornton - PL** – Grant Thornton Frąckowiak Sp. z o.o. Sp. k., Grant Thornton Frąckowiak Sp. z o.o., Grant Thornton Polska Sp. z o.o. Sp. k. and Grant Thornton Polska Sp. z o.o.; **KPMG - PL** – KPMG Audyt Sp. z o.o. Sp. k., KPMG Audyt Services Sp. z o.o and KPMG Audyt Sp. z o.o.; **Mazars - PL** – Mazars Audyt Sp. z o.o. and Mazars Expertise Sp. z o.o.; **PKF - PL** – PKF Consult Sp. z o.o. Sp. k.; **PwC - PL** – PricewaterhouseCoopers Sp. z o.o. and PricewaterhouseCoopers Polska Sp. z o.o.; **Roedl - PL** – Roedl Audit Sp. z o.o.; **ZRBS Stefczyk - PL** – Związek Rewizyjny Banków Spółdzielczych im. Franciszka Stefczyka Spółdzielczy związek rewizyjny [Audit Association of Cooperative Banks of Franciszek Stefczyk Cooperative Audit Association]; **ZRBS Poznań - PL** – Związek Rewizyjny Banków Spółdzielczych w Poznaniu Spółdzielczy związek rewizyjny [Audit Association of Cooperative Banks in Poznań Cooperative Audit Association]; **Beskidzki SZR - PL** – Beskidzki Spółdzielczy Związek Rewizyjny Spółdzielczy związek rewizyjny [Audit Association of Cooperative Banks of Beskidy Cooperative Audit Association].

**Market share of the biggest Polish audit firms in terms of revenues gained in 2015 due to performing audit activities**




Source: own compilation of the AOC Office based on data for 2015 submitted by entities authorised to audit financial statements to the NCSA.

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

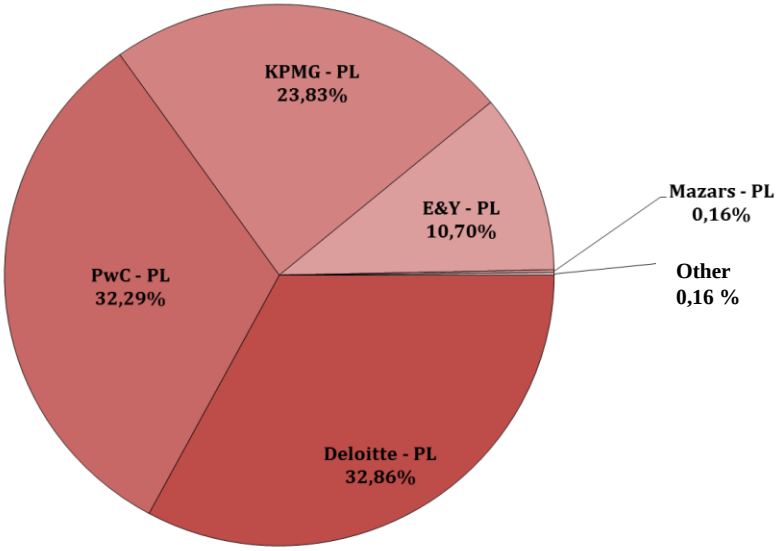
The market share of the biggest audit firms in Poland was analysed with regard to the banking, insurance, pension and listed companies sector. The reference data are financial statements for 2014 of economic entities in the said types of sectors. However, it should be taken into account that the said financial statements were audited by audit firms in 2015, or in some cases even later. This means that in general the audit firms generated revenue due to performing the said audits in 2015 or even later.

### Auditors of the banking sector

First, the market share of the biggest Polish audit firms auditing financial statements of Polish commercial banks is presented, for which the market measure is the amount of assets as at 31 December 2014 (whereby the total amount of assets for all commercial banks is **PLN 1,360,417,416,000.00).**


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**Market share of the biggest Polish audit firms in terms of total assets of commercial banks whose annual financial statements for 2014 were subject to auditing by individual audit firms**

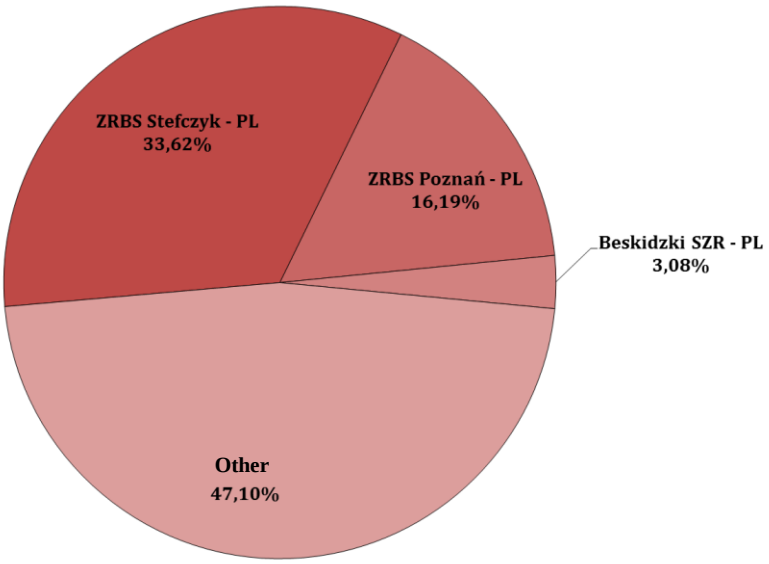



Source: own compilation of the AOC Office based on the FSA Office data.

As a consequence, Polish audit firms of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements for 2014 of commercial banks whose total assets constituted 99.68%.

On the other hand, the market share of the biggest Polish audit firms auditing financial statements of Polish cooperative banks, for which the market measure is the amount of assets as at 31 December 2014 is as follows (whereby the total amount of assets for all cooperative banks is **PLN 137,876,747,223.00).**

**Market share of the biggest Polish audit firms in terms of total assets of cooperative banks whose annual financial statements for 2014 were subject to auditing by individual audit firms**



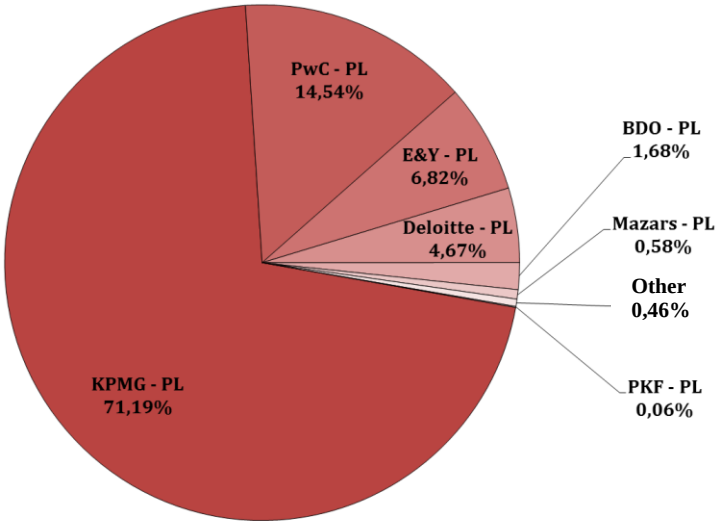

Source: own compilation of the AOC Office based on the FSA Office data.

The three audit firms shown above audited financial statements for 2014 of cooperative banks whose total assets constituted 52.90%.

## Auditors of the insurance sector

For the insurance sector the market share of the biggest audit firms auditing financial statements of Polish insurance companies is presented, for which the market measure is the amount of gross written premium for the period from 1 January to 31 December 2014 (whereby the total amount of gross written premium for all insurance companies is **PLN 54,696,324,930.00).**

**Market share of the biggest Polish audit firms in terms of gross written premium collected by insurance companies whose annual financial statements for 2014 were subject to auditing by individual audit firms**




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

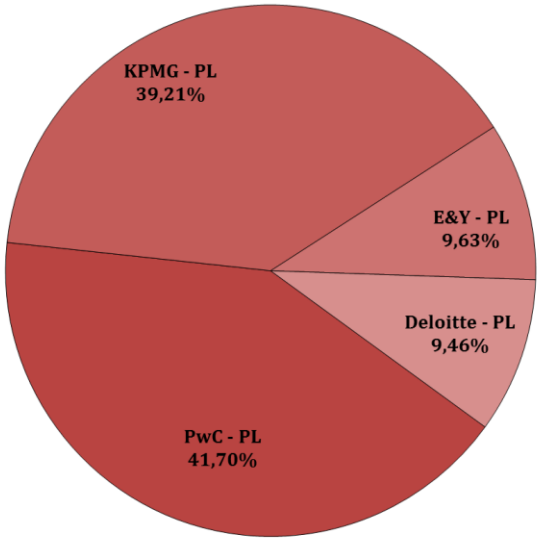
As a consequence, Polish audit firms of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements for 2014 of insurance companies whose total gross written premium reached 97.22%, which makes a growth by almost 2 percentage points against the previous year. In relation to the previous year, the significant growth in share of KPMG from 37.25% to 71.19% and decline in Deloitte share from 33.61% to 4.67% should be also emphasised.

## Auditors of the pension sector

In the scope of the pension sector, the market share of the biggest Polish audit firms auditing financial statements of Polish open pension funds for 2014 is presented, for which the market measure is the value of net assets (whereby the total net assets for all open pension funds is **PLN 155,220,056,544.18).**


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**Market share of the biggest Polish audit firms in terms of net total assets of open pension funds whose annual financial statements for 2014 were subject to auditing by individual audit firms**

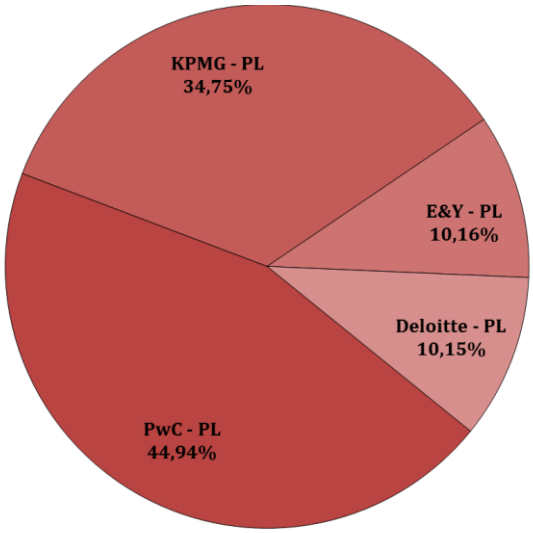



Source: own compilation of the AOC Office based on the FSA Office data.

As a consequence, Polish audit firms of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements for 2014 of open pension funds whose total net assets reached 100%.

In addition, he market share of the biggest Polish audit firms auditing financial statements of Polish pension fund companies for 2014 is presented, for which the market measure is the value of balance sheet total (whereby the aggregate balance sheet total for all pension fund companies is **PLN 3,883,491,183.99).**

**Market share of the biggest Polish audit firms in terms of balance sheet total of pension fund companies whose annual financial statements for 2014 were subject to auditing by individual audit firms**




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

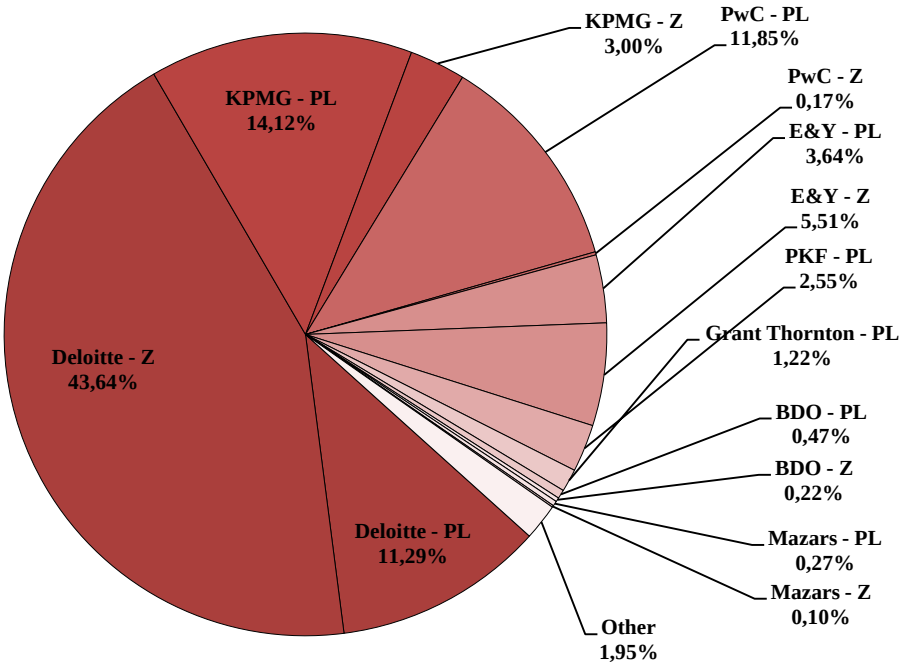
As a consequence, Polish audit firms of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements for 2014 of pension fund companies whose aggregate balance sheet total reached 100%.

## Auditors of the listed companies sector

This part of the analysis presents the market share of the audit firms auditing financial statements of WSE-listed companies, for which the market measure is the market capitalisation according to data as at 31 December 2014.

The figure below shows the market share of the biggest audit firms (Polish and foreign)[12] in terms of the total capitalisation of WSE-listed companies (Polish and foreign) whose annual financial statements were audited by the particular audit companies (whereby the capitalisation of all companies at the WSE amounted to **PLN 1,252,958,070,000.00**).

**Market share of the biggest audit firms (Polish and foreign) in terms total capitalisation of all WSE-listed companies whose annual financial statements for 2014 were subject to auditing by individual audit firms**




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

In total, Polish and foreign audit firms from the network of the so-called Big Four (i.e. Deloitte, E&Y, KPMG, PwC) audited financial statements for 2014 of 39.5% of all WSE-listed companies (186 companies from among 471), whose capitalisation as compared to the entire stock market amounted to 93.2%, which makes a growth by 5

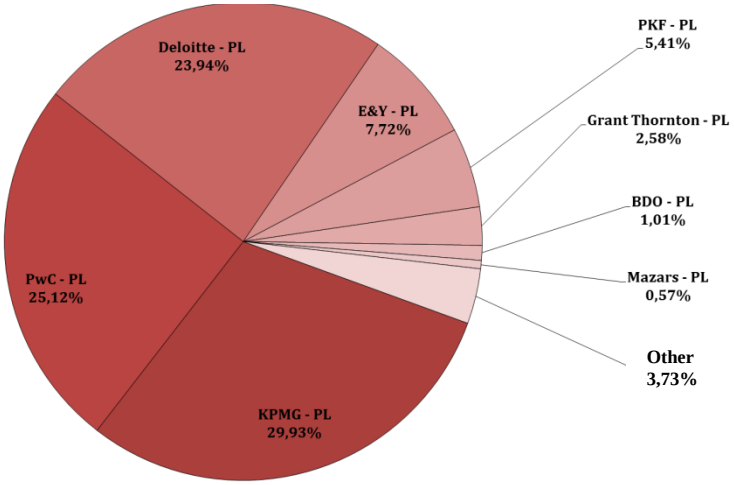
[12] In the compilation, the foreign audit firms are grouped by the audit firm network to which they belong, as follows: **BDO - Z; Deloitte - Z; E&Y - Z; KPMG - Z; Mazars – Z; PwC - Z.** Foreign audit firms from the EU Member States are not subject to oversight of the AOC. Foreign audit firms from non-EU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


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percentage points against the previous year. Should only the Polish companies of the so-called Big Four be taken into consideration, they audited financial statements of 153 companies, whose market capitalisation amounted to 40.9% of the entire stock market.

Should only data concerning the Polish audit firms auditing financial statements of Polish WSE-listed companies be taken into consideration, the market share is as follows (whereby the capitalisation of Polish companies at WSE amounted to **PLN 591,164,930,000.00**).

**Market share of the biggest Polish audit firms in terms total capitalisation of Polish WSE-listed companies whose annual financial statements for 2014 were subject to auditing by individual audit firms**

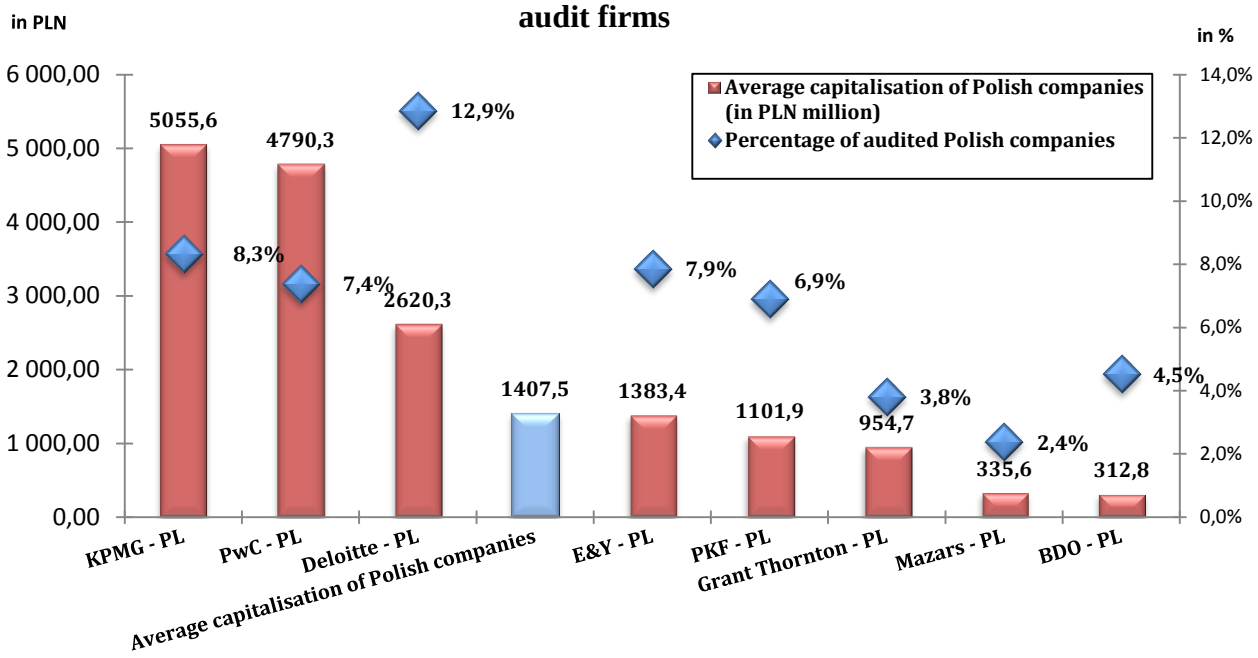



Source: own compilation of the AOC Office based on the data from *Rocznik giełdowy 2015 [Stock Market Yearbook 2015]* www.gpw.pl/analizy_i_statystyki) and data from the FSA Office.

The Polish companies of the so-called Big Four audited financial statements of companies whose market capitalisation amounted to 86.7% as compared to the total capitalisation of all Polish WSE-listed companies, which makes a growth by almost 2.5 percentage points against the previous year.

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

**Distribution of the biggest Polish audit firms in terms average capitalisation and the percentage of Polish WSE-listed companies whose annual financial statements for 2014 were subject to auditing by those audit firms**




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

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


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# 2. AUDIT OVERSIGHT COMMISSION

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

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

## 2.1. Composition

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

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

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

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

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

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

In 2015 the AOC composition was as follows:

- Ms Dorota Podedworna-Tarnowska, the AOC Chairwoman, the representative of the Minister of Finance (dismissed as of 22 December 2015);
- Mr Piotr Nowak, the AOC Chairman, the representative of the Minister of Finance (appointed as of 30 December 2015);

- Ms Dagmara Wieczorek-Bartczak, the AOC Deputy Chairwoman, the representative of the FSA;
- Ms Joanna Dadacz, the representative of the Minister of Finance;
- Mr Jacek Hryniuk, the representative of the NCSA;
- Ms Ewa Jakubczyk-Cały, the representative of the WSE;
- Mr Piotr Kamiński, the representative of the organisations of employers;
- Mr Sławomir Mirkowski, the representative of the NCSA;
- Mr Tomasz Piwowarski, the representative of the FSA;
- Mr Waldemar Szmidt, the representative of the Minister of Justice.[13]

### Objectives

In accordance with the Act, the AOC exercises public oversight over:
- the performance of the profession of a statutory auditor;
- the activity of entities authorised to audit financial statements;
- the activity of the NCSA.

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

## 2.2. AOC Office

The AOC does not have its own, separate public office. Pursuant to the provisions of Article 65(3) of the Act: *The AOC shall perform its tasks with the assistance of an organisational unit responsible for accounting and auditing in the office supporting the Minister of Finance.*
At the end of 2015 three organisational units were active within the Accounting and Auditing Department of the MF; those units constitute the AOC Office and their task is to support the AOC in substantive and administrative terms.

The tasks of the AOC Office include in particular:
- drafting proposals of rulings with regard to matters considered by the AOC, including analysing resolutions and reports on inspections of entities authorised to audit financial statements submitted by the NCSA bodies;
- preparing draft documents which execute the AOC resolutions;
- preparing draft letters, decisions, and orders within the administrative proceedings carried out by the AOC, and court proceedings concerning the AOC;
- appearing before administrative and common courts in cases in which the AOC is a party;
- preparing draft procedures, reports, and action plans of the AOC;
- participating in the capacity of observers in inspections carried out by inspectors hired at the NCSA in entities authorised to audit financial statements which perform audit activities in public interest entities, and carrying out inspections by authority

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


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of the AOC in case of receiving information about irregularities in entities authorised to audit financial statements;
- carrying out operating contacts within the area of international cooperation, in particular participating in sessions of the EGAOB, the EAIG and IFIAR based on the instructions agreed upon with the ACO, and submitting reports on those sessions to the AOC, carrying out operating contacts with oversight bodies from third countries in order to conclude agreements on cooperation and document exchange;
- carrying out works concerning the settlement of the 20% share paid annually by the NCSA to the State budget in the oversight fees due from entities authorised to audit financial statements which perform audit activities in public interest entities;
- undertaking actions under the Act of 6 September 2001 on Access to Public Information (Journal of Laws of 2015, item 2058, as amended), excluding the issue of administrative acts (which lies within the competence of the AOC);
- informing about the tasks of the AOC and the procedures mandatory before the AOC, and about the decisions taken by the AOC, including informing about the AOC and its activity in the tab on the MF website;
- supporting the AOC in organisational matters (organising the sessions of the AOC, arranging the financial service of the AOC with regard to planning and making expenditures).

In 2015, the AOC Office performed tasks with a limited composition of 11 FTEs (including the Deputy Director of the Accounting and Auditing Department, and 10 employees). In the rationale to the Act adopted in 2009 the need to hire 20 employees was indicated.

## 2.3. Budget

### Revenues

The Act provides that due to the functioning of the public oversight system the State budget may acquire revenues from the following sources:
- a 20% share in the oversight fees paid by entities authorised to audit financial statements which perform audit activities in public interest entities, which is transferred by the NCSA to the account of the State budget by 31 March;
- fees due to an entry into the register of statutory auditors from third countries kept by the AOC, and an entry into the list of entities authorised to audit financial statements from third countries;
- fines imposed by the AOC on entities authorised to audit financial statements.

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

| Revenues in 2015 (in PLN) | |
|---|---|
| Share in oversight fees | 1,858,131.00[14] |
| Fines imposed by the AOC on entities authorised to audit financial statements. | 8,564.00 |
| **Total revenues** | **1,866,695.00** |

Source: own compilation of the AOC Office.

## Expenditures

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

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

The expenditures allocated in the State budget (in Part 19) for 2015 to the operations of the AOC had been planned in the amount of PLN 426,000.00. The actual expenditures amounted to PLN 236,155.37, which constitutes 55% of the amount allocated. The expenditures were planned with the assumption of growth of AOC needs arising from the expected increased tasks, which would also mean the growth of employment within the AOC Office, constantly requested by the AOC (however, in 2015, no possibility existed to conduct additional recruitment).
The unused amounts were transferred back for the disposal of the MF Head Office on an ongoing basis.
The partial use of the financial resources provided for the AOC resulted mainly from the following reasons:

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

The total expenditures of the AOC at the end of 2015 amounted to PLN 236,155.37 and were lower by PLN 29,255.63 as compared to 2014.

The expenditures from the budget of the MF Head Office not allocated directly in the budget to the AOC include the cost of remuneration and remuneration-related expenditures of the AOC Office employees, as well as the estimated cost of maintaining the job positions of the AOC Office employee[15].

[14] Including:
- additional payments resulting from the settlement of share in oversight fees for the following years: 2010 - PLN 2,843; 2011 - PLN 1,931; 2012 - PLN 29,294.00; 2013 - PLN 18,075,
- Payment of share in oversight fees for 2014 - PLN 1,805,988.

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


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The table below shows the total expenditures of the AOC and the AOC Office arising out of the AOC activity in 2015.

| **Expenditures in 2015 (in PLN)** | |
|---|---|
| Remuneration of the AOC Members[16] | 137,600.00 |
| Remuneration and remuneration-related items of the AOC Office employees | 1,193,144.00 |
| Foreign business trips of the AOC Members and the AOC Office employees | 53,405.06 |
| Costs of maintaining the job positions of the AOC Office employees | 74,087.71 |
| Purchase of materials and services | 31,768.97 |
| Training of the AOC Office employees | 11,115.00 |
| Translations | 1,866.34 |
| Expenditures due to court proceedings | 400.00 |
| **Total expenditures** | **1,503,387.08** |

Source: own compilation of the AOC Office.

In 2015, the amount of revenue of the State budget due to the operations of the AOC exceeded the amount of expenditures by PLN 363,307.92.

At the same time, it should be taken into consideration that under the SPCP activities directly related to the AOC are financed (in 2015, in particular, the following expenditures should be listed: membership fee paid to IFIAR, a conference concerning audit committees, participation of the employee of the AOC Office in the controlling workshop, training for the AOC and the AOC Office). According to the estimates, expenditures in 2015 in this area amounted to approximately PLN 710,000.00 (including personnel costs of the World Bank employees or consultants directly related to those activities). Should those activities be financed from the State budget, the overall costs of the AOC operations could amount to approximately PLN **2,200,000.00.**

[16] Pursuant to Article 71 item 1 of the Act, the AOC Members receive a monthly remuneration for participation in its meetings. This remuneration may not exceed the level of the minimum wage for work which is announced pursuant to the Act of 10 October 2002 on the Minimum Wage and was determined under *the Regulation of the Prime Minister of 14 September 2012 on the Amount of Minimum Wages in 2013* at a level of PLN 1,600.00 (Journal of Laws item 1026).
In accordance with Article 4 item 2 of *the Act of 31 July 1981 on Remunerating Persons on State Management Positions* (Journal of Laws of 2011, No. 79, item 430, No. 112 item 654 and Journal of Laws of 2015 item 1348 and item 1960): *A person on a State management position who fulfils another function is entitled to single remuneration provided for in the provisions hereof or in separate provisions, whereby the remuneration is chosen by that person.*

# 3. AOC ACTIVITY IN 2015[17]

In 2015, the AOC held 15 plenary sessions, where a total of 194 resolutions were adopted[18].

Pursuant to Article 64(4) of the Act, the AOC, until the end of each calendar year, drafts information about the activities planned with regard to public oversight for the following year, which is published on the MF website. *The AOC Action Plan for 2015* was adopted by the AOC at a session on 17 December 2014 by Resolution No. 284/2014.

Pursuant to Article 64(5) of the Act the AOC, by the 30 April of the following year, shall draft an annual report comprising comprehensive information on the operations of the quality assurance system, the results of disciplinary proceedings against statutory auditors, and on penalties imposed on entities authorised to audit financial statements. The report is published on the MF website.
The *AOC Report for 2014* was adopted by the AOC at a meeting on 29 April 2015 by Resolution No. 62/2015, and then submitted to various institutions, among others to the President of the Republic of Poland, the Prime Minister of the Republic of Poland, the Sejm and the Senate [both chambers of the Polish Parliament].

*The AOC Action Plan for 2016*, attached hereto, was adopted by the AOC at a meeting on 16 December 2015 by Resolution No. 181/2015.

In 2015 the AOC acts under the Regulations of 10 July 2013 adopted by the Resolution No. 183/2013 amended by the Resolution of 3 September 2014 No. 219/2014.

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

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

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

[17] Public information concerning the AOC, including among others decisions made during the sessions, action plans for the following year, or annual reports, may be found at the PIB MF; www.mf.gov.pl ➲ Activity [Działalność] ➲ Collective Bodies [Ciała kolegialne] in the *AOC [KNA]* section.
[18] The amount of 194 does not include final and conclusive administrative decisions in administrative proceedings issued by the AOC. The reason is that these rulings are made at the AOC sessions together with resolutions documenting the adoption by the AOC a ruling in a particular case, which resolutions are included in the above number of resolutions adopted.


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

Due to the entry into force of the said legal instruments, works in the scope of preparation of draft national implementing regulations are carried out at the MF. Within the framework of conducted consultations two drafts of the *Assumptions of the draft Act on the amendment to the Act on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight, and certain other acts of law* were submitted to the AOC. The AOC presented its position on 9 September 2015, whereas on 25 November 2015 it supported the comments submitted in the position of 9 September 2015.

## 3.2. AOC activity within the quality assurance system

### Approval of inspection plans

The Inspection Plan for 2015 for entities authorised to audit financial statements which perform audit activities in public interest entities was approved by the AOC on 17 December 2014. The Plan provided for carrying out inspections in 56 entities. The Plan was drafted according to the recommendations of the AOC and it took into consideration, inter alia, entities:

- for which 2015 is the last year in the 3-year inspection cycle, according to the interpretation adopted by the NAOC for Article 26(3)(1) of the Act that the time limit of the three-year cycle of inspection is counted as of the year in which the entity performed audit activities in public interest entities;
- identified as a result of inspections carried out by controllers in 2014 which performed audit activities in public interest entities;
- performing audit activities for closed-end investment funds;
- from the so-called Big Four which were covered with inspection in annual cycles, due to their significant share in the market of auditing services and audit associations auditing financial statements of cooperative banks.

At the meeting held on 1 April 2015, the AOC approved the adjusted Inspection Plan for 2015 in entities authorised to audit financial statements which perform audit activities in public interest entities, containing 58 entities to be audited. In the aforementioned plan, 4 entities were taken into consideration, for which the 3-year inspection cycle was to expire and 2 entities were eliminated, which informed that in 2013 they had not performed audit activities in public interest entities.

On 16 December 2015, the AOC approved the Annual Inspection Plan for 2016 for entities authorised to audit financial statements which perform audit activities in public interest entities, which envisaged 54 entities to be audited by the NAOC, including entities:

- for which 2016 is the last year in the 3-year inspection cycle;
- from the so-called Big Four which were covered with inspection in annual cycles, due to their significant share in the market of auditing services and control associations auditing cooperative banks.

## Monitoring of the execution of the Annual Inspection Plan

The AOC monitored the situation of executing the Inspection Plan for 2015, based on monthly information received from the NAOC concerning the performance of the Inspection Plan in entities authorised to audit financial statements which perform audit activities in public interest entities.

The monthly information submitted to the AOC indicated that the NAOC:
- carried out 7 inspections by the end of February 2015;
- carried out 16 inspections by the end of March 2015;
- carried out 20 inspections by the end of April 2015;
- carried out 27 inspections by the end of May 2015;
- carried out 32 inspections by the end of June 2015;
- carried out 38 inspections by the end of July 2015;
- carried out 42 inspections by the end of August 2015;
- carried out 49 inspections by the end of September 2015;
- carried out 55 inspections by the end of October 2015.

The planned inspections were not carried out at 3 entities, which were struck off the list of entities authorised to audit financial statements during 2015 (1 entity) or were not subject to the inspection for other reasons attributable to the entity (2 entities).

In order to monitor the performance of inspections planned for 2016 in entities authorised to audit financial statements which perform audit activities in public interest entities, the AOC sustained the obligation for the NAOC to provide monthly information about the performance of the Inspection Plan and possible risks.

## Approval of inspectors designated to perform particular inspections

The AOC approved inspectors designated to perform particular inspections based on an application submitted by the NAOC. In 2015 the AOC approved inspectors designated to perform inspection in 2015 at a meeting on 17 December 2014 (9 inspections), on 11 February 2015 (13 inspections), on 11 March 2015 (7 inspections), on 29 April 2015 (9 inspections), on 25 May 2015 (1 inspection), on 17 June 2015 (11 inspections) and on 12 August 2015 (8 inspections).

Due to the sickness-related absence of inspectors, the AOC several times approved changes in the composition of the inspectors' team (February 2015 - for 1 inspection, March 2015 - for 3 inspections, April 2015 - for 2 inspections, June 2015 - for 3 inspections, August 2015 - for 2 inspections).


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## Approval of candidates for inspectors

At the meeting on 11 February 2015, the AOC approved two candidates for inspectors of the NAOC, including one under the condition of validation of the resolution, prior to employment at the NCSA, on striking-off the list of entities authorised to audit financial statements of an entity whose owner was the candidate for inspector.

## Participation in inspections carried out by the NAOC

Upon request of the AOC, the employees of the AOC Office may participate in the planned inspections carried out by the NAOC in the capacity of observers. In 2015 the AOC did not undertake any such activities due to the limited human resources at the AOC Office, and a considerable amount of reports on planned and unplanned inspections analysed by the AOC Office, including the analysis of appendices to reports on planned inspections, and the NAOC explanatory remarks to the protocols from those inspections, as well as the received information and applications concerning the irregularities in performing the profession of a statutory auditor and the activity of entities authorised to audit financial statements.

## AOC Inspections

In 2015 the AOC carried out one unplanned inspection under Article 74 of the Act. The entity inspected submitted reservations to the content of the inspection protocol. However, the AOC did not recognise legitimacy of the submitted reservations and sustained its position contained in the inspection protocol in its entirety. The inspection was concluded by sending recommendations concerning the detected irregularities to the entity inspected, with the determined deadline for their remedying by 29 February 2016.[19] The AOC did not file motions to the NDS for instituting of the disciplinary proceedings against the key statutory auditor or to the NCoSA for imposing sanctions on the entity inspected.

## Approval of reports on planned inspections

A report on a planned inspection in an entity authorised to audit financial statements which performs audit activities in public interest entities summarises the course of the inspection and describes the post-inspection actions of the NAOC.

In 2015 copies of the following documents were attached to the report on a planned inspection: the inspection protocol, the reservations submitted by the entity inspected, the position of the NAOC towards reservations of the entity inspected, the inspection protocol on the implementation of recommendations and the post-inspection statement.
The process of approving an inspection report depends on the amount of audit documents which were subject to inspection (in the reports reviewed in 2014 it usually amounted to 1 up to 6 sets of audit documentation), the quality of documents submitted by the NAOC, and the issues identified during the inspection. As a rule, this process comprises the following stages:

[19] The entity inspected informed of implementation of the post-inspection recommendations in its letter of 24 February 2016.

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

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

- the compliance of the entire inspection process with the Act and the Act of 2 July 2004 on the Freedom of Economic Activity (Journal of Laws of 2015, item 584, as amended);
- the completeness and adequacy of irregularities stated in the inspection protocol against the facts described in attachments to the inspection protocol (substantive inspection documents), the reservations submitted by the entity inspected, and the explanations, evaluations, inspection files, and other documents received by the AOC;
- substantive legitimacy of the NAOC position concerning the reservations of the entity inspected;
- the proportionality of post-inspection actions.

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

The AOC ***requests additional explanations, assessments, documents and inspection files*** in case of doubts as to the facts of the case or the description of irregularities in the inspection protocol, and in case of ambiguous assessments of the facts presented in the received documents. In 2015 the AOC requested the NAOC to provide additional explanations to 28 inspection reports.

The AOC requested that ***changes be introduced*** to the inspection reports in 2015 in the following cases:

- disproportional post-inspection actions planned by the NAOC towards a key statutory auditor (in the case of 6 inspection reports); the AOC requested for introduction of the change consisting in filing a motion to the NDS, mainly due to the infringement of Article 65 (6) of the Accounting Act, lack of sufficient and relevant evidence of the examination of statements defined in item 13 of NSA 1 in material areas of the financial statements and the lack of observance of the physical inventory of significant components of assets with simultaneous failure to apply adequate alternative procedures;
- disproportional post-inspection actions planned by the NAOC towards an entity inspected (in case of 10 inspection reports); the AOC requested introduction of a change consisting in filing a motion to the NCoSA for imposing sanctions on the


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entity inspected due to the failure to draft and/or lack of effective implementation of the internal quality control system by the entity inspected;
- stating that the facts arising out of the appendices to the inspection protocol or documents received indicate an irregularity which was not indicated in the inspection protocol (in case of 5 inspection reports).

Until 31 December 2015 the NAOC submitted to the AOC 55 reports of planned inspections conducted by the NAOC in 2015 in entities auditing public interest entities (the adjusted inspection plan provided for inspections to be conducted in 58 entities, whereas 3 entities were not subject to the inspection for other reasons attributable to the entity).
In 2015 the AOC considered 53 reports from planned inspections and 2 reports from unplanned inspections conducted in 2013-2015. The table below shows the status of the reports considered by the AOC in 2015 as at 31 December 2015:

| **Status of Inspection Reports of planned inspections considered by the AOC in 2015 as at 31 December 2015** | **Quantity** | **including those concerning inspections in the year:** | | |
|---|---|---|---|---|
| | | **2015** | **2014** | **2013** |
| approved with no changes | 13 | 1 | 11 | 1 |
| approved following changes | 10 | - | 2 | 8 |
| refusal to approve | 2 | - | 1 | 1 |
| pending changes requested by the AOC to be introduced | 4 | - | 4 | - |
| requiring additional explanations or documents | 24 | 22 | 2 | - |
| **Total considered in 2015** | **53** | **23** | **20** | **10** |

Source: own compilation of the AOC Office.

The table below shows the number of inspection reports included on the agenda of the AOC meetings in individual quarters of 2015:

| | **I** | **II** | **III** | **IV** | **Total** |
|---|---|---|---|---|---|
| Number of reports included on the agenda of the AOC meetings in individual quarters of 2015 | 13 | 2 | 36 | 58 | 109 |

Source: own compilation of the AOC Office.

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

In 2015 the AOC refused to accept 2 reports on planned inspections carried out by the NAOC in 2013 (1 report) and in 2014 (1 report) in connection with:

- incorrect concluding of the inspection process in the entity by the NAOC (report on the inspection conducted in 2013);
- doubts as to the correctness of the inspection process conducted by the NAOC in the entity and failure of the NAOC to introduce changes to the content of the post-inspection statement, required by the AOC, in connection with irregularities found by the AOC during the analysis of the inspection report and the attached documents (report on the inspection conducted in 2014).

In 2015 the AOC also undertook other activities aimed at the achievement of the inspection process objective and of the public interest. These included:

**1. systemic activities:**

- organisation of a conference on 16 January 2015 on "An effective audit committee: strengthening of control, risk management and improvement of financial reporting", in cooperation with the World Bank, whose aim was to support members of audit committees in implementation of their functions in more effective way, and to improve communication and cooperation between audit committees and statutory auditors, regulatory authorities and stakeholders;
- issuing a communication of 1 April 2015 concerning the adoption of International Standards on Auditing in Poland, with the simultaneous application to the NCoSA for undertaking further measures in the scope of:
  - ensuring the compliance of mandatory and newly adopted financial auditing standards and internal quality control rules in an entity authorised to audit financial statements with the regulations of the commonly binding law, including the directly applied acts of the European Union law;
  - developing the mechanism of on-going monitoring of the standard changing process as well as active joining the process of their change at an international level and submission of comments from the point of view of the Polish market;
  - ensuring the mechanism of further successive introduction of changes into the NCoSA resolutions, arising from the change of standards at an international level after their assessment, in particular, in the scope of their compliance with the provisions of the commonly binding law;
  - ensuring the relevant quality of translation of standard texts into Polish, including the required corrections in the texts already applicable;
  - further support to statutory auditors and authorised entities in implementing new regulations;
- engagement in the legislative process related to the implementation of provisions arising from the European audit reform (amended Directive 2006/43/EC and the new Regulation 567/2014);
- applying to the NCoSA for undertaking further activities aimed at supporting entities authorised to audit financial statements in due performance of the reporting obligation, arising from Article 88 of the Act, e.g. through placing of a template transparency report on the NCoSA website, organisation of training, or promotion of this issue during conferences organised by the NCSA;
- proposing changes to the draft communication developed by the NCoSA related to the minimum of elements to be included in a statement of an entity authorised to audit financial statements on the coherence of methods and principles of valuation of an investment fund's assets;
- applying to the NCoSA for immediate publishing on the NCSA website of amended professional ethics principles for statutory auditors and informing statutory auditors


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on the date of effectiveness of the aforementioned amendment. The AOC also stressed the need to introduce a glossary of terms into the resolution concerning professional ethics principles for statutory auditors and, simultaneously, indicated the need to conduct the analysis by the NCoSA related to the compliance of the provisions related to professional ethics principles for statutory auditors with the Regulation EU No. 537/2014 on Specific Requirements Regarding Statutory Audit of Public Interest Entities, whose objective would be also to indicate the specific obligations arising from the direct application of the Regulation to statutory auditors and entities authorised to audit financial statements;

- applying to the NCoSA for:
  - undertaking measures aimed at promoting benefits arising from the effective implementation of the internal quality control system in an entity authorised to audit financial statements, also for services whose performance is not regulated under standards issued by the International Auditing and Assurance Standards Board (IAASB);
  - defining of a potential role of the NCoSA in supporting entities in the scope of implementation of the internal quality control system as well as in the scope of services whose performance is not regulated by standards issued by the IAASB (e.g. development of additional internal quality control rules, development of guidelines, best practice);

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

- informing the FSA about violating the principle of impartiality and independence at the level of the entity authorised to audit financial statements, found during a planned inspection of the NAOC;
- providing information for supervisory boards of entities audited that the existing relationships between the entity inspected and the entity audited are the relationships indicated in the Act as those resulting in violating of the principle of independence at the level of the entity authorised to audit financial statements, including the recommendation to take that fact into consideration while selecting the entity authorised to audit the financial statements;
- informing an entity inspected about irregularities found during the process of approving the inspection report;

**3. recommendations on the inspection process concerning among others:**

- issuing the recommendations at the meeting of 14 January 2015 in the scope of adjustment by the NAOC of planned inspection procedures in entities authorised to audit financial statements whose internal quality control system is based on the International Standard on Quality Control 1 (ISQC 1) to the Common Audit Inspection Methodology (CAIM);
- issuing the recommendation at the meeting on 28 October 2015 in the scope of classification by the NAOC of the existing findings of conducted inspections into material and negligible irregularities and submission of the specification with irregularities grouped in that manner for approval by the AOC, in order to guarantee a coherent approach of inspectors to negligible irregularities and equal treatment of all entities inspected; the AOC also applied for providing information in the scope of methods used by the NAOC in order to provide the entity inspected with information on negligible findings of the inspection, which are not included in the inspection report;

- issuing the recommendation at the meeting on 17 June 2015 in the scope of on-going informing of the NCoSA by the NAOC (for information of the AOC) on cases found during the inspection when an entity did not inform of the fact of performing audit activities in public interest entities or incorrectly provided information on signing agreements with entities which were not public interest entities, resulting in conducting of the inspection according to inadequate procedure;
- applying to the NAOC with the recommendation concerning declarations of independence to be submitted by NAOC inspectors as at the day prior to commencement of the inspection, i.e. in accordance with the provisions of Article 27(11) of the Act;
- applying to the NAOC with the recommendation to observe the time limit in the scope of informing the entity inspected of the method of examining reservations, in accordance with the provisions of Article 82(2) of the Act;
- applying to the NAOC with the recommendation in the scope of the necessity to consider documentation of the current inspection cycle at a single meeting, including the report on implementation of recommendations of the previous inspection conducted in the entity inspected;
- issuing recommendations to the NAOC concerning the material scope of the planned inspection in selected entities, in connection with the acquired information concerning irregularities during performance of audit activities by such authorised entities.

## Material irregularities

The AOC draws the attention of entities authorised to audit financial statements and statutory auditors to the following irregularities in the inspection reports analysed by the AOC in 2015, as they are of fundamental meaning for the audit quality:

- violation of the independence and impartiality principles at the level of the entity authorised to audit financial statements because of one and the same person joining the function of a member of the management board or the supervisory board of the entity authorised to audit financial statements with the function of a member of the management board or the supervisory board of the entity whose financial statements were audited by that entity;
- violation of Article 65(6) of the Accounting Act, i.e. no possibility for the statutory auditor not participating in the audit of the financial statement to follow its process and find justification for the issued opinion on the financial statements;
- lack of sufficient and relevant evidence for auditing the reliability of statements referred to in item 13 of the NSA 1 as regards material elements of the financial statements;
- incorrect planning of audit;
- lack of sufficient and relevant evidence for auditing events after the balance sheet date;
- lack of sufficient and relevant evidence of auditing the contingent liabilities and claims;
- lack of sufficient and relevant evidence of auditing transactions with related parties;
- lack of sufficient and relevant evidence of estimated data auditing;
- lack of sufficient and relevant evidence of auditing the entity's ability of business continuity;


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- lack of sufficient and relevant evidence for auditing the risk of abuse, fraud, and law violations;
- lack of observation of the physical inventory of stock, with the simultaneous lack or inadequacy of alternative procedures.

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

During the analysis of the inspection reports performed in 2015, the AOC also found recurring irregularities for which failing to remove them at the stage of reviewing the quality of engagement raises doubts as to the correctness of developing and/or the effectiveness of implementing the internal quality control system:

- incompleteness of financial statements and the report on activity with regard to disclosures of financial instruments constituting a material item of the financial statements, and no reference to that fact in the audit opinion and report;
- non-compliance of the audit opinion and report with the formal requirements specified by the Accounting Act and the NSAs, including in particular with regard to the issues described in explaining clause and in relation to the statement that no limitations of the scope of the audit occurred (or what type of limitations occurred);
- Accepting the declaration of the head of the entity audited which may not be recognised as close to the date of issuance of the opinion of the audit.

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

## Material issues concerning the process of planned inspections

Inspections conducted by the NAOC in 2015 focused on the following issues:

- the inspection covered audit documents from audits of separate financial statements;
- the classification of irregularities divided into material and negligible was introduced into audit procedures, based on which negligent irregularities were not included in the inspection protocol.

The analysis of inspection reports conducted by the AOC within the process of their approval enabled the oversight authority to perform the on-going evaluation of inspection process functioning. The result of undertaking the aforementioned measures was the submission of observations and additional recommendations by the AOC to the NAOC in the scope of inspection process improvement, inter alia, in the following areas:

- performing the analysis and assessment of the practices applied by the entities inspected, such as subcontracting the entire audit service, and the nature of connections between the statutory auditor and the entity authorised to audit financial statements based on a contract of civil law;
- finding an irregularity in the inspection protocol in the scope of infringement of Article 49 of the Act, against which the entity inspected could raise reservations,

with the simultaneous planned filing of the application by the NAOC to the NCoSA for imposing sanctions on the entity inspected in connection with the violation of Article 49 of the Act by that entity;
- justification/reasons for failure of the NAOC to undertake the specific post-inspection actions.

### Unplanned inspections

The AOC ordered unplanned inspections to be carried out by the NAOC in entities authorised to audit the financial statements. A decision to carry out an unplanned inspection is made in connection with applications submitted to the AOC by public administration bodies, natural and legal persons, or information provided to the AOC about irregularities in audit activities performed on behalf of entities authorised to audit financial statements.
In 2015 the AOC ordered 2 unplanned inspections to be carried out by the NAOC in entities authorised to audit financial statements which perform audit activities in public interest entities, in connection with the acquired information concerning irregularities in auditing of financial statements of the financial institution. In 2015 the NAOC conducted one of the aforementioned inspections, the other one was carried out at the beginning of 2016. Until the day of drawing up this report, only one of the above mentioned reports on unplanned inspection was submitted to the AOC.

Moreover, on 29 April 2015, the AOC ordered the NAOC to conduct the unplanned re-inspection at the entity authorised to audit the financial statements, due to the fact that the previous unplanned inspection which had taken place in 2014 was not performed in compliance with the AOC recommendations, whereas during the analysis of the report of that unplanned inspection the AOC identified irregularities in the conducted control process.

## 3.3. AOC activity within disciplinary proceedings

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

In 2015, acting under Article 37(2) of the Act, the AOC submitted 9 applications to the NDS for instigating explanatory proceedings, and in 4 cases it submitted letters of natural persons to be considered by the NDS in accordance with the competence. Furthermore, under Article 27(3) of the Act, the AOC applied to the NAOC for submitting applications to the NDS for instigating disciplinary proceedings against 12 statutory auditors.
In 2015, 6 disciplinary proceedings were pending, in which the AOC was entitled to act as a party and 2 proceedings in which the AOC exercised its right to appeal against the


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decision of disciplinary bodies without submission of a declaration on joining disciplinary proceedings as a party. The proceedings in which the AOC was authorised to act as a party comprised both proceedings before the NDC and before common courts, i.e. regional courts and appellate courts.
In 2015, the following rulings were issued in the aforementioned proceedings:

- in one case - acquittal of the statutory auditor by a regional court from the alleged infringement; the said ruling was subsequently contested by the AOC to the appellate court;
- in two cases - waiver of the contested NDC ruling by the regional court, acquitting the statutory auditor and referring the case back to the NDC for reconsideration;
- waiver of the ruling of the regional court by the appellate court and referring the case back for reconsideration;
- in one case - recognition of the statutory auditor by the NDC as guilty of the alleged infringement and imposing of a fine;
- In one case pending before the appellate court, no ruling was issued in 2015.

In 2015, the AOC submitted four appellate measures against rulings issued in disciplinary cases, i.e. one appeal against the verdict of the regional court acquitting the statutory auditor from the alleged disciplinary infringement and three complaints against NDS decisions. Under the contested decisions, in two cases the NDS discontinued the disciplinary proceedings and in one case - closed the explanatory proceedings and refused to instigate disciplinary proceedings. The aforementioned appellate measures submitted by the AOC were not considered in 2015.

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

In April 2015 the AOC read the reports on activity of the particular NCSA committees in 2014, accounting for their contents and evaluating them in the AOC Report for that year.
The representatives of the NCoSA and NAOC were also invited to meetings and sessions of the AOC to discuss current issues and meet the expectations of the AOC with regard to the performance of the public oversight tasks by the committees of the professional body.

### Adoption of the International Standards on Auditing in Poland

On 1 April 2015 the AOC approved the following resolutions adopted by the NCoSA concerning standards on auditing and the internal quality control rules in an entity authorised to audit financial statements:

- No. 2783/52/2015 of 10 February 2015 *concerning the national standards on auditing*;
- No. 2784/52/2015 of 10 February 2015 *concerning the internal quality control rules in an entity authorised to audit financial statements*.

The aforementioned resolutions introduced - as the standards on auditing and the internal quality control rules in an entity authorised to audit financial statements - the following standards issued by the International Auditing and Assurance Standards Board (IAASB):

- International Standards on Auditing;
- International Standard on Review Engagements;
- International Standards on Assurance Engagements other than Audits or Reviews of Historical Financial Information;
- International Standard on Quality Control 1.

Within the process of approval of the standards, the AOC - in the correspondence with the NCoSA - also formulated expectations in relation to the professional body in the scope of support in implementing new standards on auditing, both for statutory auditors and for entities authorised to audit the financial statements, adjustment of inspection procedures of entities authorised to audit the financial statements to the new standards, ensuring of the mechanism for further successive introduction of changes arising from the change in the IAASB standards as well as representatives of the professional body of the statutory auditors joining the process of adoption and updating of standards at an international level. The AOC also emphasised the on-going works implementing the following regulations into the legal system:

- Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the Annual Financial Statements, Consolidated Financial Statements and Related Reports of Certain Types of Undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC;

and the audit package comprising:

- Directive 2014/56/EU;
- Regulation 537/2014.

The AOC obliged the NCoSA to monitor the implemented changes on a permanent basis and to ensure that the standards on auditing and the rules on internal quality control in an entity authorised do not contain provisions contradictory to the provisions of the Polish law implementing the aforementioned EU Directives as well as to the directly applied provisions of the EU law, i.e. Regulation No. 537/2014.

## Control of resolutions of the NCSA bodies

Within the oversight of the activity of the professional body of statutory auditors, the AOC controlled on an ongoing basis the resolutions submitted by the committees of the professional body. The subject of the AOC sessions in 2015 were 670 resolutions of the NCoSA, 47 resolutions of the NAOC, and 1 resolution of the NIAC.

In 2015, acting pursuant to Article 72 of the Act, the AOC approved a total of 13 resolutions of the committees (12 resolutions of the NCoSA and 1 resolution of the NAOC); the AOC submitted reservations to 2 resolutions of the NCoSA resolutions. The reservations of the AOC were related to NCoSA Resolution No. 2676/50/2014 of 18 December 2014 amending the Resolution concerning the regulations on disciplinary proceedings against the statutory auditors and focused on the inconsistency between the solutions adopted in the regulations and the commonly applicable legal regulations, as well as pointed out to the legislative infringements. The AOC also submitted reservations to NCoSA Resolution No. 2984/56/2015 of 5 May 2015 amending the Resolution concerning the rules of professional ethics of statutory auditors. The reservations concerned, in particular, the completeness of the regulation in relation to the status of the IFAC Code effective as at 31 December 2014 as well as the accuracy of


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translation of the IFAC Code. The NCoSA took the AOC reservations into consideration, as a result of which the Resolution concerning the rules of professional ethics of statutory auditors was approved at the AOC meeting on 16 December 2015 by the AOC Resolution No. 190/2015.

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

Within the oversight exercised, the AOC verifies all resolutions of the NCoSA concerning entries into the register of statutory auditors and entries into the list of entities authorised to audit financial statements in terms of prerequisites referred to in Article 64(1)(5) of the Act, which constitute the basis to appeal against the resolutions to an administrative court. Furthermore, the AOC investigates whether there are any other prerequisites not to enter a person or an entity into the register of statutory auditors or the list of entities authorised to audit financial statements, respectively. The same applies to resolutions concerning the striking off the register of statutory auditors and the list of entities authorised to audit financial statements. This means that should any prerequisites referred to in Article 64(1)(5) of the Act occur, the AOC adopts a resolution on appealing against the respective resolution to an administrative court. In 2015 the AOC found no prerequisites constituting reasons for appealing against the NCoSA resolutions on entry or striking off to an administrative court.
Should any circumstances be found demonstrating an unreasonable entry into the register of statutory auditors or the list of entities authorised to audit financial statements, the AOC may exercise the right of objection and issue an administrative decision in that matter.
Due to the said competence of the AOC, in reasonable cases the files of administrative proceedings are verified.
At its session on 7 October 2015, the AOC adopted the *Resolution on submitting the files of proceedings concerning the entries into the register of statutory auditors* in order to control the documentation constituting the basis for the entry. With the NCoSA Resolutions on entries into the register of statutory auditors adopted on 5 October 2015, the NCoSA submitted also files of administrative proceedings, and the files of the qualification procedure, together with the current NCoSA procedures in that respect. The AOC decided that the analysis of the said Resolutions gives no grounds to conclude that there are prerequisites to submit an objection under Article 10(6) of the Act, or to appeal under Article 64(1)(5) of the Act. The AOC also submitted remarks arising out of the analysis of the documentation submitted to the NCoSA.

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

In 2015 the AOC considered 18 appeals against the Resolutions issued by the NCoSA. The NCoSA Resolutions contested under the appeal referred to:

- in 2 cases - striking off the register of statutory auditors. While considering the appeals, the AOC sustained the appealed Resolution in one case and, in the other case - the appealed resolution was annulled and the proceedings were discontinued;

- in 1 case - refusal of entry into the register of statutory auditors. This Resolution was sustained by the AOC;
- in 2 cases - striking off the list of entities authorised to audit financial statements. The said Resolutions were waived in their entirety by the AOC and the proceedings concerning the striking off was discontinued;
- in 13 cases - imposing a fine on an entity authorised to audit financial statements. While considering the appeals against the aforementioned Resolutions, the AOC sustained the challenged Resolution in 4 cases, waived the contested Resolution in its entirety in 8 cases and issued the decision on the case in question, imposing a fine, whereas in 1 case - it issued the decision stating the failure to meet the time limit to submit the appeal.

Exercising its rights of a body of higher rank in cases considered by the NCoSA, the AOC also examined 1 complaint against the NCoSA decision refusing to rectify clerical mistakes and other manifest errors, waiving them and referring the case back for reconsideration as well as stated the invalidity of the NCoSA Resolution on annulling the resolution of the NCoSA on imposing a fine on the entity authorised to audit the financial statements.

In 2015, 5 administrative decisions and 1 ruling issued by the AOC were appealed against to the Regional Administrative Court in Warsaw. In relation to the appeals against the administrative decisions, in two cases - the Regional Administrative Court in Warsaw dismissed the appeal in its entirety, and in one case - it admitted the complaint. Two appeals lodged to the Regional Administrative Court in Warsaw in 2015 against the administrative decisions issued by the AOC are pending. The appeal against the ruling was dismissed.

The AOC, using the competence defined in Article 64 (1)(5) of the Act, appealed against two Resolutions of the NCoSA related to imposing a sanction referred to in Article 27 (1)(3)(a) of the Act, i.e. A fine. One of the challenged Resolutions stated the lack of legitimacy to impose a fine on an entity authorised to audit the financial statements, whereas the other one - imposed a fine on an entity authorised to audit the financial statements.

## 3.5. Cooperation with the FSA

In 2015, 6 notifications concerning a possible violation of law/ finding irregularities in audit activities performed by the statutory auditors in favour of financial market institutions were submitted to the AOC. Within the oversight exercised over the performance of the profession of a statutory auditor and the activity of entities authorised to audit financial statements, the AOC, in response to information received from the FSA, applied to:

- the NAOC - with the recommendations concerning the extension of material scope of the planned inspection performed in the current inspection cycle in two entities authorised to audit financial statements, by additional issues arising from the FSA notifications;
- the NAOC - to carry out unplanned inspections in two entities authorised to audit financial statements with regard to the audit documentation designated by the FSA;


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- the NAOC - to provide files of the planned inspection conducted in the entity authorised to audit financial statements with regard to the audit documentation designated by the FSA;
- the NDS - for instigating explanatory proceedings towards 3 statutory auditors auditing financial statements to which the FSA submitted reservations.

Moreover, at its meeting on 14 January 2015 the AOC adopted the decision to file a motion to the NDS for instigating explanatory proceedings towards one statutory auditor, in response to the FSA notification submitted at the end of 2014.

In addition, the AOC read and acknowledged the FSA letters submitted for information of the AOC concerning:

- special accounting principles of the Savings and Credit Unions;
- application of the IFRS requirements by banks with regard to recognition of fees in favour of the deposit guarantee system.

## 3.6. International cooperation of the AOC

### Cooperation within the European Union

The main forum of the cooperation with public oversight bodies of the EU Member States is the EGAOB, an advisory body of the European Commission.
The EGAOB associates public oversight bodies acting in the EU Member States. The EGAOB was established under Decision of the European Commission of 14 December 2005, and is aimed at efficient coordination of the system of public oversight exercised over statutory auditors and audit firms.
The EGAOB debates at plenary sessions organised and supported by the European Commission, which develops the agenda of each one thereof and prepares proper documents. The EGAOB sessions provide the opportunity to exchange views among the representatives of the particular public oversight bodies and the European Commission.

In 2015, the representatives of the AOC participated in the EGAOB sessions on 22 January, 9 March, 26 May, 7 July (the session was combined with the session of the Audit Regulatory Committee) and on 12 November.
The most important topic of those sessions included: the cooperation with public oversight bodies from third countries (especially with the American public oversight body, the PCAOB, the representatives of which participated in the discussions at the session on 7 July) and the planned activities at the EU level in the context of implementing the new provisions of the EU law concerning the audit reform, in particular, with regard to transforming the EGAOB into the Committee of European Auditing Oversight Bodies – the CEAOB). In connection with the new tasks arising from the EU reform, the representatives of the AOC participated in the works of two EGAOB sub-groups - one for establishing the CEAOB and the other one - for market monitoring.

Within the bilateral relations, the representatives of the AOC participated in the conference held on 29 January 2015 to celebrate the 10th Anniversary of the public oversight body in Germany.

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

The cooperation and information exchange within the EAIG is organised based on the Terms of Reference of the European Audit Inspection Group and the Addendum to Article 4: EAIG Database on Inspection Findings.

The most important initiatives undertaken within the Group in 2015 included:

- collecting irregularities in the EAIG database related to post-inspection findings;
- Introducing changes/ updating the procedures for inspection of an internal quality control system of entities authorised to audit financial statements within the Common Audit Inspection Methodology, CAIM;
- developing an inspection methodology for auditing consolidated financial statements (performed in accordance with the ISA 600) and inspection of auditing estimated values (performed in accordance with ISA 540) under the CAIM;
- exchange of knowledge in the scope of methodology of inspection and experience in the scope of inspections carried out by oversight bodies belonging to the EAIG;
- exchange of experience acquired while conducting common inspections with the American oversight body (Public Company Accounting Oversight Board - PCAOB);
- implementation of works in the EAIG sub-group for financial services, consisting, inter alia, in the exchange of knowledge, experience and findings of experts in the scope of inspection of auditing financial statements of banks and other financial institutions (this sub-group comprises oversight bodies dealing with GSIB - Global Systemically Important Banks and GSII - Global Systemically Important Institutions);
- communication with the biggest audit networks, including discussions on irregularities identified during inspections of individual audit networks, collected in the EAIG base and discussion with representatives of a given network concerning the correcting measures applied in order to improve the quality of financial statement audits;
- communication with international organisations establishing standards for the profession of a statutory auditor (International Auditing and Assurance Standards Board - IAASB, International Ethics Standards Board for Accountants - IESBA, Public Interest Oversight Board - PIOB).

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

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


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

**The Common Audit Inspection Methodology (CAIM)** is a coherent approach to carrying out inspections by individual oversight bodies at entities authorised to audit financial statements. The project stipulates the implementation of several modules related to areas particularly significant for the effective implementation of the inspection. The first stage of the project, which was completed in November 2014, covers an inspection methodology for the internal quality control system of an entity authorised to audit financial statements (module 1). The inspection methodology of the internal quality control system was developed based on the International Standard on Quality Control 1 and the Directive 2006/43/EC and it was adopted for application by the oversight bodies included in the EAIG as of 2015.
In 2015 the second stage of the project (module 2) was implemented, comprising the methodology for inspection of consolidated financial statement audit (conducted in accordance with ISA 600) and inspection of the audit of estimated values (conducted in accordance with ISA 540) and it was adopted for application by the oversight bodies included in the EAIG as of 2016.
The CAIM is a methodology based on which the body carrying out the inspection may prepare detailed inspection procedures taking into consideration the issues provided for in the national law which have not been regulated in the said Directive.
A representative of the AOC participated in the CAIM project within a group supervising the process, reviewing and accepting the procedures developed. The inspection programmes of the CAIM are posted on the EAIG website:
http://www.eaigweb.org/pdf/EAIG_CAIM_Work_Programme_Suite.pdf [20].

On 23-24 June 2015, upon the AOC invitation, the EAIG meeting was held at the MF, attended by 60 experts from 29 European bodies of public oversight over statutory auditors and audit firms as well as a representative of the European Commission as an observer. The EAIG meeting was held in Poland for the first time.
During the two-days meeting, inter alia, the following issues were discussed: results and follow-up activities in the scope of the Common Audit Inspection Methodology - CAIM) developed within the EAIG, issues associated with communication of the oversight bodies with audit committees operating in companies as well as challenges and changes arising from the implementation of the EU law under the so-called audit reform to be effective as of June 2016. On the second day, a meeting with representatives of global structures of Deloitte audit firm was held, in order to discuss measures undertaken by this company in the scope of growth in the quality of provided audit services.

[20] In January 2015 the AOC provided the National Audit Oversight Committee with the CAIM, with the recommendation to adjust the inspection procedures at entities authorised to audit the financial statements, whose internal quality control systems are based on the International Standard on Quality Control 1 by 31 December 2015. The information received from the NAOC indicates that works in this scope are foreseen for 2016, including the cooperation with the World Bank.

## Cooperation with public oversight bodies from third countries

In 2015 the AOC continued the talks commenced in 2011 on the initiative of the American public oversight body, the PCAOB (Public Company Accounting Oversight Board), on concluding an agreement governing the provision of documents and carrying out of the so-called joint inspections. Initially, signing of the agreement was scheduled in 2015. However, at the end of 2015, the American party informed that the PCAOB had decided to postpone further talks in the scope of the agreement to 2016. Such position resulted from legal doubts and the lack of need to conduct a common inspection.

Furthermore, the delegation of the AOC, including the AOC Deputy Chairperson, participated in the annual conference of the *International Audit Regulatory Institute* organised from 2-4 December 2015 in Washington by the American oversight body, the PCAOB. The conference participants were the representatives of oversight bodies over statutory auditors and audit firms from various countries. The conference has mainly a cognitive value with regard to methodology and the results of actions of the PCAOB, as well as with regard to important international events or significant initiatives of oversight bodies from other countries.

As a result of the assessment performed by the Swiss oversight body, the FAOA (Federal Audit Oversight Authority), the AOC was informed that on 1 July 2015 the system of public oversight over statutory auditors and audit firms in Poland was recognised by Switzerland as equivalent. The purpose is the reliance of the Swiss party upon the oversight in Poland in case of operation of Polish audit firms on the Swiss market.

## Membership of the AOC in IFIAR

IFIAR established in 2006 is a forum of cooperation of global range with coordinating nature. The members of IFIAR are public oversight bodies from 51 countries, including 30 bodies acting in Europe. The organisation is primarily aimed at allowing the members to share information concerning the audit market and practical experience in independent regulatory activity, focusing on inspections of audit firms. The stances expressed by the organisation are not legally binding upon the members thereof.

In 2011 the AOC was admitted as a member of IFIAR. In 2015, the delegation of the AOC, including the Deputy Chairperson, participated in the plenary session of IFIAR on 21-23 April 2015 in Taiwan. The representative of the AOC also participated in the inspection workshop held on 2-4 March 2015 in Great Britain. The annual plenary sessions of IFIAR are the main forum of experience exchange and decision-making with regard to the organisation. On the other hand, the annual inspection workshops of IFIAR are primarily the platform of experience and knowledge exchange with regard to inspecting audit firms, including inspection techniques.

In 2015, within IFIAR, discussions and works were continued with the aim of increasing the institutional character of IFIAR. This results mainly from the growth in the number of forum members, due to the need to ensure the cohesion of IFIAR operations with activities of other international organisations and due to the need to


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ensure greater effectiveness in the scope of IFIAR external activities. In this scope, changes relate to the organisational structure, establishing of a permanent IFIAR secretariat in one of the states and the new model of the membership fee. Besides presentation of the position of Poland in this scope at the plenary session, the AOC Office joined the works on the model of the membership fee.

In 2015 IFIAR for the next time published two documents: the IFIAR Annual Report for the previous year, and the Report on Global Survey of Inspection Findings from inspections in the biggest networks of audit firms[21] which, to a certain extent, were drafted based on information provided by the AOC.

### Swiss-Polish Cooperation Programme

In 2015, the activities financed from the Swiss funds and implemented by the World Bank under the within the SPCP, one of the beneficiaries of which is the AOC, were continued. On 16 January 2015 in the WSE building, a conference on "The Effective Audit Committee: Strengthening Controls, Managing Risk, and Improving Financial Reporting", organised by the AOC in cooperation with the World Bank. The aim of the conference was to support members of audit committees in more effective fulfilment of their functions as well as to improve communication and cooperation between audit committees and statutory auditors, regulatory bodies and stakeholders.
The conference was mainly addressed to members of audit committees, members of supervisory boards, financial directors and other representatives of top management staff cooperating with audit committees, investors, statutory auditors, lawyers as well as representatives of other professions acting as advisers to audit committees.
The programme of the conference was the development of the event organised by the AOC and the World Bank on 10 January 2013 called "The Audit Committee: A key link in the financial reporting and audit process".

Furthermore, the resources of the SPCP were used to fund training and workshops for employees of the AOC Office and AOC members, i.e.:

- the workshop with participation of representatives of oversight bodies on 9-10 June 2015 on implementation of new EU regulations;
- the training on disciplinary procedure against statutory auditors (11 may 2015) and in the scope of information policy (7-8 September and 7 October 2015);
- the IFIAR inspection workshop in London on 2-4 March 2015.

## 3.7. Other oversight-related activity of the AOC

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

At the session on 16 December 2015, based on its earlier experience and activities, the AOC reviewed and discussed major cases when audit firms from other countries perform audits of financial statements significant for the Polish market. The cases discussed were related to (the classification results from a different legal status of such

[21] Both documents are available on the IFIAR website: https://ifiar.org .

audit firms and the related requirements):

- audits of financial statements of WSE-listed companies from third countries (i.e. countries other than EU Member States);
- audits of financial statements of WSE-listed foreign companies from EU Member States;
- other audits of financial statements of foreign companies significant for the Polish market.

At the same time, it should be indicated that the provisions of the Polish and EU law define directly the AOC tasks only in relation to audit firms from third countries auditing financial statements of WSE-listed foreign companies from third countries.
Considering the foregoing, the AOC decided that it would focus on its tasks associated with the oversight over audit firms from third countries; moreover, it would perform an annual review of other foreign audit firms auditing financial statements of WSE-listed companies.

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

Pursuant to Article 87(1) of the Act, an entity authorised to audit financial statements, by 31 January of each year, submits to the NCoSA information on the contracts for performing audit activities signed in the previous year with public interest entities.
Pursuant to Article 87(2) of the Act, the information referred to in paragraph 1 is provided by the NCoSA to the AOC by 15 February of each year.
From the information provided by the NCoSA it follows that:

- in 2015, 93 entities informed about signing a contract(s) for performing audit activities with public interest entities;
- 20 entities submitted P10 form containing irregularities.

In 2015 the AOC sent letters reminding about the obligation arising out of Article 87(1) of the Act to the entities which in the previous reporting period, i.e. in 2014, failed to meet the statutory deadline.
In relation to one entity which recurrently failed to meet the statutory deadline, proceedings were instigated ex officio in order to issue an administrative decision referred to in Article 83(1)(2) of the Act.

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

Pursuant to the provisions of Article 66(7) of the Accounting Act, the AOC should be immediately informed by the head of an entity ordering the audit and by an entity authorised to audit financial statements about the termination of the contract for audit or review of the financial statements. The termination of a contract referred to in Article 66(5) of the Accounting Act is possible only if reasonable grounds exist. The obligation applies both to mandatory contracts for audit or review of the financial statements and to voluntary contracts.
The termination of the said contract is possible only if reasonable grounds exist. The differences in views on the application of accounting principles or audit standards do not constitute reasonable grounds for terminating a contract.


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The information provided to the AOC shows that in 2015 a contract for audit or review of financial statements was terminated in 140 cases.
The analysis of information concerning the termination of contracts for audit services shows the following:

- in the majority of cases the form available on the PIB MF website is used;
- there are cases of incomplete and inaccurate information;
- in 47 cases the information on termination of a contract for audit services was sent to the AOC by both parties to the contract, i.e. both the entity authorised to audit financial statements, and the entities ordering the audit;[22]
- in 55 cases the contract was terminated by agreement of the parties;
- in 50 cases the terminating party was the ordering entity, and in 33 cases - the entity authorised to audit financial statements;
- in 2 cases the parties failed to provide information on the party terminating;
- in 51 cases the contract was terminated during the performance of the service.

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

- decisions made by the companies on changing the statutory auditor (often due to changes in ownership structure resulting in changing the auditor in the entire capital group, change in investment plans, change of the auditor to the firm with greater experience and scale of operations);
- financial matters (such as: amount of remuneration for the audit firm, delay in paying the remuneration, no financial liquidity of the company);
- declaring the company/firm bankrupt, winding up;
- organisational matters involving changes in the structure of companies, due to which the entities are no more subject to obligatory audit by a statutory auditor;
- resignation from the voluntary audit of the financial statements;
- failing to meet the contractual provisions (e.g. no possibility to meet the deadline of the audit provided for in the contract, failure to make the required documentation or information available to the auditor, no possibility of providing the financial statements by the ordering entity within the deadline provided for in the contract);
- incidental cases, such as:
  - personal reasons pertaining to the statutory auditor, mainly those related to poor health condition, death,
  - incorrect selection of the auditor,
  - loosing independence by the authorised entity,
  - failure of the entity to approve the personal change of the key statutory auditor.

## Consideration of complaints and applications

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

- applicants are consulted within the working hours of the office by the employees of the Accounting and Auditing Department of the MF;

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

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

## 3.8. Education and information activity of the AOC

The AOC undertook activities aimed at promoting audit as the basis for reliable information in financial statements, among others by the participation of the AOC representatives in conferences and debates concerning financial reporting and auditing, as well as by organising a conference in cooperation with the World Bank within the SPCP, addressed to the members of audit committees on 16 January 2015.[23]

In 2015 the AOC issued 1 communication (AOC Resolution No. 53/2016 of 1 April 2015) concerning the adoption of the International Standards on Auditing in Poland. In the said communication, the AOC informed that on 1 April 2015, the AOC, while approving the relevant NCoSA Resolutions, endorsed the following standards for application in Poland by statutory auditors and entities authorised to audit the financial statements:

- International Standards on Auditing;
- International Standard on Review Engagements;
- International Standards on Assurance Engagements other than Audits or Reviews of Historical Financial Information;
- International Standard on Quality Control 1.

Moreover, the AOC presented explanations on the deadlines to apply the aforementioned standards.

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

[23] More on the conference - in the report section devoted to the SPCP.


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# 4. EVALUATION OF ACTIVITY OF THE NCSA BODIES WITHIN THE PUBLIC OVERSIGHT SYSTEM IN 2015[24]

## 4.1. NAOC activity

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

In entities authorised to audit the financial statements performing audit activities in the public interest entities, for the second year, inspections were conducted taking into consideration new procedures which, according to the NAOC assessment, are oriented towards an extensive application of risk assessment and the comprehensive approach to the evaluation of quality control systems (QCS) in an entity authorised to audit the financial statements. Within inspections in other entities, the application of new procedures started in 2015. The said procedures were published and are available on the NCSA website.

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

The Inspection Plan for 2015, after the amendment approved by the AOC, comprised 56 entities, of which 3 were not inspected for reasons attributable to the entities. In one case, the NAOC notified the NCoSA, simultaneously applying for striking the entity off the list of entities authorised to audit financial statements. In two cases, the entities applied themselves for striking them off the list.
Reports of 53 inspections were provided to the AOC by the end of 2015. In 2015, as a result of the inspection conducted in key areas related to the QCS effectiveness, the quality of audit documentation and the accuracy of the entity's activities, the following most frequent irregularities were found:

In the QCS inspection, comprising such aspects as design, implementation and effectiveness of operation, the most frequent irregularities were related to the execution of orders, including the review of the order quality. The second irregularity, in terms of frequency, was the inaccurate undertaking and continuation of orders. Other QCS elements where inaccuracies were found include ethical requirements and staff management, including the lack of procedures for the appointment of the key statutory auditor and members of the team foreseen for the implementation of the order.

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

Irregularities in the scope of the QCS were found in 18% of entities inspected (in 2014 - 48%).

The inspection of the audit documentation quality, on the other hand, showed frequent lack of proper and sufficient evidence corroborating the findings arising out of item 13 of the NSA 1 – in 11 % of audit documents (in 2014 - 32%); Other relatively frequent irregularities concerned the scope of audit planning and the errors in the declaration of the head the entity, in connection with the failure to adjust its wording to item 29 and 82 (f) of the NSA 1 - in 13% of audit documents (in 2014 – 28% and 11%, respectively).
A significant number of irregularities was related to the defectiveness of opinions (7% of audit documents), including:

- indicating in the opinion that the audit was performed in accordance with the ISAs under the circumstances when the audit documents did not confirm the application of those standards;
- including a supplementing explanation which had a form of a hidden reservation;
- failure to include the specific explanation referred to in item 70 of NSA 1.

Another irregularity in the scope of expressed opinion on the audit was the defectiveness of the opinion in connection with assessment of the entity's ability to continue operations (3% of audit documents).
Irregularities in the scope of the quality of audit documents were found in 47% of entities inspected (in 2014 - 68%). The total number of detected irregularities amounted to 115 in 196 audit documents (in 2014 - 495 irregularities in 187 audit documents.[25]

The most frequent irregularities in the area of activity of an authorised entity include non-compliance of activity of entities with the Act as well as incompleteness and lack of timeliness in relation to publication of the transparency reports.
Irregularities in the scope of activity of an authorised entity were found in 11% of entities inspected (in 2014 - 40%). The total number of detected irregularities amounted to 12 (in 2014 - 59).

As a result of inspections performed in 2015, the NAOC submitted applications to the NDS for instigating disciplinary proceedings against 14 key statutory auditors in 2015. In 2016 another application related to the inspection performed in 2015 was submitted.
Furthermore, during 2015, the NAOC submitted 15 applications to the NDS, including 12 from inspections performed in the previous years, including 12 upon recommendation of the AOC.
The main grounds for the applications to the NDS submitted by the NAOC were the irregularities concerning the insufficient and improper documentation of the audit of statements referred to in item 13 of the NSA 1, expressing the opinion on the financial statements on a date earlier than the date of this report, expressing the opinion

[25] According to information received from the NAOC, the indicated number of 115 irregularities in the scope of quality of audit documents in 2015 refers to material irregularities which were demonstrated in inspection protocols. On the other hand, considering the number of 411 negligent irregularities which were not taken into account in inspection protocols in 2015, instead having been communicated to entities inspected with the use of other means, it should be recognised that the total number of 526 irregularities in the scope of quality of audit documents, found by the NAOC inspectors in 2015 was similar to the level of 495 irregularities identified in 2014.


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on the financial statements which were not signed by all members of the Management Board of the audited entity (lack of written justification of such decision), defectiveness of the opinion in connection with the assessment of the entity's capacity to continue operations, and in connection with the failure to include an explanation, or including an explanation in the form of a hidden reservation, incorrect documentation of audit planning.
The intention of the NAOC expressed in the decisions on the method to terminate the inspections conducted in 2015 was the submission of 7 applications to the NCoSA for imposing sanctions on the entity inspected.
By the end of 2015, the NAOC submitted 3 applications to the NCoSA concerning the inspections conducted in 2015 (including 1 notification concerning the failure of an entity to submit to inspection) and 8 applications, including 7 based on the AOC recommendations, related to the inspections performed in the previous years. For the sake of comparison, in 2014 the NAOC, following the instruction of the AOC, submitted 31 applications for imposing sanctions on the entity inspected.

## Planned inspections in other entities authorised to audit financial statements

In 2015 the NAOC implemented the inspection plan in other entities authorised to audit financial statements, i.e. it conducted planned inspections in 127 entities out of 154 adopted to the plan, since 27 entities were not subject to the inspection due to, inter alia, striking-off the entity from the list in 9 cases, failure to submit to the inspection in 4 cases, postponing of the date of performing the inspection by the NAOC in 7 cases (in 2014 the NAOC performed 407 inspections).
In case of 42 inspections the NAOC did not see the need to submit the post-inspection recommendations to the entity (in 2014 - 125 inspections). On the other hand, 32 inspections were completed only with recommendations (in 2014 - 185 inspections). Other inspections were completed with recommendations and/or the designation for inspection and/or the applications to the NDS and/or the applications to the NCoSA.
For inspection the NAOC selected audit documents taking risk assessment into consideration. The NAOC paid special attention to the mandatory including in the inspection of the documentation related to the audit of financial statements of companies holding shares listed in the alternative trading system. Activities of the NAOC took into consideration signals received from the management of the Warsaw Stock Exchange.

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

Throughout 2015, the NAOC, as a rule, immediately provided the entities inspected with the post-inspection statements. The NAOC proceeded analogically in relation to applications submitted to the NDS. In total, in 2015 the NAOC submitted post-inspection statements to 26 entities (in 2014 - 38).
In 2015, the NAOC carried out 161 inspections concerning implementation of the recommendations. In 5 cases, recommendations of the NAOC were not implemented, which resulted submission of applications to the NCoSA for imposing a fine on the entities.

## Unplanned inspections

In 2015, in entities authorised to audit financial statements which perform audit activities in public interest entities, the NAOC commenced 4 unplanned inspections, including 2 inspections - as a result of the recommendation of the AOC. Within 3 inspections irregularities were found. For 2 inspections the inspection process was completed in 2015. In one of those inspections, no irregularities were found whereas within the other one, the post-inspection statement was sent to the entity. In case of 2 inspections the inspection process was not completed by the end of 2015.
In other entities, 5 inspections were carried out during 2015, including 3 inspections as a consequence of information received from representatives of the Warsaw Stock Exchange. In one case, the inspection was not conducted for reasons attributable to the entity, which resulted in the notification of the NCoSA of the failure of the entity authorised to audit the financial statements to submit to the inspection. The second inspection was completed with the post-inspection statement with recommendations, the application for instigating disciplinary proceedings, the application to the NCoSA and an announcement of an inspection in 2017. The third inspection was completed with a post-inspection statement with recommendations and an application for instigating disciplinary proceedings.
The NAOC conducted the other 2 unplanned inspections on request of the NDS. In one case, the inspection was completed with a post-inspection statement with recommendations, whereas in the other case, no irregularities were found.

## Other activities undertaken by the NAOC

The new procedures for performing the inspection introduced by the NAOC, applied in 2014 by inspectors for planned inspections in entities performing audit activities in favour of public interest entities were used in 2015 by peer reviewers for performing the inspections in other entities. In 2015, the modified (simplified) template of the planned control protocol was used for the first time. The procedures for performing the inspection and the template of the inspection protocol were published on the NCSA website at: http://kibr.org.pl/pl/dokumenty_kkn , however, they do not constitute a closed catalogue of issues which may be covered by the inspection.

In 2015 the NAOC organised 3 training courses for peer reviewers and inspectors in the following areas:

- procedures for performing the inspection and the new inspection protocol template in order to prepare the controllers to conduct the inspections in 2015;
- the action strategy developed by the NAOC of the 4th term, inspection of the documentation of auditing the consolidated financial statements, legal conditions of performing services after the introduction of the NSAs in its wording compliant with ISA, ISRE and ISAE of the IAASB, key aspects of inspection of compliance with the principles of professional ethics in the context of the service-based bookkeeping and classification of inspection findings according to categories;
- auditing financial statements of financial institutions (banks, insurance companies and investment funds).

At the end of 2015 the team of inspectors consisted of 9 individuals (excluding the head of inspectors).


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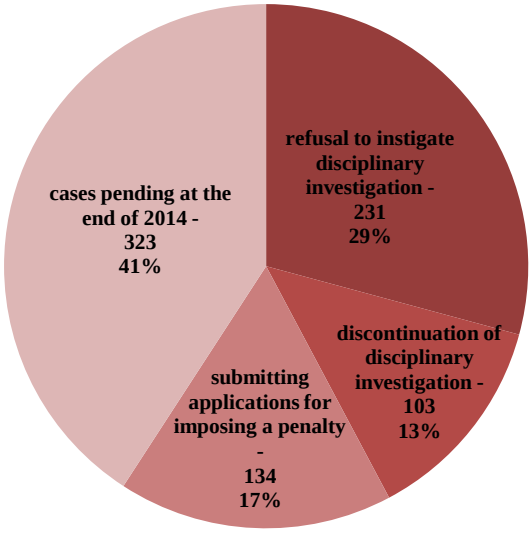
The team of controllers conducting inspections in other entities under contracts of mandate consisted of 74 individuals.
The activities undertaken by the NAOC in 2015 in the scope of approach to inspection, taking into consideration risk assessment as well as an attempt to perform a comprehensive evaluation of the internal quality control system of an entity, should be recognised as a relevant direction. Nevertheless, it should be taken into consideration that the inspection procedures adopted by the NAOC require improvement, inter alia, in the area of inspection of the documentation related to the consolidated financial statements.
An essential issue is also to undertake further activities aimed at development of consistent solutions to be applied in the future in the inspection process executed by the AOC and the NAOC after the implementation of the provisions arising from the European audit reform.

## 4.2. Activity of the NAOC

Pursuant to Article 25(2) of the Act, the NDS has the capacity of the prosecutor in disciplinary proceedings. In 2015 the NDS received 531 applications for instigating disciplinary proceedings[26], 437 of which concerned failure to meet the obligation of mandatory in-service training. In connection with the foregoing, in 2015 the NDS received 94 applications for instigating disciplinary proceedings, in cases other than the failure to meet the obligation of mandatory in-service training. In 2015 the NCoSA submitted 437 applications to the NDS for instigating disciplinary proceedings, the NAOC submitted 45 applications, and the AOC submitted 13 such applications. In 36 cases the applications for instigating disciplinary proceedings in 2015 came from entities other than those referred to above (statutory auditors, economic entities, natural persons).
Furthermore, in 2015 the NDS conducted 260 cases which were not completed in 2014, 99 of which concerned failure to meet the obligation of mandatory in-service training, 2 were related to the failure to fulfil the obligation to submit a report or settlement of the annual oversight fee, 128 - to cases of inspection and control of the National Audit Oversight Committee in entities authorised to audit the financial statements, 25 - to issues arising from notifications of various applicants and 6 -to cases arising from applications of the AOC.[27] Considering the foregoing, it should be stated that in 2015 the NDS conducted 255 cases which were not related to the failure to meet the obligation of mandatory in-service training.

[26] An application for instigating disciplinary proceedings also includes an application for instigating explanatory proceedings conducted under Article 37(1) of the Act.
[27] Out of 260 cases taken over from the previous years, in 2015, 99 cases concerning the failure to meet the obligation of mandatory in-service training were completed, including 60 cases referred to the National Disciplinary Court, 31 cases were discontinued, whereas in 8 cases - an order on refusal to instigate an investigation was issued. In 95 other cases: 44 cases were referred to the Court, 26 cases were discontinued and in 25 cases - an order on refusal to instigate an investigation was issued. Moreover, until 20 April 2016, 14 further cases were completed by filing 13 applications to the Court, and 1 case was discontinued. Summing up, out of 260 aforementioned cases, until now, 208 cases were completed and 52 cases are pending.

**Outcome of disciplinary proceedings conducted by the NDS in 2015**




Source: own compilation of the AOC Office based on the NDS report for 2015.

In 2015 the NDS closed 344 cases by issuing a ruling on refusal to instigate the disciplinary proceedings, or on discontinuation of disciplinary proceedings. The basis for issuing the said rulings was Article 17(1)(1) of the Code of Administrative Proceedings (in 60 cases), Article 17(1)(2) of the Code of Administrative Proceedings (in 1 case), Article 17(1)(3) of the Code of Administrative Proceedings (in 182 cases), Article 17(1)(5) (in 10 cases), Article 17(1)(11) of the Code of Administrative Proceedings (in 79 cases), Article 17(1)(1) and (3) of the Code of Administrative Proceedings (in 2 cases).

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

- in 88 cases – statutory auditors who did not participate in mandatory in-service training in 2013 and 2014, which constitutes a violation of the obligation referred to in Article 4(1)(2) and Article 4(2) of the Act, Chapter 130.3 of the Code of Ethics for Professional Accountants of the International Federation of Accountants (IFAC), and in NCoSA Resolution No. 1422/33/2009 of 3 November 2009 on the rules of mandatory in-service training for statutory auditors amended by the NCoSA Resolution No. 3957/56/2011 of 8 March 2011;
- in 1 case – statutory auditors representing entities authorised to audit financial statements who in 2013 failed to meet the obligation of providing the NCoSA with reports on activity for 2012 and the settlement of the annual oversight fee (Article 49(3) of the Act, Article 4(1)(1) and (5) of the Act, and NCoSA Resolution of 29 March 2011 on the manner of calculating and paying the annual oversight fee amended by NCoSA Resolutions No. 1090/15/2012 and No. 1278/18/2012);
- in 34 cases:
  - ✓ violation of the provisions of the Act, i.e. Article 3(4) (failure to notify the NCoSA), Article 4(1)(3) and (5) (obligations of statutory auditors), Article 10(7) (data related to the register), Article 21(2)(3)(b), Article 49(1), Article 49(2) (principles of internal quality control), Article 49(3) (no report on activity), Article 52 (oversight fees), Article 53(4) (amendments to the entry to the list),


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Article 56(1) to (5) (impartiality and independence), Article 60(2) (remuneration for audit);

- ✓ violations of the provisions of the Accounting Act, i.e. Article 34(a)-(c) (long-term services - above 6 months), Article 45(2) and (3), Article 52(2), Article 54(1) and (2) (financial statements), Article 48(2) (additional information and explanatory notes), Article 49(1) and (2) (reports on activity of an entity), Article 56(3) and (4) (consolidated statements), Article 65(3)(1), (2) and (7)Article 65(2)(4), Article 65(6), Article 66(2) and (4), Article 67(1) and Article 69 and 70 (consistence between the opinion, the report, and the audit documentation – audit of announcements and reports),
- ✓ violations of the NSAs 1, i.e. Item II(10), (11) and (12 b) (aim of the audit), item III (13)(a)-(g), (14), (17), (18) (manner of auditing), item IV (27), (28), (29), (29a), (30), (31), (32) (evidence for audit), item V (34), (34)(a)-(c), (35), (35)(a), (b), (37), (38), (39), (planning the audit), item VI (41), (42), (44), (45), (46), (47), (48), (49), (50), (52) (special problems of the audit), item VII(53), (54) (abuse, errors, violations of law), item IX (61)-(64), item X (65), (66), (68), (69), (70)(a), (70)(b), (71)(c), (72)(a), (b), (c), (d), (e), (f), (g), (72), (73) (opinion), item XI (75), (76), (76)(a), (b), (c), (d), (f), (g), (h), (i), (j ) (report), item XII (78), (79), (80), (81), (82), (82)(c), (82)(e), (82)(f), (82)(i), (83) and (85) (audit documentation), item XIII (88), (89) (communication with audit committees), item XIV (90), (91), (94)(a), (94)(b), (94)(c), (contracts for auditing financial statements);
- ✓ violations of the rules of internal quality control specified with NCoSA Resolution No. 1378/32/2009 of 13 October 2009 on the rules of internal quality control. i.e. item 2(27), (30), (31);
- ✓ violation of professional ethics rules - the Code of Ethics for Professional Accountants of the International Federation of Accountants (IFAC) as the rules of professional ethics of statutory auditors in force in Poland, i.e. item 130.1, 130.4, 150.1 (basic rules), item 290.6 (b), 290.134, 290.135 (independence), item 240.1 (remuneration).

In 2015, under Article 37(4) of the Act and Article 335 of the Code of Administrative Proceedings, the NDS submitted to the NDC 31 applications for imposing a penalty stating the penalty agreed upon with the accused statutory auditor. In 2015 the NDC positively considered 13 cases of the said applications for imposing a penalty.

The court proceedings also covered complaints against the decisions of the Spokesman: in 6 cases - against discontinuation of the investigation and in 3 cases - against the refusal to instigate disciplinary proceedings. Among the said cases, one was completed at the NDC level that left the case without consideration due to its submission by an unauthorised person.

At the end of 2015 there were 16 disciplinary proceedings pending in common courts conducted against statutory auditors, i.e. 8 cases submitted in the years 2013-2014, and 8 cases instigated by appeals against rulings of the NDC lodged in 2015. Appeals lodged in the previous years were subject to proceedings, whereas in 5 cases no settlement took place, and in 3 cases an appeal was lodged against the rulings issued, including one lodged by the NDS. In 8 appeals lodged in 2015 there is no settlement in

3 cases, in other 3 - the NDC rulings were sustained, and in 2 cases - rulings were waived and the cases were referred back for re-consideration by the NDC.

In the light of the above data, it should be underlined that a significant number of explanatory and disciplinary proceedings were conducted by the NDS in 2015, i.e. 791 cases. The fact that nearly 60% of the said proceedings, i.e. 468 cases, were closed in 2015 deserves a positive opinion. However, taking into consideration the independence of the NDS and the Deputies thereof provided for in Article 45(2) of the Act concerning the conducting of proceedings in cases of disciplinary responsibility, it should also be noted that 71% of cases in 2015 (i.e. 334 cases) were closed either by refusing to instigate disciplinary proceedings (following explanatory proceedings) or by discontinuing the disciplinary proceedings at the stage of preparatory proceedings (i.e. discontinuation of a disciplinary investigation). On the other hand, nearly 29% of cases in 2015 were closed by applying to the NDC for imposing a penalty.

## 4.3. Activity of the NDC

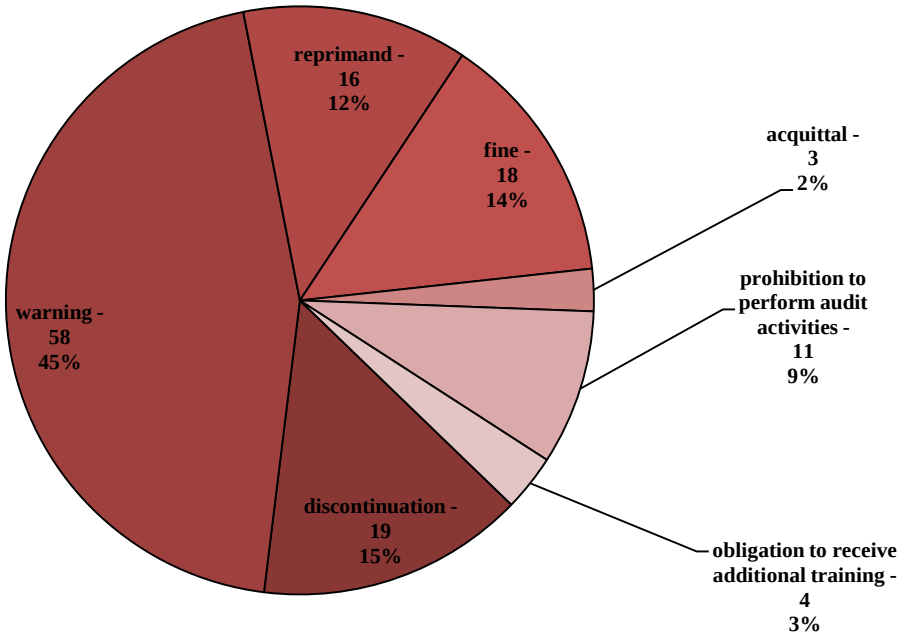
The NDC, pursuant to Article 24(3) of the Act, rules in cases of disciplinary responsibility of statutory auditors.
In 2014, the NDC issued 153 rulings, including 134 final and conclusive ones. The NDC ruled as follows[28]:

- penalty of warning – 58 times;
- penalty of reprimand – 16 times;
- fine – 18 times;
- penalty of a prohibition to perform audit activities for the period of 1 year – 4 times;
- penalty of a prohibition to perform audit activities for the period of 2 year – 5 times;
- penalty of a prohibition to perform audit activities for the period of 3 year – 2 times;
- obligation to receive additional training – 4 times.

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


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**Final NDC rulings concluding disciplinary proceedings in 2015**




Source: own compilation of the AOC Office based on the NDC report for 2015.

Furthermore, the NDC:

- discontinued the proceedings in 19 cases;
- acquitted the accused in 3 cases;
- adjourned the hearing in 14 cases;
- sustained the decision of the NDS in 1 case, concerning closing of the explanatory proceedings and refusing to instigate disciplinary proceedings;
- in 1 case the Court did not consider a complaint against the decision of the NDC Chairwoman on the refusal to accept an appellate measure due to its submission by an unauthorised person;
- considered the submitted appeal in 1 case and waived the NDS decision on suspension of the disciplinary proceedings;
- sustained the order of the NDS on the refusal to instigate discontinuing disciplinary proceedings in one case and did not consider an appellate measure concerning recognising of the reporting person as an aggrieved party;
- in 1 case the Court did not consider an accepted appellate measure.

The Chairwoman of the NDC, while formally controlling a lodged complaint against an order of the NDC on refusing to deem the appealing party an aggrieved party, in 2 cases ordered a refusal to accept the appellate measure due to the lodgement thereof by an unauthorised person.

Among 143 cases lodged by the NDS in 2015 to be considered by the NDC, in 75 cases a final and conclusive ruling was issued, and 68 cases were referred to be considered in the next year.

## 4.4. Activity of the NCoSA

In 2015 the NCoSA performed tasks regarding the public oversight, and in particular:

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

Within the period from 1 January 2015 to 31 December 2015, with the decisions of the NCoSA:

- 202 persons were finally and conclusively entered into the register of statutory auditors (no entries under Article 5(3) or (4) of the Act were made);
- 219 statutory auditors were struck off the register of statutory auditors, including:
  - ✓ 184 upon request,
  - ✓ 35 due to death,
- 77 entities were entered into the list of entities authorised to audit financial statements;
- 96 entities authorised to audit financial statements were struck off the list, including:
  - ✓ 78 upon request,
  - ✓ 14 in connection of with the NAOC decisions,
  - ✓ 3 due to the death of statutory auditors running the authorised entities as activity in their own name and on their own account;
  - ✓ 1 due to striking the statutory auditor off the register.

As at 31 December 2015 1 administrative proceedings were pending concerning striking off the register of statutory auditors.

At the same time, in 2015 the NCoSA issued documents - a resolution and a communication - concerning the recording of statutory auditors and entities authorised to audit financial statements, respectively, concerning the form of submission of information on agreements signed with public interest entities in 2015 for performing the audit activities and the correct fulfilling of a template containing information on agreements signed with public interest entities in 2015 for performing the audit activities.
Furthermore, the NCoSA undertook activities concerning the fulfilment of the obligation by statutory auditors related to mandatory in-service training in 2015. It was found that in 2015 this obligation referred to 7,103 statutory auditors, whereas 1,126 statutory auditors did not fulfil the obligation of mandatory in-service training. The NCoSA undertook various measures against those statutory auditors, whereby in relation to 836 auditors the decision was made to examine the case in detail and submit it to the NDS, 218 persons were struck off the register in 2015, whereas 72 persons were struck off the register in 2016.


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As of 1 January 2015 new regulations concerning the mandatory in-service training for statutory auditors entered into force, arising from the Act of 9 May 2014 on Facilitating Access to Performing Certain Regulated Professions (Journal of Laws of 2014, item 768, as amended) and from the Regulation of the Minister of Finance of 21 November 2014 on Mandatory In-Service Training of Statutory Auditors (Journal of Laws item 1730). In connection with the foregoing regulations, in 2015 the NCoSA adopted 2 resolutions, 4 decisions and issued 7 communications concerning the implementation of the mandatory in-service training for statutory auditors, thereby adjusting the provisions of the self-government to the new provisions of the Act and the Regulation.
In accordance with the new regulation, in 2015 training in the scope of mandatory in-service training for statutory auditors could have been provided by the NCoSA and authorised entities entered to the list maintained by the NCoSA. In the said list, 14 entities authorised to audit the financial statements are included. The intention to provide mandatory in-service training for statutory auditors was also reported by 20 regional branches of the NCSA and 31 entities included in the organisational structure of the Accountants Association in Poland. In the reporting period the NCoSA conducted 6 inspections of the mandatory in-service training aimed at controlling whether the entities conducting the training comply with the rules arising from the provisions of Regulation.

In 2015 the NCoSA adopted 10 resolutions concerning the qualification procedure procedure for candidates for statutory auditors, and concerning the operations of the Examination Committee, which were approved by the AOC.

In the reporting period the NCoSA adopted Resolutions concerning standards on auditing and the internal quality control rules in an entity authorised to audit financial statements:

- No. 2783/52/2015 of 10 February 2015 *concerning the national standards on auditing*;
- No. 2784/52/2015 of 10 February 2015 *concerning the internal quality control rules in an entity authorised to audit financial statements*.

The aforementioned Resolutions introduced – as the national standards on auditing and the rules of internal quality control of an entity authorised to audit financial statements – the international standards on auditing, the international standards on review engagements, and the international standards on assurance engagements issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), as well as the International Standard on Quality Control 1 – *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagement.*

Moreover, in 2015 the NCoSA issued the following communications:

- No. 51/2015 of 10 February 2015 *concerning related services*, publishing the International Standards on Related Services issued by IAASB IFAC;
- No. 57/2015 of 5 May 2015 *concerning the guidelines on auditing practice*, publishing the International Auditing Practice Statements (IAPSs) 1000 - *Special considerations during auditing of financial instruments*, constituting appendices to the communication;
- No. 2/2015 of 18 November 2015 *concerning the service certifying the accuracy of calculating the value of the electricity consumption intensity coefficient*.

In 2015, the NCoSA adopted Resolution No. 206/6/2015 of 3 November 2015 amending the Resolution concerning the rules of professional ethics of statutory auditors. Moreover, works related to the translation of a uniform text of the IFAC Code of Ethics for Professional Accountants, contained in the IFAC Handbook 2015, were launched. The final effect of the works will enable the NCoSA to adopt a uniform text of the Code, as the rules of professional ethics of statutory auditors, taking into consideration the amendments adopted under the NCoSA resolution.

In the scope of disciplinary proceedings, no decisions were taken by the NCoSA in 2015. Resolution No. 2676/50/2014 adopted in 2014, amending the resolution concerning the regulations of disciplinary proceedings against statutory auditors was considered by the AOC and reservations were submitted thereto.
In the period from 1 January 2015 to 31 December 2015 the NCoSA, under Article 27(1)(3) of the Act, adopted 41 Resolutions *on imposing a fine on an entity authorised to audit the financial statements* (including, in one case, the Resolution was simultaneously related to the additional penalty consisting in publication of information on the irregularities found and penalties imposed on the entity). Among authorised entities penalised under the aforementioned 41 Resolutions, 32 entities were the authorised entities performing audit activities in public interest entities. At the same time, in the said period, the NCoSA did not adopt any resolutions on a prohibition to perform audit activities by authorised entities.
In 2015, as a result of pending administrative proceedings, the NCoSA settled 61 cases and 24 cases were referred to examination in 2016 (in all situations, these are cases from 2015).

In the reporting period the NCoSA adopted 3 resolutions with regard to the annual oversight fee, including: Resolution No. 2985/56/2015 of 5 May 2015 *on the manner of calculating and paying the annual oversight fee*, Resolution No. 3101/58/2015 of 23 June 2015 *concerning interest for default due to untimely payments of the annual oversight fee* and Resolution No. 255/8/2015 of 15 December 2015 *on the level of the annual oversight fee in 2016* (where its level was determined at 1.75% of the revenue of entities authorised to audit the financial statements gained from performing of the audit activities).

In that respect the NCoSA issued additionally 2 communications: No. 47/2015 of 10 February 2015 *on the minimum amount of the annual oversight fee for 2015*, and communication No. 54/2015 of 10 March 2015 *on the manner of proper completion of the annual settlement of the annual oversight fee for 2015.*
At the same time, in 2015 the NCoSA published on the website of the professional body, a spread sheet facilitating accurate calculation of the annual oversight fee for 2015.

In 2015 the NCoSA adopted Resolution No. 203/16/2015 of 8 September 2015 concerning the amount of fees for entry into the list of entities authorised to audit financial statements in 2016, in which it determined the fee at a level of PLN 1,500.00 – as in the previous year. Furthermore the NCoSA adopted Resolution No. 2782/52/2015 of 10 February 2015 on the amount of membership contribution of statutory auditors in 2015, in which it determined the membership contribution at a level of PLN 376.00.


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In 2015 the NCoSA adopted Resolution No. 3101/58/2015 of 22 June 2015 on approval of the financial statements of the NCSA for 2014. The NIAC[29] adopted Resolution No. 1/2015 of 23 June 2015 on accepting the opinion on the financial statements of the NCSA for 2014.

On 24-26 June 2015 at Jachranka near Warsaw, the 8th National Congress of Statutory Auditors (KZBR) was held. The subject of the Congress, besides the election of the authorities of the professional body for the new term (2015-2019) and adoption of the NCSA programme of activities for those years, was, inter alia, adoption of the amendments to the NCSA Statutes, basic rules of NCSA management and rules for determining membership contributions of statutory auditors, approval of reports of NCSA governing committees on activities during the completed term of office as well as discharging members of the outgoing professional body's committees from their obligations.
The 9th KZBR elected, in direct election, Mr Krzysztof Burnos as the President of the NCoSA. Subsequently, the Congress decided to select individual persons to professional body's committees for the forthcoming term of office.

From the point of view of the AOC, while summarising the activity of the NCoSA, special emphasis should be placed on the completion of the process of adopting the International Standards on Auditing as the national standards on auditing, running since 2011. It is a significant step affecting the development of the rules of audit market performance in Poland.
Taking into consideration a large number of pending administrative proceedings arising out of the findings of inspections carried out in the previous years, it seems that the task related to imposing penalties on entities authorised to audit financial statements requires greater engagement of the NCoSA and effective cooperation between the NCoSA and the NAOC.
With regard to the in-service training obligation it should be emphasised that the number of statutory auditors who failed to meet the obligation of mandatory in-service training increased significantly as compared to the previous year. In 2014 this number was 871, whereas in 2015 the number of persons who failed to fulfil the obligation to take the minimum number of hours of the mandatory in-service training amounted to 1,126 individuals.
It is recommended to continue the NCoSA activity disciplining the statutory auditors who do not comply with the said obligation, which is important for the quality of performance of audit activities. On the other hand, the NCoSA should care for the selection of proper topics of the mandatory in-service training, as well as high quality of training conducted by the entities authorised.
Activities of the NCoSA are also noticeable, aimed at improving the performance of the reporting obligations. Special attention should be paid to communication of the NCoSA No. 5/2016 of 16 February 2016 concerning the proper implementation of the obligations arising from Article 88(1) of the Act, as a form of support to entities authorised to audit the financial statements in proper fulfilment of their reporting obligations.

[29] The report on activity of the NIAC in 2015 is available at the PIB MF website: www.mf.gov.pl ➲ Activity [Działalność] ➲ Collective Bodies [Ciała kolegialne] the *AOC [KNA]* section, under the *Reports [Sprawozdania]* tab.

# AOC ACTION PLAN FOR 2016

Considering the need for:

- high level performance of the profession of a statutory auditor as the basis for provision of reliable information in financial statements of economic entities,
- coherence of activities of public oversight bodies over audit in the European Union in order to enhance security of the economic trade,
- measures arising from the approaching deadline for implementation of *Directive 2014/56/EU amending Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts* (OJ EU L 158 of 27 May 2014, p. 196) and the application of *Regulation (EU) No. 537/2014 on Specific Requirements Regarding Statutory Audit of Public Interest Entities* (OJ EU L 158 of 27 May 2014, p. 77, including the corrigendum in OJ EU L 170 of 11 June 2014, p. 66),

the Audit Oversight Commission (AOC) plans implementation of the following tasks in 2016:

1. Carrying out AOC activities based on the currently applicable regulations, in particular in the scope of:
   - planned and unplanned inspections conducted by the National Audit Oversight Committee (NAOC) in 2016 and in the previous years, including:
     – monitoring of implementation of the plan of planned inspections in entities authorised to audit the financial statements auditing financial statements of the public interest entities (PIEs) for 2016,
     – analysis of reports on inspections in entities authorised to audit the financial statements auditing the financial statements of the PIEs,
     – direct participation in selected inspections carried out by the NAOC, with special consideration to the internal quality control system,
     – monitoring of implementation of the NAOC applications for imposing sanctions on statutory auditors and entities authorised to audit financial statements, arising from inspection reports approved by the AOC;
   - disciplinary, administrative and court proceedings conducted in 2016 by the AOC and bodies of professional self-government of statutory auditors, in particular, those arising from irregularities while performing audits of financial statements of the PIEs.
2. Undertaking measures aimed at preparing the oversight body to implementation, as of mid-2016, of the new tasks resulting from the EU audit reform, in particular, in the scope of:
   - tasks taken over by the public oversight body from the professional body of statutory auditors, related to conducting of planned inspections in entities


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auditing the PIEs and imposing sanctions in connection with irregularities while auditing financial statements, including:

- defining resources required for the implementation of the tasks,
- supporting the process of building a team of inspectors and other specialists on behalf of the public oversight body,
- development of assumptions for system solutions supporting the provision of the oversight, including, inter alia, planning and conducting of inspections in supervised entities, monitoring of the inspection process, gathering information on supervised entities,
- development of the inspection methodology and risk analysis-based inspection procedures in the area of internal quality control, auditing separate and consolidated financial statements adjusted to the specific nature of various PIEs, as well as development of administrative procedures of inspection,
- development of the plan of planned inspections of entities auditing the PIEs for 2017;
- development of the approach to imposing sanctions in connection with irregularities found while auditing financial statements of the PIEs under the new legal regulations,
- conducting a dialogue with entities authorised to audit the financial statements of the PIEs, reporting directly to the oversight by a public body,

- a new task of monitoring the quality and competition in the market of providing services in the scope of auditing financial statements of the PIEs, including preparing of a report concerning changes in the market of provision of services;
- developing a formula for the oversight body participation in the changed formula of cooperation between bodies on the EU forum - Committee of European Auditing Oversight Bodies (CEAOB);
- adjusting rules of oversight body operation to new tasks and regulations.

3. Monitoring of activities of the National Council of Statutory Auditors (NCoSA) in the scope of regulations adopted under the NCoSA resolutions, concerning, inter alia, standards of performance of the statutory auditor profession, classification procedure for candidates for statutory auditors, in-service training of statutory auditors, in particular, in the scope of their compliance with the provisions of the Acts of Law and Regulation EU 537/2014.
4. Developing international cooperation, including in particular, within the European Group of Auditors' Oversight Bodies (EGAOB), the International Forum of Independent Audit Regulators (IFIAR), and the European Audit Inspection Group (EAIG), and with selected public oversight bodies from the European Union and third countries, particularly in the scope of:
   - improvement of inspection procedures in audit firms,
   - development of a methodology for audit quality assessment through evaluation based on indicators,
   - extending the oversight to audits of cross-border financial statements.

5. Activities aimed at promoting audit as the basis for provision of reliable information in financial statements, in particular, through:
   - creating the information policy of the AOC aimed, in particular, at informing the key stakeholders about the tasks and operations of the public oversight,
   - participation of the AOC representatives in conferences and debates concerning financial reporting and auditing,
   - organisation of conferences of the AOC and the World Bank, aimed at promotion of the audit public oversight system.

6. On-going execution of tasks defined in *the Act of 7 May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight* (Journal of Laws of 2015, item 1011).


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