



**REPORT
OF THE AUDIT OVERSIGHT
COMMISSION
FOR 2010**

Warsaw, 29 April 2011

INTRODUCTION

The Act of 7 May 2009 on statutory auditors, their self-government, entities authorized to audit financial statements and on public oversight shall be the legal basis for introduction and implementation of public oversight of financial audit adjusted to the requirements of Directive 2006/43/WE of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts. The Act entered into force on 6 June 2009.

The public oversight system is to ensure the required quality of audit of financial statements and to contribute to maintaining and increasing the confidence of market participants as regards such statements. These tasks are of particular importance in relation to the experience related to the global crisis which revealed that statutory auditors were not able in each case to warn investors and other market participants against threats which could be noticed in the financial statements of banks and other entities of key importance to the stability of financial markets audited by them.

The Audit Oversight Commission (KNA), the task of which is oversight of professional activities of statutory auditors, activities of entities authorized to audit financial statements and activities of the self-government of statutory auditors (National Chamber of Statutory Auditors – KIBR) has been operating in Poland since 2 July 2009 in the framework of the public oversight system. Oversight by KNA of self-government's activities is justified primarily by the fact that pursuant to the Act of 7 May 2009 the bodies of the KIBR were entrusted with a series of key tasks related to public oversight. In order to ensure the possibly greatest quality of financial audit, the KNA bases upon the quality assurance system executed primarily by the National Supervisory Committee (one of the bodies of the KIBR) and takes other supervisory measures as stipulated in the Act. In order to ensure proper oversight of performance of the profession by statutory auditors and the activities of audit firms the KNA develops also cooperation with other oversight bodies from other EU Members States and third countries.

The report of the KNA for 2010 presents activities of the public oversight system in Poland in the second year of its functioning. The report is composed of four sections and it contains, inter alia, detailed information on the functioning of the quality assurance system and the results of disciplinary proceedings conducted against statutory auditors.

In Section 1, the system of public oversight of statutory auditors, audit firms and the self-government of statutory auditors in Poland has been presented. The basic information on the market of audit services in Poland and a brief description of the oversight system have been presented. In Section 2, the basic information on the functioning of the KNA, such as its objectives, the manner of functioning and the KNA's budget has been presented. In Section 3, the activities pursued by the KNA in 2010 have been discussed. These included: activities undertaken in the framework of the quality assurance system, disciplinary proceedings, oversight of the self-government's activities, control over the procedure of entry of statutory auditors into the register and entities authorized to audit financial statements into the relevant list, international cooperation and other activities undertaken by the KNA in the area of public oversight. In Section 4, activities undertaken by the bodies of the KIBR in the area of public

oversight in 2010 have been presented. The activities of the following bodies have been discussed: the National Supervisory Committee, the National Disciplinary Spokesperson, the National Disciplinary Court, the National Council of Statutory Auditors and the Extraordinary National Assembly of Statutory Auditors. The subsequent items of the report have covered: the action plan of the KNA for 2011, a list of abbreviations used in the report and the legal bases for the functioning of the system.

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

Basis data related to the market of audit services

As of 31 December 2010, 1 811 entities were entered in the list of entities authorized to audit financial statements (which means a decrease as compared to the end of 2009 by 114 entities), including:

- 1 125 entities conducting activities in their own name and on their own account,
- 586 limited liability companies,
- 34 civil law partnerships,
- 23 professional partnerships,
- 19 cooperative auditor associations,
- 16 limited liability partnerships,
- 4 registered partnerships,
- 3 joint-stock companies,
- 1 cooperative.

There were 7 482 individuals entered in the register of statutory auditors at the end of 2010 (which means a decrease as compared to the end of 2009 by 259 individuals), including 4 775 women and 2 707 men. 3 431 out of those individuals declared that they actually worked in the profession.

8 734 candidates (including 1 194 from the recruitment conducted in 2010 and 7 535 from the previous years) participated in the qualification procedure for candidates for statutory auditors.

The revenue generated by entities authorized to audit financial statements in 2010 in connection with financial audit activities amounted to PLN 682 023 925.65, including revenue generated by entities conducting financial audit in public interest entities in the amount of PLN 537 425 442.92.²

Data collected by the KIBR show that 20 079 audits of financial statements were conducted in 2010³.

Description of the system

Directive 2006/43/EC, which was approved in the mid 2006, was a response of the European Commission to revealing major irregularities in the financial reporting of big corporations, such as Parmalat, Enron, or WorldCom. One of the objectives of the European Community is protection of the EU market against the occurrence of similar phenomena in the future. The new regulations implemented by Directive 2006/43/WE were to strengthen the confidence of investors and other interested parties in financial statements drawn up by business entities

¹ The term "entities authorized to audit financial statements" is used in the Act.

² 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 2011.

³ In accordance with information received from the KRBR 1 541 financial statements referred to in Article 49(3) of the Act were verified. This accounts for over 75% of the expected number of all statements. Verification of the remaining part of statements will last until ca. 31 May 2011.

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 financial statements audit. In this context the key role in the process of restoring investors' confidence in financial markets is played by the enhancement of the importance of financial statements audits. The above-mentioned objectives are to be achieved by the following means assumed in the Directive:

- 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 American PCAOB),
- introduction of ISAs as obligatory rules for all audits of financial statements carried out in the EU,
- introduction of an obligatory system of audit quality assurance,
- 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 statutory auditors from third countries.

In Poland 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 Finance⁴. As opposed to the oversight exercised until then by the Minister of Finance, the newly established body's scope of competence as well as oversight and control instruments is much wider than earlier.

The public oversight system consists of the following elements:

- Audit Oversight Commission (KNA) – a body of public oversight;
- 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

⁴ 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).

scope of oversight and quality assurance was delegated. The bodies of the KIBR include:

- ✓ National Assembly of Statutory Auditors,
- ✓ National Council of Statutory Auditors (KRBR),
- ✓ National Supervisory Committee (KKN),
- ✓ National Disciplinary Court (KSD),
- ✓ National Disciplinary Spokesperson (KRD),
- ✓ National Internal Audit Committee (KKR).

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

- approval of resolutions of the bodies of the KIBR in cases stipulated in the Act, including:
 - ✓ national standards on auditing,
 - ✓ standards on internal quality control of entities authorized to audit financial statements,
 - ✓ ethical standards of statutory auditors,
 - ✓ regulations of disciplinary actions against statutory auditors,
 - ✓ rules of obligatory continuing education of statutory auditors,
 - ✓ rules of procedure for the Examinations Committee and other regulations in the area of the qualification procedure for candidates for statutory auditors,
- approval of annual inspection plans, drawn up by the KKN, with respect to the 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, 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 statutory auditors and entities authorized to audit financial statements from third countries,
- appealing to the administrative court against the resolutions of the KIBR bodies which are not subject to approval,
- performing reviews of documentation constituting the basis for passing resolutions by the KRBR on the entry of a statutory auditor in the register or entry of entities authorized to audit financial statements in the list,
- international cooperation, in particular cooperation with the European Commission, oversight authorities 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 KRD 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. It also plays an important role

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) the Examination Committee shall submit to the KNA a report from its activities⁵.

⁵ The report of the Examination Committee for 2010 is available at:
<http://www.mf.gov.pl/dokument.php?const=6&dzial=3663&id=210943&typ=news>.

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.

The KNA draws up a report according to Article 64 (5) of the Act.

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 2010⁶:

- Ms. Elżbieta Chojna-Duch – Chairperson of the KNA, a representative of the Minister of Finance (until 22 January 2010),
- Mr. Dariusz Daniluk – Chairperson of the KNA, a representative of the Minister of Finance (until 16 July 2010),

⁶ 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. Wiesław Szczuka – Chairperson of the KNA, a representative of the Minister of Finance (since 16 July 2010),
- Ms. Dagmara Wieczorek-Bartczak – Vice-Chairperson, a representative of the Polish Financial Supervision Authority,
- Ms. Joanna Dadacz, a representative of the Minister of Finance,
- Mr. Bogdan Dębicki, a representative of the KIBR,
- Mr. Andrzej Herman, a representative of the Minister of Justice,
- Ms. Ewa Jakubczyk-Cały, a representative of the 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 the 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

Revenue

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 audit firms auditing financial statements of public interest entities⁷; transferred by the KIBR to the bank account of the state budget until 31 March,
- fees on account of entry in the register of statutory auditors from third countries kept by the KNA and entry in the list of audit firms from third countries (in 2010 – no applications),
- penalties imposed by the KNA on audit firms in the case of finding irregularities during an inspection (in 2010, there were no grounds to impose any penalties).

⁷ 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.

In 2010, the KNA did not impose any penalties on inspected entities, nor did it have any proceeds from entry fees. The payment made by the KIBR due to the share in the oversight fee for 2009 amounted to **PLN 664 727**⁸.

Having paid that amount, the KNA undertook measures in order to determine the correctness of calculation by the KIBR of the due amount. The issues which needed to be explained included, among others, the number of entities authorized to audit financial statements obliged to transfer a fee for the oversight, adjustments provided by entities authorized to audit financial statements to statements accounting for calculation of a fee for oversight and the minimum amount of a fee for oversight. In the course of the explanations, the KNA ordered the KKR to conduct the control of the KRBR as regards correctness of calculation of crediting the state budget account for 2009 with a payment for the share in fees for oversight. The control carried out by the KKR proved the correctness of the activities of the KRBR in that regard. Nonetheless, 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 2009 had not been – until the date this report was drawn up – finally verified.

Expenses

The activities of the KNA are financed entirely from the state budget. The funds for its functioning in 2010 were released from the dedicated reserve of the state budget (Section 83, item 56).

Due to the fact that the KNA's functioning is based on the organizational structures of the Ministry of Finance, the funds for its operations were released from the dedicated reserve in part 19 of the state budget – *budget, public finance and financial institutions*. In total, PLN 249 180 was released within four tranches.

In 2010, the KNA made expenses from the dedicated reserve in the amount of PLN 193 210, which constitutes 77.5% of the amount allocated from the reserve. The underspending of the allocated funds resulted mainly from the following reasons:

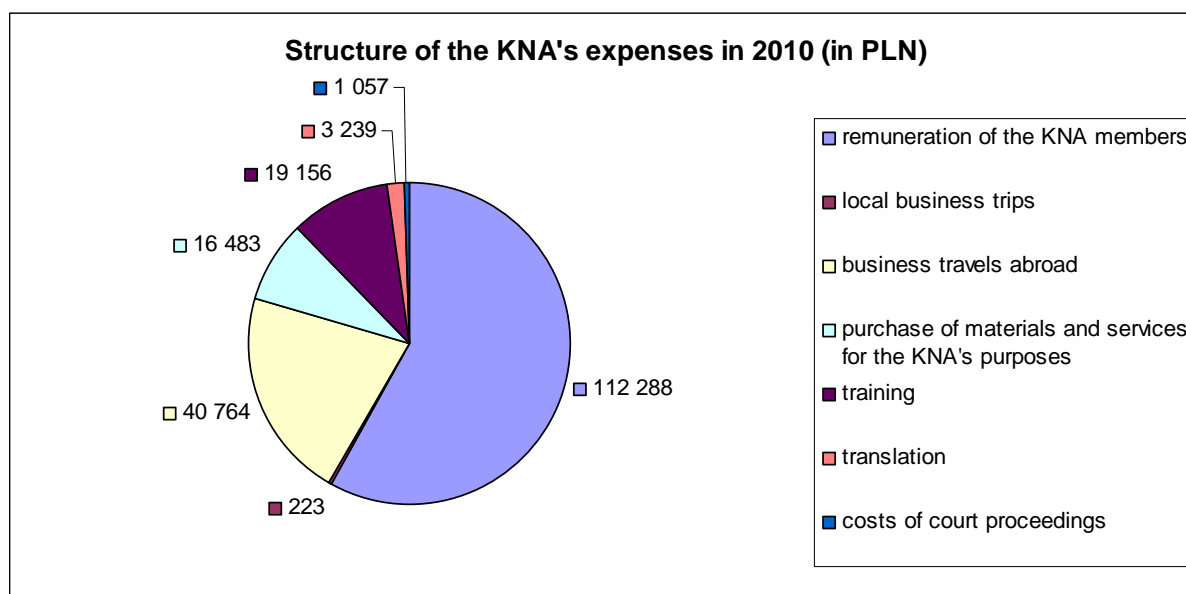
- the funds allocated for domestic trips were not used up due to the fact that the inspections in which employees of the Accounting Department of the Ministry of Finance handling the KNA participated as observers, took place in Warsaw only.
- the number of foreign trips of members of the KNA was smaller than the planned one,
- expenses of litigation in which the KNA can potentially participate turned out to be actually considerably lower than the assumed ones,
- not all funds for training of those employees of the Accounting Department who handle the KNA were used up, which resulted from, among others, the fact that part of the costs of the training were booked as expenses incurred in 2011.

The greatest part of the expenses in the amount of PLN 112 288 was allocated for remuneration. Pursuant to Article 71 (1) of the Act, members of the KNA receive a monthly

⁸Pursuant to Article 52(1) item 2 of the Act, an entity authorized to audit financial statements shall be obliged to pay a fee for oversight which shall not exceed 2 % of annual revenue from audit activities and shall not be less than 20% of the average wage in the national economy, announced by the President of the Central Statistical Office for the previous calendar year. As of 31 March 2010, revenues generated in 2009 by entities authorized to audit financial statements auditing public interest entities which constitute the basis for calculation of a share in the fee for oversight paid by the KIBR to the state budget amounted to PLN 3 323 636. As of 5 October 2010, the amount of fees for oversight of all authorized entities due for 2009 amounted to PLN 9 722 621.

remuneration for participation in its meetings. This remuneration may not be in excess of the minimum remuneration for work⁹. 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 2010 remuneration in the amount of PLN 14 036 (except for the Chairperson of the KNA, who resigned due to formal reasons from due remuneration¹⁰.)



The Bureau 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. Their objective consists in the performance of substantive and administrative functions of the KNA. The level of employment assigned to them is 10, including 5 individuals in the unit providing services related to the activities of the KNA and 5 individuals in the unit responsible for audit quality assurance system (inspections of audit firms and disciplinary actions against statutory auditors). Two vacancies were not filled¹¹.

⁹ 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).

¹⁰ 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.”

¹¹ In the course of several recruitments for the position related to carrying out inspections on the behalf of the KNA in entities authorized to audit financial statements, no application was received nor was any recruitment completed with selection of a candidate.

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 2010¹²

In 2010, 21 meetings of the KNA were held, including 5 extraordinary ones.

The report of the KNA for 2009 was approved at the meeting held on 22 April 2010. 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 17 December 2010, the KNA adopted the Action Plan for 2011.

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 Committee held on 2 July 2009. 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

On 26 March 2010, the KNA approved the inspection plan for 2010 developed by the KKN for entities authorized to audit financial statements conducting financial audit activities in public interest entities, pursuant to Article 64 (1) item 2 of the Act, assuming conducting inspections in 23 entities. Delays in employing inspectors were the main reason which made the KKN adjust the adopted plan and reduce the number of entities covered by it to 8. The thus updated plan was approved by the KNA of 27 October 2010, and was fully executed.

The plan of inspections in the other entities referred to in Article 26(3) item 2 of Act developed by the KKN was notified to the members of the KNA on 8 April 2010, and it covered 305 entities. This plan was also modified by the KKN, and it finally assumed carrying out inspections in 126 entities, out of which 114 ones were actually conducted.

On 17 December 2010, the KNA approved the inspection plan for 2011 developed by the KKN for entities authorized to audit financial statements conducting financial audit activities in public interest 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 conducting financial audit activities in public interest entities.

In the period from May to July 2010, the KNA approved, acting pursuant to Article 64 (1) item 1 of the Act, templates of inspections carried out by inspectors and reviewers.

In 2010, pursuant to Article 64 (1) item 8 of the Act, the KNA adopted 5 resolutions approving inspectors appointed by the KKN to carry out inspections in entities authorized to audit financial statements conducting financial audit activities in public interest entities.

¹² The plan of activities of the KNA in 2010 is available at:
http://www.mf.gov.pl/_files/_bip/kna/plandzialaniaknana2010rok-bip.pdf.

At the same time, pursuant to Article 64 (1) item 8 of the Act, the KNA approved in the period from September to November 2010 six candidates for inspectors of the KKN. One of those candidates had not been employed by the KIBR until the date of preparation of this report, and three ones had resigned from the offer of employment in the KIBR.

It should be emphasized that pursuant to Article 64 (1) item 8 of the Act, the KNA undertook numerous measures aimed at solving problems connected with delays in employing KIBR inspectors and appointment of reviewers which had become the main reason for lack of execution of the inspection plans for 2010 developed by the KKN. This was to be achieved through, e.g. mediatory meetings organized by the KNA attended by representatives of the KRBR and 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 Bureau of the KNA in inspections, as observers with the right of access to all documents, an employee of the Bureau of the KNA participated in the 4th quarter of 2010 in two inspections carried out by the KKN in entities authorized to audit financial statements conducting financial audit activities in public interest entities.

Having analysed 9 reports from inspections carried out by the KKN (including 4 reports from inspections carried out in entities authorized to audit financial statements conducting financial audit activities in public interest entities), the KNA exercised its entitlements stipulated in the provisions of Article 26 (7) of the Act and provided the KKN with recommendations concerning inspections in entities authorized to audit financial statements conducting financial audit activities in public interest entities, as well as in the other entities referred to in Article 26 (3) item 2 of the Act. The recommendations concerned the contents of the reports from inspections. In the 4th quarter of 2010, the KNA refused to approve 4 reports from inspections carried out by the KKN in entities authorized to audit financial statements conducting financial audit activities in public interest entities (due to the fact that their contents did not comply with the provisions of Article 27(2) of the Act), and returned them to the KKN in order for them to be prepared in accordance with the aforementioned recommendations. By the end of 2010, the Bureau of the KNA had not received from the KKN adjusted reports from inspections prepared in accordance with the KNA's recommendations.

In 2010, the KNA did not carry out any inspection referred to in Article 74(1) and (2) of the Act, i.e. inspections carried out in case of being notified of any irregularities, based on a registered authorization granted by the KNA to employees of the Bureau of the KNA.

The KNA undertook, however, measures aimed at developing documents used to carry out such inspections. Those documents constitute attachments to the inspection procedures in the framework of tasks performed by the KNA in the area of quality assurance system, adopted by the KNA.

The measures undertaken by the KNA in 2010 in the framework of the quality assurance system aimed at developing solutions which would enable efficient functioning of the system in practice, and focused on facilitation of activities undertaken in that area by the self-government.

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 5 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 Act on Accounting and those adopted in relation of its execution in the regulation of the Minister of Finance of 12 December 2001 on detailed rules for recognition, valuation, scope of disclosure and the manner of presentation of financial instruments, and item 13 of norm no. 1 related to performance of the statutory auditor profession.

In 2010, the KNA examined 197 decisions sent by the KSD which were adopted in relation to statutory auditors and one ruling of the Chairperson of the KSD on refusal to accept an appeal lodged in relation to a decision of the Vice-President of the KRD on discontinuation of explanatory proceedings and refusal to institute disciplinary proceedings.

The aforementioned decisions related to:

- 149 cases of failure to comply with the obligation of obligatory professional training of statutory auditors in the training cycle 2007/2008,
- 23 cases of failure to comply with the obligation of obligatory professional training of statutory auditors in 2009,
- 15 cases referred to by the KKN,
- 10 cases included in the other category.

The KNA submitted to the KSD one application for correcting an obvious editing misprint in a decision, pursuant to Article 105 of the Act of 6 June 1997 of the Code of Criminal Procedure.

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. In 2010, the KNA did not find any grounds to exercise this entitlement.

In three cases, the KNA exercised the provision of Article 42 of the Act, requesting the KSD to forward the case files once final disciplinary decisions had been received.

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 14 cases, authorizing employees of the Bureau of the KNA to participate in the trials.

The aforementioned trials concerned, among others:

- violation of the rules for proper performance of the profession and effective procedures related to financial statements audit,
- issuance of an opinion without documentation of the conducted activities,
- failure to meet deadlines for crediting the KIBR with fees for oversight,
- lack of obligatory third party insurance of an entity authorized to audit financial statements,
- errors and irregularities in the opinion and report from audit of financial statements,
- issuance of an opinion when selection of a statutory auditor was made in an incorrect way,

- documentation from an audit of financial statements does not meet the relevant requirements,
- failure to comply with the obligation to maintain a register of concluded agreements and decisions as regards quality control.

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 KRBR and KSD in 2010, 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.

Furthermore, the KNA requested the President of the KRBR to provide explanations as to the procedures in accordance with which information concerning penalties imposed by the KSD referred to in Article 31(2) items 4 and 5 of the Act are disclosed on the KIBR's website.

Members of the KNA started also discussion on the preliminary compilation on the KNA's entitlements as regards disciplinary procedure against statutory auditors presented by the Bureau of the KNA. The final project will be provided to be accepted by members of the KNA at one of meetings held in 2011.

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

In April 2010, the KNA became acquainted with the reports on the activities of particular bodies of the KIBR in 2009, taking into consideration their content in the report of the KNA for that year.

The KNA carried out ongoing controls of resolutions submitted by the self-government bodies, in the framework of oversight of the activities of the statutory auditors' self-government. The subject of the debates of the KNA in 2010 were 2170 resolutions of the KIBR, 10 resolutions of the KKN, one resolution of the KKR and 6 resolutions of the Extraordinary Assembly of Statutory Auditors (NKZBR).

In 2010, the KNA approved, pursuant to Article 72 of the Act, 18 resolutions of the self-government bodies, including 4 resolutions of the KKN, 13 resolutions of the KRBR and one resolution of the NKZBR. It raised objection as regards 2 resolutions of the KRBR.

Moreover, acting pursuant to Article 64(1) item 5 of the Act, the KNA adopted resolutions concerning the appeals of 229 resolutions of the KRBR, 2 resolutions of the KKN and one resolution of the KKR 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 three cases, it was necessary for the KNA to submit complaints to the court (it regarded the resolution no. 3260/48/2010 of the KRBR of 24 August 2010 on the refusal to re-entry in the register of statutory auditors, which, according to the KNA violated the law). Two more complaints concerning the resolution no. 1 and 2 of 24 November 2009 on the principles of determining the membership fees of statutory auditors and on the basic principles of the financial management of the KIBR were lodged. Both challenged resolutions of the NKZBR were repealed after the debates of the Assembly had been resumed (after a four-month break). However, the deadline for lodging the appeals lapsed.

In 2010, the KNA examined 10 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 were applicable. In 8 cases, a decision or resolution finalizing the case were made (in 3 cases, the appeal procedure was discontinued due to its irrelevance, in 2 cases the challenged resolution of the KIBR was repealed and the procedure of first instance was discontinued, in 1 case the resolution of the KRBR was upheld, in 2 cases the violation of the deadline to lodge the appeal was stated, and, additionally, in 1 case a decision on refusal to state the invalidity of the resolution was made). In 2010, two decisions of the KNA were challenged by a party to the administrative court proceedings (the court did not examine the cases in 2010).

In 2010, the KNA also examined one appeal against the standpoint of the KIBR concerning the demand for justifying the decision on initiating the administrative procedure as regards the deletion from the register of statutory auditors, stating the inadmissibility of the appeal (the court dismissed the party's appeal against this decision) and one complaint concerning the inactivity of the KRBR (the KNA treated the complaint as an appeal concerning the failure to settle the matter within the specified deadline pursuant to Article 37(1) of the Code of Administrative Procedure lodged to the public administration body, which was deemed unjustified).

In 2010, the courts adjudicated in four cases regarding the activities of the KNA:

- In one case, the Regional Administrative Court, taking into consideration the appeal against the decision of the KNA of 28 August 2009 on upholding the resolution no. 907/27/2009 of the KRBR of 23 June 2009 on the refusal to entry in the register of statutory auditors, repealed both the challenged decision of the KNA and the resolution of the KRBR no. 907/27/2009 of 23 June 2009 on the refusal to entry in the register of statutory auditors. The Court stated that they are not subject to execution. The KNA made the decision that, due to the procedural dynamics and in order to re-examine the party's request, the cassation appeal should be withdrawn and the judgment should be submitted to KRBR.¹³
- In case in which a joint appeal of the Audit Oversight Commission and the Ministry of Finance was lodged on 21 December 2009 (by which, pursuant to Article 367(1)(2) of the Code of Administrative Procedure, the judgment of the District Court in Warsaw of 28 November 2009, partly dismissing the statement of claim as regards the reversal of resolution no. 558/22/2009 of the National Council of Statutory Auditors of 17 March 2009 on the request to enter the entities authorized to audit financial statement in the list, and partly specifying the procedure costs), the Court of Appeal acknowledged the appeal.
- Due to the fact that the NKZBR repealed the resolution no. 1 and 2 of 24 November 2009, the Regional Administrative Court examined merely the request for awarding the proceedings costs included in two complaints of the KNA. In both cases, the Court adjudicated that the NKZBR reimburses the costs of the legal proceedings towards the KNA.

¹³ The KRBR adopted new resolution as regards this matter (resolution of 1 June 2010 no. 2141/44/2010 on the refusal to entry in the register of statutory auditors, which was subsequently challenged by the KNA to the administrative court pursuant to Article 64(1) item 5 of the act and was subject of the party's appeal. Due to the proceedings, the case was not validly finalized in 2010.

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

In 2010, the KNA carried out the control of the procedure of entering statutory auditors in the register and the list and deleting authorized entities from the list, applied by the KRBR. Therefore, a random control of the documentation being the basis for the KRBR to adopt resolutions concerning the entry was performed. The representatives of the KNA participated in the session of the commission for registration and of the KRBR concerning the discussions of agenda as regards keeping the records. The conclusions from the analysis of procedures being applied by the KRBR were discussed at the session of the KNA and submitted to the KRBR at the beginning of 2011 in form of remarks. The KRBR has not notified about the manner of introducing the remarks of the KNA to the above mentioned procedure.

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

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 2010, sessions of the EGAOB were organized merely twice. The representatives of the KNA participated in both sessions that took place on 15 April 2010 and 19 July 2010. The most important subjects of these meetings covered the cooperation with public oversight bodies from third countries and the strengthening of the cooperation between public oversight bodies within the EU.

Apart from the plenary sessions, working meetings in subgroups are organized within the framework of the EGAOB. In 2010, the representatives of the KNA joined the works of the subgroup for inspections and the subgroup for third countries. A representative of the KNA participated in the subgroup meetings on 17 June and 6 October 2010. The meetings covered subjects connected with the International Standards on Auditing, arrangements made on the basis of executed inspections as regards the International Standard on Quality Control 1, as well as identifying the reasons for irregularities when carrying out the financial audit.

Moreover, due to the consultative document – *Green Paper on Audit Policy* published by the European Commission on 8 October 2010: *Lessons learned from the crisis* and the need to discuss this matter, a special meeting of the EGAOB members was organized on 24 November 2010. The KNA delegation headed by the Chairperson also took part in the meeting.

The KNA devoted much attention to consultations regarding the Green Paper and prepared its stance in relation to matters brought up therein. The response of the KNA to the question included in the Green Paper was submitted to the European Commission.¹⁴

International Audit Regulatory Institute PCAOB conference

The delegation of the KNA managed by the Chairperson of the Commission participated in the annual *International Audit Regulatory Institute* conference organized by the PCAOB – an American public oversight body in Washington on 9-11 November 2010. Apart from the cognitive aspect and the possibility of exchanging experiences, 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. One of the results of the discussions was to signal the interest in the commencement of negotiations with the KNA. Their aim would be to conclude an agreement regulating the transfer of documentation and carrying out joint inspections.

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 fulfillment 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.

The most important activities undertaken in 2010 within the SPPW in view of the KNA functioning included:

- Workshops addressed to the KNA members that were organized on 22 September 2010 in the Ministry of Finance. The representatives of public oversight bodies from Germany, Switzerland and Great Britain presented their experiences and best practices as regards the oversight.

¹⁴ Position of the KNA as regards the Green Paper is available on the website:
http://www.mf.gov.pl/files/bip/kna/zielona_ksiega.pdf.

- Works on the possibility of financing from the SPPW funds the development and implementation of IT systems, which could support the functioning of the KIBR and the KNA, and creating the website of the KNA.

The membership of the KNA in IFIAR

The IFIAR is a global cooperation forum of coordination nature and operates in accordance with the voluntariness principle. The members of the IFIAR are public oversight bodies from several dozen countries, including 18 EU Member States. The main aim of the organization is to enable their members to exchange the knowledge concerning matters connected with the activities of statutory auditors and entities authorized to audit financial statements. It serves also the exchange of experiences related to practical aspects of functioning of the public oversight bodies of statutory auditors and entities authorized to audit financial statements. Standpoints of the organization are not legally binding for their members.

The decision to access IFIAR was adopted at the session of the KNA on 3 December 2010. The request for the IFIAR membership which will be submitted in 2011 was also prepared. According to predictions, the membership fees will be financed by the SPPW funds in the initial period of the KNA membership in IFIAR (at least until 2013). In subsequent years (after 2013) the membership fee towards IFIAR will be financed by budgetary funds allocated for the functioning of the KNA.

The development of the registration procedure of statutory auditors and entities authorized to audit financial statements from third countries

Pursuant to Article 95(1) of the Act, the KNA is the body keeping the register of statutory auditors from third countries and the list of entities authorized to audit financial statements from third countries.

In 2010, the KNA did not receive any request for the entry in the register or on the list.

Due to the possibility of requests for registering statutory auditors and auditing firms from third countries, the initial registration procedure, which had been subject to discussions at the KNA session on 19 August 2010, was developed. As the result of the analysis of KNA members' remarks, new version of registration principles and procedures was prepared. The KNA is supposed to finally accept the version in 2011.

Other activities of the KNA as regards public oversight

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/WE, 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. The KNA carried out random control of the conformity of the published reports' content with applicable law. As a result of the audit, the KNA requested the Chairperson of the KIBR that the KRBR provides all entities authorized to audit financial statements carrying out financial audit in public interest entities, with the recommendations

concerning the manner of fulfilling the obligation to publish the information on the web site pursuant to Article 88 item 1a)-j) of the Act.

The KRBR, bearing in mind the remarks of the KNA, made, at the meeting on 8 March 2011, the 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 statements¹⁵

Activities of the KNA aimed at standardizing the obligation to apply the provisions of Article 64(4) of the Act on Accounting

In 2010, the KNA devoted its attention to the selection of the statutory auditor to audit the financial statement in agencies created on the basis of provisions of acts and regulations specifying detailed principles of the financial management of the agency, which is contradiction to regulations included in Article 66(4) of the Act on Accounting.

Due to the amendment of Article 105 item 2b) of the Act, the entity authorized to audit financial statements should be selected by the body approving the financial statement of the firm, unless the statutes, agreement or other binding provisions of law stipulate otherwise, and the firm's management board can not select such an entity.

The above mentioned regulation takes into consideration the fact that the aim of the financial statement audit is to give an impartial and independent opinion on the financial statement the preparation of which the firm's manager is responsible for.

The KNA assumed that the provisions of the acts regulating the issue of creating agencies and regulations specifying detailed principles of the agency financial management which set forth the principles of selecting the entity authorized to audit financial statement, should be adopted to applicable provisions of the Act on Accounting.

Therefore, on 19 August 2010, members of the KNA adopted the resolution regarding the letter to be submitted to competent ministers supervising the agencies as regards the necessity to adopt the provisions regulating the selection of the entity authorized to audit financial statements in agencies which are obliged to audit financial statements to provisions of the Act on Accounting.

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 termination¹⁶.

Due to the provisions of this Article, the KNA received information on termination of the agreement on a current basis. A number of entities submits appropriate information late, and do not explain the reasons for failing to fulfill the obligation under Article 66(7) of the Act on Accounting. Therefore, in some cases, it was necessary to send letters with the request for completing the information or additional explanations.

¹⁵ http://www.kibr.org.pl/pl/komunikaty_krbr.

¹⁶ 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 main reasons for termination of the agreements, which the parties referred to, are the economic issues and decisions made by the parties as regards the change of a statutory auditor or investment changes made in the companies. In few cases, the lack of the possibility of meeting the audit deadlines set forth in the agreement or the request for the company's insolvency were indicated as the reason. So far, all entities have confirmed that the reason for the agreement termination was not the difference in the opinions on the application of accounting principles or financial audit standards.

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.

Other activities

In 2010, the KNA became acquainted with the following materials prepared in the Financial Supervision Authority Office:

- Results of the analysis of the audit of consolidated financial statements and financial statements of issuers of securities, including the correctness of disclosures in annual financial statements for the previous financial year prepared in accordance with the IFRS,
- The role of a statutory auditor in detecting frauds and abuses of law under the International Standards on Auditing (ISAs),
- Information on auditing financial statements of SKOK (credit union) by statutory auditors.

These elaborations were useful in implementing the action plan of the KNA for 2010 and will be used in further works, e.g. while developing the recommendations or guidelines of the KNA.

The operations included in the action plan of the KNA for 2010, i.e. supporting the adopting of ISAs and supporting the activities of competent bodies aiming at adopting the IFAC code of ethics, will be implemented in wider spectrum in 2011.

4. THE ACTIVITIES OF THE BODIES OF THE NATIONAL CHAMBER OF STATUTORY AUDITORS IN THE FRAMEWORK OF PUBLIC OVERSIGHT IN 2010¹⁷

The scope of competences of the public oversight of audit activities in Poland that have been entrusted to the self-government of statutory auditors is broader than in many other EU countries. The approval of such solution is connected with the increased responsibility of the KIBR and the expectation that these tasks will be performed in the best possible manner.

The initial period after the new Act came in force has shown certain organizational weaknesses of the self-government reflected in, among others, delays in adopting acts of systemic character, e.g. national standards on auditing or difficulties in employing the inspectors. However, it should be emphasized that the self-government bodies undertake activities aiming at improving their own standards. It is alarming that, despite the regulations included in the KIBR' Statutes, the bodies of the KIBR (the KKN, KKR and KRBR) did not have bye-laws concerning their activities.¹⁸ This situation impeded the ongoing operations of the self-government, and, as a result, negatively influenced the performance of tasks regarding public oversight.

Taking into consideration the main goal, which is to achieve the highest quality of financial audit, the oversight body and the self-government bodies should develop harmonious cooperation principles, as far as it is possible in relations of the supervisor and the supervised.

Activities of the KKN

The KKN, as the body of the KIBR performs tasks regarding the quality assurance system, i.e. supervises the observance of the law and procedures related to audit activities of statutory auditors and entities authorized to audit financial statements.

In the first half of 2010, the KKN prepared inspection documents in the framework of the quality assurance system: protocol models as regards the inspections carried out by inspectors and reviewers, extra-curricular inspection protocols, notifications on the intent to perform the inspection, declarations on independency as well as the inspection report and post-inspection statement.

In 2010, 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(2) item 2 of the Act, inspections, prepared by the KKN according to principles applicable in the Act, were carried out by 64 reviewers and 4 inspectors. 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. It is to be emphasized that the inspection plans were updated in the fourth quarter of 2010, in order to

¹⁷ The activity report for 2010 prepared by the KKN, KRD, KSD and KRBR can be found on the Public Information Bulletin of the Ministry of Finance website in the tab concerning the KNA.

¹⁸ Resolution no. 1/2010 of the KKR of 9 November 2010 on the regulations of the National Internal Audit Committee's operations and the resolution of the KKN. 25/50/2010 of 17 August 2010 and no. 27/53/2010 of 14 October 2010 on the regulations of the National Supervisory Committee's operations were challenged by the KNA and referred to the administrative court (summons for removing the violation of law were sent to the KIBR's bodies, as a result of which, the challenged acts were repealed by these bodies). The KRBR did not adopt its regulations by the end of 2010.

adapt them to actual possibilities of carrying out the inspections, in 1/3 of the entities less than it had been assumed in the original inspection plan. The planned number of inspections of entities carrying out financial audit activities in public interest entities decreased from 23 to 8. On the other hand, the inspection plan for the remaining entities, which primarily covered 305 entities, was limited, after the update, to 126 entities.

The first inspection carried out by the KKN according to principles applicable in the Act, began on 15 July 2010 in the office of the inspected entity authorized to audit financial statements carrying out audits of public interest entities. 8 entities authorized to audit financial statements carrying out financial audit activities in public interest entities, including one entity from the so called "Big Four" were inspected until the end of 2010. When carrying out the inspection, the KKN analyzed 60 audit work documentations, including 26 documentations concerning the auditing of public interest entities, 25 of them regarded issuers of securities admitted to trading on the EU regulated market, excluding self-government units having their registered offices within the territory of the Republic of Poland.

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),
- preparing the statements and information referred to in Article 49(3), Article 87(1), Article 88 item 1 of the Act,
- keeping a record of contracts on audit services and other financial review services,
- 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 no. 1378/32/2009 of the KRBR,
- discrepancies between the hourly rate set forth in the principles developed by the entity regarding the remuneration for services and the rate applied to calculate the actual service price.

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

- improper performance of tasks set forth in the Act as regards: Article 56 (concerning the declarations on independence),
- the methodology of financial statements auditing, i.e. the lack of audit proofs in respect to certain financial statement key areas, 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 justification, in the audit work documentation, of the presentation corrections not included in the financial statement exceeding the significance level established by the key statutory auditor, 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,
- significant deviations between the planned labor-consumption included in the audit plan and the one resulting from the price calculation to the concluded agreement.

Three out of eight 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.

The KKN addressed four post-inspection statements to entities authorized to audit financial statements auditing public interest entities. Another four post-inspection statements were being prepared in 2010.

Within the scope of inspections carried out in 2010 in entities authorized to audit financial statements auditing public interest entities, the KKN did not submit or does not plan to submit requests to the KRD regarding initiating disciplinary proceedings against the statutory auditor, or requests to the KRBR referred to in Article 27(1) item 3 of the Act in relation to Article 27(3) of the Act.

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 114. As a result of the audits carried out by the reviewers under the supervision of the KKN members, irregularities were stated in 91 entities. The irregularities concerned:

- the lack or failure to perform obligations within the specified deadline resulting from the Act as regards: Article 50 (concerning the failure to fulfill the obligation to insure one area of the activities, infringements found in the insurance policies), Article 49 (submitting the report on the entity activity), Article 52(2) (settlements of the oversight fees),
- 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.

The result of the inspections was the KKN's request submitted to the KRD for initiating disciplinary proceeding against one statutory auditor as well as a request submitted to the KRBR for initiating administrative proceeding against two entities.

In 2010, the KKN received 15 complaints. Three of them were submitted to the KRD, and in three cases the initiation of preliminary investigation was denied due to formal reasons (because they were not included in the scope of competences or possible activities of the KKN). Preliminary investigation had been initiated as regards 7 complaints which were clarified and the KKN accepted motions without the need to initiate the intervention inspections. On the other hand, the examination of two complaints resulted in the decision to initiate the inspection proceedings in the second half of 2010 (due to formal reasons the inspections were postponed for 2011).

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 2010, the KRD and his deputies conducted 932 cases (over 20% more than in 2009), 262 of them were submitted to the disciplinary court along with the accusation act and motions for penalty (in 2009, 71 such cases were submitted). The KRD conducted 193 cases that had not been resolved in previous years.

In 2010, the KRD issued 502 decisions, including 325 on the completion of investigation proceedings and refusal to initiate disciplinary investigation, as well as 177 decisions concerning the discontinuation of disciplinary investigation.

As of 31 December 2010, 160 cases were pending before the KRD.

Significant majority of motions (882) for initiating the disciplinary proceedings was submitted to the KRD by the KRBR (more than 94%). They regarded mainly statutory auditors who failed to fulfill the obligation to participate in the obligatory professional training in the 2007/2008 educational cycle. The remaining motions were submitted to the KRD by: the KKN (9 motions), the KNA (5 motions), economic units (11 motions), statutory auditors (1 motion), entities authorized to audit financial statements (2 motions), natural persons (19 motions), and other units (3 motions).

Bearing in mind the legal qualifications, the most frequent charges being the basis for the KRD to file the motions for penalty were:

- the failure to take part in the obligatory professional training being the violation of Article 12(1) item 2 and 3 of the Act of 13 October 1994 on statutory auditors and their self-government (Journal of Laws no. 31 item 359 as amended) and item 5.3 of the Code of Ethics of the Statutory Auditors,
- improperly made fees and the lack of the civil liability insurance of entities, as the violation of Article 12(1) item 3 and Article 12(3) of the Act of 13 October 1994 on statutory auditors and their self-government,
- non-questioning by statutory auditors the financial statements, additional information and activity reports improperly prepared and/or not signed by persons specified in Article 52 of the Act on Accounting. In some cases, the inspection was carried out in spite of the statutory auditor being chosen by other body than the one which was to approve the statement, i.e. in breach of Article 66(4) of the Act on Accounting (the infringements accepted by the statutory auditors in the course of the inspection in relation to the violation of the Act on Accounting provisions were the evidence of the failure to observe the provisions of the rule no. 1 - professional activity of the statutory auditor),
- the violation of the Code of Ethics of Statutory Auditors in item 2.2, 2.3, 5.1, establishing the obligation to render services in accordance with the competences, specialist knowledge, integrity and diligence, and in item 7.1, 7.3, 7.4 as regards maintaining the independence,
- the failure to develop and implement the quality assurance principles pursuant to item 17 and 18 of the rule no. 5 - professional activity of the statutory auditor,
- violations of Article 66(2) item 2 of the Act on Accounting concerning the independence,
- the failure to fulfill obligations set forth in the rule no. 1 and no. 5 – professional activity of statutory auditor, and the ethics principles specified in item 2.2, 5.1 and 3.1 of the Code of Ethics of Statutory Auditors, pursuant to which the scope of ethics is applicable to the statutory auditor irrespective of the place and nature of employment.

In 2010, the KRD organized four meetings with his deputies, during which principles regarding the disciplinary jurisdiction were being discussed. Drafts of provisions and regulations of the course of disciplinary proceedings before the Spokesperson and procedures relating to conducting disciplinary investigation were also adopted. A working meeting took place as well and was organized by the KSD and the KRD, at which the principles of applying

previous and new principles in proceedings before the KSD and the KRD as well as basic rules of conducting investigation procedures.

In 2010, the KRD submitted 262 motions for penalty. The Court found the guilt of 233 of the accused (89%), which proved that the evidence had been properly gathered and the motions duly prepared.

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, independency and professional ethics principles. The KSD has one instance and comprises three members. The appeal against the decisions of the KSD can be lodged to a district court – labor and social insurance court as the court of first instance, competent locally for the accused' place of residence.

In 2010, the KSD issued 197 decisions. Disciplinary penalties imposed by the court were, among others, admonitions (in 93 cases), and reprimands (in 50 cases). In the previous year, the disciplinary penalty in form of prohibition of carrying out financial audit for one year has been adjudicated twice. It is to be emphasized that in case of a penalty for several disciplinary offences, the Court imposed penalties for particular offences and a joint penalty. In situations when there were several accused in one case, a different penalty was imposed for each accused person.

Pursuant to Article 37(4) of the Act, the accused, prior to the proceeding' initiation before the KSD, can apply for voluntary submission to penalty. In the proceedings before the Court, such situation occurred in 6 cases. In one case, the Court did not agree to apply such procedure.

Pursuant to Article 41 of the Act, the parties to the proceedings shall be entitled to lodge an appeal against the decisions of the KSD to a district court – labor and social insurance court as the court of first instance, competent locally for the accused' place of residence, within 14 days as of the delivery of the decision along with the justification. Such appeals were lodged four times, and their subjective scope regarded:

- the failure to fulfill the obligation of obligatory professional training of statutory auditors in 2007-2008 educational cycle, in two cases,
- the scope of methodology of auditing financial statements.

These appeals will be resolved in 2011.

Activities of the KRBR and the NKZBR

The first part of the NBZBR was organized in Jachranka near Warsaw on 23-24 November 2009. The principles of determining statutory auditors' membership fees and basic rules of the KIBR's financial management were established at the meeting. At the same time, the NBZBR decided to announce a break of its debates, due to numerous corrections as regards the KIBR's statutes, and to prepare a proper draft of the document. The NKZBR's debates were resumed on 21-22 March 2010. At that time, the participants of the Assembly adopted the KIBR's statutes and, taking into account the KNA's calls for removal of the violation of law, the principles of determining statutory auditors' membership fees and basic rules of the KIBR's financial management were established.

In 2010, the KRBR performed tasks as regards the public oversight, in particular in the framework of:

- register of statutory auditors and entities authorized to audit financial statements,
- the recruitment of candidates for statutory auditors,
- obligatory professional training of statutory auditors,
- national standards on auditing,
- professional ethics of statutory auditors,
- disciplinary proceedings for statutory auditors,
- annual fee on the account of oversight.

Particularly important activities of the KRBR concerned, in the first half of 2010, adopting systemic resolutions (delayed because the resolutions ought to have been adopted by 6 December 2009) requiring to be adopted to the new act, regarding in particular the recruitment procedure, the regulations of disciplinary proceedings (the KRBR's resolution no. 1619/38/2010 of 16 February on the Regulations of disciplinary proceedings against statutory auditors), or the national standards on auditing (KRBR's resolution no. 1608/38/2010 of 16 February 2010 on national standards on auditing).

It is worth noticing that, due to the delays in adopting the KIBR's statute, doubts arose as regards the effectiveness of the resolutions being adopted by the KIBR's bodies, including in particular the ones adopted by the KRBR (pursuant to Article 118(2) of the Act, in context that the resolution no. 1 of 29 June 2003 of the 5th Assembly of Statutory Auditors on the KIBR's statute ceased to be in force, as the resolution of the KIBR's body which requires to be adopted to the provisions of the Act, as well as in the context of the failure to adopt new KIBR's statute). Following the interpretation of the objectives of the provisions, the KNA assumed, during the session on 7 January 2010, that in view of the fact that the procedure of adopting the resolutions by the KRBR had not been included in the Act, the resolutions of this body should be adopted with absolute majority of votes by all members of the given body, what the KRBR was notified about.

In spite of such opinion of the KNA, on 9 March 2010, the KRBR adopted resolution no. 1622/39/2010 on temporary principles of the KRBR's session, regulating, among others, the procedure of adopting resolution by the KRBR with the lack of the statute.

Due to the fact that the resolution was not adopted in the procedure recommended by the KNA in case of the lack of the statute (threatened public interest, widely understood as a conduct directive ordering to respect values common for the whole community, such as executing the intent of the legislator), the KNA decided to appeal against the resolution to the administrative court, upon requesting the KRBR to eliminate the violation of law. The KRBR obeyed the request of the KNA. As a result, the KRBR repealed resolutions adopted at the session of the KRBR on 9 March 2010 in the procedure of the resolution no. 1622/39/2010 challenged by the KNA.

The approval of the KIBR's statute by the KNA resolved the problem of the procedure of adopting resolutions by the KRBR, however the previous lack of the KIBR's statute made the functioning of this body difficult and negatively influenced the performance of tasks as regards the public oversight.

Acting pursuant to Article 64(1) item 5 of the Act, the KNA adopted resolutions on the appeal against 229 resolutions of the KRBR. The KRBR did not obey the summons for the elimination of the violation of law merely in one case. Therefore, it was necessary for the KNA to submit the complaint to the administrative court (it regards resolution no.

3260/48/2010 of the KRBR of 24 August 2010 on refusal to re-entry in the register of statutory auditors, which, according to the KNA, violated the law).

In 2010, the KNA approved 13 resolutions of the KRBR, and raised objections in case of 2 resolutions of this body (the resolution amending the resolution on the thematic scope and the minimum number of hours of the obligatory professional training for statutory auditors violated provisions of the act, whereas the resolution amending the resolution on the rules of obligatory professional training for statutory auditors threatened the public interest).

5. THE ACTION PLAN OF THE AUDIT OVERSIGHT COMMISSION FOR 2011

1. Conducting activities aimed at ensuring appropriate quality of the statutory auditor profession and systems of quality assurance in entities authorized to audit financial statements, including, in particular, auditing public interest entities through, 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 of 7 May on statutory auditors and their self-governmental bodies, entities authorized to audit financial statements and public oversight*;
 - approval of reports regarding inspections carried out by the inspectors of the KIBR in entities authorized to audit financial statements auditing public interest entities and the analysis of irregularities stated in these reports and/or reports from their own inspections carried out by the KNA.
2. The analysis of the uniformity in the execution of statutory auditors' disciplinary liability on the basis of decisions of the KSD and conclusions from the participation of authorized employees of the KNA Office in selected trials before the National Disciplinary Court.
3. The oversight of the statutory auditors' self-government activity, 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 procedures of the KRBR with the Act and the statutes;
 - assessment of the conformity of the activity procedures of the KKN with the Act and regulations;
 - assessment of the conformity of the activity procedures of the KRD and KSD with the Act and the disciplinary procedure regulations.
4. The control of the procedure of granting the statutory auditor authority, including the approval of resolutions of the KRBR 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.
5. The control of the manner of fulfilling the information obligations pursuant to Article 88 of the *Act of 7 May 2009 on statutory auditors and their self-government, entities authorized to audit financial statements and public oversight*, by entities carrying out the financial audit in public interest entities.
6. Conducting activities aimed at ensuring uniform principles of the statutory auditor profession 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 disseminating and 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,
7. Conducting 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.
 8. Developing international cooperation, including, in particular:
 - informing foreign partners on the role and activities of the KNA as the public oversight body;
 - 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 from the EU and third countries, in particular:
 - ✓ the EU countries – in order to use the experiences in organizing oversight, registration of statutory auditors and auditing companies from third countries and carrying out the inspections of audit firms;
 - ✓ the USA (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 auditing companies 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;
 - ✓ by gaining the membership in International Forum of Independent Audit Regulators (IFIAR).
 9. The implementation of the registration procedure of statutory auditors and entities authorized to audit financial statements from third countries.
 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.
 11. The overview of procedures relating to the inspections within the framework of quality assurance system implemented by the KNA and the KKN.

12. Conducting activities aiming at implementing the IT system to support the operations of the KNA.
13. Ongoing realization of tasks specified in the Act.

6. LIST OF ABBREVIATIONS

ABBREVIATION	FULL NAME
EGAOB	European Group of Auditor's Oversight Bodies
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)
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)
MF	Ministerstwo Finansów (Ministry of Finance)
MSRF	Międzynarodowe standardy rewizji finansowej (International Standards on Auditing)
NKZBR	Nadzwyczajny Krajowy Zjazd Biegłych Rewidentów (Extraordinary Assembly of Statutory Auditors)
PCAOB	The Public Company Accounting Oversight Board
SPPW	Szwajcarsko - Polski Program Współpracy (Swiss-Polish Cooperation Program)
EU	European Union

7. 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, hereinafter referred to as the 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.