



REPORT

FOR

2017

Warsaw, 22 May 2018

Pursuant to Article 90(5) of the *Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight* (Journal of Laws item 1089 as amended), the Audit Oversight Commission shall publish the report for the preceding year on its website by 31 May of the following year.

Mission and vision of the Audit Oversight Commission

Mission

Relying on the professional knowledge and experience, tested methodology and international standards, the Audit Oversight Commission provides independent oversight of statutory auditors, audit firms and self-government of statutory auditors.

The Audit Oversight Commission cares for correct auditing of financial statements, in particular, key economic entities.

Vision

The Audit Oversight Commission focuses its activities on building trust to financial information.

Acting in the public interest, the Audit Oversight Commission strives to ensure the highest quality and reliability of financial statement audits.

Accordingly, the Audit Oversight Commission contributes to the protection of investors' interest, accuracy of activity of key economic entities and security of economic trade.

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Introduction

In 2017, significant changes in the system of public oversight of statutory auditors and audit firms occurred. Since 21 June 2017, the new *Act on Statutory Auditors, Audit Firms and Public Oversight* has been applicable. Pursuant to the Act, new tasks have been entrusted to the Audit Oversight Commission. The AOC direct oversight covered statutory audits of public-interest entities (these activities were formerly performed by the professional self-government of statutory auditors under the supervision of the AOC). In this scope, the AOC directly supervises statutory auditors and audit firms; it conducts inspections and imposes potential penalties.

Enhancing the oversight of statutory audits of public-interest entities is important due to the fact that the PIEs, i.e. such entities as listed companies, banks, insurance companies, are of key importance for the economy as well as the security and stability of the financial sector.

In accordance with the first list of audit firms which carried out the statutory audit of PIEs in the previous year, published by the AOC in 2017, 93 audit firms out of 1563 audit firms registered in Poland were subject to the direct oversight of the AOC. In 2017, 80 audit firms carried out statutory audits of financial statements of 1295 PIEs.

2017 was a transitional period for the system of public oversight of statutory auditors and audit firms. Tasks resulting from the previous *Act on Statutory Auditors* were continued. At the same time, in connection with the new tasks, the AOC and the National Chamber of Statutory Auditors have taken many systemic decisions and initiated oversight activities.

Inspections in audit firms represent a key element of the public oversight system. They may result in imposing penalties on statutory auditors and audit firms. In the first half of 2017, based on the previous regulations, the AOC supervised inspections and the process of imposing sanctions implemented by the PCSA, in particular in the scope statutory audits of PIE financial statements.

At the same time, activities were undertaken in the scope of preparation and implementation of inspections conducted directly by the AOC:

- a team of inspectors and other specialists was built in the AOC Office located at the Ministry of Finance;
- system solutions supporting exercising of the oversight were developed, including those related to planning and conducting inspections in audit firms, monitoring of the process of controlling and collecting information on audit firms;
- inspection methodology and inspection procedures were developed;

- the inspection plan of audit firms performing the statutory audit of PIEs for 2017/2018 was prepared (it was established that the AOC annual inspection plans will cover periods from 1 July of a given year until 30 June of the following year);
- implementation of the AOC inspections was launched.

The AOC monitored activities of the National Council of Statutory Auditors, a body of the PCSA in the scope of adopting key regulations regarding, inter alia, standards of performance of the statutory auditor profession, classification procedure for candidates for statutory auditors, entering and striking off statutory auditors and audit firms, in-service training of statutory auditors.

Despite the permanent monitoring by the AOC, until the end of 2017 the AOC was not provided with new resolutions in the scope of performing the profession, quality control standards and professional ethics rules of statutory auditors to replace former regulations, becoming ineffective as of 21 March 2018, pursuant to the new Act. This has posed a threat that the new resolutions will not be approved by the AOC within the time limit allowing for maintaining the continued application of the standards.

Presenting by the NCoSA of the resolution stipulating the application of national auditing standards (700 (Z), 701, 705 (Z), 706 (Z), 720 (Z), 260 (Z), 570 (Z)) in the wording of currently effective international standards issued by the IAASB to audits of financial statements for the period ending on 31 December 2018 or later, should be recognised as a positive development. The AOC presented its objections regarding this resolution in December 2017.

The AOC takes the stance that the NCoSA should strive to adjust the entire national standards of performing the profession to the currently binding international standards issued by the IAASB as soon as possible.

The AOC enhanced its cooperation with the Polish Financial Supervision Authority in connection with granting it the competence in the scope of oversight over the process of selecting audit firms performing audits of financial statements by public-interest entities and over the activity of audit committees established and operating in the PIEs. In 2017, areas of cooperation between the AOC and the FSA were determined and first activities in the scope of their implementation were undertaken.

List of abbreviations

ABBREVIATION/ ACRONYM	FULL NAME
AQI	Audit Quality Indicators
CEAOB	Committee of European Auditing Oversight Bodies
<i>Directive 2014/56/EU</i>	<i>Directive 2014/56/EU amending Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts</i>
EGAOB	European Group of Auditor's Oversight Bodies
ESMA	European Securities and Markets Authority
WSE	Warsaw Stock Exchange
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
PIE	Public Interest Entities
NAOC	National Audit Oversight Committee
NIAC	National Internal Audit Committee
AOC	Audit Oversight Commission
FSA	Financial Supervision Authority
Examination Committee	Examination Committee for Candidates for Statutory Auditors
NCoSA	National Council of Statutory Auditors
NDS	National Disciplinary Spokesman
NDC	National Disciplinary Court
NSAs	National Standards on Auditing
MF	Ministry of Finance
ISQC 1	International Standard on Quality Control 1
IASs	International Standards on Auditing

MIST	Mandatory in-service training
PCAOB	Public Company Accounting Oversight Board
PCSA	Polish Chamber of Statutory Auditors
<i>Regulation (EU) no 537/2014</i>	<i>Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities</i>
SCUs	Savings and Credit Unions
EU	European Union
<i>Act on Statutory Auditors</i>	<i>Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws, item 1089 as amended)</i>
<i>Former Act on Statutory Auditors</i>	<i>Act of 7 May 2009 on Statutory Auditors and Self-Government Thereof, Entities Authorised to Audit Financial Statements, and Public Oversight (Journal of Laws of 2016, item 1000, as amended)</i>
<i>Accounting Act</i>	<i>Accounting Act of 29 September 1994 (Journal of Laws of 2018 No. 156, item 395, as amended)</i>

1. Description of the system of public oversight of statutory auditors, audit firms and public-interest entities

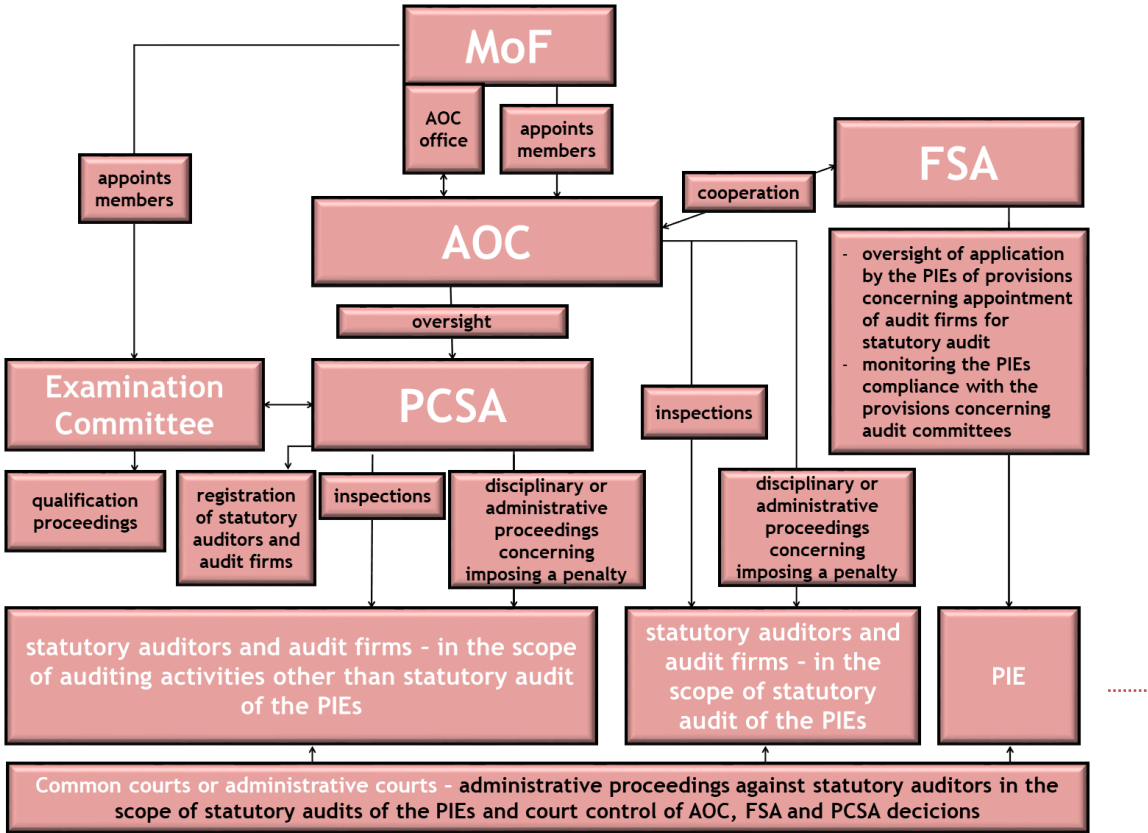
New solutions in Poland in the scope of the public oversight system were introduced pursuant to the *Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight* (the Act entered into force on 21 June 2017). The changes took place across the EU as a result of the reform performed. Some regulations applicable in Poland stem directly from the EU law (i.e. they are not subject to transposition by way of an Act). It applies to *Regulation (EU) No 537/2015 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities* (entered into force - applied since 17 June 2016).

The following changes in Poland in the scope of the public oversight system should be indicated as the key developments:

- **covering audit firms under the AOC inspection** in the scope of statutory auditing of public-interest entities and potential imposing of penalties by the AOC where any irregularities are detected (tasks in this scope were earlier performed by the PCSA bodies). At the same time, the definition defining the scope of the PIE was changed. Some entities have lost the PIE status, while others have obtained it;
- **extending the competence of common courts of law** by considering the proceedings concerning imposing sanctions on statutory auditors in the scope of irregularities in conducting the PIE statutory audits (tasks in this scope were earlier performed by the self-government court operating as the PCSA body);
- **entrusting the FSA with the supervision over the application by the PIEs** of the regulations regarding the selection of audit firms to perform the statutory audit and monitoring by the FSA of the compliance with the regulations in the scope of audit committees.

The PCSA bodies remain an important element of the public oversight system in connection with the continuation of their tasks in the scope of inspection and proceedings concerning imposing sanctions against statutory auditors and audit firms in the scope of financial auditing activities other than statutory audits of PIE financial statements.

The figure below presents the current system of public oversight of statutory auditors, audit firms and the PIEs¹:



¹ In accordance with the current definition contained in Article 2(9) of the *Act on Statutory Auditors*, the PIEs include:

- issuers of securities admitted to trade in a regulated market of a EU Member State, having their registered office in Poland,
- national banks, branches of credit institutions, and branches of foreign banks,
- insurance companies and reinsurance companies as well as head offices and branches of insurance companies and reinsurance companies,
- electronic money institutions and domestic payment institutions meeting the criteria of a large entity,
- open pension funds, voluntary pension funds and general pension societies,
- open-end investment funds, specialised open-end investment funds, and public closed-end investment funds,
- investment fund management companies which, at the end of the particular financial year and at the end of the financial year preceding the particular financial year managed assets with the value of at least PLN 10 billion and which managed funds holding jointly at least 30 thousand registers open for participants,
- entities pursuing brokerage activities which, at the end of the particular financial year and at the end of the financial year preceding the particular financial year, held assets with the value of at least PLN 10 billion on clients' accounts or which managed assets with the value of at least PLN 10 billion and simultaneously operated at least 10 thousand clients,
- savings and credit unions meeting the criteria of a large entity.

1.1. Description of tasks of the Audit Oversight Commission

The Audit Oversight Commission² is a body exercising public oversight over statutory auditors, audit firms and the Polish Chamber of Statutory Auditors. The AOC was established in 2009.

The AOC operates under the *Act on Statutory Auditors*. The AOC is the body competent in the scope of implementation of the tasks defined in *Regulation (EU) No 537/2014*, in the scope other than reserved for other bodies.

The AOC is composed of 9 members appointed by the Minister of Finance for the term of 4 years. As at 31 December 2017 the composition of the third term of office of the AOC was as follows:

- AOC Chairman - Wiesław Janczyk, Secretary of State at the Ministry of Finance;
- Vice-Chairperson of the AOC - Ilona Pieczyńska-Czerny, the representative of the FSA;

and Members:

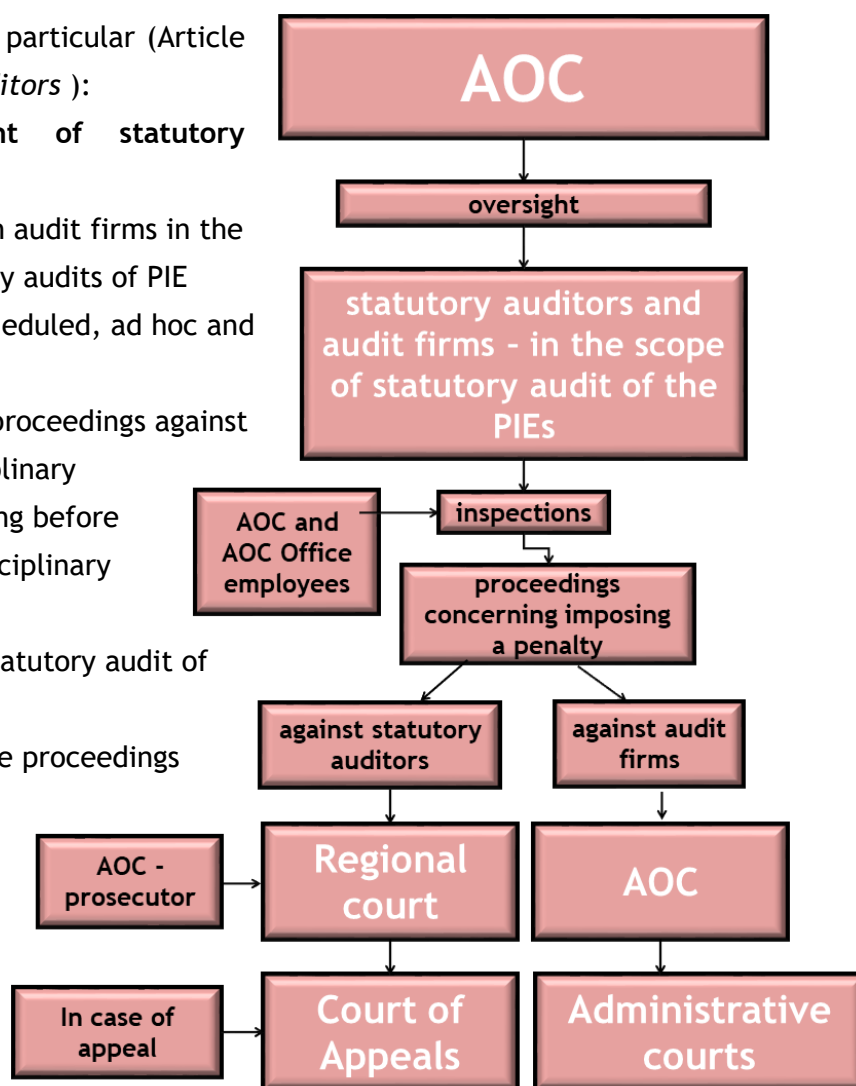
- Joanna Dadacz, the representative of the Minister of Finance;
- Tomasz Piwowarski, the representative of the FSA;
- Tomasz Janik, the representative of the Minister of Justice;
- Jacek Gdański, the representative of the PCSA;
- Radosław Ignatowski, the representative of the PCSA;
- Piotr Kamiński, the representative of the organisations of employers;
- Jacek Fotek, the representative of the WSE.

The AOC operates in sessions which are held at least once a month. The substantive service, including in the scope of performing inspections as well as the administrative and office support of the AOC is provided by the Ministry of Finance (in particular, the appointed organisational units of the Accounting and Auditing Department of the MF, acting as the AOC office).

² More about the AOC on the website: www.kna.gov.pl.

The tasks of the AOC include, in particular (Article 90(1) of the *Act on Statutory Auditors*):

- **exercising the oversight of statutory auditors and audit firms:**
 - performing inspections in audit firms in the scope related to statutory audits of PIE financial statements (scheduled, ad hoc and thematic);
 - conducting explanatory proceedings against statutory auditors, disciplinary proceedings and appearing before the courts in cases of disciplinary misconduct committed in connection with the statutory audit of the PIE;
 - conducting administrative proceedings against audit firms concerning imposing of a penalty in the case of irregularities, in particular those detected during the inspection;



- **exercising the oversight of the PCSA:**
 - approving resolutions adopted by the PCSA bodies in cases specified in the Act;
 - appealing to administrative court against resolutions of the PCSA bodies in cases specified in the Act;
 - examining the appeals against resolutions of the PCSA bodies to which the provisions of *the Act of 14 June 1960 - Code of Administrative Procedure* apply;
 - approval of annual inspection plans of audit firms prepared by the NAOC in the scope related to the activity of auditing, other than statutory audits of the PIEs;
 - participation in NAOC inspections (planned and ad hoc);
- **pursuing international cooperation**, including in particular, with the European

Commission and oversight bodies from other EU Member States and third countries as well as through the coordination of activities within the CEAOB at the EU level;

- **Market monitoring** in the scope of services provided by statutory auditors and audit firms.

Moreover, the AOC activities cover the oversight of:

- **activity of audit firms approved in a EU Member State other than Poland** and entered in the list kept by the PCSA (Article 203(1) of the *Act on Statutory Auditors*). As at 31 December 2017, no such cases were recorded;
- **activity of audit units coming from a third country** and entered in the list kept by the AOC (Article 207(1) of the *Act on Statutory Auditors*). As at 31 December 2017, one audit unit from Canada was subject to the AOC oversight.

1.2. Description of the tasks of the Polish Financial Supervision Authority

The Polish Financial Supervision Authority³ is the body responsible for public oversight of financial market in Poland⁴. The FSA was established in 2006.⁵ As at 31 December 2017, the FSA comprised 8 members.

The FSA operates under the *Act of 21 July 2006 on Financial Market Oversight*.

In the scope of tasks assigned to the FSA pursuant to the *Act on Statutory Auditors* (Article 89(1)), the following responsibilities should be particularly indicated:

- **exercising public oversight over the application by the PIEs of the provisions of Title III of EU Regulation No 537/2014** concerning the selection of audit firms for the statutory audit;
- **monitoring of the compliance with the regulations regarding the appointment, the composition and the operation of the audit committee** or the supervisory board or other supervision or control body, in the case of entrusting them with the function of the audit committee.

³ More about the FSA on the website: www.knf.gov.pl.

⁴ The FSA pursues tasks in the scope of oversight of the banking sector, the capital, insurance, pension market, payment institutions and payment service offices, electronic money institutions and the credit union sector.

⁵ Earlier, the oversight of financial markets was exercised by several public administration bodies.

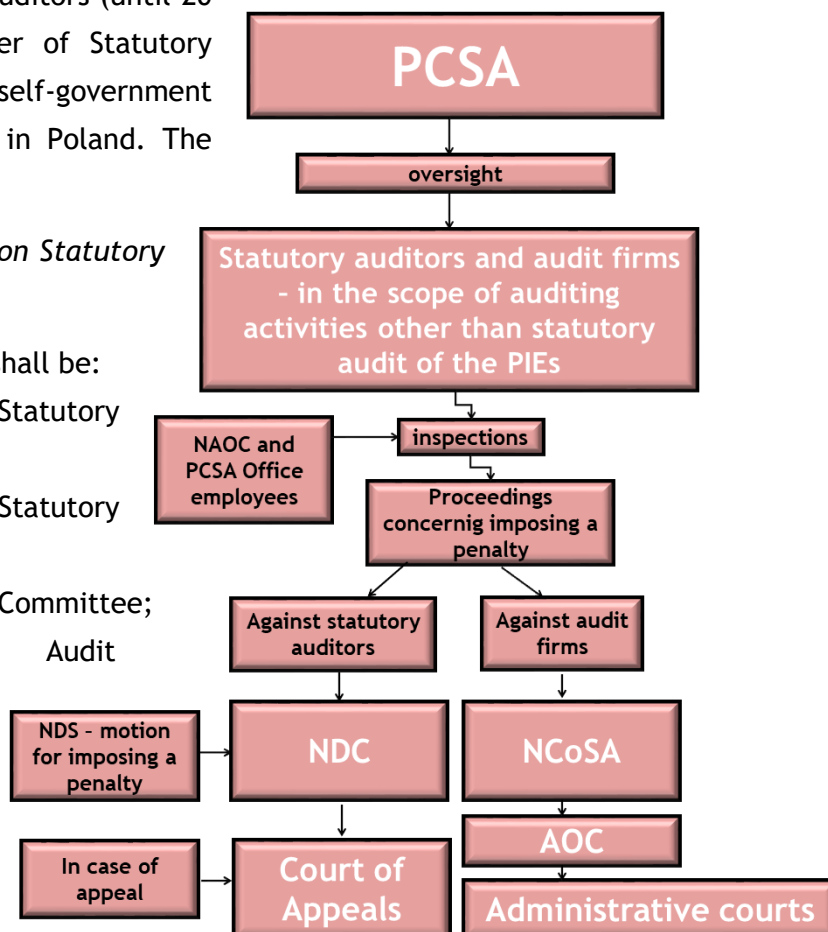
1.3. Description of the tasks of the Polish Chamber of Statutory Auditors

The Polish Chamber of Statutory Auditors (until 20 June 2017, the National Chamber of Statutory Auditors)⁶ is the professional self-government associating all statutory auditors in Poland. The PCSA was established in 1992.

The PCSA operates under the *Act on Statutory Auditors*.

The governing bodies of the PCSA shall be:

- the National Assembly of Statutory Auditors;
- the National Council of Statutory Auditors;
- the National Audit Oversight Committee;
- the National Internal Audit Committee;
- the National Disciplinary Court;
- the National Disciplinary Spokesman.



The tasks of the PCSA include, in particular (Article 25(1) of the *Act on Statutory Auditors*):

- **representation of members** and protection of their professional interests;
- **establishment of national professional standards** and principles of professional ethics;
- **exercising the oversight of statutory auditors and audit firms:**
 - performing inspections in audit firms in the scope of auditing activities other than the statutory audit of the PIEs;
 - Conducting disciplinary proceedings against statutory auditors in the scope of auditing activities other than the statutory audit of the PIEs;

⁶ More about the PCSA on the website: www.pibr.org.pl.

- conducting administrative proceedings against audit firms concerning imposing of a penalty in the case of irregularities, in particular those detected during the inspection;
- **cooperation in shaping principles of financial accounting and audit.**

The tasks in the scope of setting professional standards and principles of professional ethics as well as in the scope of exercising the oversight of statutory auditors and audit firms shall be conferred on the PCSA under the public oversight.

An important element of the public oversight system is also the Examination Committee for Candidates for Statutory Auditors, appointed by the Minister of Finance. It consists of 19 persons. The tasks of the Examination Committee comprise, in particular (Article 12 of the *Act on Statutory Auditors*):

- drafting test questions and case studies as well as preparing examination sets for particular exams, including a diploma exam;
- carrying out exams for candidates for statutory auditors, including a diploma exam;
- recognition of passing the knowledge exams;
- compliance with the conditions regarding the completion of the internship in an audit firm, professional experience;
- considering appeals against exam results.

2. Systemic activities of the Audit Oversight Commission and the Polish Chamber of Statutory Auditors concerning statutory auditors and audit firms

2017 was a transitional period for the system of public oversight of statutory auditors and audit firms. In connection with new tasks of the AOC and the PCSA, many systemic decisions were taken. At the same time, the operating tasks were not fully performed, only initiated.

2.1. Activities in the scope of inspections in audit firms

In 2017, until the moment of entry into force of the Act, the AOC undertook the following activities related to the implementation of its tasks:

- it adopted the following resolutions concerning the inspection of audit firms subject to the AOC oversight:
 - Resolution of 4 October 2017 concerning the AOC inspection procedures;
 - Resolution of 4 October 2017 concerning defining the plan of inspections for 2017/2018;
 - Resolution of 15 November 2017 concerning the procedures on participation in NAOC inspections;
- under the oversight exercised over tasks performed by the PCSA in the scope of conducting inspections in audit firms:
 - a) it approved the following systemic resolutions of the NAOC:
 - Resolution of 5 July 2017 concerning the adoption of the inspection plan for 2017;
 - Resolution of 5 July 2017 concerning the procedure on the selection of NAOC controllers to conduct inspections in 2017 in audit firms other than those auditing the financial statements of the PIEs.
 - Resolution of 19 July 2017 concerning determining the template of report of inspections carried out by the NAOC controllers in 2017;
 - Resolution of 2 August 2017 concerning determining the procedure of inspections carried out by the NAOC controllers in 2017;
 - Resolution of 8 November 2017 concerning the adjustment of the inspection

- plan for 2017;
- Resolution of 8 November 2017 concerning the principles of in-service training of the NAOC controllers;
- b) it examined the following NAOC systemic acts:
 - Resolution of 8 November 2017 concerning certain principles of inspection planning;
 - Decision of 5 July 2017 concerning the adoption of the template of a pre-inspection questionnaire for 2017;
 - Decision of 8 November 2017 concerning the AOC action strategy.

2.2. Activities in the scope of professional standards, quality control standards and the principles of professional ethics of statutory auditors

In 2017, the AOC undertook the following activities related to the implementation of its statutory tasks:

- it monitored the NCoSA activities in the scope of adjusting the provisions of the Act, taking into consideration a nine-month period of effectiveness of the existing NCoSA resolutions concerning the auditing standards, the internal quality control standards and the principles of statutory auditors' professional ethics, expiring on 21 March 2018;
- it monitored the NCoSA activities in the scope of adjusting the resolutions to the currently effective international standards issued by the IAASB;
- it approved the following resolutions of the NCoSA:
 - Resolution of 2 January 2017 amending the resolution concerning the National Standards on Auditing;
 - Resolution of 24 January 2017 amending the resolution concerning the National Standards on Auditing;
 - Resolution of 4 July 2017 concerning the adoption of the national standard on Assurance Engagements 3000;
- presented the objections regarding the following NCoSA resolutions:
 - Resolution of 14 February 2017 amending the resolution concerning the National Standards on Auditing;
 - Resolution of 8 December 2017 concerning the national auditing standards (700 (Z), 701, 705 (Z), 706 (Z), 720 (Z), 260 (Z), 570 (Z));

- it presented the comments to the NCoSA announcement of 14 August 2017 concerning drawing up the Audit Report in connection with the entry into force of the provisions of the Act.

In 2017, the NCoSA did not adopt and provide the AOC with any resolutions concerning the quality control standards and principles of statutory auditors' professional ethics.

2.3. Activities in the scope of mandatory in-service training for statutory auditors

In 2017, the AOC approved the following NCoSA resolutions concerning the mandatory in-service training for statutory auditors:

- Resolution of 13 December 2016 concerning the amendment to the resolution on the thematic scope of the mandatory in-service training for statutory auditors in 2017;
- Resolution of 14 February 2017 concerning the thematic scope of the mandatory in-service training for statutory auditors in 2018;
- Resolution of 01 August 2017 concerning determining the level of the fee for entry to the list of authorised entities.

Moreover, the AOC submitted comments to the NCoSA decision No 544/31/2017 of 26 September 2017 concerning the amendment to the decision regarding the organisational and methodological guidelines, as a part of the mandatory in-service training for statutory auditors in 2017.

2.4. Activities in the scope of qualification procedure for candidates for statutory auditors

In 2017, the AOC approved the following NCoSA resolutions adopted in agreement with the Examination Committee concerning the qualification procedure for candidates for statutory auditors and/or the functioning of the Examination Committee:

- Resolution of 14 March 2017 concerning the dates of exams for candidates for statutory auditors;
- Resolution of 23 June 2017 concerning the level of the initial fee for enrolment to the qualification procedure;
- Resolution of 23 June 2017 concerning the deadline for submission of applications for enrolment to the qualification procedure for statutory auditors;
- Resolution of 5 September 2017 concerning the detailed thematic scope of exams

- in the qualification procedure for statutory auditors;
- Resolution of 26 September 2017 concerning the level of the fee for applications referred to in Article 12(1)(2)(b) second indent and Article 15(1)-(3) and (5) of the *Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight*.

2.5. Activities in the scope of audit quality indicators

The AOC reviewed initiatives undertaken on an international arena in the scope of designing and application of measures allowing to evaluate the audit quality (AQI). Following the change in the rules of public oversight functioning related, among others, to the implementation of *EU Regulation No 537/2014*, Poland has launched the process of gathering experience in inspections based on the IASs and ISQC 1. At the moment, the AOC has no historic data enabling its active participation in the global discussion on trends in the correlation of the AQI level with results of inspections conducted by the supervision authorities.

A possibility to apply the AQIs is a part of the objective of continuous strive to perform high quality audits and, consequently, to enhance the trust in the statutory auditors' profession and results of their work as well as raise the awareness of stakeholders. Accordingly, the AOC decided to launch works related to the development of the concept of AQI implementation in Poland and, at the same time, to join the global initiative in this scope.

However, taking into account that the experience of individual countries and supervision authorities implies that the development of a single optimum AQI set is a multi-stage and complex process, the AOC has decided that the first stage initiating the process will involve the assessment of conclusions stemming from the first cycle of the AOC inspections and the analysis of transparency reports, which will provide basis for follow-up activities.

3. Activities in the scope of cooperation of the Audit Oversight Commission and the Polish Financial Supervision Authority

The implementation of new tasks of the AOC and new tasks of the FSA in the scope of oversight of the PIEs requires close cooperation and coordination of activities between the AOC and the FSA. In 2017, areas of cooperation between the AOC and the FSA were determined and first activities in the scope of their implementation were undertaken.

The main areas of cooperation refer to:

- identification of entities compliant with the definition of a PIE;
- FSA's engagement in international cooperation in which the AOC participates;
- organising common projects addressed to entities supervised or other financial market participants.

In the framework of performing the tasks in the scope of public oversight, the AOC cooperated with the FSA, in particular in the scope of:

- determining the approach to examination of applications for authorisation to extend the maximum duration of the engagement with the audit firm, submitted by competent entities under Article 17(6) of *Regulation (EU) No 537/2014*;
- development of the stance of the competent authority in matters related to determining a period of cooperation of an audit firm with a PIE, referred to in Article 17(8) of *Regulation (EU) No 537/2014* in the context of mandatory rotation of the audit firm;
- closer exchange of information concerning issues associated with the performance of auditing activities by audit firms and statutory auditors in entities supervised by the FSA.

4. Public oversight of statutory auditors and audit firms in the scope of auditing financial statements of public-interest entities

The description presented refers to activities undertaken on the basis of the former *Act on Statutory Auditors* and activities preparing to the functioning of the new control system under the new *Act on Statutory Auditors*.

4.1. Activities in the scope of inspections in audit firms

In 2017, the AOC completed the process of approving reports of inspections conducted in the years 2014-2016 by the NAOC in entities authorised to audit the financial statements⁷ performing the audit activities in the PIEs.

Within the analysis of inspection reports, the following items were assessed:

- formal and legal compliance of the inspection report;
- compliance of the control process performed by the NAOC with the legal regulations;
- the completeness and adequacy of irregularities found in the inspection report in the light of: the facts described in the inspection report, the reservations submitted by the entity inspected and the explanations, or potentially findings resulting from the inspection files and other documents received by the AOC;
- the substantive legitimacy of the NAOC stance in relation to the reservations submitted to the inspection report;
- the completeness of findings in the post-inspection statement;
- the proportionality of post-inspection measures.

In 2017, the AOC requested that changes be introduced to the reports of planned and unplanned inspections in the following cases:

- occurrence of formal and legal errors in the report (in case of 21 reports of planned inspections). The AOC requested the amendment/change of information

⁷ The term “entities authorised to audit the financial statements” was used in the former *Act on Statutory Auditors*. The term “audit firms” derived from the current *Act on Statutory Auditors* will be used hereinafter in this report with the purpose of harmonising the terminology.

in the report, so that this information is compliant with other documents attached to the report. In three cases, the AOC requested that the text of the post-inspection statement is supplemented so that it takes into account any irregularities found in the inspection report, subsequently sustained by the NAOC at the stage of analysing the reservations to the inspection report;

- inadequate post-inspection measures planned by the NAOC against the key statutory auditor (in relation to 15 reports of planned inspections; in total - against 21 key statutory auditors). the AOC requested that a change is introduced, consisting in filing a motion to the NDS, mainly due to the infringement of Article 65 (6) of the *Accounting Act* and the lack of sufficient and relevant evidence of auditing the reliability of statements defined in item 13 of NSA 1 in material areas of the financial statements;
- inadequate post-inspection measures planned by the NAOC against a verifier who is the key statutory auditor (in relation to 26 reports of planned inspections; in total - against 34 verifiers - key statutory auditors). The AOC requested that a change is introduced consisting in filing a motion by the NAOC to the NDS, due to the fact that the final review of the quality of audit engagement performed by the verifier did not reveal any irregularities arising from the planned inspection report;
- inadequate post-inspection measures planned by the NAOC against an entity inspected (in relation to 23 reports of planned inspections and 1 report of unplanned inspection). The AOC requested that a change is introduced consisting in filing a motion by the NAOC to the NCoSA for imposing sanctions on the entity inspected due to the lack of proper elaboration and/or the lack of effective implementation of the internal quality control system by the entity inspected.

The table below shows the status of the reports examined by the AOC in 2017.

Status of reports of planned inspections examined by the AOC in 2017	Number	including those concerning inspections in:		
		2016	2015	2014
Approved with no changes	41	23	17	1
Approved after introducing changes	47	19	14	14
Refusal to approve	4	2	1	1
Acknowledged, not subject to the approval process	1	-	-	1
Total, examined in 2017	93	44	32	17

Source: own compilation of the AOC Office

Status of reports of unplanned inspections examined by the AOC in 2017	Number	including those concerning inspections in:		
		2016	2015	2014
Approved with no changes	1	-	1	-
Approved after introducing changes	1	-	1	-
Total considered in 2017	2	-	2	-

Source: own compilation of the AOC Office.

In 2017, the AOC refused to accept four reports of the planned inspection due to the lack of accuracy of the inspection process conducted by the NAOC in the audit firm, according to the AOC assessment.

In the inspection reports analysed by the AOC in 2017, significant irregularities included primarily:

- lack of sufficient and adequate designing and implementation of the principles and procedures of the internal quality control system;
- violation of Article 65(6) of the *Accounting Act*, i.e. no possibility for the statutory auditor not participating in the audit of the financial statements to follow its process and find justification for the issued opinion on the financial statements;
- lack of sufficient and relevant evidence for auditing the reliability of statements referred to in section 13 of the NSA 1 as regards material areas of the financial statements;
- incorrect planning of the audit (including, among others, irregularities in the scope of determining and application of significance indicators or identification and determining of the level and adequate addressing the risks);
- lack of sufficient and relevant evidence for auditing events which occurred after the balance sheet date;
- lack of sufficient and relevant evidence of auditing the contingent liabilities and claims;
- lack of sufficient and relevant evidence of auditing transactions with related parties;
- lack of sufficient and relevant evidence of estimated data auditing;
- lack of sufficient and relevant evidence for auditing the risk of abuse, fraud, and law violations;
- lack of sufficient and relevant evidence of auditing the entity's ability of business continuity;
- issuing an incorrect type of opinion of the audit, i.e. the opinion with the

explanation instead of the opinion with the objection, or the negative opinion, due to occurrence of serious threats for business continuity, of which the entity did not inform or which the entity communicated in the financial statement in an incomplete way;

- incompleteness and inaccuracy of financial statements, mainly with regard to disclosures in additional explanatory notes and lack of adequate indication in this scope in the audit opinion/ audit report;
- lack of documented performance of the procedures defined in item 111 of NSA no 1, in particular the lack of sufficient and adequate evidence that until the day of issuing the audit opinion the statutory auditor consulted the correspondence with the supervision authorities in the scope related to the subject of the audit, including the follow-up measures undertaken by the audited entity and the failure to document the impact of the correspondence on the audit performed;
- issuing an opinion of the audit including explanations which could constitute a form of concealed objections;
- incompleteness of the report on activity, including most commonly with regard to disclosures of financial instruments constituting a material item of the financial statements and no reference to that fact in the audit opinion and report;
- non-compliance of the audit opinion and report with the formal requirements defined by the *Accounting Act* and the NSAs, including in particular with regard to the issues described in explanatory clause, in the scope of confirming the bank's compliance with the applicable prudential standards and the accuracy of determining of the solvency ratio by the bank and in relation to confirming that no limitations of the scope of the audit occurred (or what type of limitations occurred);
- accepting an incomplete declaration of the head of the entity, mainly in the scope of confirming the responsibility of the head of the entity for the reliability and compliance of the financial statements with the adopted accounting policy adopted by the entity;
- lack of documented cooperation with the audit committee in the PIE;
- failure to comply, over a certain period, with statutory requirements for the identification as an audit firm simultaneously performing the auditing activities in this period.

In connection with finalising of the process of approval by the AOC of reports on inspection of audit firms performing auditing activities in the PIEs, on request of the

AOC, the NAOC submitted 30 motions to the NCoSA⁸ and 50 motions to the NDS⁹. The audit firms also received annexes to the post-inspection statements, taking into account the amendments stemming from the AOC's request. Moreover, in 2017 the NAOC finalised the process related to inspections conducted in 2016. The NAOC carried out five inspections regarding the implementation of recommendations after the inspections conducted in 2016 in audit firms performing audit activities in the PIEs, confirming the fulfilment of the recommendations in three cases. In two cases, in connection with the failure to fulfil the recommendations, the NAOC decided to file motions for imposing fines to the NCoSA.

Regardless the process related to the approval of reports, in 2017 the AOC performed measures with the aim of commencing the performance of own inspections in audit firms.

The process of planning inspections by the AOC, i.e. the selection of audit firms which were included in the first annual AOC plan of inspections, was based on two elements: identification of the risk associated with the activity of audit firms and the cyclical nature of recognising audit firms in the inspection plans.

Based on information received from audit firms, a list of audit firms conducting statutory audits in the PIEs in 2016 and 2017 was compiled ("big"/"small"), including information on the fulfilment of the criterion referred to in Article 16(3)(a) of *Regulation (EU) No 537/2014* (share of audit firm remuneration due to statutory audits of the PIEs in relation to the remuneration on this account gained by all audit firms).

The list of audit firms was published on the AOC website in accordance with Article 91 of the *Act on Statutory Auditors*. The aforementioned list provided basis for the selection of audit firms for the AOC plan of inspections for 2017/2018.

In addition, while creating the AOC plan of inspections for 2017/2018, the analyses covered lists of audit firms subject to the NAOC inspection in the previous years as well as information stemming from the process of examining by the AOC of reports concerning the NAOC inspections for 2014-2016.

Due to the fact that in accordance with Article 298 of the *Act on Statutory Auditors*,

⁸ Motions regarding the AOC requests of the end of 2016 and of 2017 submitted by the NAOC to the NCoSA in 2017.

⁹ Difference between the number of motions submitted by the NAOC to the NDS and the number of motions requested by the AOC in 2017 through the amendment of reports of planned inspections arises from the fact that in three cases the NAOC submitted a single motion against the statutory auditor who acted as the key statutory auditor and the verifier for auditing engagements subject to the particular inspection. On the other hand, in two cases, the NAOC did not submit motions to the NDS due to striking off the statutory auditor from the register of statutory auditors.

audit firms had a period of 4 months following the day of entry into force of the Act to adjust their activity to the new requirements, the NAOC inspections in audit firms started after the lapse of this period, i.e. After 21 October 2017.

In accordance with Article 112 of the *Act on Statutory Auditors*, the scope of inspection foreseen in the AOC annual plan of inspections for 2017/2018 shall include¹⁰:

- assessment of the compliance of the controlled audit firm activity with the *Act on Statutory Auditors* and Regulation (EU) No 537/2014;
- assessment of the content of the (most current) annual transparency report of the audit firm;
- evaluation of the designed internal quality control system of the controlled audit firm, including tests of compliance of the procedures in order to verify the effectiveness of the internal quality control system;
- in relation to documentation of statutory audits of PIE financial statements selected for inspection:
 - assessment of the compliance with applicable legal regulations, requirements of auditing standards, quality control and requirements in the scope of ethics and independence;
 - assessment of the quality and quantity of human, material and financial resources used to conduct the audit, including the evaluation of compliance with the requirements in the scope of MIST;
 - assessment of compliance with legal regulations concerning remuneration for audits and other services, calculated and paid to the key statutory auditor, members of a team performing the audit and to the controlled audit firm or to another entity, the services of which were used by the key statutory auditor or the controlled audit firm during the audit.

The AOC plan of inspections for 2017/2018 assumes inspecting audit firms included in this plan of inspections by 30 June 2018. Therefore, the summary of the implementation of the annual AOC plan of inspections for 2017/2018 will be presented in the AOC report for 2018.

¹⁰ The description and the flow chart of the AOC control procedures is published on the website: https://www.mf.gov.pl/c/document_library/get_file?uuid=a67de6ff-7343-4cde-97df-1a818f31f314&groupId=764034 .

Other AOC activities in the process of controlling audit firms

Ad hoc inspections

Under the implementation of the tasks in the scope of public oversight, the AOC requested the NAOC, pursuant to Article 90(3) of the *Act on Statutory Auditors*, to conduct the ad hoc inspection of audit documentation of the aforementioned financial statements in the audit firm on behalf of which the said audit engagement was performed, in connection with information obtained from the FSA concerning the statutory audit of the financial statements of the entity other than PIE.

Examining notifications of the FSA and other entities

In 2017, the following notifications were subject to examination by the AOC:

- 2 notifications from the FSA concerning potential irregularities in audits of financial statements of entities supervised by the FSA; and
- 3 notifications from other entities regarding the infringement of national professional standards and principles of professional ethics by statutory auditors while auditing financial statements of entities other than PIE.

In the framework of the oversight exercised, the AOC:

- in the case of notification regarding the statutory audit of the financial statements of a PIE - took into consideration information received from the FSA under risk analysis performed for the needs of the AOC statutory tasks;
- in the case of notification regarding the statutory audit of the financial statements of an entity other than PIE -
 - delegated the cases to the NAOC, in accordance with the competence under the current legal status;
 - submitted notifications to the NDS concerning the suspected disciplinary infringement by the statutory auditor in connection with the conducted audit of the financial statements of an entity other than PIE;
 - provided received information on suspected transactions with circumstances indicating that they may be related to money laundering or terrorist financing to the minister competent for public finance.

4.2. Activities in the scope of disciplinary proceedings against statutory auditors

In 2017, the NDS received 119 motions to instigate disciplinary proceedings against statutory auditors conducting audits of financial statements of the PIEs. 87 motions

were submitted after NAOC inspections conducted in audit firms.

In the reporting period, the NDS completed 41 cases, submitting 13 motions to the NDC for imposing a sanction, containing the penalty agreed with the statutory auditor.

In the period from 21 June 2017 to 31 December 2017 (in the period of effectiveness of the new *Act on Statutory Auditors*), the AOC received 7 motions from the FSA concerning instigating disciplinary proceedings against statutory auditors. In one case, the disciplinary procedure was instituted on an ex officio basis. Until 31 December 2017, the aforementioned cases were pending at the stage of disciplinary proceedings.

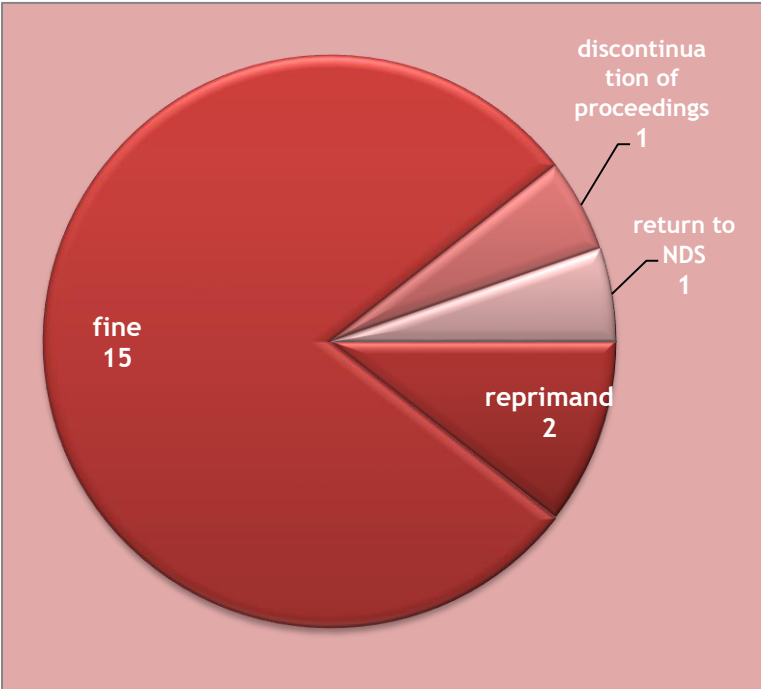
In 2017, the NDC issued 19 rulings. Among others, the NDC ruled as follows:

- penalty of reprimand - 2;
- fine - 15.

Furthermore, the NDC:

- discontinued the proceedings in 1 case;
- referred the case back to the NDS in 1 case;
- in 3 cases - considered the submitted complaints against the decisions of the NDS and the orders of the NDC Chairman, lodged by participants of the proceedings regarding statutory auditors performing audits of the PIE financial statements.

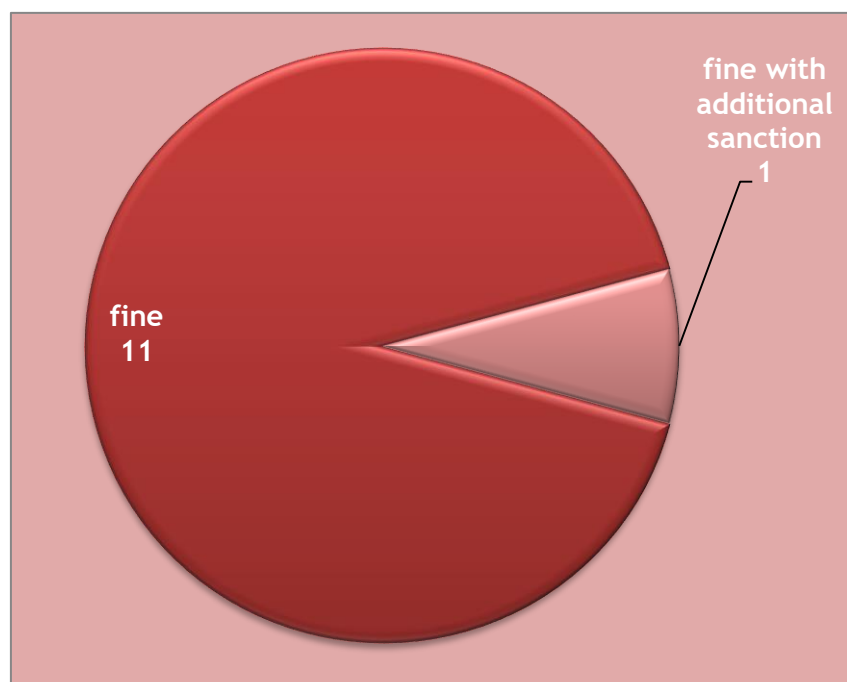
Among 21 cases lodged by the NDS in 2017 to be considered by the NDC, in 18 cases a final and conclusive ruling was issued



The tables in the Annex to the Report show the status of cases as at 31 December 2017 (for a period of 2017) in the scope of conducted disciplinary proceedings regarding statutory auditors auditing the PIEs.

4.3. Activities in the scope of administrative proceedings against audit firms

In 2017, 12 administrative decisions concerning penalties were issued by the NCoSA or the AOC related to audit firms conducting audits of financial statements of the PIEs. Those cases referred to imposing fines and an additional penalty - publishing information on irregularities found and penalties imposed. As a result of their closing, 11 cases were concluded by imposing a fine and 1 case - by imposing a fine and the additional penalty.



The tables in the Annex to the Report show the status of cases as at 31 December 2017 (for a period of 2017), including the breakdown according to the type of sanction.

5. Public oversight of statutory auditors and audit firms in the scope of financial statement auditing other than auditing of financial statements of public-interest entities

5.1. Activities in the scope of inspections in audit firms

The description presented below refers to measures undertaken pursuant to the former *Act on Statutory Auditors*.

Post-inspection proceedings regarding the inspections performed in 2016

In 2017, the AOC¹¹ finalised the process related to of inspections conducted in 2016 in audit firms other than performing auditing activities in the PIEs. The NAOC conducted 187 inspections related to the implementation of recommendations issued after the inspections performed in 2016. As a result, in 10 cases, motions to impose a fine were submitted to the NCoSA in connection with the failure to fulfil the recommendations.

NAOC inspections in audit firms in the scope of auditing other than the audit of the financial statements in the PIEs

The new *Act on Statutory Auditors* defined the NAOC tasks as conducting the control of compliance with the legal regulations, procedures and standards by statutory auditors and audit firms in the scope of:

- statutory audit of entities other than the PIEs;
- defined by the NCoSA - services covered by the national standards of performing the profession other than the statutory audit.

Plan of inspections and its implementation

Following the entry into force of the *Act on Statutory Auditors*, on 5 July 2017, the

¹¹ The report on the NAOC activities for 2017 is posted on the AOC website: www.kna.gov.pl - which is a part of the MF website under the heading *Reports*.

NAOC adopted the resolution on the plan of inspections for 2017 regarding statutory audit of entities other than the PIEs, which was approved by the AOC and covered 260 audit firms. The plan of inspections for 2017 adopted pursuant to the NAOC resolution did not comprise statutory audits of entities other than the PIEs conducted by audit firms auditing the PIEs.

On 8 November 2017, the NAOC introduced the correction of the plan of inspections which was approved by the AOC on 29 November 2017. After the correction, the plan of inspections covered 230 audit firms other than performing auditing activities in the PIEs.

The plan was developed on the basis of the statutory control cycle, performing statutory audits and risk factors, such as low price per audit and/or big number of performed audits.

The audit documentation subject to inspection was selected taking into consideration the risk assessment. The plan of inspections was implemented in compliance with the adopted schedule.

Main findings of the inspections and post-control proceedings

In the course of inspections conducted in 63 audit firms other than performing auditing activities in the PIEs, the NAOC did not find any irregularities.

As a result of 148 inspections, irregularities were found related to:

- lack of adequate development or effective implementation of the internal quality control system;
- compliance of the audit firm's activities with the Act (fee for oversight, activity reports, civil liability insurance, completeness and compliance of the data reported in the list of audit firms);
- statutory audits of financial statements in the scope of:
 - documenting the planning;
 - documenting the audit of statements related to financial statements items;
 - documenting the audit of the activity report of the entity;
 - accuracy of drafting the opinion and the report;
 - documenting the audit of events after the balance sheet date;
 - documenting the audit of abuse, errors and law infringements;
 - documenting the audit of transactions with related parties;
 - documenting the audit of contingent liabilities and claims; and
 - formal accuracy of the opinion and the report.

As a result of the inspections in which irregularities were found, the NAOC has

submitted recommendations to 148 audit firms, including setting the relevant deadline enabling their implementation as well as decided to file:

- 35 notifications to the NDS concerning the suspected committing of a disciplinary infringement by statutory auditors from 22 audit firms,
- 25 information reports on detected irregularities to the NCoSA.

Moreover, in connection with irregularities found during the inspections, the NAOC decided to conduct the subsequent inspection after a period shorter than 6 years in 36 audit firms.

In 2017, the NAOC did not conduct any inspections under Article 36(1)(2) of the *Act on Statutory Auditors* (i.e. related to services other than the statutory audit), since the NCoSA failed to determine the scope of the NAOC inspections for 2017 regarding the services subject to national standards of performing the profession, other than the statutory audit.

5.2. Activities in the scope of disciplinary proceedings against statutory auditors

In 2017, the NDS received 122 motions to instigate disciplinary proceedings against statutory auditors conducting auditing activities other than audits of financial statements of the PIEs. 105 motions were submitted by the NAOC following the inspections conducted in audit firms.

In the reporting period, the NDS closed 14 cases. The NDS filed 18 motions to the NDC for imposing a sanction, containing the penalty agreed with the statutory auditor.

In 2017, the NDC issued 45 rulings. Among others, the NDC ruled as follows:

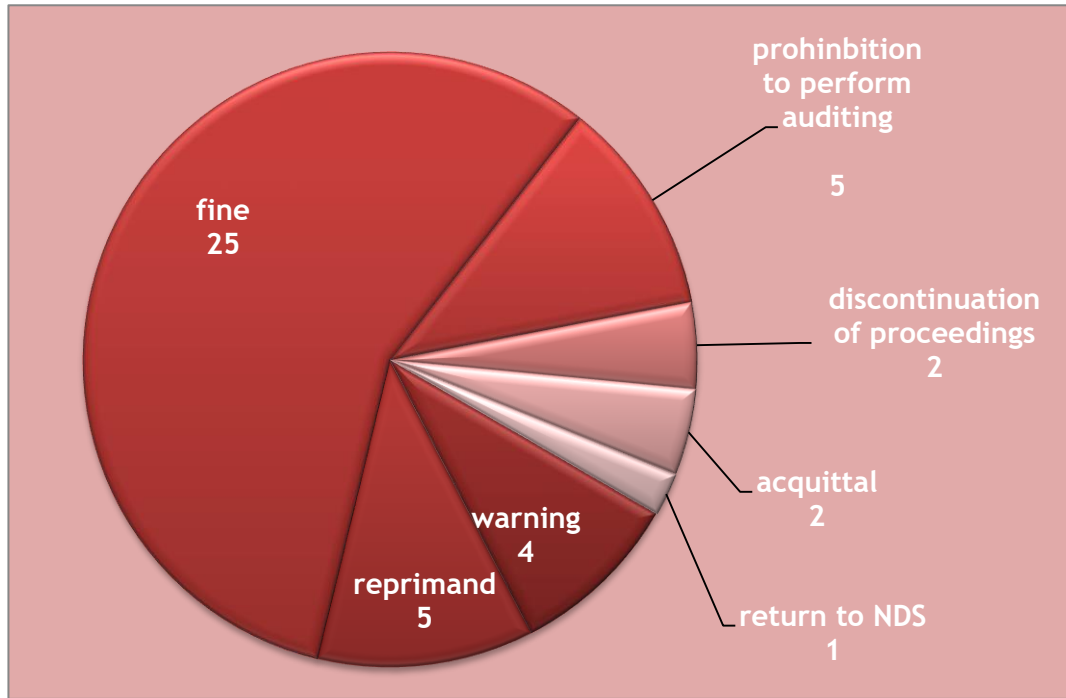
- penalty of warning - 4;
- penalty of reprimand - 5;
- fine - 25;
- penalty of a prohibition to perform auditing activities - 5.

Furthermore, the NDC:

- discontinued the proceedings in 2 cases;
- acquitted the accused in 2 cases;
- adjourned the hearing in 6 cases;
- referred the case back to the NDS in 1 case;
- in 4 cases - considered the submitted complaints against the decisions of the NDS and the orders of the NDC Chairman, lodged by participants of the proceedings regarding statutory auditors performing auditing activities other than audits of

the PIE financial statements.

Among cases lodged by the NDS in 2017 to be examined by the NDC, the NDC issued a final and conclusive ruling in 35 cases and 10 cases were referred to be examined in the next year.

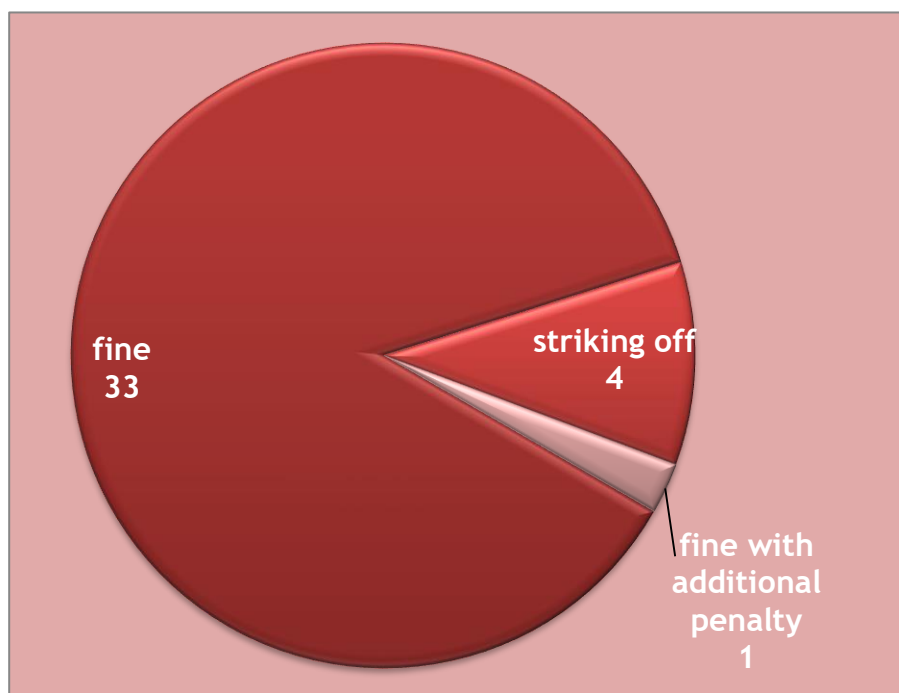


The tables in the Annex to the Report show the status of cases as at 31 December 2017 (for a period of 2017) in the scope of conducted disciplinary proceedings regarding statutory auditors other than auditing the PIEs.

5.3. Activities in the scope of administrative proceedings against audit firms

In 2017, 38 administrative decisions concerning penalties were issued by the NCoSA, related to audit firms other than conducting audits of financial statements of the PIEs. Those cases were related to striking off from the list of audit firms and imposing fines and an additional penalty - publishing information on irregularities found and penalties imposed.

As a result of their closing, 4 cases were concluded by striking off from the list of audit firms, 33 cases ended up by imposing a fine and 1 case - by imposing a fine and the additional penalty.



The tables in the Annex to the Report show the status of cases as at 31 December 2017 (for a period of 2017), including the breakdown according to the type of sanction.

6. Other oversight activities of the Audit Oversight Committee and the Polish Chamber of Statutory Auditors

6.1. Activities in the scope of entry and striking-off statutory auditors and audit firms

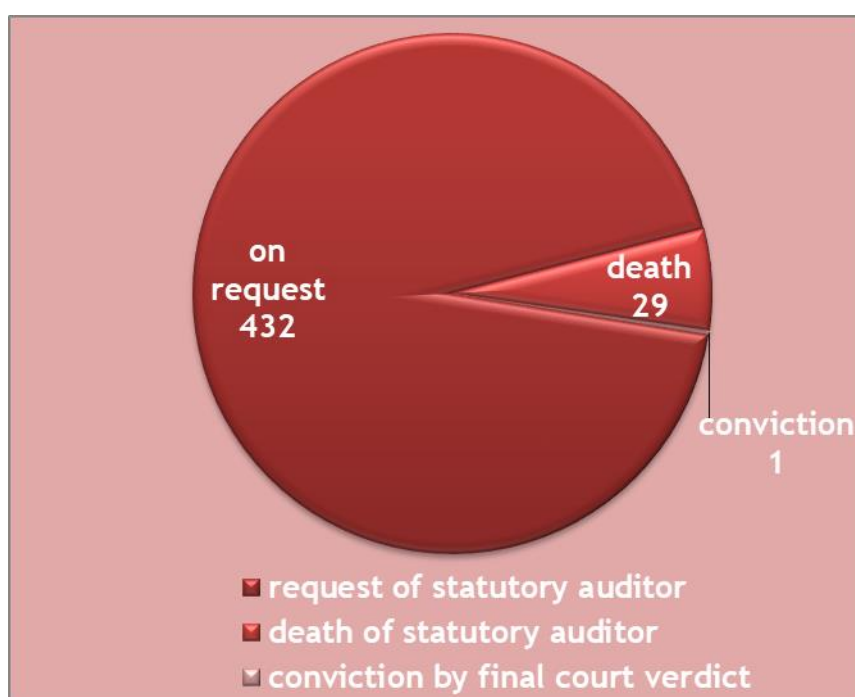
The NCoSA takes decisions concerning the entry and striking-off statutory auditors and audit firms in the form of resolutions submitted to the AOC. The entry in the register or the list shall be deemed executed unless the AOC objects against the entry within 45 days following the receipt of the resolution on the entry. In the reporting period, the AOC did not exercise the right to object.

Statutory auditors

Cases of entry and striking off statutory auditors in 2017	Number
Entered in the register	156
Struck off the register	462
Difference	-306

Source: own compilation of the AOC Office.

Reasons of entry and striking off statutory auditors in 2017:

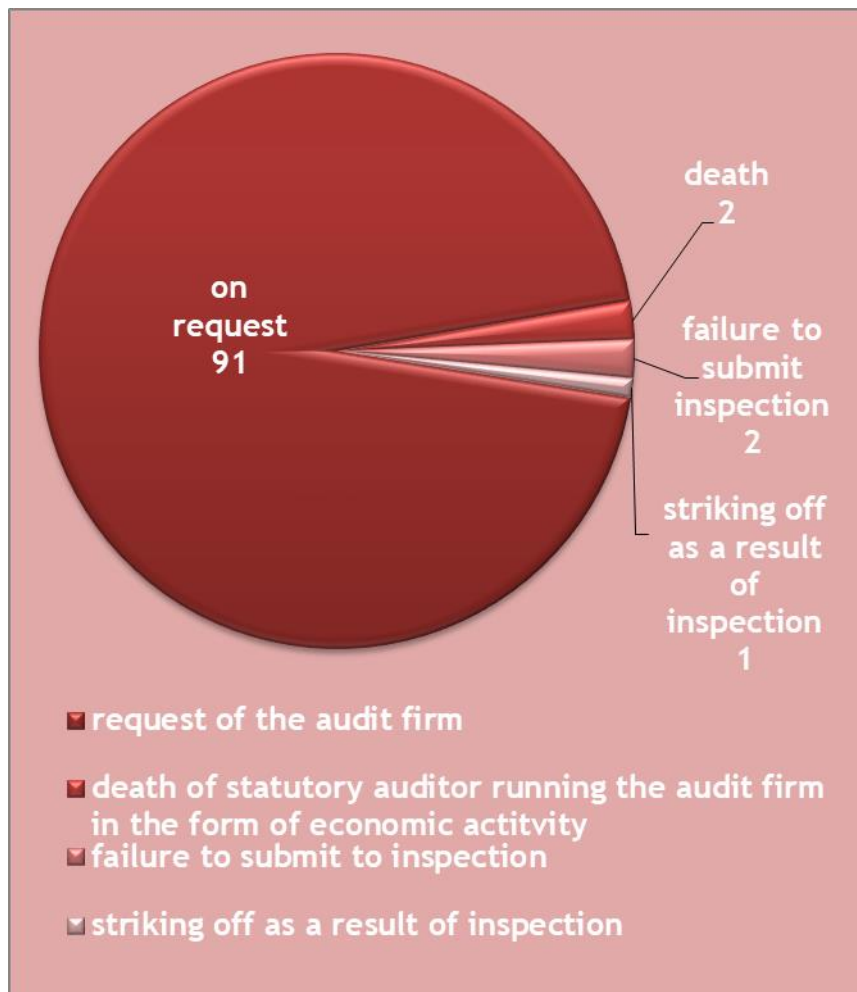


Audit firms

Cases of entry and striking off audit firms in 2017	Number
Entered in the list	72
Struck off the list	96
Difference	-24

Source: own compilation of the AOC Office.

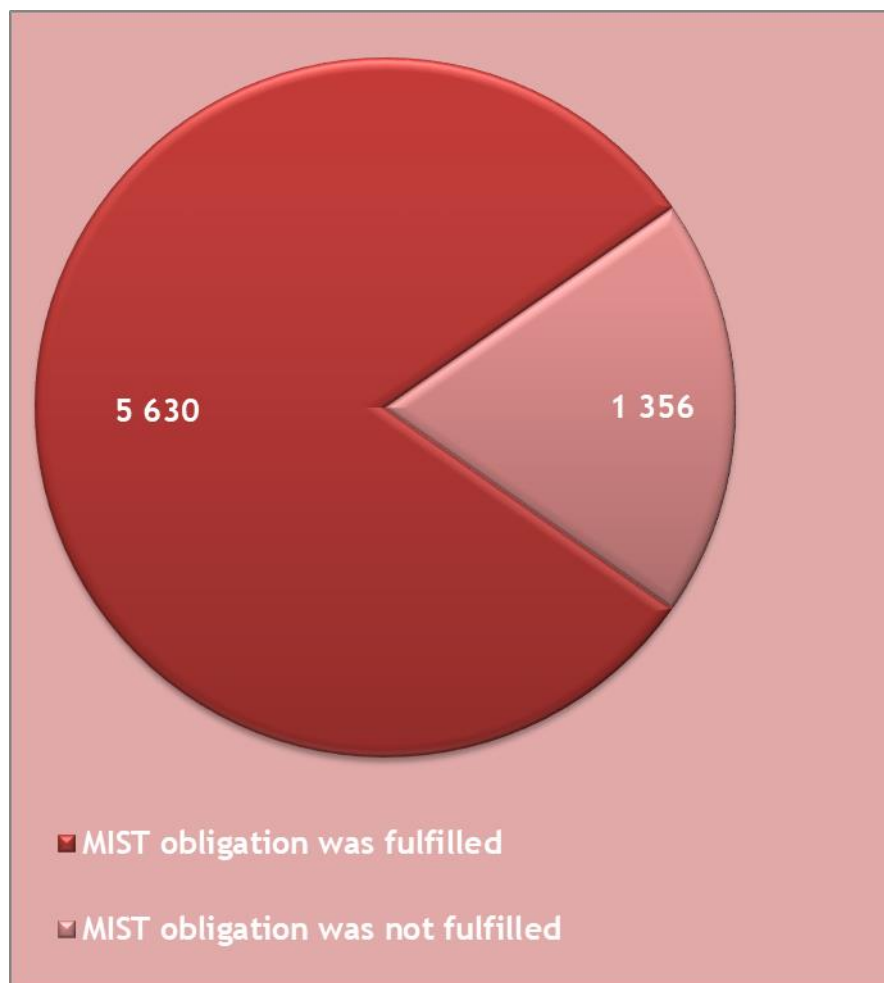
Reasons of striking off audit firms from the list in 2017:



6.2. Activities in the scope of mandatory in-service training

On 22 December 2017 a new *Regulation of the Minister of Development and Finance concerning mandatory in-service training* entered into force, containing the implementation provisions to the new *Act on Statutory Auditors*. The most important changes refer to self-education and organisation of training within the MIST.

In 2017, 6986 statutory auditors were subject to the MIST obligation.



Among persons who failed to fulfil the obligation to take the minimum number of the MIST hours, 414 were finally struck off the register in 2017.

Throughout 2017, 63 statutory auditors obtained the approval of the NCoSA to take the MIST at a later time.

The list of statutory auditors performing the profession, comprising 135 persons who failed to comply with the MIST in 2016, was submitted to the NDS.

6.3. Activities in the scope of market monitoring

Regulation (EU) No 537/2014 requires competent authorities in the EU Member States to draw up a report, at least every three years regarding changes in the market of services in the scope of statutory audits for the PIEs (the first report of this type was prepared by the AOC in 2016).

The reports provided by national supervision authorities are aggregated by the European Commission in order to show the status at the EU level. In 2017, a report prepared on the basis of national reports for 2016 was published.¹²

In 2017, within the CEAOB subgroup for monitoring, works were continued with the aim of improving the methodology and the indicators used for the needs of preparation of national reports. The common methodology and indicators enable the comparison of the data provided by the EU Member States and the possibility of their aggregation at the EU level. The next report of this type will be prepared by the AOC in 2019.

6.4. Activities in the scope of international cooperation

The AOC as the authority competent in the scope of oversight of statutory auditors and audit firms participates in the international cooperation in the framework of public oversight, including:

- at the global level - as the member of the IFIAR;
- at the EU level - as the member of the CEAOB; and
- in the form of bilateral relations with foreign public oversight bodies, e.g. the American oversight authority - the PCAOB.

The AOC is represented during plenary meetings of the IFIAR and the CEAOB by the AOC members (an employee of the AOC office also participates in the delegation).

Employees of the AOC Office engage in the work of the CEAOB subgroups. In 2017, they participated in the works of the subgroup for inspections and the subgroup for market monitoring.

¹² The report is also available on the EC website at (also in Polish):
https://ec.europa.eu/info/publications/170907-statutory-audit-services-report_en .

6.5. Activities in the scope of third country audit units

The AOC adjusted the former list of entities authorised to audit financial statements coming from third countries to the currently applicable regulations and published a list of audit units coming from third countries. At present, one third country audit unit is registered, KPMG from Canada which is subject to the AOC oversight in connection with the ongoing audit of financial statements of a WSE-listed company.

6.6. Information concerning termination of agreements for financial statement audit by audit firms

Upon entry into force of the provisions of the *Act on statutory auditors*, in the case of termination of the agreement or financial statement auditing, the head of an entity commissioning the audit and the audit firm shall immediately inform thereof the NCoSA and, in the case of a PIE, also the FSA, providing the explanation of the rationale. The earlier regulations provided that audit firms informed only the AOC of the aforementioned reporting obligation.

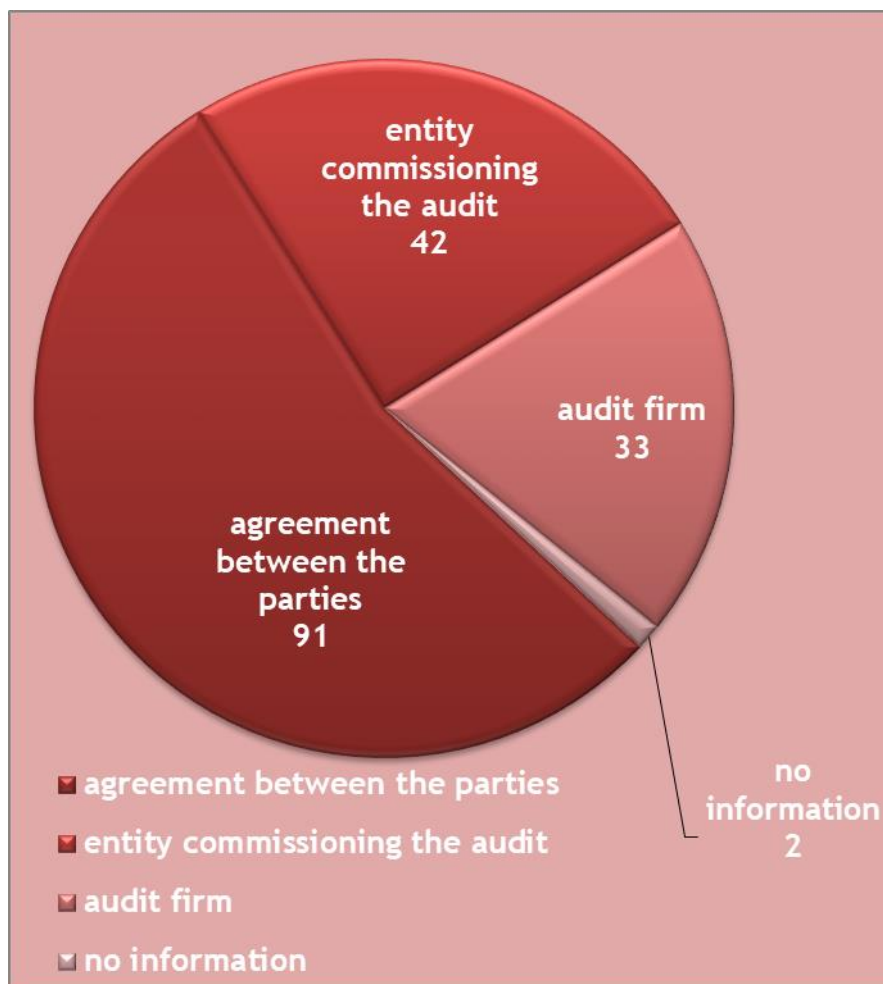
From 1 January 2017 to 20 June 2017, audit firms provided information on terminated agreements to the AOC and from 21 June 2017 to 31 December 2017 - to the NCoSA.

In the overall reporting period, 168 cases of termination of agreements for financial statement auditing were recorded, including 79 notifications addressed to the AOC and 89 - to the NCoSA.

The most common reasons underlying the termination of the agreements included, among others:

- lack of obligation to perform the audit of the financial statements pursuant to the provisions of the *Accounting Act*;
- failure of the entity ordering the audit to comply with the terms and conditions of the agreement;
- liquidation of the entity the audit was to refer to;
- organisational and ownership changes in the entity ordering the audit.

Parties terminating the agreement for financial statement auditing in 2017 included:



6.7. Information concerning activities in the scope of implementing other tasks resulting from Regulation (EU) No 537/2014

Based on the data received from audit firms and the FSA Office, the AOC published the list of audit firms conducting statutory audits in the PIEs in 2016. The list comprised 93 audit firms, including 3 which gained more than 15% of their total remuneration for auditing from the PIEs, which is important for the procedure of audit firm selection by the PIEs in the context of the requirements set forth in Article 16(3)(a) of *Regulation (EU) No 537/2014*.

The AOC developed and published templates of the annual report of the audit firm, stemming from Article 14 of *Regulation (EU) No 537/2014* and Article 51 of the *Act on Statutory Auditors*. Those reports are of great importance for the oversight of activities of audit firms performing statutory audits in the PIEs as well as in terms of market monitoring.

Due to the short period of effectiveness of the Act on Statutory Auditors, no measures were undertaken in relation to:

- exemption of the audit firm by the AOC from the requirements referred to in Article 4(2), first paragraph of *Regulation (EU) No 537/2014*, regarding the limit of remuneration;
- implementation of information obligations by audit firms in the scope of the transparency report (Article 13 of *Regulation (EU) No 537/2014*) and a possibility to refuse to issue an opinion on the audit of the PIE financial statement or to issue a negative opinion or an opinion with reservations (Article 12(1) of *Regulation (EU) No 537/2014* in conjunction with Article 138 of the *Act on Statutory Auditors*).

7. Information on important events, initiatives and trends in the scope of audit and public oversight of the audit

Information from the national perspective

On 21 June 2017, the new *Act on Statutory Auditors* entered into force. The exemption are the provisions concerning fees for oversight which entered into force on 1 January 2018.

The Act implements *Directive 2014/56/EU*. Some issues related to auditing financial statements of the PIEs and activity of audit firms performing such audits are directly regulated by *Regulation (EU) No 537/2014*. The Act contains the provisions which enable the application of this Regulation and serve as an option to be exercised by EU Member States.

The new regulations aim at:

- strengthening of the independence and impartiality of statutory auditors and audit firms;
- improvement of the statutory audit quality and strengthening of public oversight;
- de-concentration of the market of PIE statutory audits.

Information from the European perspective

Pursuant to *Regulation (EU) No 537/2014*, the CEAOB European cooperation group was established in 2016, replacing the EGAOB. The transformation means the extension of the cooperation at the European level by coordination activities in the scope of oversight over statutory auditors and audit firms. CEAOB members are the public oversight authorities from EU Member States.

Despite a short history of the CEAOB functioning, in 2017 the European Commission conducted public consultations concerning the changes in the scope of European Supervision Authorities¹³. One of the changes under consideration is to include the CEAOB in one of the European authorities, i.e. the ESMA.

¹³ Information on the consultations is available on the EC website at (in English): https://ec.europa.eu/info/consultations/public-consultation-operations-european-supervisory-authorities_en.

Information from the global perspective

In 2017, the IFIAR reform process was completed. The IFIAR Members comprise public oversight authorities from various countries of the world (currently: 52 members). The major changes include establishing of the permanent IFIAR secretarial in Tokyo, Japan and changes in the IFIAR management structure, including the appointment of the managing director and establishment of the 16-person council which is currently the major decision-making body. The IFIAR in its new shape shall become more active on the global forum.

The IFIAR published the annual report concerning inspection results based on the data submitted in 2017.¹⁴ The document is prepared on the basis of questionnaires received from IFIAR members, regarding results of inspections in audit firms - members of six largest networks (BDO, Deloitte, E&Y, Grant Thornton, KPMG, PwC).

The IFIAR also published the material concerning trends and aspects of the audit committee activity¹⁵.

At the global forum, discussions started concerning the oversight system of the process of adopting international standards of performing the statutory auditor's profession. In November 2017, the Monitoring Group¹⁶ published the consultation document¹⁷.

¹⁴ The report is available on the IFIAR website at (in English): <https://www.ifiar.org> .

¹⁵ The document is available on the IFIAR website at (in English): <https://www.ifiar.org> .

¹⁶ The Monitoring Group is the body comprising international regulatory and supervision institutions (*Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, World Bank*). It supervises the system of setting international standards of performing the statutory auditor's profession.

¹⁷ The document is available on the Monitoring Group's website at (in English): https://www.iosco.org/about/?subSection=monitoring_group&subSection1=reforms-to-the-global-audit-standard-setting-process .

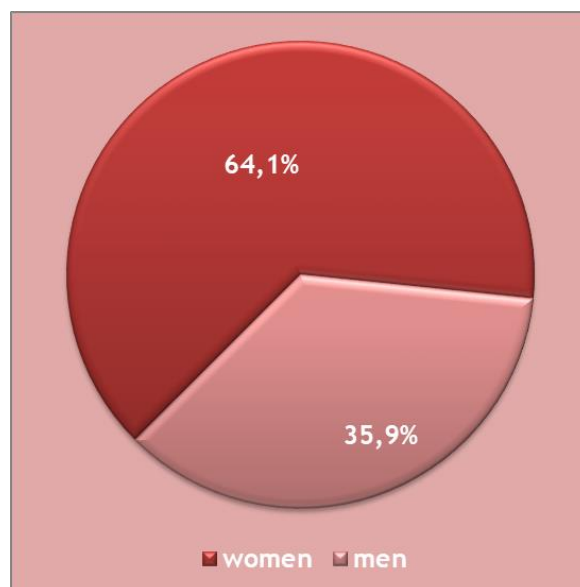
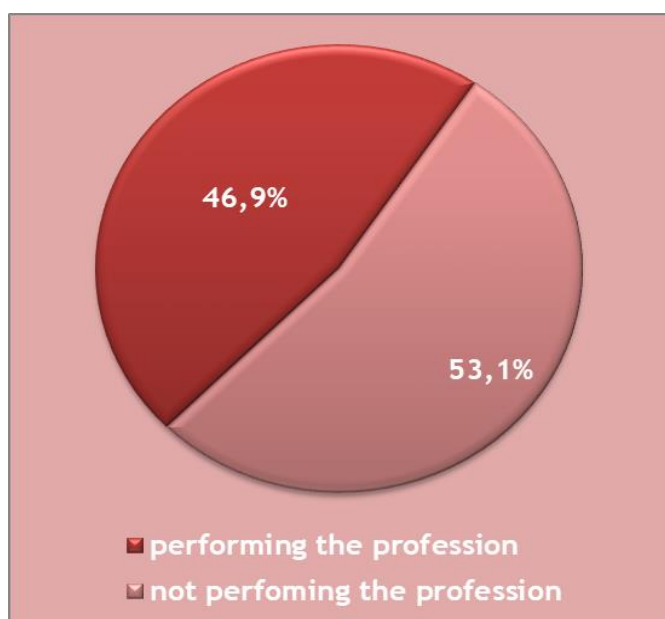
8. Annexes

8.1. Information on statutory auditors, audit firms and public-interest entities

Statutory auditors

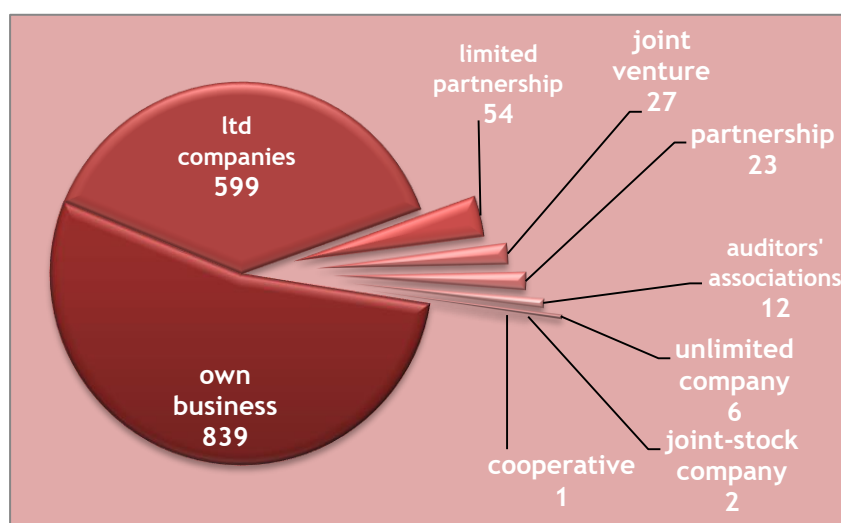
As at 31 December 2017, the register of statutory auditors comprised 6 680 persons, including 4 284 women and 2 396 men.

3 136 statutory auditors declared performing of the profession.



Audit firms

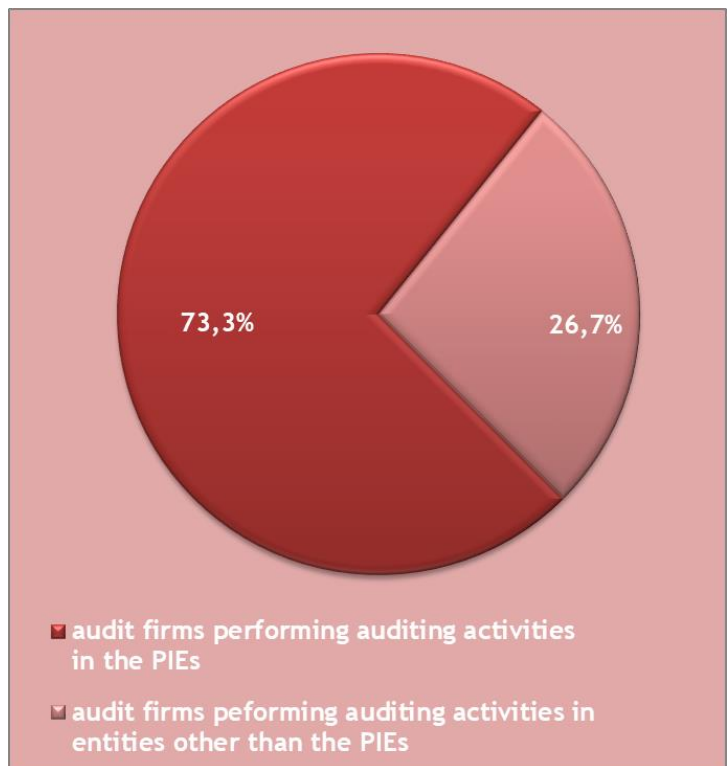
As at 31 December 2017, 1 563 firms were registered in the list of audit firms.



In 2017, 80 audit firms carried out statutory audits of financial statements of the PIEs.

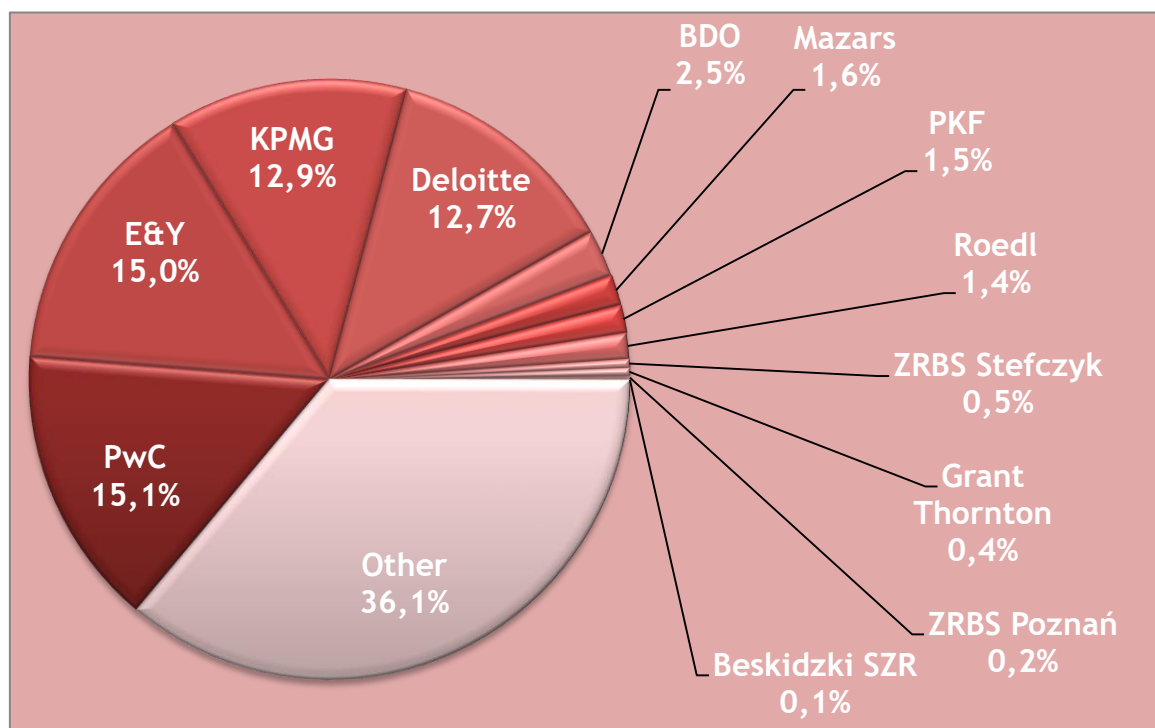


Revenues gained by audit firms in 2017 due to performing auditing activities amounted to: PLN 714,389,897.96, including revenues of firms performing audits in the PIEs: PLN 523,304,857.89¹⁸.



¹⁸ Based on the data resulting from accurately filled in settlements of the annual fee for oversight and/or annual reports, submitted to the PCSA by 15 May 2018.

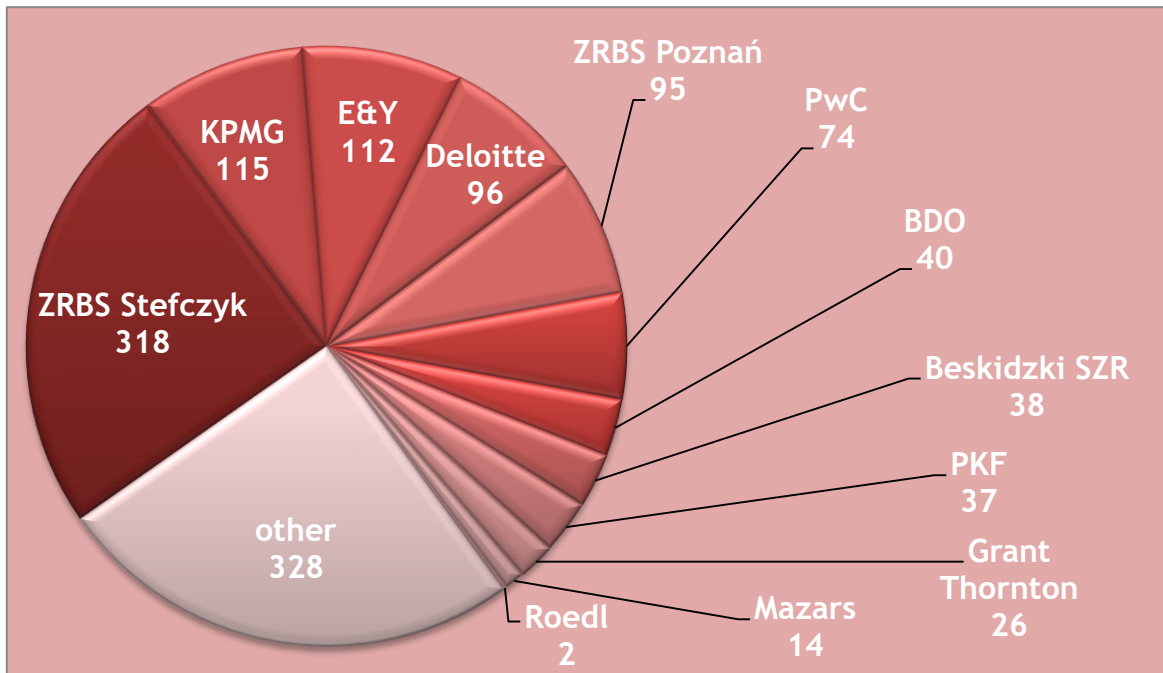
In 2017, the largest audit firms or their networks ¹⁹ gained revenues due to performing the auditing activities according to the following sequence, in terms of size:



The largest audit firms or their networks performed audits of financial statements of the following number of the PIEs²⁰:

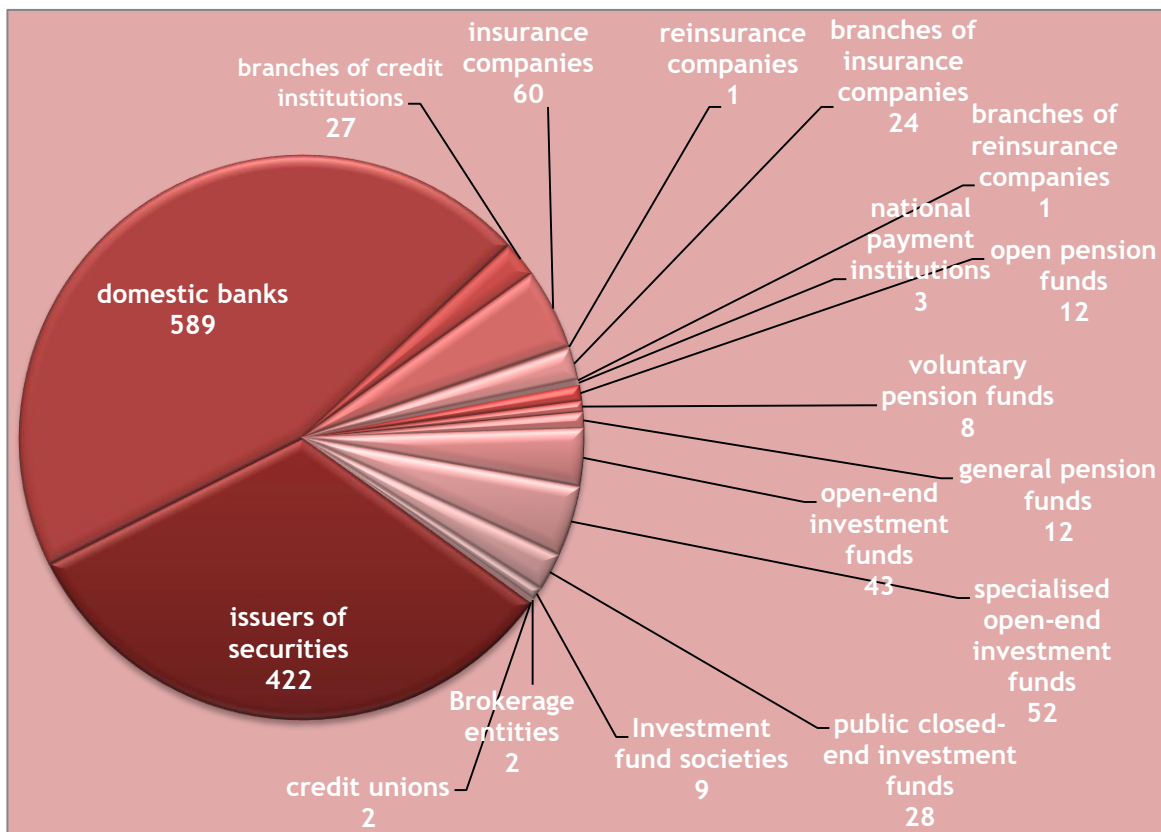
¹⁹ The abbreviated names of audit firms or their networks shall have the following meaning: **BDO** – BDO Sp. z o.o.; **Beskidzki SZR** – Beskidzki Spółdzielczy Związek Rewizyjny; **Deloitte** – Deloitte Polska Sp. z o.o. Sp. k. and Deloitte Polska Sp. z o.o.; **E&Y** – Ernst & Young Audyt Polska Sp. z o.o. Sp. k., Ernst & Young Audyt Polska Sp. z o.o., Ernst & Young Audyt Polska Sp. z o.o. Doradztwo Podatkowe Sp. k., Ernst & Young Audyt Polska Sp. z o.o. Finance Sp. k and Ernst & Young Usługi Finansowe Audyt Sp. z o.o.; **KPMG** – KPMG Audyt Sp. z o.o. Sp. k., KPMG Audyt Sp. z o.o. and KPMG Audyt Services Sp. z o.o.; **Grant Thornton** – Grant Thornton Frąckowiak Sp. z o.o. Sp. k., Grant Thornton Frąckowiak Sp. z o.o., Grant Thornton Polska Sp. z o.o. Sp. k. and Grant Thornton Polska Sp. z o.o.; **Mazars** – Mazars Audyt Sp. z o.o.; **PKF** – PKF Consult Sp. z o.o. Sp. k.; **PwC** – PricewaterhouseCoopers Sp. z o.o. and PricewaterhouseCoopers Polska Sp. z o.o.; **Roedl** – Audit Sp. z o.o. **ZRBS Stefczyk** – Związek Rewizyjny Banków Spółdzielczych im. Franciszka Stefczyka; **ZRBS Poznań** – Związek Rewizyjny Banków Spółdzielczych w Poznaniu.

²⁰ Based on the data from the FSA Office.



Public Interest Entities

In Poland, 1295 PIEs have been identified²¹.



²¹ The PIEs were identified based on the data of the FSA Office as at 15 December 2017 (on the basis of the financial statements of the PIEs for financial years 2015-2016).

8.2. Information on revenues and costs - tables

Audit Oversight Commission

Expenditures in 2017 (in PLN)	
Remuneration of the AOC Members	153,867
Remuneration and remuneration-related items of the AOC Office employees	2,190,692.68
Foreign business trips of the AOC Members and the AOC Office employees	62,723.81
Domestic business trips of the AOC Members and the AOC Office employees	3,342.84
Costs of AOC Office maintenance (including the establishment of new positions)	137,196.74
Purchase of materials and services	18,608.58
Training of the AOC Office employees (including controllers' workshop under the IFIAR)	50,759.40
Translations	2,295.77
IFIAR membership fee	55,961.21
Expenditures related to court proceedings	457
Total expenditures	2,675,905.03

Source: own compilation of the AOC Office.

Revenue in 2017 (in PLN)	
Share in fees for oversight (a fee contributed by the PCSA)	3,500 136
Total revenues	3,500 136

Source: own compilation of the AOC Office.

Polish Chamber of Statutory Auditors²²

Expenditures in 2017 (in PLN)	
Remuneration of members of PCSA bodies ²³	886,473.74
Remuneration and remuneration-related items of the PCSA Office employees	2,541,169.28
Foreign business trips of the PCSA bodies Members and the PCSA Office employees	59,314.58
Domestic business trips of the PCSA bodies Members and the PCSA Office employees ²⁴	176,223.73
Tangible costs and costs of maintaining the PCSA Office	518,328.11
Purchase of materials and services	705,285.59
Training of the PCSA bodies Members and the PCSA Office employees	442,641.72
Translations	27,389.23
IFAC membership fee	96,443.29
Fee for oversight transferred to the state budget account.	3,500,136
Expenditures related to court proceedings ²⁵	0
Other costs not captured above	1,931,576.69
Total expenditures	10,884,981.96

Source: own compilation of the AOC Office based on the data obtained from the PCSA.

Revenues in 2017 (in PLN)	
Fees for oversight	15,032,755.62
Fees for entry in the list of audit firms	140,500
Fees for entry in the register of statutory auditors	19,600
Proceeds gained due to fines imposed on audit firms	212,290
Total revenues	15,405,145.62

Source: own compilation of the AOC Office based on the data obtained from the PCSA.

²² The expenditures and revenues of the PCSA presented herein refer to the part in the scope of implementing the tasks related to public oversight.

²³ Including remuneration of persons participating in the NCoSA meetings, members of the Ethics Commission, Commission for standardization of services provided by statutory auditors - other than PCSA bodies members.

²⁴ Including costs of business trips of persons participating in the NCoSA meetings, members of the Ethics Commission, Commission for standardization of services provided by statutory auditors - other than PCSA bodies members.

²⁵ Expenditures recognised in the scope of costs of bodies conducting disciplinary and administrative proceedings in the PCSA (NDS, NDC and NCoSA).

8.3. Information on human resources - tables

Office of the Audit Oversight Commission

Employment as at 31 December 2017	
Management staff	4
Controllers	5
Lawyers	2
Other employees	9
Total	20

Source: own compilation of the AOC Office.

Office of the Polish Chamber of Statutory Auditors

Employment as at 31 December 2017	
Management staff	4
Controllers	2
Lawyers	2
Other employees	22
Total	30

Source: own compilation of the AOC Office based on the data obtained from the PCSA.

8.4. Disciplinary proceedings against statutory auditors - tables

Status of cases as at 31.12.2017 (for the period of 2017) of pending disciplinary proceedings against statutory auditors auditing the PIEs

	Number of proceedings conducted against statutory auditors auditing the PIEs based on motions filed by NAOC to NDS, including related to changes introduced in the text of the reports by the AOC	Number of proceedings conducted against statutory auditors auditing the PIEs due to motion filed by AOC, FSA and other entity	Number of cases closed by NDS or AOC by refusal to institute proceedings	Number of cases closed by NDS by discontinuation of investigation	Number of cases referred to NDC or to Regional Court	Pending procedures as at 31.12.2017
Cases from preceding years - before 2017	53 (Including 30 cases related to changes in the text of the reports)	15	2	21	18	27
Cases instituted by the NDS in 2017	34 (Including 33 cases related to changes in the text of the reports)	17	8	10	2	31
Cases instituted by the AOC in 2017	-	9	-	-	-	9

Source: own compilation of the AOC Office based on the data obtained from the PCSA.

Status of cases as at 31.12.2017 (for the period of 2012-2017) of pending disciplinary proceedings against statutory auditors auditing the PIEs.
Breakdown by applicant

Applicant	Cases related to statutory auditors auditing the PIEs from preceding years, conducted by NDS - before 2017	Cases related to statutory auditors auditing the PIEs conducted by NDS in 2017	Cases related to statutory auditors auditing the PIEs conducted by AOC in 2017	Total
NAOC	53	34	-	87
AOC	9	12	1	22
FSA	-	-	7	7
Other entities (statutory auditors, economic operators, natural persons)	6	5	1	12

Source: own compilation of the AOC Office based on the data obtained from the PCSA.

Status of cases as at 31.12.2017 (for the period of 2017) pending disciplinary proceedings against statutory auditors other than auditing the PIEs.

	Number of proceedings conducted against statutory auditors other than auditing PIEs based on motions filed to NDS by NAOC, NCoSA or AOC	Number of proceedings conducted against statutory auditors other than auditing the PIEs due to motion filed by another entity	Number of cases closed by NDS by refusal to institute proceedings	Number of cases closed by NDS by discontinuation of investigation	Number of cases referred to NDC	Pending procedures as at 31.12.2017
Cases from preceding years - before 2017	50	6	2	5	29	20
Cases instituted by the NDS in 2017	59 (Including 1 case returned by the NDC in 2017)	7	4	3	7	52

Source: own compilation of the AOC Office based on the data obtained from the PCSA.

Status of cases as at 31.12.2017 (for the period of 2017) pending disciplinary proceedings against statutory auditors other than auditing the PIEs.
Breakdown by applicant.

Applicant	Cases related to statutory auditors other than auditing the PIEs from preceding years, conducted by NDS - before 2017	Cases related to statutory auditors other than auditing the PIEs conducted by NDS in 2017	Total
NCoSA	1	-	1
NAOC	46	59	105
AOC	3	-	3
Other entities (statutory auditors, economic operators, natural persons)	6	7	13

Source: own compilation of the AOC Office based on the data obtained from the PCSA.

8.5. Administrative proceedings against audit firms - tables

Status of cases as at 31.12.2017 (For the period of 2017) administrative proceedings pending against audit firms auditing the PIEs

1	2	3	4	5	6
Type of administrative proceedings	Number of cases to be considered in 1st instance	Cases closed in 2017 by issuing final decision in 1st instance	Cases closed by issuing final decision in 1st instance where appeal is permissible	Cases closed in 2017 by issuing final decision in the 1st or 2nd instance by AOC	Cases finally closed in the 1st and 2nd instance (col. 3+5)
Administrative post-inspection proceedings in 2017	24	16	2	0	16
Other administrative proceedings in 2017	0	0	0	2	2
Administrative proceedings remaining from preceding years (before 2017)	1	4	3	3	7
Administrative proceedings remaining from preceding years (before 2017) ¹	0	0	0	0	0
Other:	0	0	0	0	0
Total	25	20	5	5	25

Source: own compilation of the AOC Office based on the data obtained from the PCSA.

¹ Administrative proceedings of previous years instituted before 2017, closed in 2017 or instituted before 2017 and not closed as at the end of 2017

Status of cases as at 31.12.2017.2017 (for the period of 2017) administrative proceedings conducted by the NCoSA against audit firms auditing the PIEs
breakdown by sanction type.

Number of decisions according to type of administrative sanction									Total
Type of final decision	Warning penalty	Fine	Ban on auditing	Ban on Financial auditing	Ban on provision of services under professional standards	Ban on Performing a Function	Struck off the list	Fine including publication of information on irregularities and imposed penalties	
Decision on imposing a penalty in the 1st instance	0	11	0	0	0	0	0	1	12
Decision on refusal to impose a penalty in the 1st instance	0	14	0	0	0	0	0	0	14
Decision on discontinuation of administrative proceedings in the 1st instance	0	1	0	0	0	0	0	0	1
Sustaining the effectiveness of decision in the 2nd instance	0	1	0	0	0	0	0	0	2
Waiver of the entire decision or its part and ruling on the essence	0	1	0	0	0	0	0	0	1
Waiver of the entire decision or its part and discontinuation of proceedings in the 1st instance fully or partially	0	0	0	0	0	0	0	1	1
Waiver of the 1st instance decision and referral for re-examination	0	0	0	0	0	0	0	0	0
Other:	0	0	0	0	0	0	0	0	0
Total	0	29	0	0	0	0	0	2	31

Source: own compilation of the AOC Office based on the data obtained from the PCSA.

Status of cases as at 31.12.2017 (For the period of 2017) administrative proceedings pending against audit firms auditing entities other than the PIEs

1	2	3	4	5	6
Type of administrative proceedings	Number of cases to be considered in 1st instance	Cases closed in 2017 by issuing final decision in 1st instance	Cases closed by issuing final decision in 1st instance where appeal is permissible	Cases closed in 2017 by issuing final decision in the 1st or 2nd instance by the AOC	Cases finally closed in the 1st and 2nd instance (col. 3+5)
Administrative post-inspection proceedings in 2017	21	16	6	1	17
Other administrative proceedings in 2017	26	63	15	1	64
Administrative proceedings remaining from preceding years (before 2017) ²	3	14	8	6	20
Administrative proceedings remaining from preceding years (before 2017) ²	0	15	0	0	15
Administrative proceedings in 2017 (renewal)	0	2	0	0	2
Administrative proceedings remaining from preceding years (before 2017) - Article 61(1)(3) of former Act	0	2	0	0	2
Administrative proceedings in 2017 - Article 61(1)(4) of former Act	2	1	0	0	1
Total	52	113	29	8	121

Source: own compilation of the AOC Office based on the data obtained from the PCSA.

² Administrative proceedings of previous years instituted before 2017, closed in 2017 or instituted before 2017 and not closed as at the end of 2017

Status of cases as at 31.12.2017 (For the period of 2017) administrative proceedings conducted by the NCoSA against audit firms auditing entities other than the PIEs - breakdown by sanction type

Number of decisions due to type of administrative sanction									Total
Type of final decision	Warning penalty	Fine	Ban on auditing	Ban on financial auditing	Ban on provision of services under professional standards	Ban on performing a function	Struck off the list	Fine including publication of information on irregularities and imposed penalties	
Decision on imposing penalty in the 1 st instance	0	33	0	0	0	0	4	1	38
Decision on refusal to impose a penalty in the 1st instance	0	4	0	0	0	0	0	1	5
Decision on discontinuation of administrative proceedings in the 1st instance	0	1	0	0	0	0	0	0	1
Sustaining the effectiveness of decision in the 2nd instance	0	4	0	0	0	0	0	1	5
Waiver of the entire decision or its part and ruling on the essence	0	0	0	0	0	0	0	0	0
Waiver of the entire decision or its part and discontinuation of proceedings in the 1st instance fully or partially	0	1	0	0	0	0	1	0	2
Waiver of the 1st instance decision and referral for re-examination	0	1	0	0	0	0	0	0	1
Other:	0	0	0	0	0	0	0	0	0
Total	0	44	0	0	0	0	5	3	52

Source: own compilation of the AOC Office based on the data obtained from the PCSA



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