



**REPORT  
OF THE AUDIT OVERSIGHT  
COMMISSION  
FOR 2012**

**Warsaw, 17 April 2013**

In accordance with Article 64 paragraph 5 of the *Act of 07 May 2009 on statutory auditors and their self-government, entities authorized to audit financial statements and public oversight* (Journal of Laws No. 77 item 649, as amended), the KNA prepares, by 30 April of the following year, an annual report covering the comprehensive information on the functioning of the quality assurance system, on the results of the disciplinary procedures against statutory auditors and on the fines imposed on the entities authorized to audit financial statements.

## INTRODUCTION

A legal basis for introduction and functioning of the public oversight of financial audit in Poland is the Act of 07 May 2009 on statutory auditors and their self-government, entities authorized to audit financial statements and public oversight, which entered into force on 06 June 2009. Therefore Poland adjusted the national law to the requirements of the Directive 2006/43/EC of the European Parliament and the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts. The Directive 2006/43/EC was an answer to a number of scandals in the area of accounting that have been taking place in the USA and Europe, as well as an answer to the solutions that have been accepted in the USA.

It should be noted how important is the role that statutory auditors play while issuing opinions about economic and financial position of economic operators. An effective public oversight of statutory auditors and auditing companies is to secure the markets in the European Union from serious irregularities in financial statements.

Within the public oversight system, since 02 July 2009 Poland has the Audit Oversight Commission (the KNA), whose task is to oversee the execution of the profession of a statutory auditor, activity of the entities authorized to audit financial statement (auditing companies<sup>1</sup>) and the activity of the self-government of statutory residents – National Chamber of Statutory Auditors (KIBR). The oversight of the Audit Oversight Commission over activities of the self-government is justified mostly by the fact that pursuant to the Act, a number of key tasks have been delegated to the bodies of the National Chamber of Statutory Auditors. To the self-government, following the will of the legislator, were delegated, in particular: keeping the register of statutory auditors and auditing companies, carrying out inspections in auditing companies within the quality assurance system, carrying out disciplinary procedures against statutory auditors.

Professional self-government has gained a new public role. Resolutions of the bodies of the National Chamber of Statutory Auditors on system issues are subject to the procedure of approval by the Audit Oversight Commission, while the remaining issues are evaluated by their possible appealing to the administrative court. These competences are also a source of a wider responsibility for the issued resolutions. It has forced a regular and fluent cooperation of the bodies of the self-government and the bodies of the public oversight which has an influence on the quality of the oversight and its perception by the public opinion.

For the Audit Oversight Commission, the year 2012 was the last year for implementation of the 3-year inspection plan in entities authorized to audit financial statements conducting financial audit activities in public interest entities. Activities connected with prompt conclusion of inspections and approvals of the appropriate reports from inspections were in reference to this priority. In cooperation with the Financial Supervision Authority, activities were undertaken within the scope of assurance of high quality of the work of statutory auditors against statutory auditors carrying out audits of financial statements of Savings and Credit Unions.

Tasks within the scope of the quality assurance system are particularly important in the light of the experiences arising from the global financial crisis which have shown that the statutory

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<sup>1</sup> The terms: *auditing companies* and *entities authorized to audit financial statements* are used interchangeably throughout the text of the *Report of the Audit Oversight Commission for 2012*.

auditors not always were able to identify the risks in the financial statements of the banks and other entities which were crucially important for the stability of financial markets, audited by them.

Having in mind the attempts to ensure uniform principles of the statutory auditor profession in Poland, the Audit Oversight Commission has approved the introduction of the International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants by the 01 January 2012 as code of ethics of statutory auditors applicable in Poland and it has supported the implementation of the International Standards on Auditing (MSRF).

One of the many tasks implemented by the Audit Oversight Commission in 2012 were the activities aiming at broadening the knowledge of supervisory bodies of economic units concerning the cooperation with auditors. The Audit Oversight Commission has organized a conference directed to the audit committees' members, *Audit committees: a key link in the process of financial reporting and audit*. The conference was held on 10 January 2013 in the Warsaw Stock Exchange and it was attended by more than 140 persons, including members of audit committees of Stock Exchange listed companies, members of supervisory boards, statutory auditors. During the conference, Polish and international experiences on improving the efficiency of the activities of the audit committees were presented.

In comparison to the applicable provisions of law and the analysis of reports from the carried out inspections, approved by the Audit Oversight Commission, it has to be concluded that the requirements imposed on both auditing companies and audit committees are design to develop joint communication and not just a one-sided initiating of contacts by a statutory auditor in reference to the performed activities of the auditing.

In order to ensure a proper functioning of the public oversight system over the auditing, the Audit Oversight Commission has developed and strengthened the international cooperation with other supervisory bodies, in particular by participation: in plenary sessions of the International Forum of Independent Audit Regulators (IFIAR), in meetings of the European Group of Auditors' Oversight Bodies (EGAOB), and by following up the results of works on amendments in the supervisions of law on auditing at the European Union level.

The report of the Audit Oversight Commission for 2012 presents the functioning of the public oversight system in Poland in its fourth year of activity. The report contains four chapters and contains, inter alia, detailed information on the functioning of the quality assurance system and the results of the disciplinary procedures against statutory auditors.

The first chapter presents information on the financial audit services market in Poland and the description of the public oversight authority over the statutory auditors, auditing firms and self-government of statutory auditors. The second chapter presents the basic information concerning the operation of the Audit Oversight Commission, including the composition, objectives, operating mode and budget of the Audit Oversight Commission. The third chapter discusses the activity of the Audit Oversight Commission in 2012, that is the activities within the quality assurance system, disciplinary procedures, controlling resolutions of the bodies of the National Chamber of Statutory Auditors, controlling the procedure of making entries to the registry of statutory auditors and the list of entities authorized to audit financial statements, international cooperation as well as other activities of the Audit Oversight Commission within public oversight. The fourth chapter presents the activity of the bodies of the National Chamber of Statutory Auditors within the public oversight system in 2012. The activity of the following was discussed: the National Supervisory Committee, the National Disciplinary Spokesperson, the National Disciplinary Court and the National Council of

Statutory Auditors. At the end of the report you will find the action plan of the Audit Oversight Commission for 2013.

## **TABLE OF CONTENTS**

<b>1.</b>	General characteristics of the public oversight system .....	9
<b>2.</b>	Audit Oversight Commission .....	17
<b>3.</b>	Activities of the Audit Oversight Commission in 2012 .....	22
<b>4.</b>	Activities of the bodies of the National Chamber of Statutory Auditors in the framework of public oversight in 2012 .....	36
	Appendix – Action plan of the Audit Oversight Commission for 2013.....	45

## **LIST OF ABBREVIATIONS**

<b>ABBREVIATION</b>	<b>FULL NAME</b>
EAIG	European Audit Inspection Group
EGAOB	European Group of Auditor's Oversight Bodies
GPW	Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
KIBR	Krajowa Izba Biegłych Rewidentów (National Chamber of Statutory Auditors)
KKN	Krajowa Komisja Nadzoru (National Supervisory Committee)
KKR	Krajowa Komisja Rewizyjna (National Internal Audit Committee)
KNA	Komisja Nadzoru Audytowego (Audit Oversight Commission)
KNF	Komisja Nadzoru Finansowego (Financial Supervision Authority)
Examination Committee	Komisja Egzaminacyjna dla kandydatów na biegłych rewidentów (Examination Committee for the candidates for statutory auditors)
KRBR	Krajowa Rada Biegłych Rewidentów (National Council of Statutory Auditors)
KRD	Krajowy Rzecznik Dyscyplinarny (National Disciplinary Spokesperson)
KSD	Krajowy Sąd Dyscyplinarny (National Disciplinary Court)
KSRF	Krajowe standardy rewizji finansowej (National Standards on Auditing)
KZBR	Krajowy Zjazd Biegłych Rewidentów (National Assembly of Statutory Auditors)
MF	Ministerstwo Finansów (Ministry of Finance)
MSRF	Międzynarodowe Standardy Rewizji Finansowej (International Standards on Auditing)

PCAOB	The Public Company Accounting Oversight Board
SKOK	Spółdzielcze Kasy Oszczędnościowo-Kredytowe (Savings and Credit Unions)
SPPW	Szwajcarsko-Polski Program Współpracy (Swiss-Polish Cooperation Programme)
EU	European Union
UKNF	Urząd Komisji Nadzoru Finansowego (Polish Financial Supervision Authority Office)
BIP MF	Public Information Bulletin of the Ministry of Finance



## **LEGAL BASIS OF THE SYSTEM**

### **Directive**

Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directive 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (Official Journal UE L 157 of 09 June 2006, page 87, as amended), hereinafter referred to as the 2006/43/EC Directive.

### **The Act**

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

### **Other**

- 1) Act of 29 September 1994 on accounting (Journal of Laws of 2013 No. 152 item 330), hereinafter referred to as the Act on Accounting,
- 2) Regulation of the Minister of Finance of 15 January 2010 on the review of professional activities of statutory auditors and activities of entities authorized to audit financial statements (Journal of Laws No. 16, item 83), hereinafter referred to as the Regulation on reviews,
- 3) Regulation of the Minister of Finance of 29 December 2009 on the qualification procedure for statutory auditors (Journal of Laws of 2010 No. 6, item 36 and Journal of Laws of 2013, item 251), hereinafter referred to as the Regulation on the qualification procedure,
- 4) Regulation of the Minister of Finance of 3 December 2009 on the obligatory third party liability insurance of entities authorized to audit financial statements (Journal of Laws No. 205, item 1583),
- 5) Resolution no. 5 of the Extraordinary National Assembly of Statutory Auditors of 21 March 2010 on the National Chamber of Statutory Auditors statute, hereinafter referred to as the KIBR's statute.

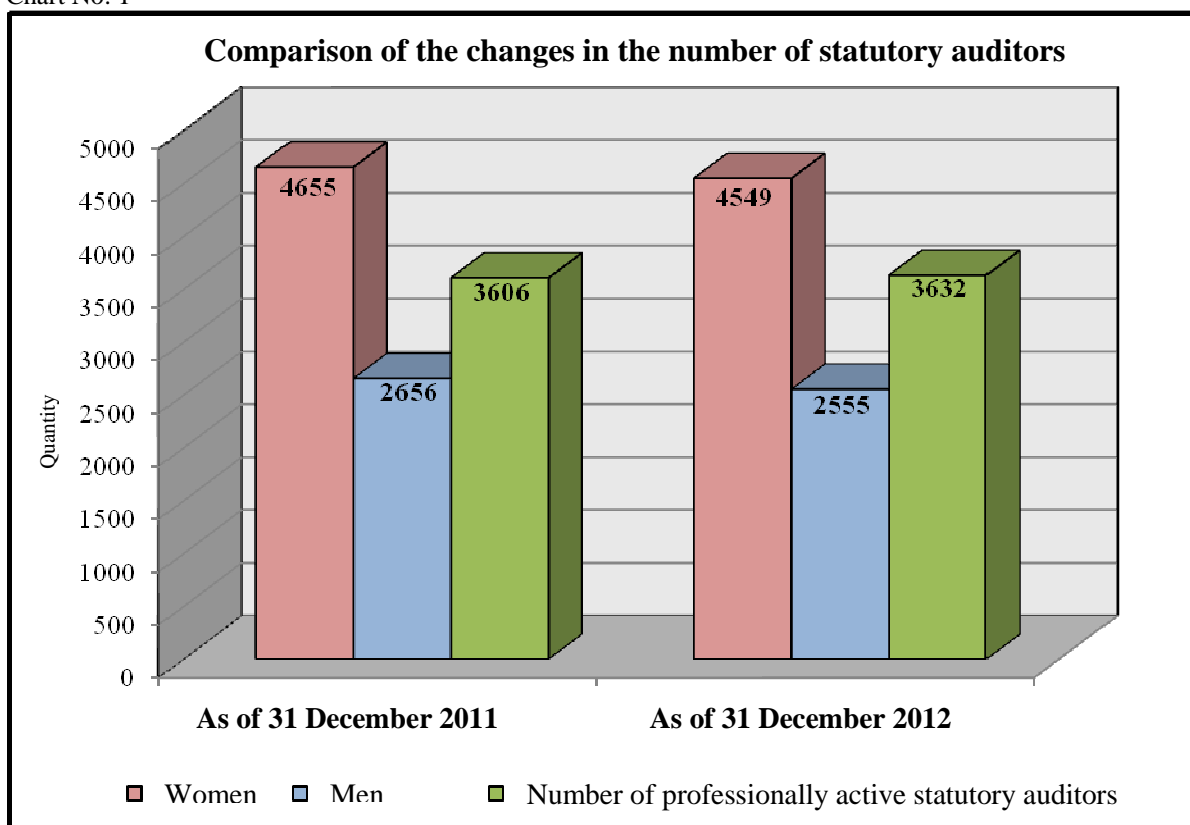
## 1. GENERAL CHARACTERISTICS OF THE PUBLIC OVERSIGHT SYSTEM

### Basis data related to the market

#### Statutory auditors

As of 31 December 2012, 7,104 persons were entered in the register of statutory auditors (including 4,549 women and 2,555 men), which means a decrease as compared to the end of 2011 by 207 persons. From the statutory auditors entered in the register of statutory auditors, 3,632 persons have declared the pursuit of the profession. As compared to the end of the 2011, the number increased by 26 persons. The average age of the statutory auditor as of 31 December 2012 was 56 and it was the same as compared to the end of 2011. Comparison of the changes in the number of statutory auditors is presented in the Chart No. 1.

Chart No. 1



Source: own work of the KNA Bureau based on data from the KIBR.

In the period from 01 January 2012 to 31 December 2012, through KRBR resolutions, 174 individuals were validly registered in the register of statutory auditors (including 2 persons with authorizations to perform the profession of a statutory auditor obtained in another EU country), whereas 407 auditors were removed from the register<sup>2</sup>.

<sup>2</sup> The statutory auditors were removed from the register of statutory auditors:

- 217 on request,
- 58 due to demise,
- 132 due to failing to pay membership contributions for a period longer than a year.

As compared to the end of 2011, the number of entries in the register of statutory auditors decreased by 149 persons, at the same time the number of deletions of the statutory auditors from the register of statutory auditors decreased by 89.

10,512 candidates, including 1,050 from the recruitment conducted in 2012 and 9,462 from the previous years) participated in the qualification procedure for candidates for statutory auditors. As compared to the end of 2011, it means an increase by 851 candidates for statutory auditors.

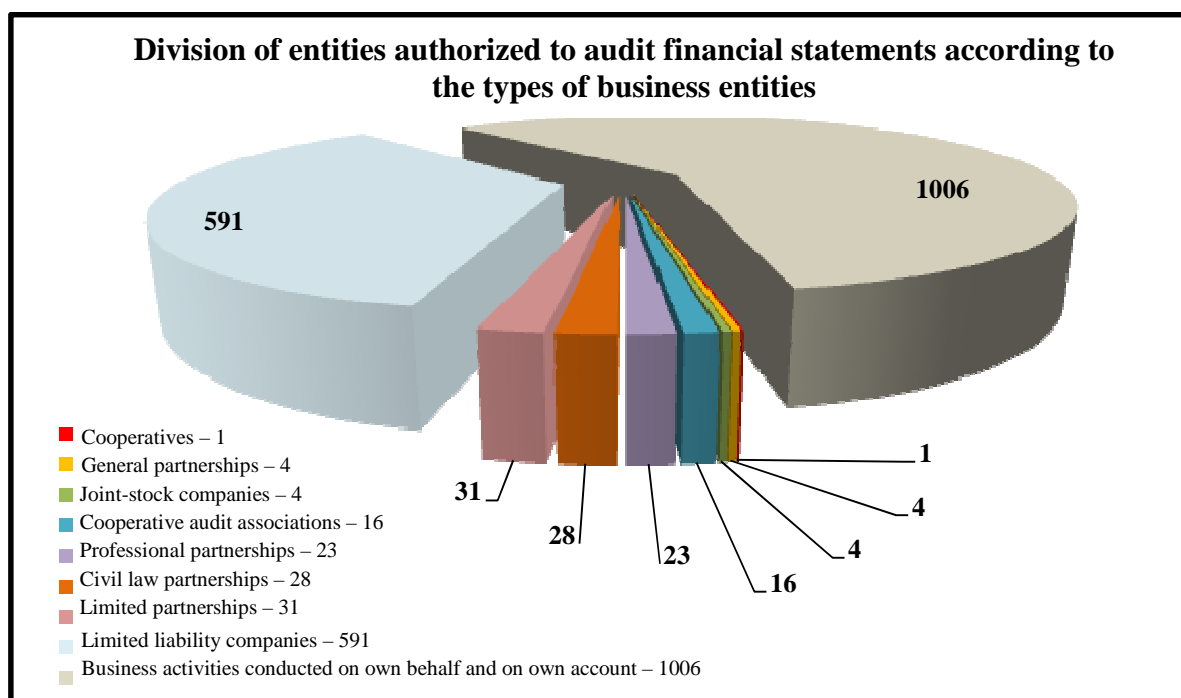
In 2012, 176 individuals completed the qualification procedure – they passed the certification exam and they were granted the right to file to KRBR for entry in the registry of statutory auditors – which means a decrease as compared to the 2011 by 80 individuals).

### ***Entities authorized to audit financial statements***

As of 31 December 2012, 1,704 entities authorized to audit financial statements were entered in the list of entities authorized to audit financial statements. As compared to the end of 2011, the number of entities authorized to audit financial statements decreased by 80.

Division of entities authorized to audit financial statements according to the types of business entities as of 31 December 2012 is presented in the Chart No. 2.

Chart No. 2



Source: own work of the KNA Bureau based on data from the KIBR.

In the period from 01 January 2012 to 31 December 2012, as a result of resolutions of the KRBR, 68 entities authorized to audit financial statements were entered in the list of the entities authorized to audit financial statements. At the same time, 149 entities authorized to audit financial statements were removed from the list of the entities authorized to audit financial statements<sup>3</sup>.

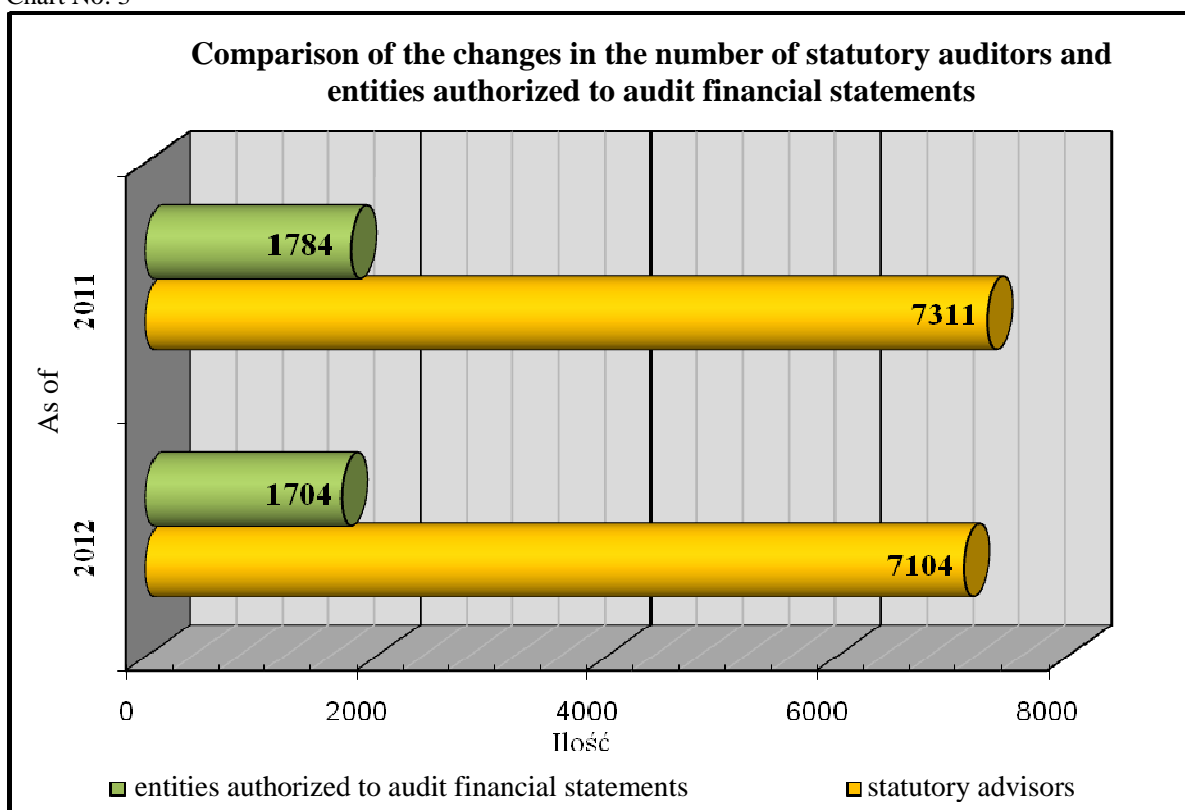
<sup>3</sup> The entities authorized to audit financial statements were removed:

- 119 on request,
- 16 due to failing to pay the annual oversight fee,

As compared to the end of 2011, the number of entries of the entities authorized to audit financial statements in the list of the entities authorized to audit financial statements decreased by 31, and at the same time the number of deletions of entities authorized to audit financial statements from the list of the entities authorized to audit financial statements increased by 22.

Comparison of the changes in the number of statutory auditors and entities authorized to audit financial statements is presented in Chart No. 3.

Chart No. 3



Source: own work of the KNA Bureau based on data from the KIBR.

The revenue generated by entities authorized to audit financial statements in 2011 in connection with financial audit activities (based on data arising from settlements of annual oversight fee for 2012 submitted by entities authorized to audit financial statements by 21 March 2013)<sup>4</sup> amounted to: PLN 688,616,403.15, including revenue generated by entities authorized to audit financial statements conducting financial audit in public interest entities in the amount of: PLN 543,752,795.19.

In 2012, 28,259 audits of financial statements were carried out (23,628 mandatory and 4,631 facultative).

- 10 due to the demise of statutory auditors running the entitled entities in the form of sole business activity on their own behalf and on their account,
- 4 due to the deletion of the statutory auditor from the register of statutory auditors, running the entitled entities in the form of sole business activity on their own behalf and on their account.

<sup>4</sup> The deadline for submitting the settlements is 28 February 2013.

***Analysis of the market of entities authorized to audit financial statements particularly auditing financial statements of listed companies***

The analysis of the market of entities authorized to audit financial statements<sup>5</sup> in Poland is as outlined below. The first aspect of the analysis was the data related to the Warsaw Stock Exchange (GPW). The market capitalisation of the listed companies according to data as of the end of 2011 and the information about entities authorized to audit financial statements auditing annual financial statements of the listed companies for 2011 were taken into consideration. The second aspect of the analysis was the revenue generated by entities authorized to audit financial statements on the account of carrying out financial audit, which arisen from settlements of annual oversight fee submitted to the KIBR. Due to the fact that part of the data needed for preparation of the analysis for the previous year will only be available after the time of preparation of this KNA report, it is necessary to base on data from 2011.

Table No. 1 and Chart No. 4 present the biggest auditing companies, auditing financial statements of GPW listed companies in 2011 according to the total capitalisation of the audited companies and the proportion of the sum of capitalisation of the audited companies and the capitalisation of the whole stock.

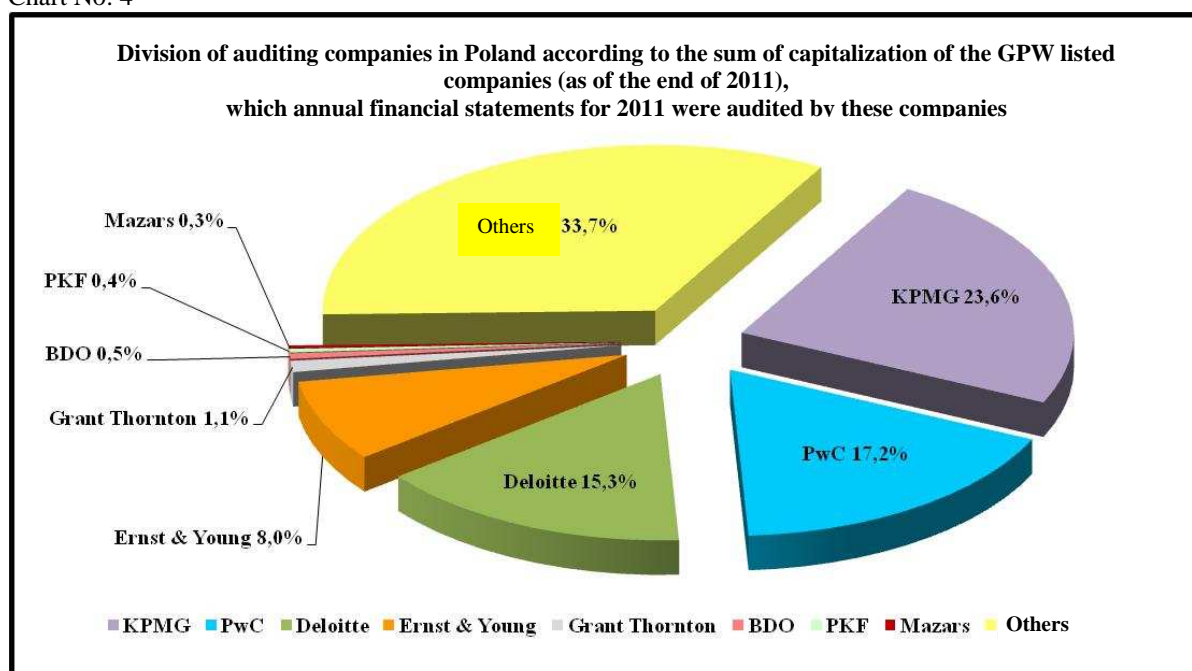
Table No. 1

<b>Abbreviated name of an auditing company or a network of auditing companies</b>	<b>Total capitalisation of the audited companies (in PLN million)</b>
KPMG	150996.8
PwC	110323.6
Deloitte	98232.6
Ernst & Young	51039.8
Grant Thornton	7051.1
BDO	3411.8
PKF	2270.7
Mazars	1653.1
Others	215853.5

Source: own work of the KNA Bureau partly based on data from the *Stock Exchange Yearbook 2012 statistical data for 2011* ([www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)).

<sup>5</sup> In further charts the entities authorized to audit financial statements are: **BDO** – BDO Sp. z o.o.; **Deloitte** – Deloitte Audyt Sp. z o.o.; **Ernst & Young** – Ernst & Young Audit Sp. z o.o.; **Grant Thornton** – Grant Thornton Frąckowiak Sp. z o.o. Sp. k. and Grant Thornton Frąckowiak Sp. z o.o.; **KPMG** – KPMG Audyt Sp. z o.o. Sp. k. and KPMG Audyt Sp. z o.o.; **Mazars** – Mazars Audyt Sp. z o.o.; **PKF** – PKF Audyt Sp. z o.o.; **PwC** – PricewaterhouseCoopers Sp. z o.o.; **Roedl** – Roedl Audit sp. z o.o.

Chart No. 4



Source: own work of the KNA Bureau partly based on data from the *Stock Exchange Yearbook 2012 statistical data for 2011* ([www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)).

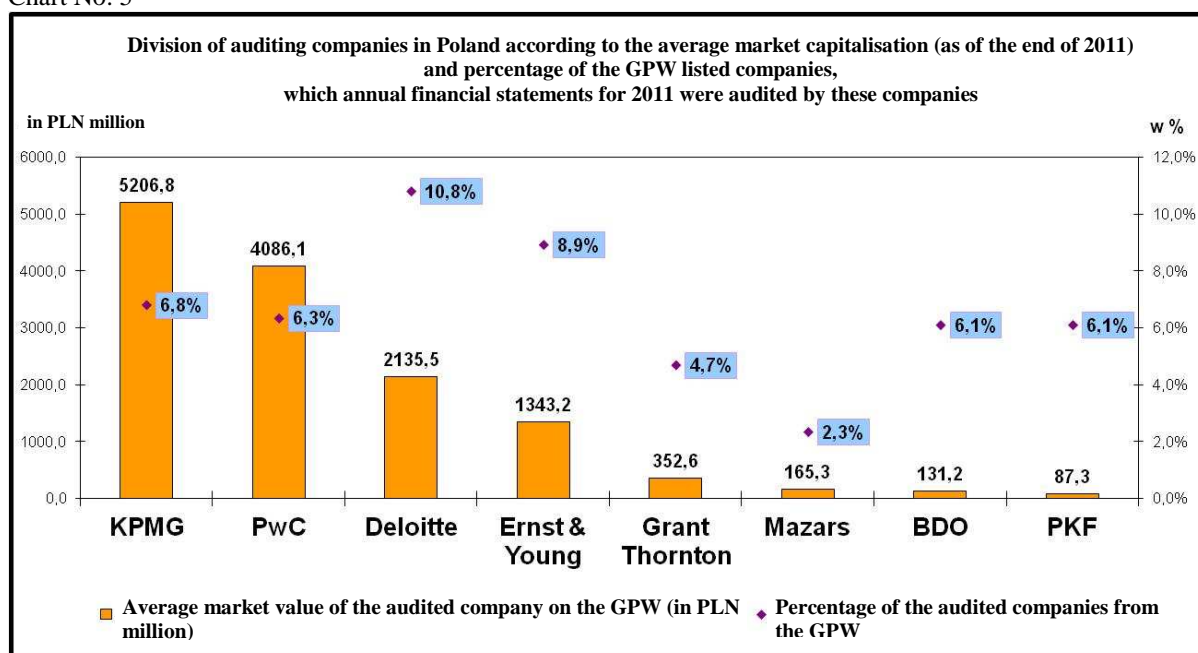
Table No. 2 and Chart No. 5 below present the biggest auditing companies, auditing financial statements of the GPW listed companies in 2011 according to the average market capitalisation of the audited companies (according to data as of the end of 2011) and number of the GPW listed companies.

Table No. 2

Abbreviated name of an auditing company or a network of auditing companies	Average market value of the audited company on the GPW (in PLN million)	Percentage of the audited companies from the GPW
KPMG	5206.8	6.8%
PwC	4086.1	6.3%
Deloitte	2135.5	10.8%
Ernst & Young	1343.2	8.9%
Grant Thornton	352.6	4.7%
Mazars	165.3	2.3%
BDO	131.2	6.1%
PKF	87.3	6.1%

Source: own work of the KNA Bureau partly based on data from the *Stock Exchange Yearbook 2012 statistical data for 2011* ([www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)).

Chart No. 5



Source: own work of the KNA Bureau partly based on data from the *Stock Exchange Yearbook 2012 statistical data for 2011* ([www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)).

Table No. 3 and Chart No. 6. present a market division of entities authorized to audit financial statements according to revenues on the account of carrying out financial audit for 2011.

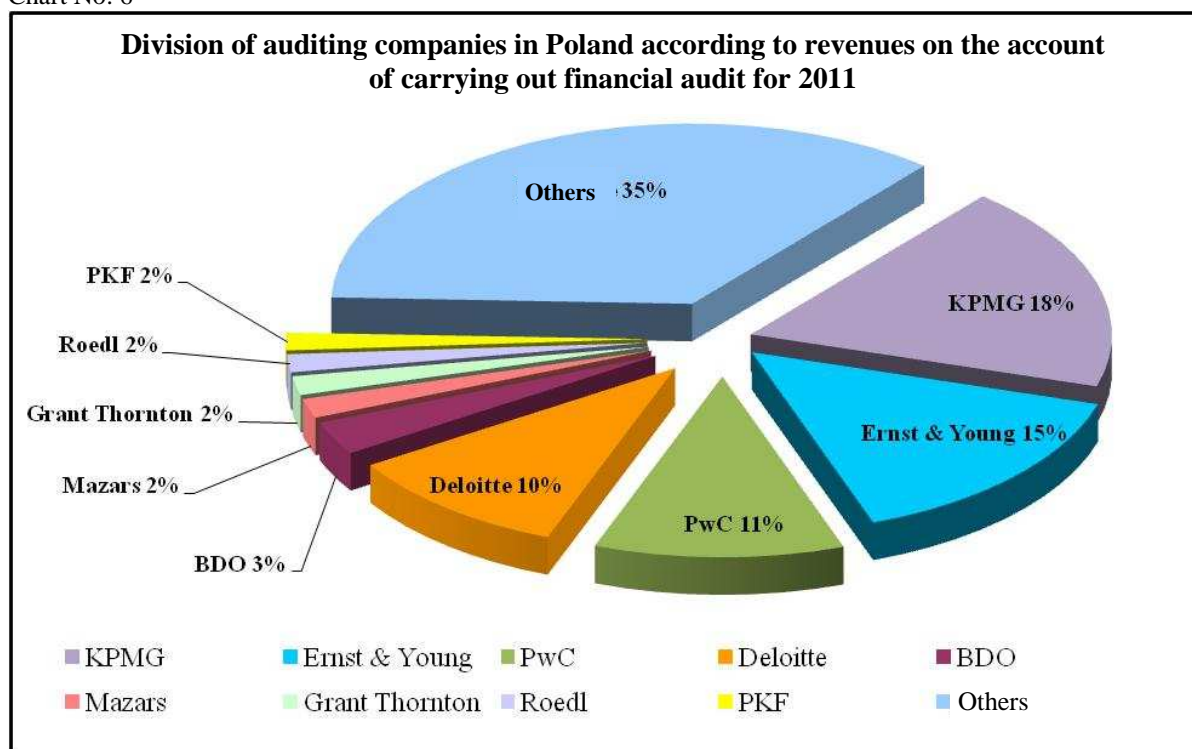
Table No. 3

Abbreviated name of an auditing company or a network of auditing companies	Revenues on the account of financial audit (in PLN)
KPMG	135,962,954
Ernst & Young	109,332,332
PwC	81,975,620
Deloitte	75,043,281
BDO	21,841,437
Mazars	12,755,945
Grant Thornton	12,480,018
Roedl	11,804,637
PKF	11,540,697
Others	260,688,346

Source: own work of the KNA Bureau partly based on data from annual settlements of oversight fee for 2011 submitted to the KIBR.



Chart No. 6



Source: own work of the KNA Bureau partly based on data from annual settlements of oversight fee for 2011 submitted to the KIBR.

The data presented above show the dominance of the so-called “big four” (i.e. KPMG, PwC, Deloitte, Ernst & Young) in Poland. In total, the companies of the “big four” audited financial statements for 2011 of 33 % of all of the GPW listed companies, which capitalisation toward the whole stock amounted to 64 % (according to data as of the end of 2011). Yet in regard to the revenues on the account of carrying out financial audit for 2011, the companies of the “big four” generated 54 % of revenues of all the entities authorized to audit financial statements. However, this dominance does not mean a high level of market concentration, and the companies of the “big four” basically hold a similar level of a market share.

## Description of the system

The public oversight system consists of the following elements:

- Audit Oversight Commission (KNA) – a body of public oversight who bears the ultimate responsibility for the whole system;
- National Chamber of Statutory Auditors (KIBR) – a professional self-government, to the bodies of whom, following the will of the legislator, some competence within the scope of public oversight was delegated.

Pursuant to the Act, the KNA is competent for, inter alia:

- approval of resolutions of the bodies of the KIBR in cases stipulated in the Act, including:
  - ✓ national standards on auditing,
  - ✓ standards on internal quality control of entities authorized to audit financial statements,
  - ✓ ethical standards of statutory auditors,



- ✓ regulations of disciplinary actions against statutory auditors,
- ✓ rules of mandatory professional education of statutory auditors,
- ✓ rules of procedure for the Examinations Committee and other regulations in the area of the qualification procedure for candidates for statutory auditors,
- approval of annual inspection plans, drawn up by the KKN, with respect to the activities of entities authorized to audit financial statements conducting financial audit activities in public interest entities and approval of candidates for inspectors before their appointment and approval of inspectors designated for individual inspections,
- approval of results of inspections in entities conducting financial audit activities in public interest entities and participation as an observer in selected inspections carried out by the KKN,
- carrying out (on its own), in case of finding out about irregularities, inspections of professional activities of statutory auditors and activities of entities authorized to audit financial statements,
- participating as a party in disciplinary procedures against statutory auditors conducted by the KRd and the KSD,
- registering statutory auditors and entities authorized to audit financial statements from third countries,
- appealing to the administrative court against the resolutions of the KIBR bodies which are not subject to approval,
- performing reviews of documentation constituting the basis for passing resolutions by the KRBR on the entry of a statutory auditor in the register or entry of entities authorized to audit financial statements in the list of entities authorized to audit financial statements,
- international cooperation, in particular cooperation with the European Commission, oversight authorities of other EU Member States and third countries.

While discussing the public oversight system, the Examination Committee for the candidates for statutory auditors, appointed by the Minister of Finance, which conducts the examination procedure, including exams for candidates for statutory auditors, should also be mentioned. The Examination Committee for the candidates for statutory auditors acts pursuant to the Act, Regulation on the qualification procedure for statutory auditors and resolutions of the KRBR approved by the KNA. Pursuant to Article 8 (6) of the Act the Examination Committee for the candidates for statutory auditors shall submit to the KNA a report on its operations<sup>6</sup>.

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<sup>6</sup> *The report of the Examination Committee for the candidates for statutory auditors for the period of 1 January 2012 to 31 December 2012* is available on the Public Information Bulletin of the Ministry of Finance website ➔ *Działalność* ➔ *Ciała kolegialne* in the section *KNA* in the tab *Plany działania i sprawozdania* ➔ *Sprawozdania*.

## **2. AUDIT OVERSIGHT COMMISSION**

The KNA is an independent, collegial body of public administration, financed at the expense of the state budget. It is appointed pursuant to Article 63 of the Act.

The KNA acts during plenary ordinary and extraordinary meetings that are convened and chaired by a Chairperson or a Vice-Chairperson. The resolutions of the KNA are passed each and every time during meetings. Pursuant to the Act, meetings of the KNA are being held at least once a month.

### **Composition**

The KNA is composed of nine members appointed by the Minister of Finance for a 4-year term.

Pursuant to the Act, the members of the KNA represent the following entities:

- the Minister of Finance – 2 individuals, including the Chairperson of the KNA, in the rank of the Secretary or Under-Secretary of State in the MF,
- the KNF – 2 individuals, including the Vice-Chairperson of the KNA,
- the Minister of Justice – 1 individual,
- the KIBR – 2 individuals,
- employers' organisations – 1 individual,
- the GPW – 1 individual.

The Act stipulates the following requirements for members of the KNA. Each member of the KNA:

- has Polish citizenship,
- has full civil rights,
- holds a university degree in the Republic of Poland or a university degree abroad which is recognized as equivalent qualification in Poland,
- has an impeccable reputation,
- has considerable standing, knowledge and experience in the area significant for auditing, which ensure the proper fulfilment of duties,
- has not been convicted under a final and valid court judgement for a deliberately committed offence or a fiscal offence.

Furthermore, the Act stipulates that most members of the KNA may not carry out auditing activities, have the voting right in an entity authorized to audit financial statements or be a member of the management board or supervisory board of an entity authorized to audit financial statements for the period of at least 3 years before their appointment as members and during their term.

The first composition of the KNA for the period 2009 – 2013 has been appointed by the Minister of Finance on 02 July 2009.

The KNA in 2012 was composed of the following persons:

- Mr. Mirosław Sekuła – Chairperson of the KNA, a representative of the Minister of Finance,
- Ms. Dagmara Wieczorek-Bartczak – Vice-Chairperson, a representative of the KNF,
- Ms. Joanna Dadacz, a representative of the Minister of Finance,
- Mr. Bogdan Dębicki, a representative of the KIBR,
- Mr. Andrzej Herman, a representative of the Minister of Justice,
- Ms. Ewa Jakubczyk-Cały, a representative of the GPW,
- Mr. Piotr Kamiński, a representative of employers' organizations,
- Ms. Maria Rzepnikowska, a representative of the KIBR,
- Mr. Andrzej Stopczyński, a representative of the KNF (dismissed on 20 January 2012),
- Mr Tomasz Piwowarski, a representative of the KNF (appointed on 20 January 2012).

## **Objectives**

Pursuant to the Act, the KNA exercises public oversight of:

- professional activity of statutory auditors,
- activities of entities authorized to audit financial statements,
- activities of KIBR.

The objective of activities of the KNA is to organise the efficiently functioning oversight system, including the audit quality assurance system, by establishing legal and organizational, as well as procedural forms.

## **Budget**

### ***Revenues***

Pursuant to the Act, in connection with the functioning of the public oversight system, the state budget may obtain revenue on account of:

- the share in the oversight fees, in the amount of 20%, paid by audit firms conducting financial audit activities in the public interest entities<sup>7</sup>; transferred by the KIBR to the bank account of the state budget until 31 March,
- fees on account of entry in the register of statutory auditors from third countries kept by the KNA and entry in the list of audit firms from third countries,
- penalties imposed by the KNA on entities authorized to audit financial statements.

In 2012, the KNA did not impose any penalties on inspected entities authorized to audit financial statements, nor did it have any proceeds from entry fees for registration of statutory auditors and entities authorized to audit financial statements from third countries.

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<sup>7</sup> In accordance with Article 2 item 4 of the Act “public interest entities” shall be understood as:

- issuers of securities admitted for trading on a regulated market of the EU Member State, having its registered office on the territory of the Republic of Poland, except for entities of local government,
- domestic banks, branches of credit institutions and branches of foreign banks,
- savings and credit unions,
- insurance companies and main branches of insurance companies, as well as reinsurance companies,
- electronic money institutions,
- open pension funds and general pension societies,
- open investment funds, specialist open investment funds and closed investment funds whose public investment certificates were not admitted for trading on a regulated market, entities carrying out brokerage activities, except for entities carrying out activities only in within accepting and transferring orders to buy or sale of financial instruments or within investment consulting.

The payment was made by the KIBR due to the share in the oversight fee for 2011 on 03 April 2012 in the amount of PLN 1,430,909.00 (including interest in the amount of PLN 549.00). The amount paid by the KIBR for 2011 had not been finally settled.

In 2012, the KNA settled the 20 % share in oversight fees for 2009 due from entities authorized to audit financial statements conducting financial audit activities in public interest entities, transferred by the KIBR to the bank account of the state budget. The noted overpayment of PLN 10,610.00 in regard to the paid amount of PLN 664,727.00 was applied towards future liabilities of the KIBR arising from Article 30 (1) of the Act.

### ***Expenses***

The activities of the KNA are financed entirely from the state budget. The funds for its functioning in 2012 in the amount of PLN **458,000** were allocated in part 19 of the state budget – *budget, public finance and financial institutions*.

In 2012, the KNA made expenses in the amount of PLN **184,045**, which constitutes **40** % of the amount allocated from the reserve.

The underspending of the allocated funds by the KNA resulted mainly from the following reasons:

- the funds allocated for domestic trips were not used up due to the fact that the KNA observers did not participate in any inspections,
- the number of foreign trips was smaller than planned,
- expenses of litigation in which the KNA can potentially participate turned out to be actually considerably lower than assumed,
- no specialist external assessments were needed,
- the conference organized in cooperation with the World Bank was postponed from 2012 to the following year,
- the costs for the translation services were reduced,
- the expenses for training courses for the KNA Bureau employees were reduced.

The total expenses as of the end of 2012 amounted to PLN 184,045, which means a decrease by PLN 14,728 as compared to the end of the 2011.

The greatest part of the expenses in the amount of PLN 107,184 was allocated for remuneration. As compared to the end of the previous year, these expenses decreased by PLN 10,208.

Pursuant to Article 71 (1) of the Act, members of the KNA receive a monthly remuneration for participation in its meetings. This remuneration may not be in excess of the minimum remuneration for work<sup>8</sup>.

On average, each member of the KNA received in 2012 remuneration in the amount of PLN 13,398 (except for the Chairperson of the KNA, who does not receive remuneration<sup>9</sup>). As compared to the end of the 2011, the average remuneration decreased by PLN 1,276.

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<sup>8</sup> PLN **1,276** (announcement of the President of the Council of Ministers of 24 July 2008 concerning the minimum wages and salaries in 2009 – the Official Gazette of the Republic of Poland (M.P.) No. 55, item 499).

<sup>9</sup> Pursuant to Article 4(2) of the *Act of 31 July 1981 on the remuneration of persons holding high-level state positions* (Journal of Laws No. 20 item 101, as amended): *A person who holds a high-level state position and who also has another function, is entitled to only one type of remuneration, selected by this person, provided for by the provisions of this Act or in separate provisions.*

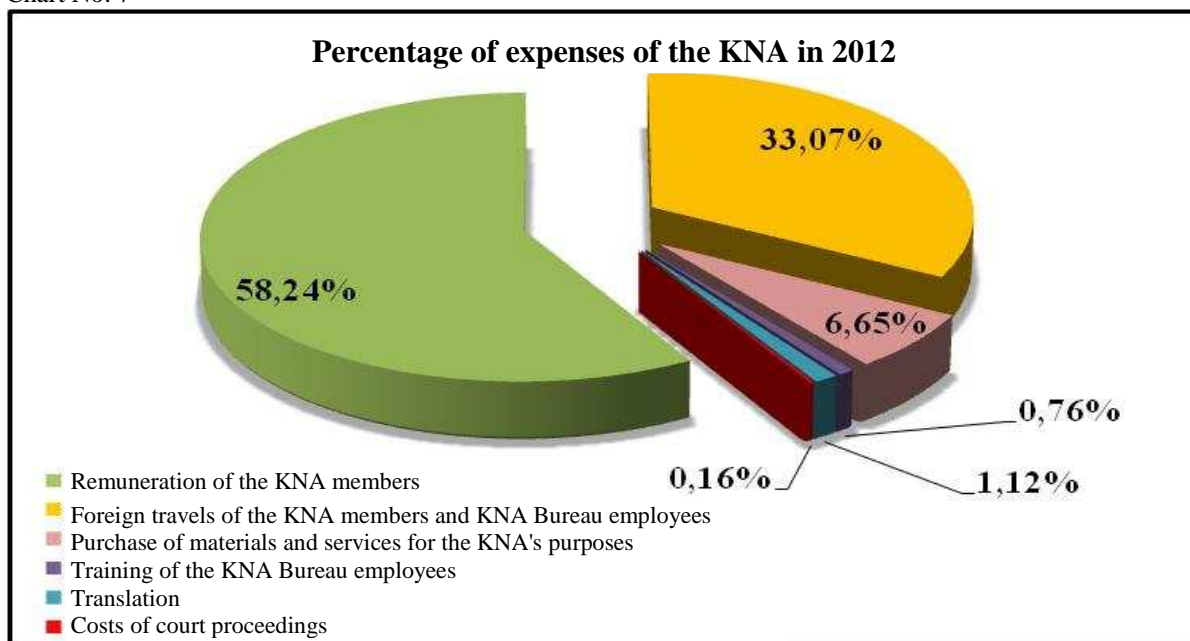
Table No. 4 and Chart No. 7 below present the structure of expenses, as well as percentage share of individual expenses of the KNA in 2012.

Table No. 4

Structure of the KNA's expenses in 2010 (in PLN)	
Remuneration of the KNA members	107,184
Foreign travels of the KNA members and KNA Bureau employees	60,869
Purchase of materials and services for the KNA's purposes	12,239
Training of the KNA Bureau employees	1,391
Translation	2,062
Costs of court proceedings	300
<b>TOTAL:</b>	<b>184,045</b>

Source: own work of the KNA Bureau

Chart No. 7



Source: own work of the KNA Bureau

## The Bureau of the KNA

The KNA, as opposed to the other oversight bodies, does not have its own office. In accordance with the provisions of Article 65 (3) of the Act, the KNA: *exercises its duties with the assistance of an organisational unit in the office servicing the Minister of Finance, being responsible for accounting and financial audit.*

In the framework of the Accounting Department of the MF, since 2009 two organizational units have been operating, whose objective is the performance of substantive and administrative functions of the KNA.

The tasks of the KNA Bureau include, in particular:

- preparation of proposals for decisions in respect of cases under the consideration of the KNA, including preparation of analysis of the resolutions and reports from inspections in entities authorized to audit financial statements submitted by the KIBR bodies,
- preparation of projects of documents which constitute execution of the KNA resolutions,
- preparation of projects of letters, decisions and provisions within the framework of administrative proceedings conducted by the KNA and court proceedings related to the KNA,
- preparation of projects of procedures, reports and action plans for the KNA,
- participation as an observer in inspections carried out by inspectors employed by the KIBR in entities authorized to audit financial statements conducting financial audit activities in public interest entities or carrying out inspections on behalf of the KNA in the case of finding out about irregularities in entities authorized to audit financial statements.
- managing working contacts in the area of international cooperation, in particular participation in meetings of the EGAOB, the EAIG and IFIAR pursuant to the instructions agreed with the KNA and submitting reports from these meetings to the KNA, managing working contacts with supervisory bodies from third countries in order to conclude an agreement on cooperation and exchange of documents,
- carrying out works in respect of settlement of the 20 % share in oversight fees due from entities authorized to audit financial statements conducting financial audit activities in public interest entities, transferred annually by the KIBR to the bank account of the state budget,
- undertaking actions under the Act of 06 September 2001 on access to public information (Journal of Laws No. 112, item 1198, as amended), excluding issuing of administrative acts (which is a task ascribed to the KNA),
- informing about tasks of the KNA and procedures applicable to the KNA, as well as about decisions made by the KNA, including informing about the KNA and its activities in a tab on the Ministry of Finance website,
- organizational services for the KNA (organizing meetings of the KNA, financial services for the KNA in respect of planning and making expenses).

The implementation of the aforementioned tasks is performed by the KNA Bureau within the framework of a limited level of employment consisting of 9 assigned employees, in spite of the fact that in accordance with the justification to the Act, 20 new employees were planned to be employed.



### 3. ACTIVITIES OF THE KNA IN 2012

In 2012, 19 plenary meetings of the KNA were held, during which the total of 203 resolutions were issued, including, in particular: 55 approving resolutions – on approval of activities of the KIBR bodies in cases specified in the Act, and 36 challenging resolutions – which led to requesting the KIBR bodies to remedy the infringement.

Public information about decisions made by the KNA on the meetings of the KNA in 2012 can be found on the Public Information Bulletin of the Ministry of Finance website ➔ *Działalność* ➔ *Ciała kolegialne* in the section *KNA* in the tab *Posiedzenia*. Within changes to the structure of the Public Information Bulletin of the Ministry of Finance website, the information about the KNA were rearranged, which is the first stage to develop an independent website of the KNA.

*The Report of the KNA for 2011* was accepted by the KNA on a meeting on 25 April 2012 by the Resolution No. 107/2012, and subsequently it was published on the Ministry of Finance website<sup>10</sup>.

Pursuant to Article 64 (4) of the Act, the KNA prepares, by the end of every calendar year, information about planned activities within the scope of public oversight for the following year, which shall be subject to publication on the website of the Ministry of Finance.

*The Action Plan of the KNA for 2012* was accepted by the KNA on a meeting on 07 December 2011 by the Resolution No. 148/2012, and subsequently it was published on the Ministry of Finance website<sup>11</sup>.

The KNA has undertaken activities aiming at improving the organization of work of the KNA and the KNA Bureau, which was reflected in the new *Rules of the KNA*, as well as in a series of resolutions authorizing the Members of the KNA and employees of the KNA Bureau to settle on behalf of the KNA matters related to performing the statutory tasks.

In relation to the aforementioned, by the Resolution No. 78/2012 the KNA adopted the new *Rules of the KNA* on the meeting on 14 March 2012, and at the same time it repealed the previous rules with amendments (i.e. it repealed the resolutions: No 1/2009 of 02 July 2009 on the Rules of the KNA, No. 24/2009 of 10 December 2009 on the changes of the Rules of the KNA, and No. 141/2010 of 03 December 2010 on the changes of the Rules of the KNA).

#### Activities of the KNA in the area of the quality assurance system

In 2012, the KNA undertook a series of activities intended to ensure the proper quality of audits of financial statements performed by statutory auditors by supervising the inspections carried out in entities authorized to audit financial statements conducting financial audit activities in public interest entities, concentrating on the execution of the first 3-year

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<sup>10</sup> *The Report of the KNA for 2011* can be found on the Public Information Bulletin of the Ministry of Finance website ➔ *Działalność* ➔ *Ciała kolegialne* in the section *KNA* in the tab *Plany działania i sprawozdania* ➔ *Sprawozdania*.

<sup>11</sup> *The Action Plan of the KNA for 2012* can be found on the Public Information Bulletin of the Ministry of Finance website ➔ *Działalność* ➔ *Ciała kolegialne* in the section *KNA* in the tab *Plany działania i sprawozdania* ➔ *Plany działania*.

inspection plan in entities authorized to audit financial statements conducting financial audit activities in public interest entities.

### ***Approving inspection plans***

On 16 December 2011, the KNA approved the inspection plan for 2012 developed by the KKN for entities authorized to audit financial statements conducting financial audit activities in public interest entities, pursuant to Article 64 (1) item 2 of the Act. It assumed conducting inspections in 51 entities. After modification of the inspection plan on 16 May 2012, the final number of entities to be inspected amounted to 74.

Whereas the inspection plan for the other entities mentioned in Article 26 (3) item 2 of the Act was acknowledged by the KNA on 01 February 2012 and it covered 285 entities to be inspected by the KKN reviewers.

During 2012 the KNA has monitored the situation in respect of the execution of the inspection plan on an ongoing basis. On 22 February 2012 the KNA adopted a resolution, by which it obligated the KKN to establish the final number of entities authorized to audit financial statements conducting financial audit activities in public interest entities which should be under inspection in a 3-year period, i.e. in the period of 2010-2012, as well as to submit to the KNA quarterly information about the execution of the inspection plan in entities authorized to audit financial statements conducting financial audit activities in public interest entities. The KKN with a letter of 21 May 2012 submitted to the KNA information about the level and the forecast of the execution of the inspection plan for 2012, submitting to the KNA reports from inspections to be approved and the information about personnel capacity in 2012. Subsequent information from the KKN was submitted each before a meeting of the KNA.

Moreover, the KNA on 27 June 2012, pursuant to Article 64 (1) item 1 of the Act, approved examples of protocols of inspections carried out by inspectors and reviewers, of financial audit activities prepared after the date the national standards on auditing became effective.

On 24 May 2012, the Minister Mirosław Sekuła, Chairperson of the KNA, on a joint meeting of two standing sub-committees in the Public Finances Committee of the Sejm of the Republic of Poland: Sub-committee for affairs of financial authorities and Sub-committee for monitoring the tax system, dedicated to execution of the statutory tasks in respect of inspection of entities authorized to audit financial statements, discussed the functioning of the public oversight of carrying out financial audit, presenting in particular conditioning of the quality assurance system, and also presented information about current execution of inspections in entities authorized to audit financial statements in the ending 3-year period of execution of inspections in these entities by the KKN. Within settlements made on the meeting, which was also attended by Mr Józef Król, the President of the KRBR and Mr Andrzej Konopacki, the Chairperson of the KKN, the need for monitoring the possibility of execution of the inspection plan by the KKN on an ongoing basis was identified, and it was established to submit information about further inspection process to the Sejm in August 2012.

On 27 August 2012 the President of the KRBR submitted to the Sejm information (as for 27 August 2012) about the status of the execution of the inspection plan by the KIBR, mentioned in Article 26 (3) item 1 of the Act. The information indicated that until 20 September 2012, 72 inspections are planned to be carried out, which exhausts the number of entities covered by the inspection plan for 2012, because two entities covered by the inspection plan were deleted from the list of entities authorized to audit financial statements on their own request.



On the meeting of the KNA on 19 September 2012, representatives of the KKN presented the status of execution of the inspection plan for 2012 in entities authorized to audit financial statements conducting financial audit activities in public interest entities. Mr Michał Rybus, the Vice Chairperson of the KKN, informed that the inspection plan has been executed, whereas submitting of reports from the inspections to the KNA is to be finished on 28 October 2012. In the end, this due date has not been met, because the KKN submitted the last reports from the inspections by the end of November 2012.

On 17 October 2012, the KNA approved the inspection plan for 2013 developed by the KKN for entities authorized to audit financial statements conducting financial audit activities in public interest entities. It assumed conducting inspections in 74 entities. The KNA did also oblige the KKN to submit the procedures for planning and carrying out inspections and documents which will be used in the inspections in entities authorized to audit financial statements conducting financial audit activities in public interest entities, carried out in the period of 2013-2015. By the end of 2012, the KKN has not submitted any procedures for inspections nor the required documents to the KNA.

### ***Approving inspectors appointed to carry out particular inspections***

In 2012, pursuant to Article 64 (1) item 8 of the Act, the KNA approved inspectors appointed to carry out 69<sup>12</sup> inspections conducted in 2012 and 23 inspections planned for 2013 in entities authorized to audit financial statements conducting financial audit activities in public interest entities.

### ***Approving candidates for inspectors***

The KNA, at the same time, pursuant to Article 64 (1) item 8 of the Act, in the period of January-May 2012 approved nine candidates for inspectors of the KKN, including two candidates with the reservation that the entities authorized to audit financial statements owned by them will be validly deleted from the list of entities authorized to audit financial statements before the date they of their employment in the KIBR.

### ***Participation in inspections conducted by the KKN***

In the context of the provisions of Article 26 (6) of the Act, providing for, on request of the KNA, the possibility of participation of employees of the KNA Bureau in inspections, as observers with the right of access to all documents, no employee of the KNA Bureau has participated in an inspection carried out by the KKN in an entity authorized to audit financial statements conducting financial audit activities in public interest entities due to the limited personnel capacity and concentrating on analysing the reports from inspections submitted for approval to the KNA by the KKN.

### ***Approving reports from inspections***

In 2012, the KNA analysed and then approved of 18 reports from planned inspections and 3 reports from unplanned inspections carried out by the KKN in 2011 in entities authorized to audit financial statements conducting financial audit activities in public interest entities, including 5 reports from planned inspections and 2 reports from unplanned inspections after explaining and complementing of the changes in the content of the reports with annexes to the

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<sup>12</sup> The inspectors appointed to 5 inspections were approved in 2011.

reports from inspections of the aforementioned entities, introduced by the KKN, pursuant to recommendation of the KNA on directing to the KRD requests for instituting disciplinary procedures against 7 statutory auditors.

In the period of April-November 2012, the KKN submitted 71 reports from planned inspections conducted in 2012 in entities authorized to audit financial statements conducting financial audit activities in public interest entities. The KNA analysed 39 reports from inspections for 2012, of which it approved 38, including 11 after changes made by the KKN in the content of these reports consisting of, above all, directing to the KRD requests for instituting disciplinary procedures against 7 statutory auditors.

Moreover, the KNA verified 5 reports from inspections which in the description of factual findings stated in the protocol of the inspection included information that the inspected entity did not perform financial audit activities in public interest entities despite the prior application in the P10 information<sup>13</sup> that led to including this entity in the inspection plan for entities auditing public interest entities in 2012, and then the KNA acknowledged the reports, because they were not subjected, pursuant to the Act, to the procedure of approval due to the fact that the reports did not concern the inspection of audit documentation from audits in public interest entities.

In 2012 the KNA exercised the right to refuse to approve of reports and in 15 cases filed to the KKN recommendations on carrying out inspections in authorized entities conducting financial audit activities in public interest entities. The recommendations were related to, in particular:

- content of reports from inspections,
- formulation of recommendations in post-inspection statements directed to the inspected entities,
- precise and unambiguous describing of factual findings in protocol on inspection,
- presenting in reports on inspections the irregularities which were found during the inspection in protocols on inspections in order to provide cohesion of the protocol on inspection with report on inspection,
- complementing post-inspection statement with recommendations for irregularities which were found and included in protocol on inspection, but were not revealed in report on inspection and in post-inspection statement originally submitted to the inspected entity before submitting the report on inspection to the KNA,
- shortening period of time between the date of concluding inspection procedures and the date of submitting reports from inspections to the KNA,
- obeying by inspectors and reviewers the provisions of Article 27 (1) item 1 of the Act, in particular preparing a proper document directed to entity authorized to audit financial statements – after signing protocol on inspection – which is a post-inspection statement together with recommendations on the irregularities found during the inspection, and not a letter of observations.

In 2012 the KNA filed to the KKN in order to present motivation of the decision not to direct to the KRD requests for instituting disciplinary procedures against two statutory auditors auditing the SKOK, as well as to improve the quality of the submitted reports from inspections.

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<sup>13</sup> In order to standardise the collected information an example of the P10 form was developed, which can be found on the KIBR website.

### ***KNA inspections***

In 2012, the KNA did not carry out any inspection referred to in Article 74 (1) and (2) of the Act, i.e. inspections carried out in case of being notified of any irregularities, based on a registered authorization granted by the KNA to employees of the Bureau of the KNA.

### **Activities of the KNA in the area of disciplinary proceedings**

Acting pursuant to Article 37 (2) of the Act, the KNA submitted to the KRD five applications for the institution of explanatory proceedings in relation to statutory auditors in reference to the filed charges and one application for extending of a request which was made previously. In 2012 the KNA in three cases undertook a resolution on joining the proceedings as a party. In these cases, authorized members of the KNA and employees of the KNA Bureau participated in trials through the KSD. Two cases were concluded by judgement of a penalty in a form of reprimand against the statutory auditor.

In 2012, the KNA examined 317 verdicts and decisions sent by the KSD, which were adopted in relation to statutory auditors.

The aforementioned related to:

- cases of failing to comply with the continuing education obligation of statutory auditors in the training cycle 2010/2011,
- complaints against decisions of the KSD,
- complaints against decisions of the KRD,
- violations of the ethical standards of statutory auditors,
- violations of the Act on Accounting,
- violations of the Act,
- decisions on correction of protocol,
- decisions on correction of verdicts,
- decisions on refunding travel expenses.

Pursuant to Article 41 of the Act, the KNA shall be entitled to appeal against decisions of the KSD in the regional court competent for the place of residence of the accused – a labour and social insurance court, as the court of first instance – within 14 days from delivery of the decision alongside its justification. The KNA did not find any grounds to exercise this entitlement.

In one case, in which the KNA participated as a party, an appeal was not made due to the fact that it was filed by the KRD.

Pursuant to Article 38 (2) of the Act, representatives of the KNA may be present at trials before the KSD. The KNA exercised this entitlement in 21 cases, authorizing employees of the KNA Bureau to participate in the trials.

The aforementioned trials concerned:

- failure to comply with the current provisions of law as regards the Act on Accounting,
- failure to comply with the current provisions of law as regards the Act,
- violations of standards of pursuit of the profession of statutory auditor,
- violations of the ethical standards of statutory auditors.

In the framework of oversight, pursuant to Article 63 (2) item 3 of the Act, the KNA requested for explanations, both from the KRD and the KSD, on delays in carrying out of the cases. In two cases the KNA filed to the KRD for transferring records of the cases, in one case

the KNA filed to the KSD. The KNA did also request explanations on the disciplinary procedure carried out by the KRD. In one case the KNA filed for correction of an obvious typographical error in a statement on instituting explanatory proceedings. The KNA did also submitted to the KRD the request of the Regional Vice Prosecutor of the region Warszawa-Mokotów to consider the legitimacy of instituting explanatory proceedings and submitted two complains on activities of statutory auditors, including a complaint from an official receiver in bankruptcy of an enterprise.

### **Oversight of the activity of the self-government, including the control of the resolutions of the KIBR**

In April 2012, the KNA became acquainted with the reports on the activities of particular bodies of the KIBR in 2011, taking into consideration their content in the report of the KNA for that year.

The KNA carried out ongoing controls of resolutions submitted by the self-government bodies, in the framework of oversight of the activities of the statutory auditors' self-government. The subject of the debates of the KNA in 2012 were 1033 resolutions of the KRBR, 8 resolutions of the KKN and 1 resolution of the KKR.

In 2012, the KNA approved, pursuant to Article 72 of the Act, 5 resolutions of the self-government bodies (only resolutions of the KRBR) and raised objections as regards 1 resolution of the KRBR, that is resolution No. 1349/20/2012 of 19 October 2012 which amends the resolution on national standards on auditing, recognizing that the aforementioned resolution bears all the hallmarks of an error in respect of adjusting the national standards on auditing to the Act of 16 September 2011 on reduction of certain obligations of citizens and entrepreneurs (Journal of Laws No. 232, item 1378) that changed, in particular, Articles 69 and 70 of the Act on Accounting.

Moreover, acting pursuant to Article 64 (1) item 5 of the Act, the KNA adopted resolutions concerning the appeals of 34 resolutions of the KRBR and 2 resolutions of the KKN by referring it to the administrative court (upon previous summons for removing the violation of law). In the majority of cases, the bodies of the KIBR approved the arguments of the KNA and repealed the challenged resolutions. Merely in one case it was necessary for the KNA to submit complaints to the court. It regarded the resolution No. 1315/19/2012 of the KRBR of 11 September 2012 on discontinuing administrative proceedings. In this case the KNA recognized doubts arising from the fact of issuing two administrative decisions in one case (the first decision was issued within the framework of proceedings which were instituted due to a request for deletion from the list of entities authorized to audit financial statements which was filed to the KNA according to Article 27 (1) item 3 of the Act; the second one was issued due to a request for deletion which was filed during the already instituted proceedings by an entity authorized to audit financial statements), and, moreover, due to the fact of referring to an incorrect legal basis in the aforementioned Act. In this case, by the end of 2012, a verdict of the Voivodship Administrative Court in Warsaw (hereinafter referred to as the WSA) has not been issued.

In 2012, the KNA examined 7 appeals against the resolutions of the KRBR as regards the entry or deletion from the register or the list, to which the provisions of the k.p.a.<sup>14</sup> were applicable:

- in 4 cases the challenged resolution of the KRBR was repealed and submitted for re-examination to a body of first instance,
- in 1 case the resolution of the KRBR was upheld,
- in 1 case the appeal was ruled as inadmissible.

One of the aforementioned decisions of the KNA (to uphold the resolution of the KRBR on deletion from the register of statutory auditors) was appealed to the administrative court by a party in 2012. In this case, the WSA repealed the decision of the KNA by the verdict of 26 September 2012. The KNA decided not to appeal to the court of cassation against this decision. By the end of 2012, a valid decision in this case was not filed to the KNA.

As of the end of 2012, 5 appeal proceedings against resolutions of the KRBR were pending, 2 of which are suspended due to the pending decision of the Supreme Administrative Court (hereinafter referred to as the NSA).

In 2012 the NSA adjudicated in one case on administrative decision of the KNA on discontinuing appeal proceedings on refusal of entry to the register of statutory auditors. By the judgement of 29 March 2012 (file ref. no. II GSK 1755/11), the NSA repealed the judgement appealed by the KNA and submitted for re-examination to the WSA, confirming the powers of the KNA to appeal to the administrative court resolutions of the KRBR on entry to the register of statutory auditors. An appeal to the court of cassation against the second judgement of the WSA on this case was made to the NSA by a party.

In 2012 the KNA also considered complaints on the idleness of the KRBR and complaints on activities of the KRBR in the mode under section VIII of the k.p.a., and, considering a complaint, it upheld the statement of the KRBR on refusal to resume administrative proceedings.

The KNA also submitted letters to the KRBR, containing the conclusions and comments of the KNA arising from the analysis of the resolutions submitted to the KNA, in particular concerning the methods of management of records from administrative proceedings in cases to which the provisions of the k.p.a. are applicable, irregularities related to misapplication of Article 107 (1) of the k.p.a. in the resolutions of the KRBR, issuing resolutions with the power of administrative decisions in cases on deletion from the list of entities authorized to audit financial statements in situation, when a resolution on deletion of the statutory auditor who conducted business activities from the register of statutory auditors was previously issued.

### **Control of the procedure of registration of statutory auditors and entities authorized to audit financial statements**

The KNA, within the framework of its oversight, verifies all the resolutions issued by the KRBR on entry to the register of statutory auditors and entry to the list of entities authorized to audit financial statements with regard to conditions specified in Article 64 (1) item 5 of the

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<sup>14</sup> The abbreviation k.p.a. means: *the Act of 14 June 1960 the Code of Administrative Procedure* (Journal of Laws of 2013, item 267).



Act which provide grounds to appeal the resolution to the administrative court. Moreover, the KNA investigates occurrence of other conditions which were not specified in the Act which indicate that the person or entity should not be entered to the register of statutory auditors or the list of entities authorized to audit financial statements, respectively. The same applies to resolutions on deletion from the register of statutory auditors and the list of entities authorized to audit financial statements. It means that in case of detecting conditions from Article 64 (1) item 5 of the Act, the KNA issues a resolution on appealing the resolution to the administrative court. In 2012 the KNA issued 25 of these resolutions mostly on the resolutions of the KRBR on deletion of a statutory auditor from the register due to failing to pay membership contributions for a period longer than a year. The KNA, appealing the resolutions of the KRBR, recognized, in particular, that they are legally defective due to the misapplication of Article 41 of the k.p.a. that led to not delivering notification on instituting proceedings ex officio or resolution on deletion from the register of statutory auditors to a party, which meant preventing the party from active participating in proceedings conducted by the KRBR on deletion of the party from the register of statutory auditors and exercise the rights applicable to the party pursuant to the k.p.a.

In case of detecting circumstances indicating illegitimacy of making a proper entry into the register of statutory auditors or a list of entities authorized to audit financial statements, the KNA can exercise the right to object and to issue an administrative decision on this subject. Up to the present, the KNA did not exercise its right to object.

Therefore, in justified cases a verification of records of administrative proceedings is performed, in particular in areas specified in letters directed by the KNA to the KRBR.

The control of the process of granting the statutory auditor authority was executed also by considering resolutions of the KRBR on qualification procedure for candidates for statutory auditors (mostly requiring the approval of the KNA) and by analysing of the report forwarded to the KNA by the Examination Committee.

### ***Cooperation with the Polish Financial Supervision Authority***

During 2012, based on data obtained from the UKNF on reservations to results of audit of financial statements of the SKOK, in particular to opinions and reports issued on the results of the audit, the KNA – within the framework of its oversight of pursuit of the profession of statutory auditor – has filed to the KRBR requests for instituting explanatory proceedings against five statutory auditors.

In addition, in March 2012 the KNA filed to the KKN for conducting inspection in entity subjected to a planned inspection of audit documentation on auditing by this entity financial statements of the SKOK, to which the UKNF has raised reservations.

On request of the KNA, changes were made in three reports from inspections which consisted of directing requests for instituting explanatory proceedings against statutory auditors who conduct, on behalf of the inspected entity, financial audit activities. The charges referred to, most of all, issuing an opinion incompatible with Article 65 (4) of the Act on Accounting.

In March 2012, the KNA examined and acknowledged recommendations of the KNF of 01 February 2012 directed to presidents of management boards of banks and members of supervisory boards on rotation of entity authorized to audit financial statements, which recommended to banks reviewing existing strategy of cooperation with an entity authorized to audit financial statements and considering changing the entity if the cooperation lasted more than five years.

In September 2012, the KNA examined a document prepared by the UKNF which contained expectancies on the form and the scope of external audit carried out pursuant to Article 87 of the Act on SKOK<sup>15</sup>. This document indicates that an external audit carried out pursuant to Article 87 of the aforementioned Act is not an audit of financial statements in view of provisions of the Act on Accounting. It is an assurance engagement, because its purpose is to assess both financial and non-financial issues, and in consequence to confirm economic and organizational conditions of the SKOK as of the day of covering the SKOK by the supervision of the KNF.

Whereas the importance of carrying out external audit, the KNA informed in the *Announcement*<sup>16</sup> issued on 19 September 2012 that for presentation of accurate financial and organizational situation of the SKOK, the KNA expects statutory auditors who are to conclude or who concluded an agreement on carrying out external audit, to conform with the scope of audit specified by the UKNF and forwarded to management boards of the SKOK.

Moreover, in order to assure high quality and uniformity of the services provided by statutory auditors, the KNA obliged the KRBR to monitor the execution of the audit and to inform about activities undertaken within this scope.

In November 2012, the KNA asked the President of the KRBR to provide information about activities undertaken by the bodies of the KIBR within the scope of monitoring the execution of the aforementioned external audit in the SKOK. The President of the KRBR reported publishing information about the *Announcement of the KNA* on the KIBR website and information from the KRBR (which was also directed to the bodies of the KIBR) on the need to examine the expectations of the KNF on the form and the scope of an external audit by statutory auditors.

Further actions on monitoring the quality of the audit in the SKOK will be carried out next year.

## **International cooperation, in particular with the public oversight bodies from other countries**

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

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

The EGAOB associates public oversight bodies operating in the EU Member States and other states of the European Economic Area. The EGAOB was founded under the decision of the European Commission of 14 December 2005. Its aim is to effectively coordinate public oversight of statutory auditors and audit firms.

The EGAOB works in plenary session organized and supported by the European Commission which develops the agenda of each session and prepares appropriate documents. Sessions of the EGAOB are a good opportunity to exchange opinions between the representatives of particular public oversight bodies and the European Commission.

In 2012, four sessions of the EGAOB were organized, that took place on: 25 January 2012, 25 June 2012, 08 October 2012 and in informal form on 21 November 2012. Moreover, two

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<sup>15</sup> The Act on SKOK means: *Act of 05 November 2009 on cooperative savings and credit union* (Journal of Laws of 2012 item 855, as amended).

<sup>16</sup> Announcement of the KNA (as an Appendix No. 2 to the Act No. 166/2012 of the KNA of 19 September 2012) can be found on the Public Information Bulletin of the Ministry of Finance website ➔ *Działalność ➔ Ciała kolegialne* in the section *KNA* in the tab *Posiedzenia ➔ Uchwała i komunikat KNA z 19 września 2012 r. w sprawie audytu SKOK*.

sessions of preparatory sub-group of the EGAOB were organized – on 10 January 2012 and 16 March 2012. KNA representatives participated in all of these sessions.

The most important subjects of these meetings covered the cooperation with public oversight bodies from third countries (in particular with the PCAOB) and the discussions on assessments of equivalence of public oversight systems and quality assurance systems in some of the third countries. Moreover, during the meetings the European Commission presented and discussed with the members of the EGAOB some issues related to the legal changes predicted at the European Union level in connection with the Directive 2006/43/EC.

The KNA is also being represented in the works of the EAIG group, which separated from the EGAOB and is independent from the European Commission. The objective of the EAIG is to exchange experiences and provide cohesion of the activities within the framework of inspections of entities authorized to audit financial statements carried out in individual countries. The most important initiatives raised on the forum of the group in 2012 were:

- to undertake activities to develop an electronic database with results of inspections,
- to identify irregularities detected during the carried out inspections and to discuss the reasons of their formation,
- to exchange knowledge within the scope of methodology of inspections and experiences from inspections,
- to exchange of information with the EGAOB, professional organizations of statutory auditors, international organizations which establish standards for pursuit of the profession of statutory auditor and auditing companies.

In 2012 three meetings of the EAIG group were held – on 29 March 2012 in Luxembourg, on 14-15 June 2012 in Prague and on 14-15 November 2012 in Zurich.

### ***Cooperation with the PCAOB***

The KNA in 2012 continued the negotiations commenced in the previous year on the initiative of the Americans on concluding an agreement which regulated the transfer of documentation and carrying out of joint inspections.

Moreover, on 05-07 November 2012 representatives of the KNA took part in the annual conference *International Audit Regulatory Institute* organized in Washington by the PCAOB. The conference was attended by representatives of bodies of oversight of statutory auditors and auditing companies from different countries. Apart from the cognitive aspect and the possibility of exchanging experiences, in particular as regards the methodology and areas of inspecting the audit firms, the conference was an opportunity to conduct discussions with the representatives of the PCAOB within the scope of the aforementioned agreement and to establish relations with members of other delegations participating in the meeting.

### ***Membership of the KNA in IFIAR***

IFIAR is a global cooperation forum of coordination nature and functions on voluntary basis. IFIAR members include public oversight authorities from several dozen countries, including 27 bodies acting in Europe.<sup>17</sup> This organisation, in particular, intends to make it possible for its members to share knowledge as regards the issues of the activity of the statutory auditors and audit firms, as well as share experiences in terms of practical aspects of activity of public

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<sup>17</sup> The data relate to the year 2012.



oversight authorities. The positions issued by this organisation are not legally binding for its members.

In 2011 the KNA was accepted as a member of IFIAR. In 2012 representatives of the KNA participated for the first time in plenary meetings of the IFIAR on 16-18 April 2012 in Busan, South Korea and on 1-3 October 2012 in London, the United Kingdom. The main objective of the meetings is to exchange experiences within the scope of activities of bodies of the public oversight, in particular within the scope of the carried out inspections of auditing companies. During the meeting in London, a representative of the KNA presented elementary data on the market of auditing services in Poland as well as information about carrying out inspections in auditing companies which audited public interest entities in the first 3-year period of 2010-2012.

One of the most important actions undertaken by IFIAR in 2012 was to prepare, on the basis of answers given by the members of IFIAR, a report on results of inspections of auditing companies in individual countries in particular within the scope of auditing of financial statements of the Systematically Important Financial Institution (SIFI). The first report of this kind was published by IFIAR on 18 December 2012<sup>18</sup>. It is planned to prepare this report in the following years on a cyclical basis.

### ***Registering statutory auditors and entities authorized to audit financial statements from third countries***

Pursuant to the provisions of Article 95 (1) of the Act, the KNA is the body keeping the registry of statutory auditors from third countries and the list of entities authorized to audit financial statements from third countries<sup>19</sup>.

In 2012 the KNA received one application for the entry to the register or the list of entities authorized to audit financial statements from third countries submitted by an entity authorized to audit financial statements from Canada and two applications for the entry to the register of statutory auditors from third countries submitted by two statutory auditors from Canada. The registration procedure in relation to the filed requests was not concluded in 2012.

### ***Swiss-Polish Cooperation Program***

The KNA in 2012 continued the activities within the framework of the SPPW, one of beneficiary of which is the KNA. On 10 January 2013 a conference *Audit committees: a key link in the process of financial reporting and audit* was held, which was organized by the World Bank and the KNA (financed from the funds of the SPPW and the KNA). At the beginning, the conference was planned to be held in 2012. Due to organizational issues, the date of the conference was moved (more information about this event can be found in separated subsection of the report).

In 2012 the implementation of an IT system, supporting the activities of the KIBR as regards public oversight, in particular in terms of registration and inspection of statutory auditors was finalized, which was partly financed from the SPPW funds, including the access to this system for the KNA.

Two study visits to other countries, in which employees of the KNA Bureau participated, were also financed from the SPPW funds.

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<sup>18</sup> The report can be found on the website: [https://ifiar.org/IFIAR/media/Documents/General/IFIAR-2012-Summary-Report-of-Members-Inspection-Findings-18-Dec-12-\(2\).pdf](https://ifiar.org/IFIAR/media/Documents/General/IFIAR-2012-Summary-Report-of-Members-Inspection-Findings-18-Dec-12-(2).pdf)

<sup>19</sup> The forms can be found on the Public Information Bulletin of the Ministry of Finance website ➔ Działalność ➔ Ciała kolegialne in the section KNA in the tab Formularze.

On 19-20 November 2012 a study visit which objection was to present to the Polish the way of functioning of the system of continuing education of statutory auditors and accountants in Ireland was held. Employees of the KNA Bureau and representatives of the KIBR and Polish Accountants' Association participated in the visit.

Whereas on 10-11 December 2012 employees of the KNA Bureau and a representative of the KKN participated in a study visit in Swiss body of public oversight of auditing companies in order to examine method of organization and results of oversight of auditing companies.

## Other activities

### *Conference “Audit committees: a key link in the process of financial reporting and audit”*

Pursuant to the Action plan of the KNA for 2012 activities have been undertaken to organize, together by the World Bank and the KNA, joint conference directed in particular to audit committees' members, with its aim to improve the quality of the financial reporting, financial audit and oversight of them in Poland. At the beginning the conference was planned to be held in 2012. Due to organizational issues the date of the conference was moved to the beginning of the next year. The conference *Audit committees: a key link in the process of financial reporting and audit* was held on 10 January 2013. The event was taken under patronage of the GPW and was held in its seat.

The conference was launched by Mr. Mirosław Sekuła, Chairperson of the KNA together with Ms. Lidia Adamska, Member of the GPW Management Board. The Chairperson of the KNA in his speech set the assumptions of functioning of the public oversight system over statutory auditors in Poland. He emphasised that the self-government of the statutory auditors was entrusted with some tasks from the scope of the public oversight of carrying out financial audit. Moreover, the Chairperson of the KNA pointed out the importance of activities of audit committees in companies protecting financial reporting and financial audit in order to monitor their correctness.

In one of the panels of the conference speeches were given by Ms. Dagmara Wieczorek-Bartczak, Vice-Chairperson of the KNA and Mr. Mirosław Czekaj and Mr. Wiesław Rozłucki, who participated in the conference at the invitation of the Chairperson of the KNA. Moreover, speeches were also given by high-performance professionals from the country and from abroad, who presented the point of view of, inter alia, audit committees and companies' management boards. The presentation included also speeches given by Mr. Richard Fleck, a representative of British body of public oversight of auditing companies, and Mr. Arnold Schilder, Chairperson of the IAASB. The speakers highlighted the importance of independence of the audit committees' members and their proper competences within the scope of financial reporting and financial audit.

The conference was highly attended by participants (more than 140 persons): audit committees' members and other members of supervisory boards, members of companies' management boards, statutory auditors, internal auditors and representatives of the public sector.

### ***Patronages of the KNA***

In 2012 the KNA developed criteria and rules of granting honorary patronages by the KNA and, therefore, on a meetings on 14 March 2012 the KNA issued a relevant resolution<sup>20</sup>.

On the basis of the aforementioned criteria and rules, the KNA took patronage over the third edition of the analysis “Contemporary supervisory board” organized by Deloitte Audyt Sp. z o. o. The conference was attended by Mr. Mirosław Sekuła, Chairperson of the KNA.

### ***Inspecting the entities authorized to audit financial statements as regards the reporting obligation arising from Article 87 (1) of the Act***

Pursuant to Article 87 (1) of the Act the entity authorized to audit financial statements submits to the KRBR, by 31 January of each year, information about the agreements on performing financial audits with the public interest entities concluded in the preceding year.

Pursuant to Article 87 (2) of the Act, the information mentioned in par. 1 shall be submitted by the KRBR to the KNA by 15 February each year.

From the information submitted by KRBR it follows that:

- 117 entities informed about concluding an agreement (agreements) on performing financial audit activities with public interest entities in 2011,
- 18 entities delivered the P10 form after the expiry of the deadline indicated in Article 87 (1) of the Act,
- 23 entities delivered the P10 form which contained irregularities.

The entities that failed to meet the deadline specified in the Act in 2012, received a letter from the KNA containing a reminder that the statutory deadline should be absolutely met next year.

The KNA also moved to the President of the KRBR with a request for providing information about supplementing the data by the entities, where the KRBR detected irregularities.

### ***Control of the transparency of entities authorized to audit financial statements and information on their websites (it regards entities authorized to audit financial statements auditing public interest entities)***

Pursuant to Article 40 of the Directive 2006/43/WE, the statutory auditors and companies carrying out audits of public interest entities from the EU Member States are obliged to publish on their websites the annual transparency reports containing at least the information referred to in Article 88 of the Act.

In December 2012 the KNA Bureau conducted a transparency analysis of audit firms, as a result of what the KNA directed a letter to 6 entities authorized to audit financial statements, asking to supplement the information missing from their website.

### ***Performance of tasks under Article 66(7) of the Act on Accounting***

Pursuant to Article 66(7) of the Act on Accounting, the manager of the firm ordering the audit as well as the entity authorized to audit financial statement shall immediately notify the KNA on the termination of the agreement regarding carrying out audit or the financial statement review. The agreement referred to in Article 66 (5) of the Act on Accounting can be

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<sup>20</sup> Criteria and rules of granting honorary patronages by the KNA can be found on the Public Information Bulletin of the Ministry of Finance website ➔ Działalność ➔ Ciała kolegialne in the section KNA in the tab Informacje dodatkowe ➔ Kryteria i zasady przyznawania przez KNA patronatów honorowych.

terminated merely in case of justified grounds. The differences of opinions as regards the application of the accounting provisions or financial audit standards do not constitute justified ground for the termination of the agreement<sup>21</sup>.

Due to the provisions of this Article, the KNA received information on termination of the agreement on a current basis. Similarly to the previous years, the main reasons for termination of the agreements, which the parties referred to, are the decisions made by the companies as regards the change of a statutory auditor (often due to ownership changes or changes in the investment plans), financial issues (such as remuneration volume of the audit firm, delay in paying the remuneration), changes in organisational structure of the companies (so they no longer are subject to obligatory analysis performed by a statutory auditor). In some cases, the lack of the possibility of meeting the audit deadlines set forth in the agreement (e.g. failure to provide a comprehensive financial statement for analysis) was indicated as the reason.

It also results from the analysis of the received information that, within this period, some of the entities terminated more than one agreement on auditing services. In the majority of cases, the agreements were terminated upon the joint agreement of the parties.

***Supporting activities intended to introduce changes in the statutory regulations concerning the activity of statutory auditors and entities authorized to audit financial statements and public oversight of such activity***

In 2012 the KNA followed the works undertaken on the forum of the EU in respect of legislative changes regarding the Directive 2006/43/EC and the project of Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public interest entities. The KNA examined information about stages of works in the Council of the European Union and European Parliament regarding main issues discussed within those institutions.

Within the scope of state regulations, a need to change the Regulation on reviews was being discussed. New solutions regarding the Regulation on reviews will be available for discussion during works on changing the Act.

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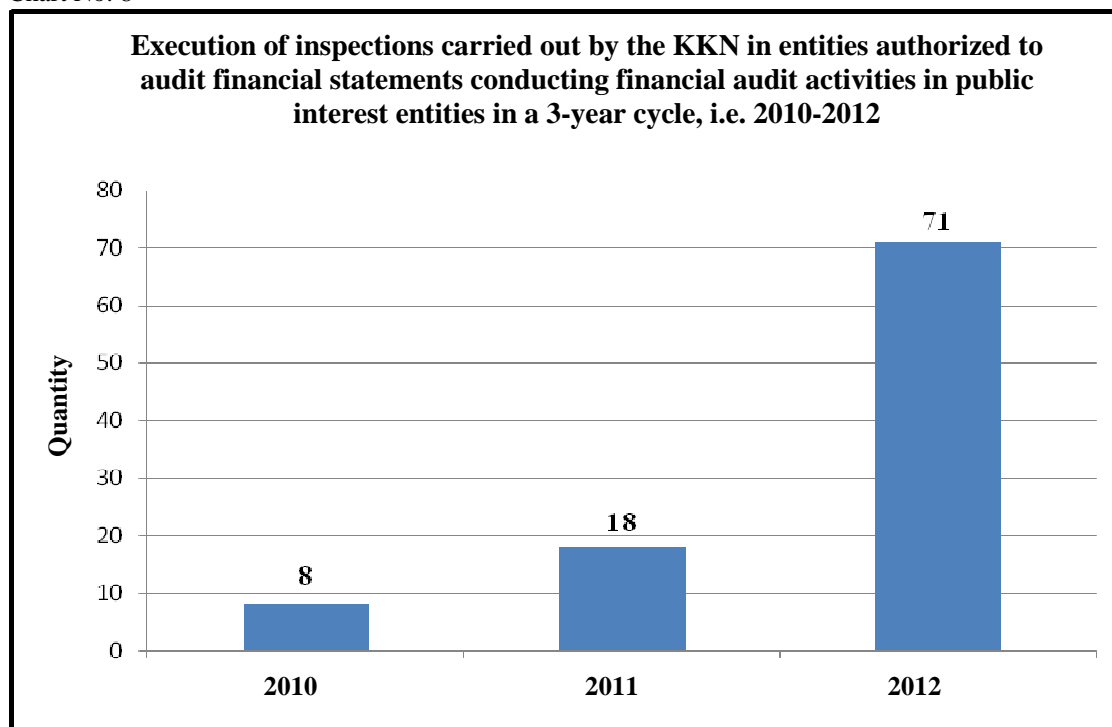
<sup>21</sup> In order to standardize the received information a form has been developed. It can be found on the Public Information Bulletin of the Ministry of Finance website ➡ Działalność ➡ Ciała kolegialne in the section KNA in the tab Formularze.

#### 4. ACTIVITIES OF THE BODIES OF THE NATIONAL CHAMBER OF STATUTORY AUDITORS IN THE FRAMEWORK OF PUBLIC OVERSIGHT IN 2012<sup>22</sup>

##### Activities of the KKN

In 2012, the inspections of entities authorized to audit financial statements were carried out on the basis of inspection plans for entities authorized to audit financial statements conducting financial audit activities in public interest entities (the year 2012 was the last year of the inspections of these entities which were subjected to the inspections in a 3-year cycle, i.e. 2010-2012) and for remaining entities referred to in Article 26 (3) item 2 of the Act. Inspections in entities conducting financial audit activities in public interest entities were carried out by inspectors employed in the KIBR; in the period of June-September 2012 the KIBR employed from 5 to 16-17 inspectors, in the next months of the 2012 – to 11 inspectors (the number of employees as of the end of 2012). The inspection plans for the above mentioned entities were placed on the KIBR's website after the KNA had approved the inspection plans of entities carrying out financial audits in public interest entities. The planned number of inspections of entities carrying out financial audit activities in public interest entities was 74 in 2012, but during the year two entities were removed from the list of the entities authorized to audit financial statements, and one entity did not allowed the inspection. Finally, inspections were carried out in 71 entities covered by the plan.

Chart No. 8



Source: own work of the KNA Bureau

<sup>22</sup> The activity report prepared by the KKN, KRD, KSD and KRBR can be found on the Public Information Bulletin of the Ministry of Finance website ➔ Działalność ➔ Ciała kolegialne in the section KNA in the tab *Sprawozdania*.

In two cases the inspections were limited to the formal and legal scope. During the inspections it was established that nine entities chosen for inspection did not conduct financial audit activities in public interest entities. Two unplanned inspections were carried out – the first one as a complement of a planned inspection of entity conducting financial audit activities in public interest entities, the second one in entity that did not conduct financial audit activities in public interest entities. Two complaints on activities of entities authorized to audit financial statements were considered in the plans of the planned inspection (of entities conducting audit activities in public interest entities for 2013 and other entities for 2012).

Whereas the inspection plan for the remaining entities, specified in Article 26 (3) item 2 of the Act, covered 285 entities, and, finally, 249 entities were inspected (due to the deletion of 13 entities from the list of entities authorised to audit, information about conducting audit activities in public interest entities – 14 entities, postponing of the inspection to the year 2013 due to illnesses of statutory auditors – 5 entities, not allowing to carry out the inspections – 4 entities). The team of reviewers consisted, on an average, of 74 persons in 2012.

By the end of 2012, 69 entities authorized to audit financial statements carrying out financial audit activities in public interest entities were inspected in formal and legal and substantive scopes, i.e., above all, internal quality control systems and audit documentation were inspected. When carrying out the inspection, the KKN analysed 260 audit work documentations, including 154 documentations concerning the auditing of public interest entities, 26 of them regarded issuers of cooperative banks, 6 – SKOK, 6 – investment funds, 3 – brokerage houses and 113 – remaining public interest entities.

As a result of the inspections carried out in the above mentioned entities, the KKN stated formal and legal irregularities that concerned, among others:

- reporting to the KRBR,
- data transferred for publishing on the list of entities authorized to audit financial statements,
- correctness and promptness of publishing report on transparency (Article 88 item 1 of the Act) on the entity's website,
- correctness of settlements and promptness of paying annual oversight fee,
- adjusting (or not adjusting) provisions of company deed to the requirements of the Act within the scope of company's object of activity,
- lack of insurance for some forms of activity and irregularities in insurance policies (not applicable to entities conducting financial audit activities in public interest entities),
- lack of website (not applicable to entities conducting financial audit activities in public interest entities).

On the other hand, factual irregularities stated in the aforementioned entities regarded:

- compliance of the content of the opinion and the report with requirements of the KSRF No. 1,
- recording of auditing statements specified in item 13 of the KSRF No. 1,
- completeness of report on operations,
- planning of the audit,
- fulfilling obligations within the scope of cooperation with audit committee,
- recording of auditing probability of occurrence of abuses (frauds),
- documentation from audit of events after the balance sheet date,
- recording of methods, techniques and procedures of auditing,



- completeness of additional information.

The KKN directed post-inspection statements with recommendations to 66 entities, specifying date of removal of irregularities pointed out in the report, and in 5 cases the KKN concluded the inspections without establishing any irregularities.

As a result of the carried out planned inspections in 2012, the KKN filed to the KRD requests for instituting disciplinary procedures against 32 statutory auditors. Moreover, on the KNA request, through the KKN, requests against 25 statutory auditors were filed (as of 13 March 2013). In 2013, following inspections carried out from the plan for 2012, requests against 8 persons were filed to the KRD. The KKN did also file a complaint on statement of the KRD (issued in 2013) on conclusion of explanatory proceedings and refusal to institute disciplinary procedures. The KKN requested the KRBR and KRD to undertake proper actions pursuant to Article 54 (1) item 5 and Article 31 (1) of the Act against entity and statutory auditor who represented the entity which did not allow carrying out the inspection.

The most frequent irregularities occurring in the work of statutory auditors which led to filing requests to the KRD after conclusion of the inspection include irregularities regarding recording of auditing areas and statements specified in item 13 of the KSRF No. 1 and irregularities arising as a result of lack of efficient implementation of rules of internal quality control system.

In 2012 82 requests against statutory auditors who did not conduct financial audit activities in public interest entities were also filed to the KRD.

In 2012 the KKN organized two training conferences for inspectors and reviewers on, inter alia, the impact of the changes of the IFAC Code of Ethics for Professional Accountants on the work of inspecting entities and issue of professional scepticism in auditing financial statements.

### **Activities of the KRD**

The KRD carries out investigation proceedings and is the prosecutor in disciplinary proceedings pending before the KSD in accordance with Article 25(2) of the Act.

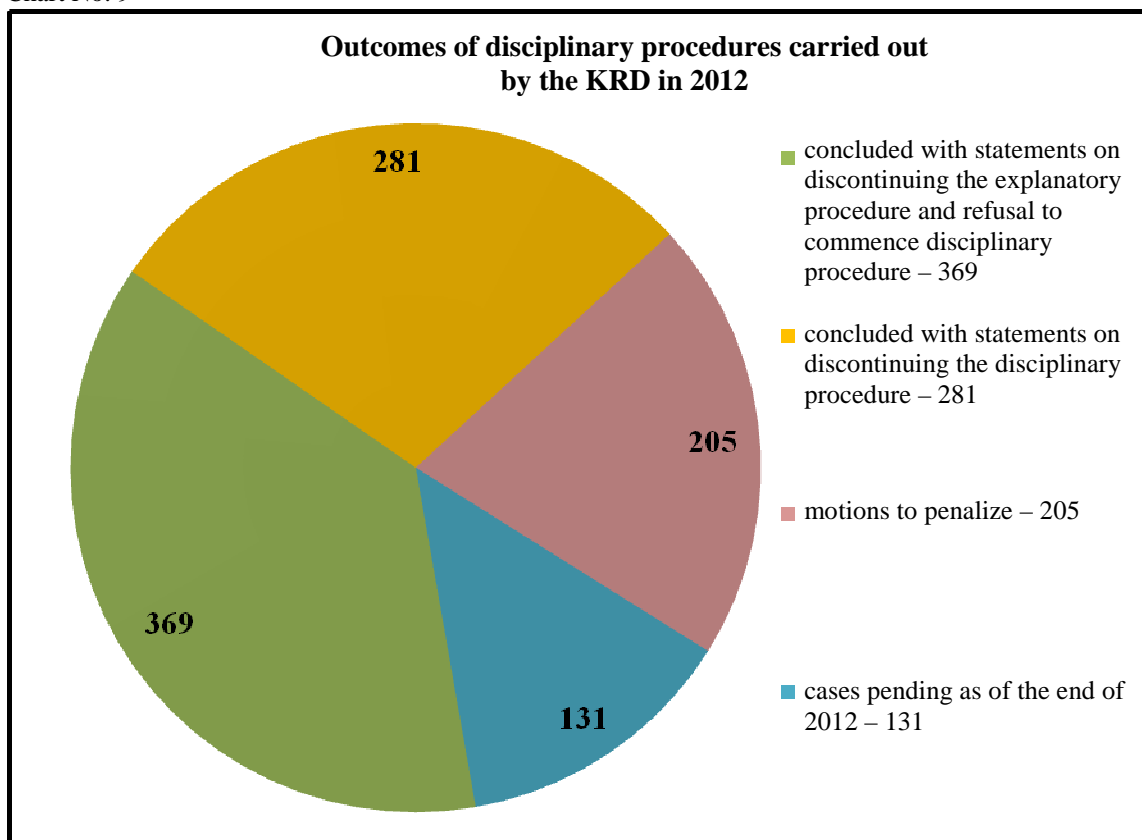
In 2012, the KRD and his deputies conducted 990 cases (648 of the motions to commence disciplinary procedures were submitted in 2012, and in addition, the KRD conducted 341 cases that had not been resolved in 2011, and 1 case that was resolved in 2011, but it was submitted by the KSD for re-examination).

The KRD and his deputies conducted 990 cases, of which:

- 369 were concluded by the KRD with statements on discontinuing the explanatory procedure and refusal to commence disciplinary procedure,
- 281 were concluded by the KRD with statements on discontinuing the disciplinary procedure,
- 205 motions to penalize were submitted to the KSD,
- 4 complaints submitted against the KRD statements were submitted to the KSD,
- 131 cases were pending as of the end of the year.



Chart No. 9



Source: own work of the KNA Bureau based on data from the KIBR.

The motions for initiating a disciplinary procedure were mostly from:

- the KRBR, concerning the cases of statutory auditors that did not take part in the mandatory professional education in the years 2010 and 2011 (833 motions),
- the KNN (91 motions),
- the KNA (10 motions),
- statutory auditors (6 motions),
- business entities (16 motions),
- natural persons (26 motions),
- other (8 motions).

Within the reporting period – as compared to the previous year – the number of requests filed to the KRBR for not performing obligation of professional education by statutory auditors decreased by 460. However, the number of cases filed by other applicants increased significantly – they filed more than twice the number of cases of 2011.

A significant increase can be noticed in the cases submitted by the KKN – from 10 in 2011 to 91 in 2012.

The KRD within the reporting period issued 616 statements on instituting explanatory proceedings and 246 statements on instituting disciplinary investigations. The KSD was provided with 205 motions for penalties, out of which:

- 188 cases concerned statutory auditors who failed to participate in mandatory professional education in 2010 and 2011,

- 3 cases submitted by the KNA concerned breach of the provisions of the Act on Accounting, KSRF No. 1 and breach of the code of ethics of statutory auditors.
- 6 cases submitted by the KKN concerned breach of the provisions of the Act on Accounting, standards of pursuit of the profession of statutory auditor – subsequently the KSRF, including one case concerning an entity authorised to audit financial statements which did not subject to planned inspection of the KKN,
- 8 cases of requests from natural persons and economic units concerned breach of the provisions of the Act on Accounting and breach of the code of ethics of statutory auditors.

65 out of 205 cases directed to the KSD were have not yet been resolved (submitted to the KSD at the end of the reporting year) and in 140 remaining decisions were made, including 109 cases in which the KSD passed sentences, confirming the requests of the KRD. In the remaining cases the KSD discontinued the proceedings; in two cases statutory auditors were acquitted. In one case the KRD appealed to the the District Court in Gliwice Department IV of Work and Social Security regarding irregularities in auditing of the SKOK.

In 4 cases parties of proceedings filed complaints to the KSD on statements of the KRD regarding conclusion of disciplinary procedures, of which: 2 cases are pending in the KSD, 1 case was left by the KSD without resolving due to the fact that it was filed by a person who was not eligible, in 1 case the KSD upheld the statement of the KRD. Moreover, in 2 cases the KSD considered complaints on statements issued by the KRD during the investigations, in the first one on statement on refusal to make available records of the case, in the second one on statement on refusal to recognize the applicant as a wronged party. In both cases the complaints were dismissed.

The KRD concluded 650 cases with statements on concluding explanatory proceedings and on refusal of instituting investigation and on discontinuing of disciplinary investigation. The legal basis for concluding cases in the aforementioned way was mostly (388 cases) Article 15 (1) item 3 of the k.p.k.<sup>23</sup> i.e. insignificant level of nuisance. Most of these cases were run with regard to not participating in mandatory obligation of professional education by statutory auditors who do not pursue their profession, are advanced in age and are in ill health. In 218 cases discontinuing was caused by statutory lack of basis for penalties, with reference to deletion from the register of statutory auditors of persons who filed a request in this case or were removed due to failing to pay membership contributions or due to demise.

In 2012 the KRD, acting pursuant to § 67 of the Rules of disciplinary procedures against statutory auditors, issued an ordinance on appointing of the three-person Team of Evaluators to consider a complaint on activities of the KRD regarding disciplinary case run by the KRD. The Team of Evaluators confirmed that the course of disciplinary procedures was correct and estimated the complaint as unjustifiable.

Within the reporting period, development of instruction on practical use of the k.p.k. in disciplinary procedures was commissioned. Samples of statements, ordinances and requests for penalty were also adjusted to provisions of the k.p.k. Quarterly conferences with deputies of the KRD were organized, on which issues regarding disciplinary judicial decisions, implementation of oversight and breaches of procedures were discussed. Training conference for members of adjudication panel and deputies of the KRD in order to discuss disciplinary judicial decisions and current affairs was organized together with the KSD.

In addition, a consultation meeting with the KKN in order to resolve procedure of executing inspection, way of developing requests for instituting disciplinary investigation and forwarding secured documentation during an inspection is planned to be organized in 2013.

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<sup>23</sup> The abbreviation k.p.k. means: *The Act of 06 June 1997 the Code of Criminal Procedure* (Journal of Laws of 1997 No. 89 item 555, as amended).

## Activities of the KSD

The KSD adjudicates in cases of statutory auditors' disciplinary liability for acting in conflict with the provisions of law, financial audit standards, independence and professional ethics principles. The KSD has one instance and comprises of three members.

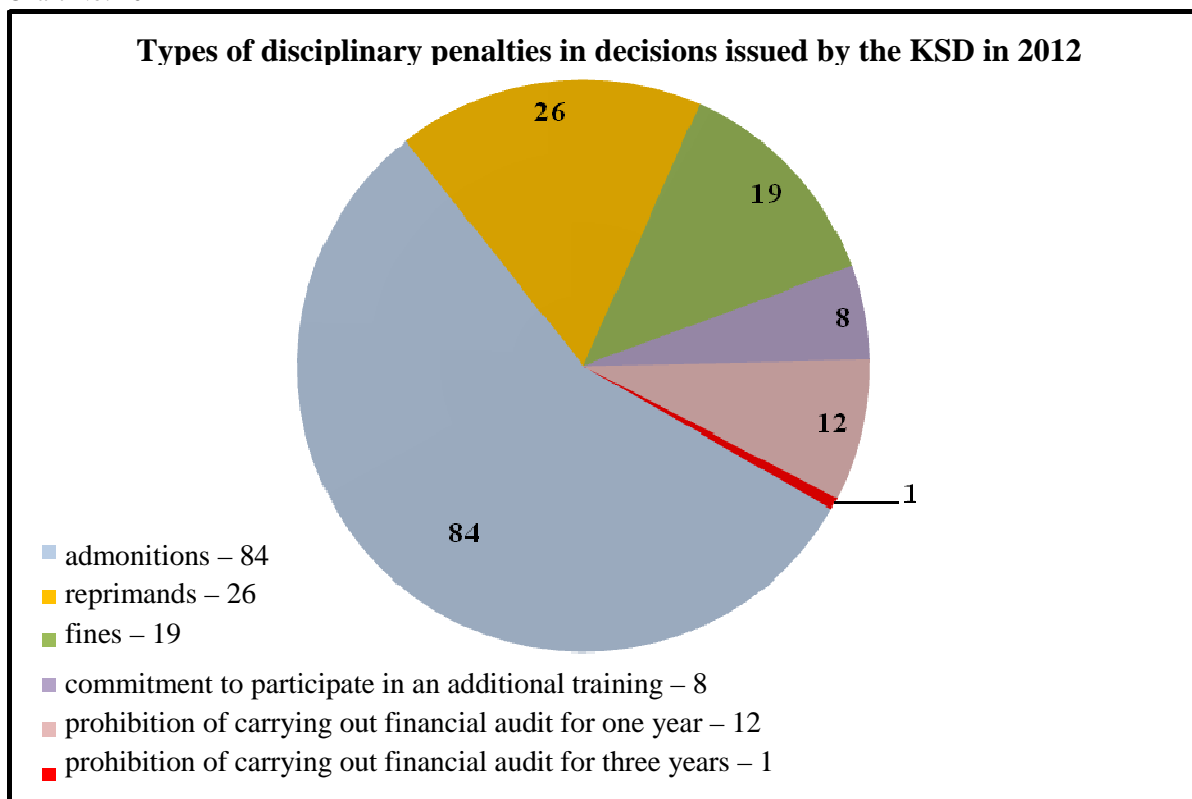
The appeal against the decisions of the KSD can be lodged to a district court – labour and social insurance court as the court of first instance, competent locally for the accused' place of residence.

In 2012, the KSD issued 241 decisions, most of which concerned failure to comply with the obligation of professional education by the statutory auditors.

Disciplinary penalties imposed by the court were:

- 84 times – admonitions,
- 26 times – reprimands,
- 19 times – fines,
- 12 times – prohibition of carrying out financial audit for one year,
- 1 time – prohibition of carrying out financial audit for three years,
- 8 times – the KSD committed to participate in an additional training.

Chart No. 10



Source: own work of the KNA Bureau based on data from the KIBR.

In 53 cases the procedures were discontinued, in majority due to low social harm, in 4 cases the KSD absolved the accused entities from alleged charges.

In 21 cases the trials were postponed, in 4 cases the trials were adjourned, in 3 cases the requests were returned to the KRD in order to complement disciplinary investigation, in 1 case the case was suspended.

In 2012 the KSD resolved 7 appeals to the decisions of the KRD and 1 appeal to the decision of the KSD.

An important matter was the appeals which were directed by the parties to the procedures at the competent courts, however, among more than two hundred issued decisions, cases decided by appeal instance constitute a small percentage. In 2012:

- in 1 case the District Court – Labour and Social Insurance Court upheld the decision of the KSD,
- in 1 case the District Court – Labour and Social Insurance Court discontinued the proceedings in the case under consideration,
- in 2 cases the District Court – Labour and Social Insurance Court changed the imposed penalty,
- in 2 cases the District Court – Labour and Social Insurance Court submitted the case for re-examination by the KSD,
- 5 cases are pending before appellate court.

Consultations of the members of the KSD and joint meetings with the KRD are planned to be continued in 2013. Since 2012, the KSD published exemplary decisions on the KIBR website for educational and preventive purposes.

### **Activities of the KRBR**

In 2012, the KRBR executed the tasks of public oversight concerning in particular:

- registering statutory auditors and entities authorized to audit financial statements,
- qualification procedure for the candidates for statutory auditors,
- rules of mandatory professional education of statutory auditors,
- national standards on auditing,
- annual oversight fee.

In the period between 01 January 2012 and 31 December 2012 by the decisions of KRBR:

- 174 persons were legally entered into the register of statutory auditors (including 2 persons mentioned in Article 5 (3) of the Act),
- 407 statutory auditors were removed from the register of statutory auditors (including: 217 on request, 58 due to demise, 132 due to failing to pay the membership fees for a period exceeding one year),
- decision on deletion from the register of statutory auditors was repealed in relation to 26 statutory auditors,
- 68 entities were entered into the list of entities authorized to audit financial statements,
- 149 entities authorized to audit financial statements were deleted from the list (including: 119 on request, 16 due to failing to pay the annual oversight fee, 10 due to the demise of statutory auditors running the entitled entities in the form of sole business activity on their own behalf and on their account, 4 due to deletion of the statutory auditors from the register of statutory auditors, who were running the entitled entities in the form of sole business activity on their own behalf and on their account),
- decision on repealing the deletion of the entity from the list of entities authorized to audit financial statements was undertaken in relation to 1 entity.

Within the aforementioned period, the KRBR issued two resolutions on refusing deletion of entity authorized to audit financial statements and it submitted to the KNA 10 appeals against resolutions in the subject of entry or deletion.

In 2011 the KRBR issued 6 resolutions pertaining to the qualification procedure for the candidates for statutory auditors, cooperating within this scope with the Examination

Committee. In particular, the KRBR issued resolution No. 744/10/2012 of 10 January 2012 amending resolution on particular scope of thematic exams in classification proceedings for statutory auditors, as well as resolution No. 842/11/2012 of the KRBR of 07 February 2012 on **amount on the fees for individual exams**.

Moreover, in 2012 the KRBR undertook activities on regulation of mandatory professional education for statutory auditors within the scope of:

- fulfilling the obligation of professional education by statutory auditors in 2011:
  - ✓ resolution No. 929/12/2012 of the KRBR of 06 March 2012 on submitting to the KRD a list of statutory auditors who did not fulfil the obligation of professional education in 2011 (the list included 532 statutory auditors),
- mandatory professional education in 2013, issuing:
  - ✓ resolution No. 838/11/2012 of the KRBR of 07 February 2012 on thematic scope and minimal number of hours of mandatory professional education for statutory auditors in 2013,
  - ✓ resolution No. 1274/18/2012 of the KRBR of 14 August 2012 on establishing a list of entities authorized to carry out mandatory professional education for statutory auditors in 2013,
- organization of mandatory professional education – e-learning, as a form of participating in mandatory professional education for statutory auditors in 2012 was allowed.

The KRBR undertook also actions aiming at settlement of statutory auditors of obligation of mandatory professional education in 2012. It was established that in 2012 the obligation concerned 6,930 statutory auditors, 595 of which did not fulfil the obligation. The KRBR will issue proper decision in relation to this group in 2013.

In 2012, 18 entities were allowed by the KRBR to carry out mandatory professional education for statutory auditors. An intention of carrying out mandatory professional education for statutory auditors was declared also by 21 regional divisions of the KIBR. The KRBR carried out 7 visitation of mandatory professional education aiming at inspection of following the rules specified in organizational-methodical guidelines for mandatory professional education for statutory auditors by entities carrying out the trainings.

In the period from 01 January 2012 to 31 December 2012, the KRBR issued, pursuant to Article 21 (2) item 3 letter a of the Act, resolution No. 1349/20/2012 of 09 October 2012 amending resolution on National Standards on Auditing which was not approved by the KNA. It caused issuing by the KRBR on 18 December 2012 resolution No. 1473/23/2012 repealing resolution on National Standards on Auditing and then – after removing objections of the KNA – the KRBR issued on the same day resolution No. 1474/23/2012 amending resolution on National Standards on Auditing. The resolution, approved by the KNA, adjusted National Standards on Auditing to changes arising from shutting down of the Official Gazette of the Republic of Poland (Monitor Polski) “B”. Moreover, on 07 February 2012 the KRBR issued announcement No. 6/2012 on agreements on auditing financial statements, dedicated to issues of proper formulation of the aforementioned agreements in the context of possibility of issuing by statutory auditor – instead of an opinion – a position on independent statutory auditor.

However, changes within the scope of rules of internal quality inspection of entity authorized to audit financial statements and the code of ethics of statutory auditors have not been made, and it is worth highlighting that with the resolution of the KRBR No. 4249/60/2011 approved

by the KNA as of 01 January 2012, the Code of Ethics for Professional Accountants of the International Federation of Accountants (IFAC) was adopted as applicable in Poland code of ethics for statutory auditors.

In 2012, the KRBR did not issue resolutions in the matters concerning disciplinary procedures against statutory auditors and concerning imposition of fines and prohibition of financial audit activity against the entities authorized to audit financial statements.

As regards the annual oversight fee, the KRBR issued 6 resolutions, inter alia, on the volume of the annual oversight fee in 2012 (which determined its value at the level of 1.5% of revenues of the entities authorized to audit financial statements within financial audit activity, yet no less than PLN 679.90, and the resolutions amending resolutions on the volume of the annual oversight fee in 2010 and 2011 (the amendments regarded the volume of the minimum fee). In addition, the KRBR, in response to written expectations of the KNA on establishing and settlement of the annual fee on the account of oversight, issued announcement No. 5/2012 of 07 February 2012 on declaration of the issue of sub-contracting in reports to the KIBR by entity authorized to audit financial statements.

## **ACTION PLAN OF THE KNA FOR 2013**

1. Conducting activities aiming at ensuring appropriate quality of the statutory auditor profession and systems of quality assurance in entities authorized to audit financial statements, including, in particular, auditing public interest entities through, inter alia:
  - approving the inspection plans carried out by the KKN and candidates for inspectors of the KIBR;
  - approving reports from inspections in entities authorized to audit financial statements conducting financial audit in public interest entities;
  - supporting implementation of International Standards on Auditing (MSFR) as standards of pursuit of the profession of statutory auditor in Poland;
  - activities aiming at improving efficiency of activities of the KKN within the scope of the carried out inspections, including, inter alia, simplification of inspection procedures;
  - intensifying cooperation with the KKN within the scope of organization of trainings for inspectors and reviewers;
  - increasing the number of the KNA observers in inspections performed by the KKN.
2. Summarization of execution of tasks of carrying out disciplinary procedures against statutory auditors by the KRD and the KSD during the period of 2010-2012 and establishing plans for further cooperation, in particular in cases in which the KNA participates as a party.
3. Analysing judicial decisions of the KSD during the period of 2010-2012 with regard to its cohesion.
4. Conducting activities aiming at ensuring uniform principles of the statutory auditor profession in Poland, in particular through:
  - supporting the training activities aiming at building knowledge within the scope of International Standards on Auditing;
  - assessing the practical implementation of rules specified in the IFAC Code of Ethics;
  - supervising professional education of statutory auditors, in particular on choosing subjects of mandatory trainings, in order to adjust the requirements established for statutory auditors to needs arising from the changing market conditions in the best possible way.
  - analysing fulfilling of the disclosure requirements pursuant to Article 88 of the Act by entities conducting financial audit activities in public interest entities.
5. The control of the procedure of granting the statutory auditor authority, including the control of the procedure of entering to the register of statutory auditors, approval of resolutions of the KRBR determining the scope, procedure and principles of recruitment of candidates for statutory auditors.
6. Analysing costs and sources of financing of the oversight of execution of financial audit activities by statutory auditors and activities of entities authorized to audit financial statements, exercised by the bodies of the KIBR.



7. Activities for the benefit of promoting financial audit as a basis for reliable information in financial statements.
8. Developing international cooperation, including, in particular:
  - exchanging experiences on functioning of the public oversight system;
  - developing the cooperation within the framework of the European Group of Auditors' Oversight Bodies (EGAOB), the International Forum of Independent Audit Regulators (IFIAR) and European Audit Inspection Group (EAIG);
  - developing the relations with selected oversight bodies from the European Union and from third countries, aiming, in particular, at:
    - ✓ exchanging experiences with the Member States of the European Union, registering statutory auditors and auditing companies from third countries as well as carrying out inspections of auditing companies;
    - ✓ establishing rules for cooperation with bodies of public oversight from third countries, in particular from the USA and Canada, within the scope of exercising oversight of auditing companies executing financial audit activities in listed companies in states other than the state of registration of the auditing company, including the conclusion of agreements on transfer of documents or carrying out joint inspections of auditing companies.
9. Undertaking activities aiming at making changes in statutory regulations regarding the activities of statutory auditors and entities authorized to audit financial statements, as well as public oversight of these activities, which strengthen supervisory tools of the KNA, analysing and giving opinion to projects of legal acts at state and the European Union levels.
10. Developing resources which will improve the execution of tasks of the Audit Oversight Commission.
11. Activities aiming at implementation of IT solutions for the KNA (electronic circulation of documents, website).
12. Ongoing realization of tasks specified in the Act.