

**The report on developments
in the market for providing
statutory audit services
to public-interest entities
in Poland**

Warsaw, 15 June 2016

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ABBREVIATIONS

CEAOB	Committee of European Auditing Oversight Bodies
EAIG	European Audit Inspection Group
EBA	European Banking Authority
EC	European Commission
EGAOB	European Group of Auditor's Oversight Bodies
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Markets Authority
IFIAR	International Forum of Independent Audit Regulators
KIBR	Krajowa Izba Biegłych Rewidentów/ National Chamber of Statutory Auditors
KNA	Komisja Nadzoru Audytowego/ Audit Oversight Commission
PIEs	Public Interest Entities
EU	European Union

INTRODUCTION

About the report

Article 27 of the EU Regulation 537/2014 requires the competent authorities in the EU Member States to draw up a report on developments in the market for providing statutory audit services to public-interest entities by 17 June 2016, and at least every three years thereafter, and submit it to the CEAOB, ESMA, EBA, EIOPA and the EC.

This is the first such report prepared by the Audit Oversight Commission of Poland (Polish: Komisja Nadzoru Audytowego/ KNA). It is based on the methodology and indicators elaborated within the EGAOB to make data gathered by the competent authorities in the EU Member States 'comparable' and 'aggregatable' at the EU level. As for the future reports on developments in the market for providing statutory audit services to public-interest entities, it needs to be mentioned that further work to improve the methodology will take place within the framework of the CEAOB.

This document presents key market monitoring indicators (KMMI) and is divided into three parts:

- first that includes KMMIs to capture market concentration,
- second that includes KMMIs to illustrate risks to audit quality,
- third that provides a description of the national framework applying to audit committees.

It should be noted that at the moment of preparing this report, as defined in current legislation in Poland (implementing the EU Directive 2006/43/EC but not yet the EU Audit Reform), many tasks related to the functioning of the system of public oversight over statutory auditors and audit firms have been delegated to the professional body - the KIBR. This particularly means that recurring inspections of audit firms undertaking audits of public-interest entities (and other audit firms) have been carried out by the professional body under oversight of the KNA. As a result data and information regarding this aspect of the report are based on those provided by the KIBR.

About the KNA

The KNA is a public oversight body established in Poland by the Act of May 7, 2009 as a transposition of the EU Directive 2006/43/EC. The KNA oversees:

- statutory auditors,
- audit firms,
- the professional body (KIBR).

The KNA comprises of 9 members appointed for 4-year tenure and is funded from the state budget. The KNA is a member of IFIAR, the EGAOB and the EAIG. The Office of the KNA is a part of the Ministry of Finance of Poland and deals with administrative and substantive tasks of the KNA.

For more information about the KNA, the audit oversight system and the audit market in Poland, please visit the website: www.mf.gov.pl/ministerstwo-finansow/dzialalnosc/ciala-kolegialne/komisja-nadzoru-audytowego/sprawozdania, where you could find annual reports of the KNA in English.

1. Market concentration levels in Poland

1.1. The main features of the audit market

The table of KMMIs below informs about the main features of the audit market in Poland.

TABLE 1: Market structure				
		DATA	Reference period	Remarks - Observations
Registered Statutory Auditors (natural persons)	Total number	7 086	31/12/2015	
	Of which number of practising registered statutory auditors	3 151	31/12/2015	
Registered Statutory Auditors employed by or associated as partners or otherwise with the audit firm	Total number	3 510	31/12/2015	
Registered third-country auditors	Total number	4	31/12/2015	In Poland as third-country auditors are registered auditors employed by or associated as partners or otherwise with the third-country audit entities.
Statutory auditors approved from another Member State in accordance with Article 14 of Directive 2006/43	Total number	45	31/12/2015	
Registered audit firms	Total number	1 612	31/12/2015	This number comes from the declarations sent by the PIE audit firms. The responses received do not cover 100% of the sample. Lacking data are not considered as significant.
	Of which number of registered audit firms auditing PIEs (carrying out a PIE statutory audit engagement)	97	31/12/2015	
Registered third-country audit entities	Total number	1	31/12/2015	
Statutory audits	Total number	23 648	CY2015	

Statutory audits of PIEs	Total number	2 375	CY2015	This number comes from the declarations sent by the PIE audit firms. The responses received do not cover 100% of the sample. Lacking data are not considered as significant.
Turnover of audit firms auditing PIEs	Total number	1 151 519 000 PLN	CY2015	This number comes from the declarations sent by the PIE audit firms. The responses received do not cover 100% of the sample. Lacking data are not considered as significant.
	Of which fees from statutory audit	440 119 000 PLN	CY2015	This number comes from the declarations sent by the PIE audit firms. The responses received do not cover 100% of the sample. Lacking data are not considered as significant.
Number of PIEs	Total number	1 992	31/12/2015	
	Of which listed companies (without listed banks and listed insurance companies)	424	31/12/2015	
	Of which banks (including listed banks)	626	31/12/2015	
	Of which insurance companies (including listed insurance companies)	61	31/12/2015	
	Of which 'national PIEs'	881	31/12/2015	

1.2. Market share of key market players

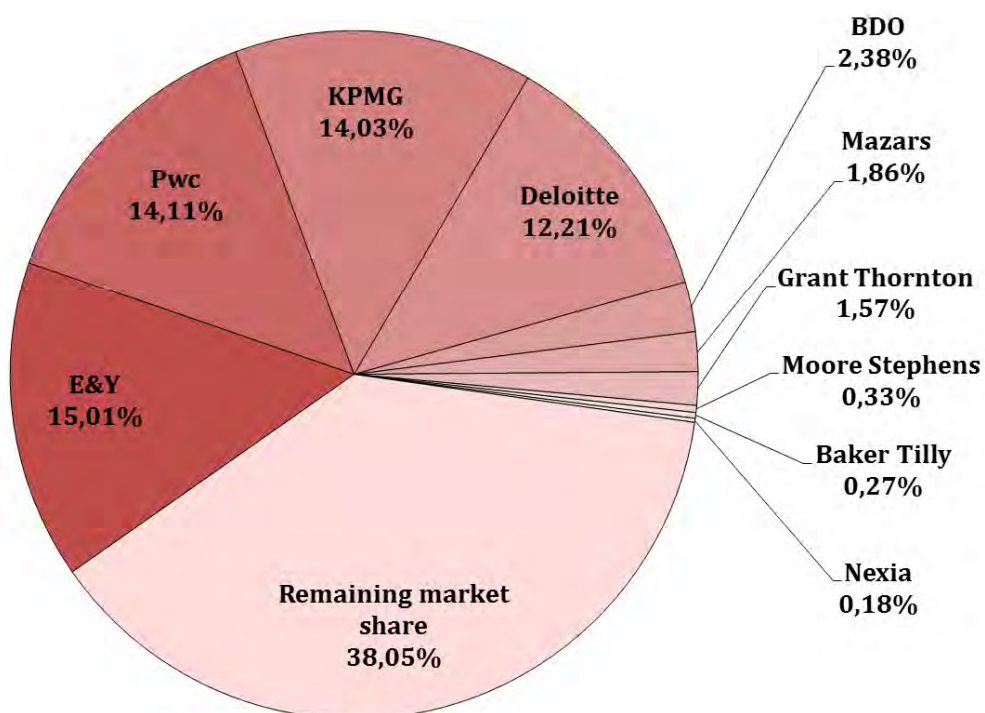
The table below sets out KMMIs for the audits conducted in Poland by each of the most significant firms/networks. The table is based on the list of the 10 largest European networks of audit firms as identified by the EAIG.

TABLE 2: Market share of key market players				
	DATA as of 31/12/2015	DATA (CY 2015)	DATA (CY 2015)	
	Registered statutory auditors employed by or associated as partners or otherwise with the network	Statutory Audits of PIEs	Turnover of the network auditing PIEs	
	Total number	Total number	Total number	Of which fees from statutory audit
Baker Tilly	6	9	(██████ PLN ██████ PLN)	██████ PLN
BDO	25	83	(██████ PLN ██████ PLN)	██████ PLN
EY	64	308	(██████ PLN ██████ PLN)	██████ PLN
Deloitte	82	258	(██████ PLN ██████ PLN)	██████ PLN
Grant Thornton	25	42	(██████ PLN ██████ PLN)	██████ PLN
KPMG	109	228	(██████ PLN ██████ PLN)	██████ PLN
Mazars	25	28	(██████ PLN ██████ PLN)	██████ PLN
Moore Stephens	12	0	(██████ PLN ██████ PLN)	██████ PLN
Nexia	8	8	(██████ PLN ██████ PLN)	██████ PLN
PwC	93	321	(██████ PLN ██████ PLN)	██████ PLN
Remaining market share (aggregated)	3 061	1 091	(██████ PLN)	not available
Total (100%)	3 510	2 376	(██████ PLN)	not available
Remarks - Observations	The numbers come from the declarations sent by the network audit firms.	The numbers come from the declarations sent by the audit firms. The responses received do not cover 100% of the sample. Lacking data are not considered as significant.	The numbers come from the declarations sent by the audit firms. In black bold are all revenues of the network. In brackets in orange are revenues only from audit and other assurance services. Because of secrecy rules, they are only disclosed to bodies indicated in Article	The numbers come from the declarations sent by the network audit firms. Because of secrecy rules, they are only disclosed to bodies indicated in Article 27(2) of the EU Regulation 537/2014.

			27(2) of the EU Regulation 537/2014.	

To visualize the concentration of the market of audit firms in Poland, there are presented below revenues of audit firms from audit and other assurance services.

**Market concentration - revenues of the network audit firms in Poland
from audit and other assurance services**



2. Risks to audit quality in Poland and measures to mitigate those risks

2.1. Quality assurance reviews

The table below provides a selection of KMMIs to give an overview of the overall results of the quality assurance review in Poland.

TABLE 3: Quality assurance review				
		DATA	Reference period	Remarks - Observations
Statutory audit engagements (files) inspected	Total number	490	1 year: inspections carried out in CY 2015	
	of which statutory audit engagements (files) of PIEs only	196	1 year: inspections carried out in CY 2015	
Audit firms inspected	Total number	182	1 year: inspections carried out in CY 2015	
Audit firms for which firm-wide procedures were inspected	Total number	182	1 year: inspections carried out in CY 2015	
Engagement/ file review with at least one finding	Total number	260	1 year: inspections carried out in CY 2015	There is no specific definition of "a finding" in Polish legislation. However, as "a finding" is understood any activity of a statutory auditor or an audit firm that breaches the law and/ or professional standards.
	of statutory audit engagements of PIEs only	98	1 year: inspections carried out in CY 2015	That includes following categories of findings related to (with the corresponding figures): <ul style="list-style-type: none"> • planning of the audit - 26 • statement of the manager of the audited entity - 25 • audit evidence - 21 • incorrect audit opinion with regard to going concern - 5 • incorrect audit opinion with regard to other issues - 14 • auditing the activity report of the entity - 9 • completeness of the audit report - 3 • accuracy of the financial statement - 3 • auditing transactions with related parties - 2 • the date of audit opinion before the date of the financial statement - 1 • auditing conditional commitments and claims - 1 • abuse, errors and infringements of the law - 1 • other irregularities - 4
Firm-wide review with at least one finding	Total number	32	1 year: inspections carried out in CY 2015	There is no specific definition of "a finding" in Polish legislation. However, as "a finding" is understood any activity of a statutory auditor or an audit firm that breaches the law and/ or professional standards.

	of audit firms auditing PIEs	10	1 year: inspections carried out in CY 2015	That includes following categories of findings related to (with the corresponding figures): <ul style="list-style-type: none"> • internal quality control system - 10 • conformity with the law - 4 • completeness and promptness of publication of the transparency report - 3 • completeness and conformity of the data presented on the list of the audit firms - 2 • professional indemnity insurance cover - 2

2.2. Qualitative description of main deficiencies/significant inspection findings

The table below focuses on the qualitative assessment of the main deficiencies identified in Poland, together with any mitigating factors or measures.

TABLE 4: Qualitative description of main deficiencies/significant inspection findings		
Reference period	Identified themes	Mitigation/Remedies/Follow-up
Information on PIEs		
1 year: inspections carried out in CY 2015	internal quality control system - the most common findings regarded the lack of preparation proper procedures and rules in the components of the internal quality assurance system and also the lack of proper supervision of the management of the audit firm	There have been issued recommendations to audit firms. The implementation of recommendations by audit firms has been monitored. Disciplinary motions against 14 key statutory auditors have been submitted (it refers to inspections carried out in 2015). There have also been 15 disciplinary motions in 2015 as a result of inspections in previous years. Motions for sanctions against 3 audit firms have been submitted (it refers to inspections carried out in 2015). There have also been motions against 8 audit firms in 2015 as a result of inspections in previous years.
1 year: inspections carried out in CY 2015	planning of the audit - there have been identified many instances of irregularities with regard to proper audit planning	There have been issued recommendations to audit firms. The implementation of recommendations by audit firms has been monitored. Disciplinary motions against 14 key statutory auditors have been submitted (it refers to inspections carried out in 2015). There have also been 15 disciplinary motions in 2015 as a result of inspections in previous years. Motions for sanctions against 3 audit firms have been submitted (it refers to inspections carried out in 2015). There have also been motions against 8 audit firms in 2015 as a result of inspections in previous years.
1 year: inspections carried out in CY 2015	audit evidence - there have been identified the lack of proper audit evidence in audit documentation	There have been issued recommendations to audit firms. The implementation of recommendations by audit firms has been monitored. Disciplinary motions against 14 key statutory auditors have been submitted (it refers to inspections carried out in 2015). There have also been 15 disciplinary motions in 2015 as a result of inspections in previous years. Motions for sanctions against 3 audit firms have been submitted (it refers to inspections carried out in 2015). There have also been motions against 8 audit firms in 2015 as a result of inspections in previous years.
1 year: inspections carried out in CY 2015	incorrect audit opinion and/or audit report - different types of irregularities have been identified with regard to audit opinions and/or audit reports	There have been issued recommendations to audit firms. The implementation of recommendations by audit firms has been monitored. Disciplinary motions against 14 key statutory auditors have been submitted (it refers to inspections carried out in 2015). There have also been 15 disciplinary motions in 2015 as a result of inspections in previous years. Motions for sanctions against 3 audit firms have been submitted (it refers to inspections carried out in 2015). There have also been motions against 8 audit firms in 2015 as a result of inspections in previous years.

3. Performance of audit committees in Poland

The description below presents the key elements of the framework applicable at national level regarding audit committees. It refers to the framework established according to the 2006 Statutory Audit Directive.

TABLE 5: Audit committees	
	DATA Information regarding legal framework as of 31/12/2015. Data regarding numbers of audit committees in categories of PIEs as of 20/02/2015
Information whether Poland has made use of the exemption provided for in Article 39 of the 2006 Audit Directive to exempt non-listed PIEs from the requirement to have an audit committee.	Yes. It refers to: <ul style="list-style-type: none"> • divisions of credit institutions and branches of foreign banks, • major divisions of insurance companies, • cooperative banks, • public interest entities where no supervisory board and no control board was appointed, • savings and credit unions.
Information whether Poland has made use of exemptions provided for in Article 41 of the current 2006 Audit Directive to reduce the scope of PIEs in which an audit committees are to be in place	Yes. It refers to: <ul style="list-style-type: none"> • open pension funds, general pension societies and investment funds.
Types of PIEs exempted/which types of PIEs are required to have an audit committee in Poland	<p>Pursuant to the current legislation in Poland that has implemented the 2006 Audit Directive as public-interest entities are defined:</p> <ul style="list-style-type: none"> • entities whose transferable securities are admitted to trading on a regulated market of the EU Member State which have their registered offices in Poland (excluding local government units), • domestic banks, divisions of credit institutions and branches of foreign banks, • insurance companies and major divisions of insurance companies and reinsurance companies, <p>and also as 'national' public-interest entities:</p> <ul style="list-style-type: none"> • savings and credit unions, • electronic money institutions, • open pension funds and general pension societies, • open-end investment funds, specialised open-end investment funds, and closed-end investment funds whose public investment certificates have not been admitted to trading on a regulated market, • investment firms, excluding entities pursuing activity exclusively with regard to accepting and transferring orders of purchase or disposal of financial instruments or with regard to investment consulting. <p>In Poland not only some public-interest entities are exempted from the requirement to have the audit committee (as explained above), but also in public-interest entities which are required to have the audit committees the tasks of the audit committee may be entrusted to the supervisory board where the supervisory board has not more than 5 members. In result there are the following numbers of the separate audit committees in the following categories of public-interest entities:</p> <ul style="list-style-type: none"> • 161 in entities whose transferable securities are admitted to trading on a regulated market of the EU Member State which have their registered offices in Poland (excluding from this number listed banks, insurance companies and investment firms), • 25 in commercial banks, • 2 in banks associating cooperative banks, • 28 in insurance companies, • 9 in investment firms, excluding entities pursuing activity exclusively with regard to accepting and transferring orders of purchase or disposal of financial instruments or with regard to investment consulting. <p>In the draft national legislation implementing the 2014 Audit Directive there are proposed changes as regards the definition of public-interest entities and those of them that are excluded from obligation to have the audit committee.</p>
Information to describe the performance of Audit committees in Poland	<p>Pursuant to the current legislation in Poland, there is no legal obligation to monitor the performance of audit committees by public administration bodies.</p> <p>The Financial Supervision Authority of Poland monitors if supervised entities established audit committees and discusses the issue of cooperation between auditors and the audit committees during the meetings with auditors of supervised entities.</p>