



**REPORT
OF THE AUDIT OVERSIGHT
COMMISSION
FOR 2011**

Warsaw, 25 April 2012

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 and Journal of Laws of 2010 No. 182 item 1228), KNA prepares, by 30 April of the following year, an annual report covering the comprehensive information on the functioning of the quality assurance system, the results of the disciplinary procedures against statutory auditors and the fines imposed on the entities authorized to audit financial statements.

INTRODUCTION

In Poland, the public oversight system of statutory auditors and entities authorized to audit financial statements was introduced by the Act of 07 May 2009 on statutory auditors and their self-government, entities authorized to audit financial statements and public oversight. The Act entered into force on 6 June 2009 and 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.

Within the public oversight system, since 2 July 2009 Poland has the Audit Oversight Commission (KNA), whose task is to oversee the execution of the profession of a statutory auditor, activity of the entities authorized to audit financial statement and the activity of the self-government of statutory auditors – the National Chamber of Statutory Auditors (KIBR).

The report of the KNA for 2011 presents the functioning of the public oversight system in Poland in its third year of activity. The report contains four chapters and contains i.e. 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 system over the statutory auditors, audit firms and self-government of statutory auditors.

The second chapter presents the basic information concerning the operation of the KNA, including the composition, objectives, operating mode and the budget of the KNA.

The third chapter describes the activity of the KNA in 2011, that is the activities within the quality assurance system, disciplinary procedures, overseeing the activity of the self-government, 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 KNA within public oversight.

The fourth chapter presents the activity of the KIBR bodies within the public oversight system in 2011. The activity of the following was described: the National Supervisory Committee, the National Disciplinary Spokesperson, the National Disciplinary Court, the National Council of Statutory Auditors and the National Assembly of Statutory Auditors.

At the end of the report you will find the action plan of the KNA for 2012.

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LIST OF ABBREVIATIONS

ABBREVIATION	FULL NAME
EGAOB	European Group of Auditor's Oversight Bodies
EAIG	European Audit Inspection Group
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
SPPW	Swiss-Poland Cooperation Programme
EU	European Union
UKNF	Urząd Komisji Nadzoru Finansowego (Polish Financial Supervision Authority Office)

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 and Journal of Laws of 2010 No. 182 item 1228) hereinafter referred to as the Act.

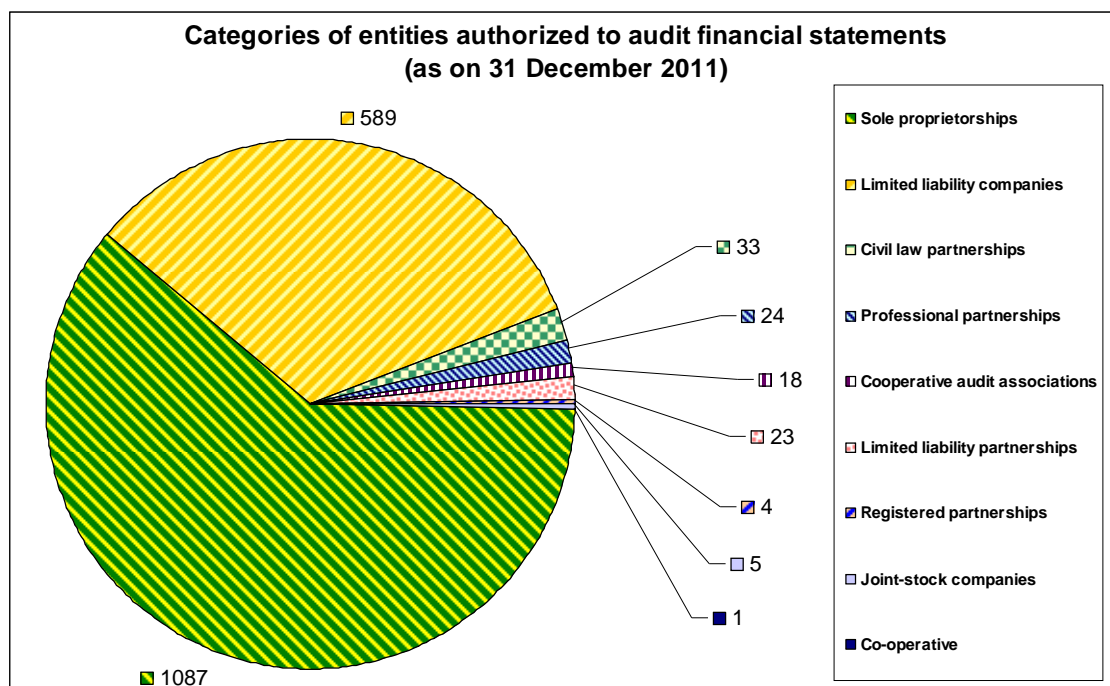
Other

1. Act of 29 September 1994 on accounting (Journal of Laws of 2009 No. 152 item 1223 as amended), hereinafter referred to as the Act on Accounting,
2. Regulation of the Ministry 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 z 2010 No. 6, item 36), 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 KIBR's statute, hereinafter referred to as the KIBR's statute.

1. GENERAL CHARACTERISTICS OF THE PUBLIC OVERSIGHT SYSTEM OF STATUTORY AUDITORS, AUDIT FIRMS¹ AND SELF-GOVERNMENT OF STATUTORY AUDITORS IN POLAND.

Basis data related to the market of audit services

As of 31 December 2011, 1,784 entities were entered in the list of entities authorized to audit financial statements (which means a decrease as compared to the end of 2010 by 27 entities). In the period from 1 January 2011 to 31 December 2011, as a result of KRBR resolutions, 99 entities were entered in the register of the entities authorized to audit financial statements, whereas 127 entities were removed from the list².



As of the end of 2011, there were 7,311 individuals entered in the register of statutory auditors (which means a decrease as compared to the end of 2010 by 171 individuals); 3,606 of those individuals declared that they actually worked in the profession.

In the period from 1 January 2011 to 31 December 2011, through KRBR resolutions, 323 individuals were registered in the register of statutory auditors (including 1 person with the authorizations to perform the profession of a statutory auditor obtained in another EU country), whereas 496 auditors were removed from the register³.

¹ The Act uses the term “entities authorized to audit financial statements”.

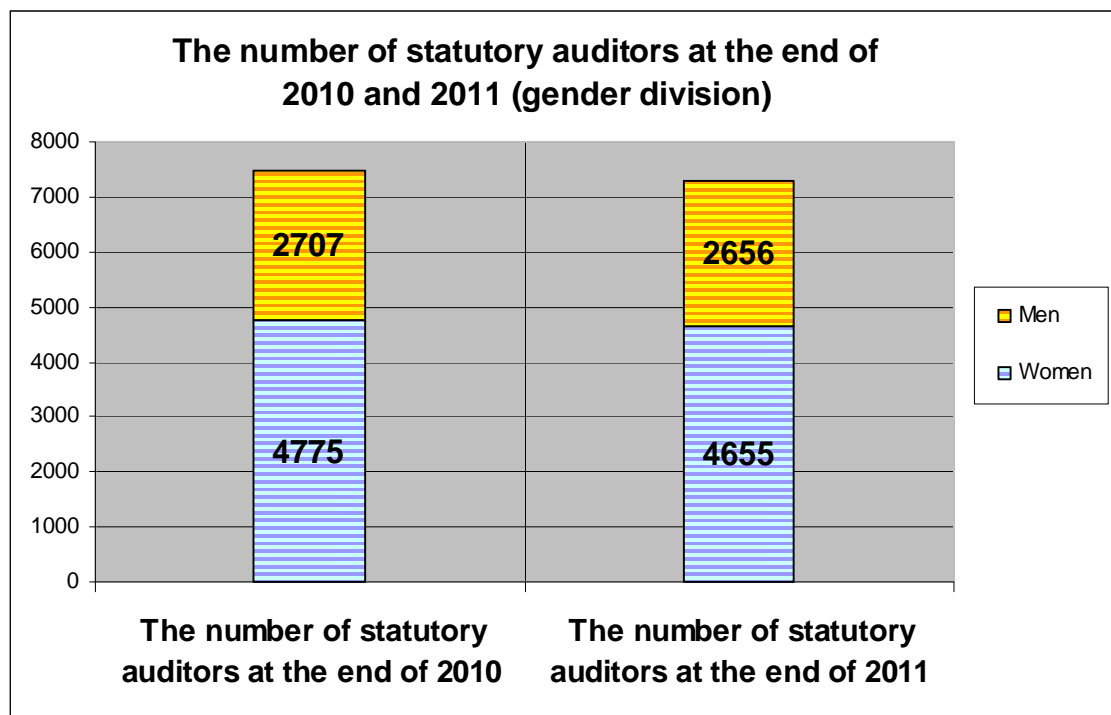
² The entities authorized to audit financial statements were removed:

- on request - 116,
- as a result of not submitting to audit - 2,
- as a result of the statutory auditors running the entities in their own name and on their own account being removed - 9.

³ The statutory auditors were removed from the registry:

- on request - 364,
- due to death - 61,
- due to failing to comply with any of the conditions mentioned in Art. 5 paragraph 2 items 1-3 of the Act,
- due to failing to pay membership contributions for a period longer than a year - 69.

9,661 candidates (including 2,411 from the recruitment conducted in 2010 and 2011 and 7,250 from the previous years) participated in the qualification procedure for candidates for statutory auditors. In 2011, 256 individuals completed the qualification procedure, that is they passed the certification exam and they were granted the right to file to KRBR for entry in the register of statutory auditors.



The revenue generated by entities authorized to audit financial statements in 2011 in connection with financial audit activities amounted to PLN 728,519,022.58, including revenue generated by entities conducting financial audit in public interest entities in the amount of PLN 571,836,259.70⁴.

Data collected by the KIBR show that 26,853 audits of financial statements were conducted in 2011⁵.

Description of the system

The Directive 2006/43/EC, which was approved in the mid 2006, was a response of the European Commission to revealing of major irregularities in the financial reporting of big corporations, such as Parmalat, Enron, or WorldCom. One of the main objectives of this Directive is protection of the EU market against the occurrence of similar phenomena in the future. The new regulations implemented by the Directive 2006/43/WE were to strengthen the confidence of investors and other interested parties in financial statements drawn up by business entities active in the EU (particularly by European stock exchange listed companies) and to restore the prestige of the profession of statutory auditors and trust in results of audit of financial statements. In this context the key role in the process of restoring investors'

⁴ These data were derived from annual settlements of the annual fee for oversight provided to the KRBR by entities authorized to audit financial statements by 31 March 2012.

⁵ The data were derived from the reports submitted to KRBR, mentioned in Article 49 paragraph 3 of the Act. In accordance with information received from the KRBR 1,063 financial statements referred to in Article 49(3) of the Act were verified, that is about 85% of their total expected number.

confidence in financial markets is played by the enhancement of the importance of audits of financial statements. The above-mentioned objectives are to be achieved by the following means assumed in the Directive:

- determination of requirements concerning the qualification procedure for the candidates for statutory auditors,
- obligation to conduct an obligatory continuing education for statutory auditors,
- obligation imposed on Member States to establish a public oversight system for statutory auditors and audit firms – establishment of such a mechanism of public oversight of professional activities of statutory auditors turned out to be necessary, since oversight based solely on self-regulation and administrative control turned out to be insufficient,
- coordination of systems of public oversight at the Community level in order to facilitate the exchange of information and working cooperation between those systems, which is necessary from the point of view of exercising oversight of statutory auditors and audit firms auditing financial statements of companies listed in different Member States,
- organizing a system of cooperation between oversight bodies of Member States with third countries (in particular with the PCAOB - a public oversight body in the USA),
- introduction of ISAs as obligatory standards for all audits of financial statements carried out in the EU,
- introduction of an obligatory system of audit quality assurance for the entities authorized to audit financial statements,
- determination of uniform requirements concerning the independence of statutory auditors,
- determination of special requirements for entities auditing financial statements of public interest entities,
- determination of registration rules for third country statutory auditors.

In Poland the Directive 2006/43/WE was implemented by the Act which entered into force on 6 June 2009, and which introduced a new public oversight system of the professional activities of statutory auditors, activities of entities authorized to audit financial statements, activities of the self-government of statutory auditors and oversight of audit quality assurance system.

Until 5 June 2009, a formal oversight of professional activities of statutory auditors and of the self-government of statutory auditors was exercised by the Minister of Finance⁶. As opposed to the oversight exercised until then by the Minister of Finance, the KNA's, the newly established body by the Act, scope of competence as well as oversight and control instruments are much wider than earlier.

The public oversight system consists of the following elements:

- Audit Oversight Commission (KNA) – a public oversight body;
- National Chamber of Statutory Auditors (KIBR) – a professional self-government, to the bodies of which, following the will of the legislator, some competence within the scope of oversight and quality assurance 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,

⁶ In accordance with the provisions of the Act of 13 October 1994 on statutory auditors and their self-government (Journal of Laws of 2001, No. 31, item 359, as amended).

- ✓ rules of obligatory continuing education of statutory auditors,
- ✓ rules of procedure for the Examination 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 professional activities of statutory auditors and activities of entities authorized to audit financial statements, carrying out audits in public interest entities and approval of candidates for inspectors before their appointment and inspectors designated for individual inspections,
- approval of the results of inspections in entities carrying out audits in public interest entities and participation as an observer in selected inspections carried out by the KKN,
- carrying out (internally), in the case of finding out about irregularities, inspections of professional activities of statutory auditors and activities of entities authorized to audit financial statements,
- registering third country statutory auditors and third country audit firms,
- 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,
- international cooperation, in particular cooperation with the European Commission, oversight bodies of other EU Member States and third countries.

At the same time, the legislator delegated important tasks related to public oversight to the bodies of the self-government of statutory auditors. The KKN is a key body as regards the system of audit quality assurance, whereas the KRBR and the KSD are key bodies as regards disciplinary proceedings.

The KRBR, which is in charge of the self-government's activities in periods between the National Assembly of Statutory Auditors, is of key importance as far as the public oversight system is concerned, in particular as regards maintenance of the register of statutory auditors and the list of entities authorized to audit financial statements; as well as regards passing various legal acts in the form of resolutions of key importance to the functioning of statutory auditors and audit firms.

While discussing the public oversight system, the Examination Committee, which conducts the examination procedure, including exams for candidate for statutory auditors, should also be mentioned. The Examination Committee 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 shall submit to the KNA a report from its activities⁷.

⁷ The report of the Examination Committee for 2011 is available at the BIP MF website, in the bookmark regarding the KNA.

2. AUDIT OVERSIGHT COMMISSION

The KNA is an independent, collegial body of public administration 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 and in a circular procedure, with a reservation that resolutions are passed each and every time during meetings. Pursuant to the Act, meetings of the KNA are to be held at least once a month; however, the practice so far shows that they should be held more often.

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 Ministry of Finance,
- the Polish Financial Supervision Authority – 2 individuals, including the Vice-Chairperson of the KNA,
- the Minister of Justice – 1 individual,
- the National Chamber of Statutory Auditors – 2 individuals,
- employers' organisations – 1 individual,
- the Warsaw Stock Exchange S.A. – 1 individual.

The Act stipulates the following requirements for members of the KNA:

- they should have Polish citizenship,
- they should have full civil rights,
- they should hold a university degree in the Republic of Poland or a university degree abroad which is recognized as equivalent qualification in Poland,
- they should have an impeccable reputation,
- they should have considerable standing, knowledge and experience in the area significant for auditing, which ensure the proper fulfilment of duties,
- they must not be 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 audit firm or be a member of the management board or supervisory board of an audit firm for the period of at least 3 years before their appointment as members and during their term.

The KNA had the following members in 2011⁸:

- Mr Wiesław Szczuka – Chairperson of the KNA, a representative of the Minister of Finance (until 19 December 2011),
- Mr Mirosław Sekuła – Chairperson of the KNA, a representative of the Minister of Finance (since 30 December 2011),
- Ms Dagmara Wiczorek-Bartczak – Vice-Chairperson, a representative of the Polish Financial Supervision Authority,
- Ms Joanna Dadacz, a representative of the Minister of Finance,

⁸ Bibliographies of members of the KNA are available on-line at:
<http://www.mf.gov.pl/index.php?const=6&dzial=2803&wysw=4&sub=sub13>.

- 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 Warsaw Stock Exchange S.A.,
- Mr Piotr Kamiński, a representative of employers' organizations,
- Ms Maria Rzepnikowska, a representative of the KIBR,
- Mr Andrzej Stopczyński, a representative of the Polish Financial Supervision Authority.

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 ensure the efficiently functioning oversight system, including the audit quality assurance system, by establishing legal and organizational, as well as procedural forms, and by operational activities.

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:

- share in the oversight fee, in the amount of 20%, paid by entities authorized to audit financial statements performing audit activities in the public interest entities⁹; transferred by the KIBR to the bank account of the state budget until 31 March,
- fees on account of entry in the register of third country statutory auditors from kept by the KNA and entry in the list of third country audit firms from (in 2011 – no applications),
- penalties imposed by the KNA on audit firms in the case of finding irregularities during an inspection (in 2011, there were no penalties).

In 2011, the KNA did not impose any penalties on inspected entities, nor did it have any proceeds from entry fees. The payment was made by the KIBR due to the share in the oversight fee for 2010 on two days: 31 March 2011 in the amount of PLN 1,344,444 and 18 August 2011 in the amount of PLN 21,450 (including interest) - in total **PLN 1,365,894**.

Due to the doubts of the KNA as to the number of entities authorized to audit financial statements performing audit activities in the public interest entities and due to the need to obtain by the KNA an unbiased interpretation of relevant legal regulations and to confirm the calculations made finally by the KIBR, the amount paid by the KIBR for 2010 had not been finally verified.

⁹ 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,
- cooperative savings banks,
- 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.

Expenses

The activities of the KNA are financed entirely from the state budget. The funds for its functioning in 2011 in the amount of PLN 450,000 were released from the dedicated reserve in part 19 of the state budget – *budget, public finance and financial institutions*.

In 2011, the KNA made expenses from the dedicated reserve in the amount of PLN 198,773 which constitutes 44 % of the amount allocated from the reserve. The underspending of the allocated funds resulted mainly from the following reasons:

- the funds allocated for domestic trips were not used up due to the fact that the inspections in which KNA observers participated, took place in Warsaw only,
- the number of foreign trips of members of the KNA was smaller than planned,
- expenses of litigation in which the KNA can potentially participate turned out to be actually considerably lower than assumed,
- the specialist external tests were not ordered,
- the conference organized in cooperation with the World Bank that was planned for 2011 was postponed for the following year,
- the translation services were used less than assumed,
- the expenses for training courses for employees of the Office of the KNA were reduced, due to the lack of relevant training courses on the market.

The greatest part of the expenses in the amount of PLN 117,392 was allocated for remuneration. Pursuant to Article 71 (1) of the Act, members of the KNA receive a monthly remuneration for participation in its meetings. His remuneration may not be in excess of the minimum remuneration for work¹⁰. The amount of the remuneration allocable to particular members shall be determined by the Minister of Finance in an act pursuant to which a member of the KNA is appointed.

On average, each member of the KNA received in 2011 remuneration in the amount of PLN 14,674 (except for the Chairperson of the KNA, who does not receive remuneration¹¹).

Structure of the KNA's expenses in 2010 (in PLN)	
Remuneration of the KNA members	117,392
Foreign travels of the KNA members and employees of the Office of the KNA	47,346
Purchase of materials and services for the KNA's purposes	21,844
Training of employees of the Office of the KNA	10,724
Translation	1,167
Costs of court proceedings	300
<u>TOTAL:</u>	198,773

¹⁰ **PLN 1 276** (announcement of the President of the Council of Ministers of 24 July 2008 concerning the minimum wages and salaries in 2009 - M.P. No. 55, item 499).

¹¹ 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 the Act or in separate provisions."

The Office of the KNA

The KNA, as opposed to 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 auditing.”*

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 level of employment assigned to them is 9.

At the same time, it should be noticed that in accordance with the justification to the Act, 20 new employees were planned to be employed to provide services to the KNA, which was mentioned in the assessment of the impact of this regulation.

3. ACTIVITIES OF THE KNA IN 2011¹²

In 2011, 25 meetings of the KNA were held, including one extraordinary.

The report of the KNA for 2010 was approved at the meeting held on 29 April 2011. The report was then published on the website of the Public Information Bulletin of the Ministry of Finance in the tab related to the KNA.

At the meeting held on 7 December 2011, the KNA adopted the Action Plan for 2012.

The KNA acts pursuant to the provisions of the Act and the Rules which, pursuant to the Act, were adopted at the opening meeting of the Commission held on 2 July 2009, and then was supplemented with the provisions on the structure of the Office of the KNA and the principles of international cooperation. In 2010, the Rules of the KNA were modified as regards the mode of conducting inspections and participation in them.

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

In 2011, the KNA undertook a series of activities intended to ensure the proper quality of the services offered by statutory auditors and the quality assurance systems in the entities authorized to audit financial statements, including in particular the entities auditing public interest entities.

Approving inspection plans

On 17 December 2010, the KNA approved the inspection plan for 2011 developed by the KKN for entities authorized to audit financial statements performing audit activities in public interest entities, pursuant to Article 64 (1) item 2 of the Act, assuming conducting inspections in 42 entities. While submitting this inspection plan, the KKN informed that in accordance with the KNA's motion the plan covered all inspections which were not carried out in 2010. The KKN indicated also that the full execution of the plan in 2011 would allow for inspecting 50 entities authorized to audit financial statements performing audit activities in public interest entities (that is 67% of the total number of entities assumed to be inspected in the years 2010-2012).¹³

The inspection plan for 2011 for the other entities mentioned in Article 26 (3) item 2 of the Act, which assumed that the inspections in 310 entities would be conducted, was submitted to KNA members during a meeting on 13 April 2011. In the submission letter accompanying the aforementioned inspection plan the KKN informed that it covers all inspections which were not carried out in 2010, except for the entities removed from the list of entities authorized to audit financial statements or the entities that submitted a notice to KRBR that they perform audit activities in the public interest entities.

On 14 November 2011 the KNA asked the KKN to provide the inspection plan for 2012 for the entities authorized to audit financial statements performing audit activities in the public interest entities and for other entities mentioned in Article 26 (3) item 2 of the Act by 30 November 2011.

¹² The plan of activities of the KNA in 2011 is available at:
<http://www.mf.gov.pl/files/bip/kna/plandzialaniaknana2011r.pdf>.

¹³ In 2010, 8 entities authorized to audit financial statements were inspected.

On 16 December 2011 the KNA approved the inspection plan of the KKN for 2012 for the entities authorized to audit financial statements performing audit activities in the public interest entities, which contained 51 entities. At the same time the KKN in the submission letter accompanying the aforementioned inspection plan informed that the annual inspection plan in the entities authorized to audit financial statements as determined in Article 26 (3) item 2 of the Act shall be adopted at the first meeting of the KKN in 2012.

Approving inspectors appointed to carry out particular inspections

In 2011, pursuant to Article 64 (1) item 8 of the Act, the KNA approved inspectors appointed to carry out sixteen inspections conducted in 2011 and five inspections planned for 2012 in entities authorized to audit financial statements performing audit activities in public interest entities.

Approving candidates for inspectors

At the same time, pursuant to Article 64 (1) item 8 of the Act, the KNA approved in the period from April to December 2011 eight candidates for inspectors of the KKN. One of those candidates resigned from concluding an employment agreement, two of them started working but resigned after a short period, and the other candidates have not been employed as of the end of 2011. On 27 December 2011, the KNA received the documents of another candidate for an inspector, who was approved at the first meeting of the KNA in 2012.

It should be emphasized that the delays in employing the inspectors were one of the major reasons for failing to realize the planned number of inspections in 2011. The KNA, pursuant to Article 64 (1) item 8 of the Act, undertook measures aimed at intensifying the works of the KIBR as regards employing a higher number of inspectors and increasing the number of inspections conducted.

Participation in inspections conducted by the KKN

In the context of the provisions of Article 26 (6) of the Act, providing for, on the KNA's request, the possibility of participation of employees of the Office of the KNA in inspections, as observers with the right of access to all documents, an employee of the Office of the KNA participated in March 2011 in an inspection carried out by the KKN in an entity authorized to audit financial statements performing audit activities in public interest entities.

Approving reports from inspections

In 2011, the KNA analysed and then approved of 8 reports from inspections carried out by the KKN in 2010 in entities authorized to audit financial statements performing audit activities in public interest entities.

In December 2011, the KKN submitted 4 reports from 18 planned inspections conducted in 2011 in entities authorized to audit financial statements performing audit activities in public interest entities.

Moreover, the KKN provided the KNA with 2 reports from unplanned inspections, conducted in entities authorized to audit financial statements performing audit activities in public interest entities in 2011, and these reports were submitted to the KNA in 2012.

Moreover, the KNA exercised its entitlements stipulated in the provisions of Article 26 (7) of the Act and in four cases provided the KKN with recommendations concerning inspections in entities authorized to audit financial statements performing audit activities in public interest entities. The recommendations concerned the contents of the reports from inspections and

formulation of recommendations in the post-inspection statements directed to the inspected entities.

KNA inspections

In 2011, 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 Office 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 9 applications for the institution of explanatory proceedings in relation to statutory auditors.

The allegations against those individuals were related in most cases to irregularities in the conduct of audit of financial statements, failure to comply with the arrangements stipulated in the Code of Ethics of statutory auditors, violations of the provisions of the National Standards on Auditing implemented in the resolution 1608/38/2010 of the National Council of Statutory Auditors of 16 February 2010 on national standards on auditing or violations of the Act.

In 2011, the KNA examined 198 decisions sent by the KSD which were adopted in relation to statutory auditors.

The aforementioned decisions related in majority to the cases of failing to comply with the continuing education obligation of statutory auditors in the training cycle 2009/2010 (168), and moreover:

- complaints against KSD decisions,
- complaints against KRD decisions,
- violations of the Code of Ethics of statutory auditors,
- violations of the Act on Accounting,
- violations of the Act,
- violations of the National Standards of Auditing,
- application for excluding the KRD from the case,
- application for prolonging the deadline for the KRD collecting the evidence in the case.

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.

Pursuant to Article 38(2) of the Act, representatives of the KNA may be present at trials in front of the KSD. The KNA exercised this entitlement in 22 cases, authorizing employees of the Office of the KNA 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 on statutory auditors,
- violations of the National Standards of Auditing,
- violations of the Code of Ethics of statutory auditors,
- violation of the obligation of professional education,
- complaints submitted against the decisions of the KRD and the KSD.

In the framework of oversight, pursuant to Article 63 (2) item 3 of the Act, the KNA assessed that the procedures of conduct of activities of the KRD and KSD in 2011, in accordance with documentation available to the KNA, were compliant with the Act and the Rules of

Disciplinary Conduct, and they were applied in a proper manner. However, in three cases the KNA emphasized to the KRD the delays in conducting the cases.

In two cases, in connection with the statement of the entity, the KNA inquired from the KRD whether an explanatory procedure was commenced in the case. In one case the KNA moved to the KRD for provision of the case files.

The KNA moved to the KRD twice, indicating that the prosecutor should be informed if there is a suspicion that the statutory auditors committed crimes provided for in Articles 77 and 78 of the Act on Accounting.

Pursuant to Article 32 (1) of the Act, the parties in the disciplinary procedure are the prosecutor and the defendant. Also, the KNA or the injured may join the proceedings as a party. In 2011 the KNA issued a resolution on joining the procedure as a party in one case.

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

In April 2011, the KNA became acquainted with the reports on the activities of particular bodies of the KIBR in 2010 and took 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 2011 were 1037 resolutions of the KRBR, 3 resolutions of the KKN, 3 resolutions of the KKR and 44 resolutions of the KZBR.

In 2011, the KNA approved, pursuant to Article 72 of the Act, 4 resolutions of the self-government bodies (only KRBR resolutions) and raised objections as regards 3 resolutions of the KRBR, that is resolution No. 4083/58/2011 of 19 April 2011 on the professional ethics of statutory auditors, No. 4252/60/2011 of 14 June 2011 on national standards of auditing and No. 4253/60/2011 of 14 June 2011 on the principles of internal quality assurance in the entities authorized to audit financial statements.

Moreover, acting pursuant to Article 64(1) item 5 of the Act, the KNA adopted resolutions concerning the appeals of 6 resolutions of the KRBR, a resolution 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 argumentation 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. 4251/60/2011 of the KRBR of 14 June 2011 on the refusal to re-entry in the register of statutory auditors, which, according to the KNA violated the law. The complaint was withdrawn from the Regional Administrative court in Warsaw (WSA) due to the fact that the KNA repealed the resolution No. 4251/60/20122 as a result of considering the appeal submitted to the KNA by a party to the said resolution.

In 2011, the KNA examined 9 appeals against the resolutions of the KRBR as regards the entry or deletion from the register or list, to which the provisions of the Code of Administrative Procedure of 14 June 1960 were applicable:

- in 2 cases the challenged resolution of the KRBR was repealed and the procedure of first instance was discontinued;
- in 2 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 procedure was discontinued due to its irrelevance;
- in 1 case the appeal was ruled as inadmissible;
- in 1 case the submitted appeal was treated as an application for restoring the deadline for lodging an appeal, and the prolongation of the deadline was refused;
- in 1 case the procedure was suspended.

In 2011, the KNA also considered 4 appeals to the positions of the KRBR:

- in 2 cases the positions of KRBR were repealed and the procedure of first instance was discontinued;
- in 1 case the challenged position was repealed and the case was submitted for re-examination to a body of first instance;
- in 1 case the appeal was ruled as inadmissible.

Three resolutions of the KNA were in 2011 appealed by a party to the administrative court. Moreover, the KNA also considered 2 applications for re-examination of the case against its own decisions and an application for ruling a position of the KNA invalid.

In 2011 the Regional Administrative Court ruled in 7 cases concerning the activities of the KNA:

- in one case the Court repealed the appeal of the KNA concerning the resolution 3260/48/2012 of the KRBR of 24 August 2010 on the refusal to entry in the register of statutory auditors due to its inadmissibility; due to the fact that the said resolution of the KRBR, by virtue of the KNA decision, was repealed in appeal procedure, it would be unreasonable to submit a cassation appeal against the WSA's decision;
- in one case the Court repealed the decision of the KNA discontinuing the appeal procedure and ruled the KNA resolution on appealing to the WSA the resolution of the KRBR on the refusal to entry in the register of statutory auditors invalid; in this case the KNA submitted a cassation appeal to the Supreme Administrative Court, which has not been considered as of the end of 2011;
- in one case the Court repealed the resolution of the KNA on stating the inadmissibility of the appeal to repealing the KRBR resolution on deleting the entry in the register of statutory auditors; in this case the KNA submitted a cassation appeal in January 2012;
- in one case the Court rejected the complaint against the KNA decision;
- in two cases the Court repealed the complaint against the KNA decision;
- in one case the procedure before the WSA was suspended.

The KNA also considered one complaint of a natural person on the idleness of the KRBR, which was treated as a complaint against failing to fix the matter on time, and two complaints against the activities of the KRBR in the mode under Chapter VIII of the Code of Administrative Procedure.

The KNA also submitted letters to the KIBR bodies (the KRBR and the KKN), containing the conclusions and comments of the KNA arising from the analysis of the resolutions submitted to the KNA, in particular concerning the punctuality of issuing the resolutions, understanding the provisions of the KKN regulations, provision of files and preparing justifications for the resolutions, where the provisions of the Code of Administrative Procedure apply.

Control of the procedure of entering statutory auditors in the register and the authorized entities on the list, and deleting them therefrom

In 2011, the KNA continued the activities commenced in 2010 intended to improve the procedure applied by the KRBR regarding entering and deleting entries from the register of statutory auditors and entities authorized to audit financial statements. The conclusions from

the analysis of the procedures applied by the KRBR as regards the entries were discussed at the meeting of the KNA and submitted to the KRBR as comments in a letter of 1 February 2011, which led to adopting a resolution No. 17/6/2011 on adopting the procedure of making entries in the register of statutory auditors on 25 October 2011 by the KRBR

Moreover, the KNA in its letter of 22 June 2011 submitted comments to the procedure applied by the KRBR on deleting entries from the register of statutory auditors and the list of entities authorized to audit financial statements. Having received explanations from the KRBR, KNA members recognized that the procedures shall be continuously monitored. The comments concerned i.e. evidence in case of the resolutions on the death of a statutory auditor and doubts as to making resolutions on deleting the entities authorized to audit financial statements from the list if a statutory auditor is deleted from the registry that conducted business activity in his own name and on his own account.

It needs to be emphasized that the KNA, within the oversight, verifies all and any resolutions of the KRBR on the entries to the registry of statutory auditors and to the list of entities authorized to audit financial statements as regards the premises provided for in Article 64 (1) item 5 of the Act, which constitute the basis to appeal the resolution to the administrative court. Moreover, the KNA sees whether other premises that were not indicated in the Act are present, proving that the given person or entity should not be entered to the register of statutory auditors or to the list of entities authorized to audit financial statements respectively. The aforementioned also applies to the resolutions on deletions from the register of statutory auditors and from the list of entities authorized to audit financial statements. It means that if the premises pursuant to Article 64 (1) item 5 of the Act are determined, the KNA issues a resolution on appealing such a resolution to the administrative court (in 2011 the KNA made two such resolutions), whereas if there are circumstances detected that prove the invalidity of making a relevant entry to the register of statutory auditors or to the list of entities authorized to audit financial statements, the KNA may exercise its objection right and may issue an administrative decision in this respect (as of now, the KNA has not used the objection right it is entitled to).

In this case, in justified cases, verification of the administrative procedure files is performed, in particular in the areas indicated in the aforementioned letters of the KNA to the KRBR.

The control of the procedure of granting the authority of statutory auditor was also carried out by examining the resolution of the KRBR concerning the principles and the recruitment procedure for the candidates for statutory auditors (in most cases they are to be approved by the KNA), and by the analysis of the report which the Examination Commission submitted to the KNA.

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 2011, sessions of the EGAOB were organized twice, that is on 24 January 2011 and on 26 May 2011. KNA representatives participated in both 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 predicted legal changes in connection with the Directive 2006/43/EC.

Apart from the plenary sessions, working meetings in subgroups are organized within the framework of the EGAOB. At the first session of the EGAOB in 2011, a new formula of the subgroups was determined. One subgroup for general issues was established instead of two subgroups operating in 2010: subgroup for inspections and subgroup for third countries. The objective of this subgroup shall mainly cover the preparations for the plenary sessions of the EGAOB. In turn, the issues discussed earlier in the subgroup for inspections were granted to the EAIG - a group separate from the EGAOB and independent from the European Commission. During a meeting of the KNA on 2 February 2011, a discussion was started on the new cooperation formula at the European level and the representation mode on the aforementioned forums was agreed on.

In accordance with the arrangements, a representative of the KNA joined the works of the EAIG. During the group meetings that take place quarterly, the issues discussed concerned in majority the findings from the inspections conducted in the audit firms of the compliance of the financial audit activities with the International Standards on Auditing and the IFAC Code of Ethics of statutory auditors, as well as the reasons for incurring the irregularities during financial audit activities were identified. In 2011, four EAIG sessions took place: in London, in Berlin, in Oslo and Paris.

The representatives of the KNA also took part in two sessions of the representatives of public oversight authorities from EU Member States, which took place outside the EGAOB formula at the offices of public oversight authorities in Sweden and Spain. During these meetings, the discussions concerned mainly the technical aspects of cooperation within the relationships with third countries.

On 30 June 2011 a representative of the KNA participated in a conference entitled "Conference on Audit Policy" organised by the FEE in Brussels, that comprised a part of the European debate on the direction of changes in functioning of audit firms and overseeing them.

The crowning of the consultations and debates on the future of financial audit conducted at the European level was the publication by the European Commission on 30 November 2011 of a draft: *Directive of the European Parliament and the Council amending the Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts COM(2011) 778*) and the draft: *Resolution of the European Parliament and the Council on detailed requirements concerning statutory audits of financial statements of public interest entities (COM(2011) 779)*. In connection with the publication, a special session of the EGAOB members was organized on 14 December 2011, during which the representatives of the European Commission presented both drafts and heard preliminary opinions from the representatives of public oversight authorities from the EU Member States. The KNA members undertook the discussion on the aforementioned drafts during the meeting on 16 December 2011 in order to prepare the most important comments to use in the position of the Government that conducts negotiations over the drafts of legal acts in the EU Council.

Cooperation with the PCAOB

At the beginning of 2011, on the initiative of the Americans, negotiations commenced on concluding an agreement regulating the transfer of documentation and carrying out joint inspections. These negotiations shall continue in 2012.

Between 31 October and 2 November 2011, a representative of the KNA took part in the annual conference *International Audit Regulatory Institute* organized in Washington by the PCAOB. 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 and establish relations with the representatives of the PCAOB and members of other delegations participating in the meeting, including the involvement of the KNA in the works of IFIAR.

Membership of the KNA in IFIAR

In September 2011 the KNA became an IFIAR member. The coming years will be the time of growing involvement in the works of the organisation for the KNA, and therefore extending the international dimension of its activity.

IFIAR is a global cooperation forum of coordination nature and functions in accordance with the freedom principle. IFIAR members include public oversight authorities from several dozen countries, including 20 EU Member States. 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 oversight authorities. The positions issued by this organisation are not legally binding for its members.

Preparing a registration procedure for 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 register of third country statutory auditors and the list of third country audit firms.

On 15 July 2011 during the KNA meeting, the principles and procedures of registration were agreed on, and a templates of the application were adopted: for entry to the list of third country audit firms, for entry to the register of third country statutory auditors, and the template of information form. The templates of the documents were published at the website of the Public Information Bulletin of the Ministry of Finance in the tab on the KNA in order to make it available for the interested parties.

In 2011 the KNA did not receive any application for the entry to the register or the list. However, it needs to be noted that as a result of the activities in overseeing audit firms auditing financial statements of companies from third countries quoted on the regulated market in Poland, the KNA sent a letter to one third country audit firm containing information about the provisions of law and procedures binding in Poland as regards the registration of third country audit firms.

Swiss-Polish Cooperation Program

In connection with the *Framework Agreement concerning the implementation of the Swiss-Polish Cooperation Program* concluded on 20 December 2007, Poland received from Switzerland funds amounting to CHF 489 million as the non-returnable foreign aid. These funds are to serve the fulfilment of the main objective of the program which is to decrease social and economic inequalities within the enlarged European Union.

One of the individual projects taken into consideration in the SPPW is the *Development of institutional and legal abilities at national level as regards the financial reporting and auditing in private sector*. CHF 10 million was allocated for the project. According to predictions, the Project will be implemented in 2009-2015.

The Ministry of Finance was appointed to be the Intermediary Institution for the above mentioned project. It is responsible for the effectiveness and correctness of management and implementation of activities included therein. The World Bank was appointed the Project Implementing Institution. The KNA is one of the project's beneficiaries.

Pursuant to the Action plan of the KNA for 2011, activities were undertaken, in order to organize a common conference by the World Bank and KNA (partially financed from SPPW funds) directed mainly at the audit committee members, and intended to increase the quality of financial reporting, financial audit and oversight in Poland. It is estimated that the conference will take place in 2012.

Also, an activity undertaken within the SPPW concerned the report on the market of accountancy and audit services in Poland, which is to be prepared by the World Bank. The KNA became familiar with the issue and discussed it at two sessions at the beginning of 2011.

The KNA also supported the activities of the KIBR intended to implement an IT system, supporting the activities of the KIBR as regards public oversight, in particular in terms of registration, inspection of audit firms and disciplinary procedures against statutory auditors, which was to be financed from SPPW funds, including the access to this system for the KNA. Also, necessary conditions were implemented, so that the IT system implemented in the future would be compliant with the IT requirements of the Ministry of Finance.

Other activities

As regards monitoring of audit firms auditing financial statements of the companies listed on the regulated market in Poland, the KNA performed an analysis of audit firms auditing financial statements of the companies with the capital from Ukraine, yet registered in one of the EU Member States. In connection with the doubts, in one case there were submitted to the public oversight authority of one of the EU Member States competent for the given case as to submitting the given audit firm to oversight.

Moreover, in connection with the reservations and to prevent them in the future, the KNA turned to the KIBR with a request to inform the statutory auditors that the submission to a public oversight authority from a different country, including an EU Member State, of audit documentation or other documents in possession of statutory auditors or audit firms may only be conducted through the KNA.

Other activities of the KNA as regards public oversight

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 the KRBR it follows that:

- 123 entities informed about concluding an agreement (agreements) on performing financial audit activities with public interest entities in 2010,
- 10 entities delivered the aforementioned information after the expiry of the deadline indicated in Article 87 (1) of the Act.

The entities that failed to meet the deadline indicated in the Act in 2011 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 auditing firms and information on their websites (it regards companies auditing public interest entities)

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

As a result of the review conducted by KNA in 2010 as regards the implementation of the obligations of Article 88 of the Act, the KRBR, on its meeting on 8 March 2011, issued an *announcement No. 32/2011 concerning the proper realization of the obligation to publish the information on the website by the entities authorized to audit financial statements*.

In December 2011 the Office of the KNA conducted an analysis regarding transparency of audit firms, which were subject to inspections last year, in order to control the implementation of the announcement No. 32/2011 issued by the KRBR. At the beginning of 2012, the KNA directed a letter to 3 entities authorized to audit financial statements, asking to supplement the information missing from their website, mentioned in Article 88 of the Act.

Cooperation with the Polish Financial Supervision Authority

During 2011, the KNF directed letters to the KNA as regards commencement of a disciplinary procedure against statutory auditors auditing financial statements of Cooperative Saving and Credit Unions, indicating irregularities in the audit activities performed by the statutory auditors, and in particular in the reports and opinions they issued as a result, concerning the analysed financial statements. The KNA - within the exercised oversight over the profession of a statutory auditor - turned to the KRBR in 2011 with the applications for commencing explanatory procedure against 5 statutory auditors.

Moreover, the KNA received information from the UKNF on the irregularities in the performance of financial audit activities by the statutory auditors in a company listed on the Warsaw Stock Exchange and on reporting a possible crime connected with the lack of reliability and credibility of financial data included in the financial statements published by that company, prior to declaring bankruptcy. The KNA issued a resolution in this case on joining the procedure as a party, under Article 32 (1) of the Act and turned to the Regional Prosecutor's Office for receiving information as to the stage of the preliminary procedure as regards the aforementioned irregularities.

Moreover, during the consultations the KNA reported comments concerning the requirements against the audit committees included in the draft of Recommendation H by the KNF concerning internal inspections in the bank, which was established within the conducted works as a necessity to counteract imperfections of the banking management systems, including internal audit systems, revealed during the last financial crisis.

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 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 agreement termination¹⁴.

Due to the provisions of this Article, the KNA received information on termination of the agreement on a current basis. 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), winding-up or bankruptcy of the company. 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 mutual 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 over such activity

Taking into consideration the need to improve and strengthen the regulations within public oversight system, the KNA members held a discussion on *Project of assumptions for the draft bill on changing the Act on statutory auditors, their self-government, entities authorized to audit financial statements and public supervision system and on amending the Act on Accountancy* during three meetings, as a result of which, on 30 March 2011, they issued a resolution on presenting the comments to the project, which were later submitted to the Minister of Finance. The comments of the KNA concerned i.e. the operation and financing of the KNA, independence of the KNA members, rotating the key statutory auditor in the network, inspection scope in the entities authorized to audit financial statements conducted by the KNA, the mode of appealing and approving the resolutions of KIBR bodies by the KNA, competences of the KIBR bodies under public oversight, cooperation with the oversight authorities from third countries. The KNA representative also took part in the arrangement conference on discussing the submitted comments, held on 13 May 2011.

Other activities

In 2011, the KNA also conducted activities intended to improve the relations and cooperation principles of the principals with the statutory auditors by moving to the KRBR for issuing an announcement on the proper wording of the agreements on auditing financial statements by the entities authorized to audit financial statements, including in particular the agreements on auditing financial statements of companies declared bankrupt, concluded with the administrator or receiver appointed in the bankruptcy procedure.

¹⁴ In order to standardize the received information a form has been developed. It can be found on the website of the Ministry of Finance: http://www.mf.gov.pl/files/_bip/kna/formularz-12.2010.doc.

The KNA also moved to the Minister of Justice with a request to take an interest in the activities of receivers and administrators as regards failing to meet the conditions of the concluded agreements on auditing financial statements, as well as questioning the results of the activities of financial audit performed by the statutory auditors, as well as in the idleness of judges overseeing the activity of receivers and administrators as regards the appeal measures submitted by the entities authorized to audit financial statements. Moreover, it moved to the Minister for obligating the receivers and administrators to learn about the principles of performing the profession of a statutory auditor.

4. ACTIVITIES OF THE BODIES OF THE NATIONAL CHAMBER OF STATUTORY AUDITORS IN THE FRAMEWORK OF PUBLIC OVERSIGHT IN 2011¹⁵

In 2011 the activity of the KRBR as well as the other self-government bodies fell to the turn of V and VI term of office, in connection with VII KZBR, which took place on 28 - 30 June 2011.

The subject of the discussions during the Assembly included:

- approving the reports on activity of the KIBR bodies from the concluded term of office;
- granting the members of the past KIBR bodies the vote of approval;
- selecting the President of the KRBR and the KIBR bodies for the next term of office;
- adopting the activity plan of the KIBR for 2011-2015.

Activities of the KKN

In 2011, 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, performing audit activities in public interest entities and for remaining entities referred to in Article 26(3) item 2 of the Act. These inspections were carried out by 64 reviewers in the first half year and by 74 reviewers in the second half year, and between 5 to 3 inspectors (at the end of 2011, only 3 inspectors and the director of the inspector department were employed). 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 42 in 2011. On the other hand, the inspection plan for the remaining entities covered 310 entities.

By the end of 2011, 18 entities authorized to audit financial statements carrying out financial audit activities in public interest entities were inspected, including 7 - in the first half year of 2011 and 11 in the second half year of 2011. When carrying out the inspection, the KKN analysed 105 audit work documentations, including 38 documentations concerning the auditing of public interest entities, 25 of them regarded issuers of securities admitted to trading on the EU regulated market (excluding banks), 4 national banks, branches of credit institutions and foreign bank offices and 9 cooperative savings banks.

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

- the lack or failure to perform obligations within the specified deadline resulting from the Act as regards: Article 3(4) (regarding submitting the R4 form), Article 48 (adopting the provisions of the company's articles of association to the Act requirements), Article 50 (regarding the lack of the civil liability insurance within the specified scope of the entity's operations), Article 52(2) (settlements of the oversight fee for 2009), Article 53 (notifications of the KIBR on information subject to disclosure on the list of entities, comprehensiveness and compliance of the data shown on the aforementioned list of entities),
- preparing the statements and information referred to in Article 49(3), Article 87(1), Article 88 item 1 of the Act,

¹⁵ The activity report for 2010 prepared by the KKN, the KRBR, the KSD and the KRBR can be found on the Public Information Bulletin of the Ministry of Finance website in the tab concerning the KNA.

- failure to comply by the statutory auditors with the requirements of Article 4 (1) item 2 of the Act as regards constant education in the manner described in Article 4 (2) of the Act,
- failure of the entity to establish the criteria for the quality control of services performed towards entities other than the public interest ones referred to in the Resolution of 13 October 2009 no. 1378/32/2009 of the KRBR.

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

- planning of the audit, documenting the methods, techniques and procedures of the audit, drafting opinion and report,
- the methodology of financial statements auditing, i.e. the lack of audit proofs in respect to certain financial statement key areas indicating how certain issues listed in item 13 of the KSRF No. 1 were audited (before - in item 13 of the standard No. 1 of performing the duties of a statutory auditor), the lack of documentation as regards the key auditor supervising the works of the team carrying out the audit under their direction, the lack of completeness of the additional information and declaration of the manager of the audited entity, the lack of cooperation with the audit committee, deadline for drafting the document on the review of the quality of the order and the deadline for selecting the entity authorized to audit financial statements,
- significant deviations between the planned labour-consumption included in the audit plan and the one resulting from the price calculation to the concluded agreement,
- recording: adequacy tests of the estimates shown in the financial statements, observations of inventorying or substitute procedures, adopted adequacy level, performance of the opening balance audit for the first time, analysing and assessing the probability of abuse, audit of transactions with affiliated companies, inspecting the changes of conditional obligations to unconditional ones, limiting property rights, inspecting the comparative data and analysis of the events after the balance sheet day.

Seven out of the eighteen inspected entities authorized to audit financial statements auditing public interest entities, raised objections as regards the report content referred to in Article 82(1) of the Act. Having analysed the submitted objections, the KKN in majority upheld the legitimacy of the determined irregularities.

The KKN addressed 17 post-inspection statements to the entities authorized to audit financial statements auditing public interest entities (to 1 entity - in January 2012).

Within the scope of inspections carried out in 2011 in entities authorized to audit financial statements auditing public interest entities, in 3 cases the KKN addressed motions to the KRD for commencement of disciplinary procedure against 10 statutory auditors. In 2 cases the motion to the KRD was addressed against a statutory auditor (manager of the unit) responsible for the quality assurance system in the entity authorized to audit financial statements. Submission of a motion to the KRBR against 1 entity is planned, concerning the deletion of the entity from the list of entities authorized to audit financial statements and imposing an additional penalty in the form of public announcement of the detected irregularities and penalties imposed on that entity.

In 2011 there were 3 unplanned inspections conducted as a result of the complaints submitted by third parties. The subject scope of these inspections arose from the letters addressed to the KKN. The inspection covered 6 auditing documentations, including 4 documentations concerning public interest entities (insurance companies). The aforementioned inspections concluded with - in 1 case, recommendations and a deadline to remove the irregularities, in 1 case - application to the KRD to commence disciplinary procedure against the statutory auditor, and in 1 case the KKN has not yet made a decision on the conclusion of the inspection.

In 2011, the number of inspections carried out by the KKN in the remaining entities referred to in Article 26(3) item 2 of the Act, amounted to 283.

As a result of the audits carried out by the reviewers, irregularities in formal-legal scope concerned the lack of or failure to perform the provisions of the Act under Article 50 (on failing to comply with the insurance obligation of one form of activity, breaches in terms of insurance policies), Article 49 (submission of the report on activity of the entity), Article 52 (1) (balancing the fee for oversight), lack of a website.

As regards the audit documentation, the detected irregularities concerned in particular:

- the methodology of auditing financial statements, i.e. non-refinement of the audit plans, including defining the significance level of audit and the risk evaluations,
- failure to elaborate and implement the quality assurance system defining the basic principles and procedures of audit quality of financial statements as well as providing other attest services,
- failure to define the principles of determining the prices for services rendered by the entity, incorrect selection of the statutory auditor, incomplete financial statement or report on activity, lack of the participation of the statutory auditor in observing inventorying, incomplete statement of the unit's manager and the opinion or report of the statutory auditor.

The result of the inspections was the KKN's request submitted to the KRD for initiating disciplinary proceeding against statutory auditors in 25 cases.

In 2011, the KKN received 7 complaints. In case of 4 of them, the KKN decided that an inspection procedure in the first half year of 2011 shall take place. Due to formal reasons, these inspections were moved to 2012. In case of 2 complaints, the KKN decided not to commence an inspection procedure, and in case of 1 complaint, the KKN commenced an inspection procedure concluded with addressing recommendations to the entity intended to eliminate the detected irregularities.

In 2011, the inspection plan, in particular concerning the entities authorized providing financial audit services to public interest entities, was not realized in full. It was mainly due to the lack of sufficient number of inspectors. The objective of KKN should be to immediately ensure the personnel numbers of the inspectors, guaranteeing that the realization of the inspection plan in three-year perspective 2010-2012 is realized, which is estimated to take place in the first half of 2012.

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 2011, the KRD and his deputies conducted 1200 cases (1039 of the motions to commence disciplinary procedures were submitted in 2011, and in addition, the KRD conducted 160 cases that had not been resolved in 2010, and 1 case that was resolved in 2010, but it was submitted by the KSD for re-examination).

Out of the cases conducted, 731 of them were concluded by the KRD in the form of:

- statements on discontinuing the explanatory procedure and refusal to commence disciplinary procedure (552 cases),
- statements on discontinuing the disciplinary procedure (179 cases).

The KRD submitted to the KSD 123 motions to penalize and 5 cases concerning the the complaints submitted against the KRD statements on discontinuing or refusing to commence a disciplinary procedure. As of the end of the year, 341 cases were pending.

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 obligatory professional education in the years 2009 and 2010 (1135 motions),
- the KKN (10 motions),
- the KNA (9 motions),
- statutory auditors (8 motions),
- business entities (11 motions),
- natural persons (22 motions),
- other (5 motions).

Within the reporting period, the KRD issued 1043 statements on initiating explanatory procedure and 461 statements on initiating disciplinary procedure.

The KRD provided the KSD with 123 motions for penalties, out of which:

- 118 of them concerned statutory auditors who failed to take part in obligatory professional training,
- 5 cases concerned breach of the provisions of the Act on Accountancy, professional standards of statutory auditors and the code of ethics of statutory auditors.

The KSD ruled the accused as guilty in 77 cases, in 40 cases they were discontinued at the KSD level (it concerned mainly the cases of statutory auditors that did not take part in the obligatory professional education), 6 cases are on-going.

In 2011, the KRD, acting by virtue of § 67 of the regulations of disciplinary procedure against the statutory auditors, 3 times issued the rulings on establishing a three-person Team of Spokespersons to resolve the complaint against the activities of the KRD deputies connected with the disciplinary procedures they conducted. In two cases the Team of Spokespersons confirmed the proper course of disciplinary procedure, whereas in the third case the Team of Spokespersons indicated that it is necessary to issue a separate ruling on the initiation of an explanatory procedure.

Moreover, the KRD, acting under Article 304 (2) of the Act of 6 June 1997 - Code of Criminal Procedure, in two cases notified the prosecutor about the suspicion of crimes conducted by the statutory auditors provided for - in one case under Article 77, in the second case - under Article 78 of the Act on Accountancy.

In 2012 the KRD plans to undertake inspections in terms of legal and substantive quality of the documents prepared and applied in the disciplinary procedure, which shall significantly facilitate the works of the Spokespersons during the explanatory procedure. Through current monitoring of the progress of the cases, attention shall be paid to meet the procedural deadlines.

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 2011, the KSD issued 194 decisions, out of which 160 of them concerned failure to comply with the obligation of professional education by the statutory auditors.

Disciplinary penalties imposed by the court were:

- 57 times - admonitions,
- 52 times - reprimands,
- 7 times - prohibition of carrying out financial audit for one year,
- 1 time - prohibition of carrying out financial audit for two years.

In 50 cases the procedures were discontinued, in majority due to low social harm.

In 2011 the KSD resolved 7 appeals to the decisions of the KRD, out of which:

- 1 time refused to resolve the appeal submitted against the decision of the KRD on initiating the explanatory procedure due to the expiry of the deadline provided for appealing,
- 1 time revoked the decision of the KRD on discontinuing the disciplinary procedure,
- 1 time revoked the decision of the KRD on concluding the explanatory procedure and on rejecting the initiation of disciplinary procedure, submitting the case for re-examination,
- 4 times refused to accept an appeal submitted by an unauthorized person.

Moreover, the participants of the procedure lodged appeals to the decisions of the KSD on leaving the adopted appeal measure without resolution, in these cases the KSD upheld the challenged decisions.

An important matter was the appeals directed by the parties to the procedures at the competent courts. In 2011, District Court - Labour and Social Insurance Court:

- in one case it absolved the accused,
- in one case it revoked the ruling of the KSD and submitted the case for re-examination,
- in one case it repealed the appeal of the accused,
- in one case it revoked the decision of the KSD and dismissed the charges,
- in one case it repealed the charges of the accused.

There are 5 cases pending in the Court of Appeal - Labour and Social Insurance Court.

In 2012 the KSD shall continue the periodic sessions and joint meetings with the KRD. Plans include publication of at least once a quarter of gloss rulings, which, apart from informational and educational aspect, serves a preventive function.

Activities of the KRBR

In 2011, the KRBR realized 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 obligatory continuing education of statutory auditors,
- national standards on auditing,
- ethical standards of statutory auditors,
- annual fee on the account of oversight.

In the period between 1 January 2011 and 31 December 2011 by the decisions of KRBR:

- 323 persons were legally entered into the register of statutory auditors (including 1 person mentioned in Article 5 (3) of the Act),
- 496 statutory auditors were removed from the register of statutory auditors, including: 364 on request, 61 due to demise, 2 due to failing to comply with any of the requirements mentioned in Article 5 (2) items 1-3 of the Act, 69 due to failing to pay the membership fees for a period exceeding one year,

- 99 entities were entered into the list of entities authorized to audit financial statements, hereinafter referred to as “list”,
- 127 entities authorized to audit financial statements were deleted from the list, including: 116 on request, 2 as a result of failing to submit to inspection of the KKN, 6 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, 3 due to 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.

Within the aforementioned period, the KRBR issued two resolutions on refusing re-entry to the register of statutory auditors, one resolution on refusing revoking a resolution on refusing re-entry to the register of statutory auditors and one resolution on determining the lack of grounds for deleting the entry in the register of statutory auditors.

On 17 May 2011 the KRBR issued a resolution No. 4130/59/2011 on the procedure of entries into the registry of statutory auditors by the National Council of Statutory Auditors, but – by virtue of a call of the KNA to remove the breach of the law – on 2 August 2011 it revoked the said resolution (in a resolution No. 143/2/2011). Having introduced further corrections, on 25 October 2011 the KRBR adopted the resolution No. 17/6/2011 on adopting the procedure of entries into the registry of statutory auditors, which modified the entering procedure, by virtue of Article 5 (2-4) of the Act, to the register of statutory auditors.

In 2011 the KRBR issued 4 resolutions pertaining to the qualification procedure for the candidates for statutory auditors as well as it cooperated with the Examination Commission as regards the templates of documents issued by the Examination Commission for the purposes of the procedure of entry in the register of statutory auditors, which was mirrored in the templates of documents determined in the aforementioned resolution of the KRBR No. 17/6/2011 on adopting the procedure of entering in the register of statutory auditors.

The KRBR also issued one resolution amending the resolution on the principles of obligatory professional education for statutory auditors, 2 resolutions on supplementing the topics of the obligatory professional training for statutory auditors as well as the resolution on the procedure of adopting and considering applications by the Training Commission. Also, 4 resolutions were adopted concerning the obligatory professional training in 2012 (the topics and the minimum number of hours, the list of entities authorized to conduct the obligatory professional training). It is particularly important to emphasize the introduced change in the number of the minimum number of hours of obligatory professional training for statutory auditors outside the profession, which was decreased from 40 to 24 hours per year.

The Training Commission members and the KRBR members conducted 7 inspections of the obligatory professional training, intended to inspect the compliance of the entities conducting the training with the principles provided for in the organisational-substantive guidelines for the obligatory professional training for statutory auditors for 2011.

Moreover, the KRBR, as regards the compliance of the statutory auditors with the obligation of the professional training in 2010, issued a resolution No. 4000/57/2011 of 29 March 2011 on providing the KRD with the list of statutory auditors who failed to comply with the obligation of professional training in 2010. The list covered 992 statutory auditors.

On 14 June 2011 the KRBR issued a resolution No. KRBR/60/2011 of 14 June 2011 on the national standards of auditing and the resolution No. 4253/60/2011 of 14 June 2011 on the principles of internal quality assurance of entities authorized to audit financial statements, introducing as national the standards of financial auditing and principles of internal quality assurance published by the KIBR and the Polish Accountants' Association “International

Standards on Auditing and Quality Assurance 2009”. Both these resolutions raised doubts of the KNA, recognizing that they are to the detriment of the public interest. The reservations submitted to the KRBR by the KNA stated that the KRBR is obliged to issue resolutions that regulate the aforementioned matter comprehensively (the wording of the standards and principles should constitute an integral part of a relevant resolution), containing relevant transition and revoking provisions, that are compliant with the Act, on the basis of which they are made, and with other acts, resolutions ratified by international agreements. The KRBR revoked both resolutions and by the end of 2011 failed to present the KNA with the resolutions that would take these reservations into consideration. Therefore, 2011 saw no changes in terms of the standards of auditing in Poland and the internal quality assurance principles for entities authorized to audit financial statements.

Nevertheless, the KRBR introduced changes in terms of the code of professional ethics of statutory auditors. The resolution of KRBR No. 4249/60/2011, taking into account the reservations submitted earlier by the KNA referring to ensuring proper *vacatio legis*, was approved by the KNA and consequently, as of 1 January 2012, the Code of Ethics of professional accountants by IFAC was implemented as the binding rules of professional ethics for statutory auditors in Poland.

In 2011, 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 fee on the account of oversight, the KRBR issued a resolution No. 3998/57/2011 of 29 March 2011 on the volume of the annual fee on the account of oversight, which determined its value at the level of 1.25% of revenues of the entities authorized to audit financial statements within financial audit activity, yet no less than PLN 700, and the resolution No. 3999/57/2011 of 29 March 2011 on the method of calculating and paying the annual fee on the account of oversight. At the same time in December 2011, the President of the KRBR addressed a letter to all entities authorized to audit financial statements containing the information about the necessity to correct the calculations of the annual fee on the account of oversight for the years 2009-2011 due to the necessity to include the revenues from sub-contracted services in the calculations.

ACTION PLAN OF THE KNA FOR 2012

1. Conducting activities aimed at ensuring appropriate quality of the profession of statutory auditor and systems of quality assurance in entities authorized to audit financial statements, including, in particular, auditing public interest entities through, among others:
 - approving the inspection plans carried out by the KKN and candidates for inspectors of the KIBR;
 - direct participation of the KNA's representatives in selected inspections carried out by inspectors of the KIBR, with particular consideration of the internal quality control system;
 - carrying out own inspections by the KNA's representatives in cases set forth in Article 74 of the Act;
 - approval of reports regarding inspections carried out by the inspectors of the KIBR in entities authorized to audit financial statements auditing public interest entities;
 - analysis of irregularities detected during the conducted inspections.
2. Monitoring the procedures concerning inspections of the quality assurance system conducted by the KKN.
3. Preparing guidelines concerning the execution of the entitlements of the KNA in the disciplinary procedures against statutory auditors.
4. Overseeing the activity of self-government of the statutory auditors, in particular:
 - control of the procedure of entering statutory auditors in the register and the authorized entities on the list;
 - assessment of annual reports of the KIBR's bodies;
 - assessment of the conformity of the activities of the KIBR bodies with the Act, provisions and the statutes.
5. The control of the procedure of admitting to the profession of the statutory auditors, including the approval of resolutions of the KIBR determining the scope, procedure and principles of recruitment of candidates for statutory auditors, as well as the analysis of the report on the Examination Committee's activities.
6. The control of the manner of fulfilling the information obligations pursuant to Article 88 of the Act by entities performing audit activities in public interest entities.
7. Conducting activities aimed at ensuring uniform principles of the profession of statutory auditors in Poland, in particular through:
 - supporting the activities aiming at applying the International Standards on Auditing in the possibly widest manner;
 - supporting the activities aiming at comprehensive applying the principles included in the IFAC code of ethics;
 - supervising the selection of topics of obligatory professional training, in order to adapt, in the best possible manner, the requirements set for the statutory auditors to the needs resulting from the changing market conditions.
8. Conducting further activities aiming at broadening the knowledge of supervisory bodies of economic units concerning the cooperation principles and developing relations with the

auditor, in order to increase the reliability of financial information presented in financial statements, and to strengthen the effectiveness of corporate supervision, in particular through the organization of a conference addressed to the audit committee's members.

9. Developing international cooperation, including, in particular:

- informing foreign partners on the role and activities of the KNA as the public oversight body in Poland;
- participation in initiatives as regards the oversight of audit firms undertaken by the European Commission and other EU bodies as well as the development of the cooperation within the framework of the European Group of Auditors' Oversight Bodies;
- developing the relations with selected oversight bodies in:
 - ✓ the EU countries – in order to use the experiences in organizing oversight, registration of third country statutory auditors and third country audit firms and carrying out the inspections of audit firms;
 - ✓ the USA (the PCAOB) – in order to conclude bilateral agreement regulating the principles of cooperation as regards the oversight of statutory auditors' activity, including submitting the audit work documentation and carrying out joint inspections;
 - ✓ third countries acknowledged by the European Commission as equivalent (in which Polish audit firms are registered) – in order to determine the need to conclude bilateral agreements regulating the principles of mutual relations between the KNA and oversight bodies from these countries, including the principles of submitting the audit work documentation;
 - ✓ associated in the International Forum of Independent Audit Regulators (IFIAR).

10. The support of activities aiming at introducing amendments to the law concerning the activity of statutory auditors and entities authorized to audit financial statements as well as public oversight of this activity, in particular through analysing and providing opinions on the draft legal acts at the national and the EU level.

11. Conducting activities aiming at creating the website of the KNA.

12. Ongoing realization of tasks specified in the Act.