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**FRTAP
POLAND**

FINANCIAL REPORTING
TECHNICAL ASSISTANCE
PROGRAMME

**THE AUDIT MARKET IN POLAND:
KEY STATISTICS AND
MARKET PERCEPTIONS**

KibR
KRAJOWA IZBA BIEGLYCH REWIDENTOW

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This document was prepared by:



Centre for Financial Reporting Reform (CFRR)
Governance Global Practice, The World Bank
Praterstrasse 31
1020 Vienna, Austria

Web: www.worldbank.org/cfr
Email: cfr@worldbank.org
Phone: +43-1-217-0700

© 2016 International Bank for Reconstruction and Development / The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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LIST OF ACRONYMS AND GLOSSARY OF TERMS

AC	Audit Committee
AoSA	Polish Act on Statutory Auditors (AoSA)
CPD	Continuing Professional Development
Big 4	Deloitte, EY, KPMG and PwC, the four largest international network audit firms
FRTAP	Financial Reporting Technical Assistance Program
ISA	International Standards on Auditing
JSC	Joint Stock Company
KIBR	Krajowa Izba Biegłych Rewidentów, The National Chamber of Statutory Auditors of Poland
KNA	Komisja Nadzoru Audytowego, the Audit Oversight Commission of Poland
KNF	Komisji Nadzoru Finansowego, the Financial Supervisory Authority of Poland
PIE	Public Interest Entity
PLN	Polish Zloty
SB	Supervisory Board
SME	Small and medium-sized entity
WSE	Warsaw Stock Exchange

1. INTRODUCTION

This report provides a quantitative and qualitative analysis of the audit market in Poland. It provides a range of data, including on the estimated number of companies that require audits, the number and type of auditors and audit firms, leading audit firms, and the auditors of the largest companies listed on the Warsaw Stock Exchange. Most of the data used in the report was valid as at 31 December 2015; where possible, previous years' comparative data has been provided to highlight trends.

This report draws on data from annual reports by the Audit Oversight Commission of Poland (KNA)¹ –the country's audit regulator – and covers much of the same data as KNA's recently published "Report on developments in the market for providing statutory audit services to public-interest entities in Poland". However, this report additionally brings together a range of other information on the whole audit market, including qualitative information, and shows historical trends where possible, making it a useful reference tool for all stakeholders in the Polish audit market.

Some quantitative information which would be helpful in describing and analyzing the audit market was not readily available – some of these areas are highlighted in the hope that such information may be available in subsequent years.

The qualitative information has been compiled from interviews and surveys of key stakeholders of audit in Poland, which were mostly conducted between May and July 2016. The report highlights some key trends in the data but does not set out to interpret the data. In a very few areas some observations are given on the possible implications of the data and trends. The report is intended as a source of information to assist policy makers, and regulators but does not seek to give policy recommendations.

This report was prepared by a team from the World Bank in close cooperation with the Polish Ministry of Finance, the KNA and **the National Chamber of Statutory Auditors of Poland** (KIBR), under the Swiss-funded Financial Reporting Technical Assistance Program (FRTAP).

1.1. Scope of the report

The analysis covers the whole corporate statutory audit market in Poland, i.e. every audit and auditor of entities that require audits under Polish law. The report includes analyses, where appropriate, of sub-sectors, including the audits of Public Interest Entities (PIEs), and specifically the largest listed companies on the Warsaw Stock Exchange (WSE). The

¹ See [http://www.mf.gov.pl/ministerstwo-finansow/dzialalnosc/ciala-kolegialne/komisja-nadzoru-
audytowego/sprawozdania](http://www.mf.gov.pl/ministerstwo-finansow/dzialalnosc/ciala-kolegialne/komisja-nadzoru-audytowego/sprawozdania)

qualitative analysis addresses a range of issues including perceptions of the value and cost of audit, the effectiveness of audit committees, and the extent to which a career in auditing is perceived as attractive by graduates.

1.2. Purpose of the report

This report is intended to assist policy makers, regulators and other stakeholders in the regulation of the statutory audit market by providing information on the market in relation to areas that are relevant to key regulatory decisions, including:

- The audit firms that perform statutory audits;
- The audit of the largest PIEs;
- The education of auditors;
- Market perceptions of the quality, value, relevance and independence of audit;
- The role of audit committees; and
- Audit oversight.

The report also gives wider stakeholders, including audit users such as investors, shareholders, company directors and audit committees, information on the state of audit and auditing in Poland. This helps them in their understanding of trends in the audit market, and provides information on perceptions of how the audit function is operating in Poland.

This information will be useful to all relevant stakeholders in implementing the new requirements resulting from recent and forthcoming changes to the law on corporate financial reporting and auditing in Poland, largely driven by changes to European Union (EU) law in 2013 and 2014, which became effective in 2016. Most of these legislative changes are already in effect or will be implemented in the near future, though they were not generally in effect in the period covered by this report. The new requirements include, among others:

- new and stricter independence rules for auditors of PIEs, such as a cap on non-audit services fees, restrictions on the non-audit services that can be provided, mandatory rotation of audit firms and new ethical requirements;
- increased responsibilities of audit committees (where such committees are required) and more rigorous competence and independence requirements for audit committee members;
- increased reporting requirements for auditors and audit committees;
- revised rules on the independence of the competent authorities responsible for audit regulation which must perform quality inspections of PIE auditors.

1.3. Approach and methodology

This report has compiled quantitative data on the audit market from a variety of sources, including:

- KIBR records;
- KNA information;
- Information from the Financial Supervisory Authority of Poland (KNF);
- Stock Exchange reports;
- Information from auditors (e.g. transparency reports);
- Newspaper reports.

The information provided on the perceptions of the audit market is derived from a number of interviews and surveys conducted with key stakeholders of the audit market, including investors, analysts, audit committees, chief financial officers (CFOs) and other preparers of financial statements, auditors, KIBR, KIBR candidates, university students and regulators. The views presented are not necessarily representative of the opinions of these groups as a whole as a much larger sample would be needed for this purpose. However, the views do present the perception of some key Polish stakeholders on statutory audit.

1.4. Future years

It is hoped that this report will be the first in an annual series of such reports which will allow an analysis of the development and trends in audit in Poland in the coming years.

The authors would welcome feedback on the content and usefulness of the report for the purposes of improving subsequent editions. Please provide comments to analiza_ryнку@kibr.org.pl.

2. STATISTICS ON THE AUDIT MARKET IN POLAND

2.1. The Demand for Audit

This section gives background statistics on the demand for statutory corporate audit in Poland. This demand originates from the requirement for certain companies to prepare and publish audited financial statements.

2.1.1. The audit requirement

According to Article 64 of the Accounting Act, the following companies' annual consolidated financial statements and annual financial statements are required to have a mandatory audit:

- 1) banks, insurance undertakings, and reinsurance undertakings;
 - a. credit unions,
- 2) entities operating in accordance with the regulations on trading in securities and on investment funds;
 - a. entities operating in accordance with the regulations on the organization and operation of pension funds;
- 3) joint-stock companies, with the exception of companies in the process of formation as at the reporting date;
- 4) other entities that achieved at least two out of the following three thresholds in the preceding financial year for which their financial statements are prepared:
 - a. average number of employees during the year in full-time equivalents of at least 50 persons,
 - b. the total balance of assets as at financial year-end (balance sheet total) equivalent to at least EUR 2,500,000 in PLN,
 - c. the net revenue from sales of finished products and goods for resale, as well as financial operations (net turnover) equivalent to at least EUR 5,000,000 in PLN.

The precise number of companies which meet these criteria is not readily available. As at 31 December 2015, there were 12,380² Joint Stock Companies (JSCs) in Poland (2014: 10,895) and 18,547³ companies with more than 50 employees. As many of the other specified categories of entity (banks, insurance, listed companies) will also be JSCs and many of the entities with revenue and assets above the audit requirement thresholds will have more

² Source: <http://stat.gov.pl/>

³ Source: <http://stat.gov.pl/>

than 50 employees, the estimated number of entities subject to the audit requirement could be between 24,000 and 26,000, given some overlap between the categories.

KIBR reports that 23,648 mandatory audits were carried out in 2015 (see following table), including 7,686 JSC company audits.

It appears that the overall number of audits carried out is consistent with the best estimate of the number of companies that require auditing. The number of JSC audits reported to KIBR appears to be less than the number of registered JSCs.

2.1.2. Public Interest Entities (PIEs)

The following companies are defined as PIEs for audit purposes under Polish law:

- a) issuers of securities admitted to trading at a regulated market of an EU Member State which have their registered offices in the territory of the Republic of Poland, excluding local government units;
- b) domestic banks, divisions of credit institutions and branches of foreign banks;
- c) credit unions;
- d) insurance companies and major divisions of insurance companies and reinsurance companies;
- e) electronic money institutions;
- f) open pension funds and general pension societies;
- g) open investment funds, specialist open investment funds and closed-end investment funds whose public investment certificates were not admitted to trading at the regulated market;
- h) entities conducting brokerage activity excluding entities conducting operation solely within the scope of accepting and transferring instructions for the purchase or sale of financial instruments or within the scope of investment counselling;

There are currently no restrictions on the number of years for which an audit firm can audit a company. However, in line with EU law, the new Audit Law will introduce a maximum of 10 years for audits of PIEs, with the possibility to extend this timeframe to a 20-year tenure subject to certain conditions being met.

2.1.3. Number of companies and audits

The following table provides statistics on the numbers of companies in different categories, and on their audits⁴.

Description, as at 31 December	2015	2014	2013	2012	2011
Number of companies/entities	4,028,506	3,996,274	3,947,500	3,851,828	3,748,026
Number of new companies registered in the year	311,912	354,300	363,077	354,096	343,189
Number of companies de-registered in the year	290,171	302,836	267,459	250,635	381,406
Number of mandatory financial statement audits carried out	23,648	25,222	21,319	23,628	26,853
Number of voluntary financial statement audits carried out	4,219	4,865	4,564	4,631	Included above
Compliance rate with audit requirement	Not available				
• Number of PIEs, including					
(a) Polish resident listed companies	424	420	n/a	n/a	n/a
(b) Banks (excluding coop banks)	65	68			
(c) Cooperative banks	561	565			
(d) Credit unions	48	51			
(e) Insurance	61	58			
(f) Pension funds	24	24			
(g) Investment funds	757	144			
(h) Brokers	52	53			
Total	1,992	1,383			
• Number of large companies	Not available				
• Number of small and medium-sized enterprises (SMEs)	Not available				

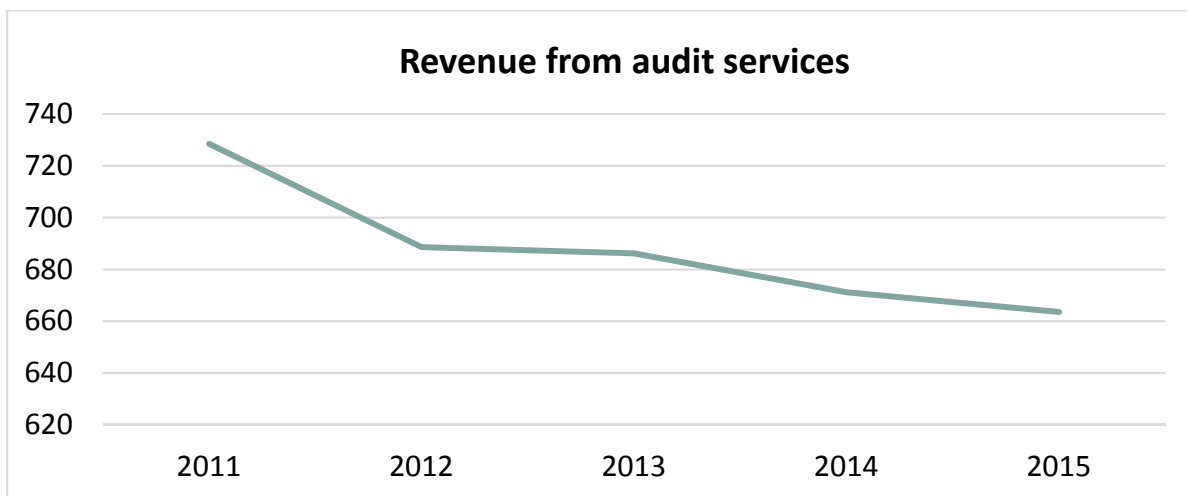
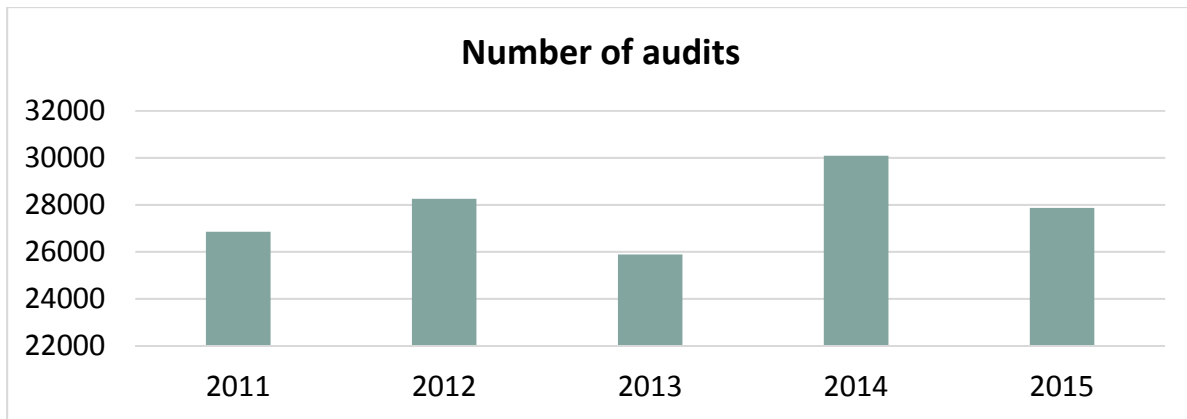
⁴ Source: KIBR, KNA reports: <http://www.mf.gov.pl/ministerstwo-finansow/dzialalnosc/ciala-kolegialne/komisja-nadzoru-audytowego/sprawozdania>

Description, as at 31 December	2015	2014	2013	2012	2011
Revenues from audit services (PLN m)⁵	663.6	671.2	686.2	688.6	728.5
Share of total audit revenues (%):					
• Four largest firms	55.7%				
• Other international network firms	8.8%				
• Others	35.5%				
Audit revenues of authorized auditors which conduct PIE audits	478.7 ⁶	508.9	525.6	543.8	571.8
Percentage of all audit revenues of Polish audit firms by 'Big 4' Polish audit firms	55.7%	55.6%	55.0%	54%	n/a
Percentage of audits of commercial banks performed by 'Big 4', by banks' assets	99.7%	95.7%	n/a	n/a	n/a
Percentage of audits of insurance companies performed by 'Big 4', by gross written premiums	97.2%	95.4%	n/a	n/a	n/a
Percentage of audits of WSE listed companies performed by 'Big 4', by market capitalization	93.2%	88.2%	93.5%	89.8%	n/a
Percentage of audits of Polish WSE listed companies performed by Polish 'Big 4', by market capitalization	86.7%	84.3%	n/a	n/a	n/a

While the number of audits conducted has fluctuated above 26,000, the overall revenue from audit services has reduced over the period from 2011 to 2015, with the average revenue per audit dropping from PLN 27,129 in 2011 to PLN 23,813 in 2015.

⁵ This revenue from audit is the total amount declared to KIBR by registered audit firms.

⁶ Revenue from auditors authorized to audit PIEs in 2015 is PLN440,100 per KNA. This difference could arise from corrections to the data on audit revenues made subsequent to submission to KIBR.



2.2. Audit firms and auditors in Poland

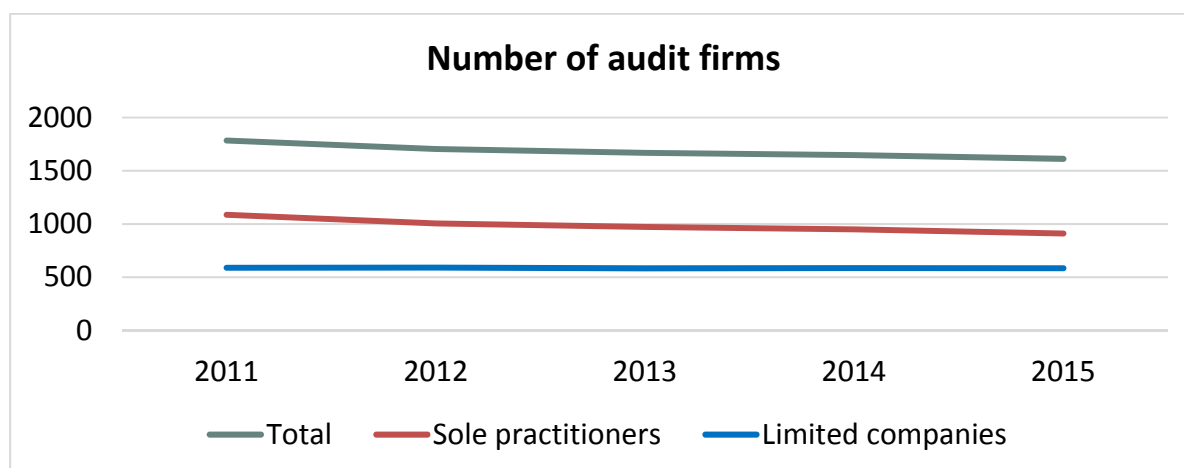
Audit firms and auditors must be authorized to perform audits in Poland. They must be registered with KIBR, the Polish Chamber of Auditors, and are subject to quality control inspections by KIBR (overseen by KNA) for non-PIEs and by KNA for PIE auditors. Auditors must hold the audit qualification set by KIBR and perform regular continuing professional development (CPD).

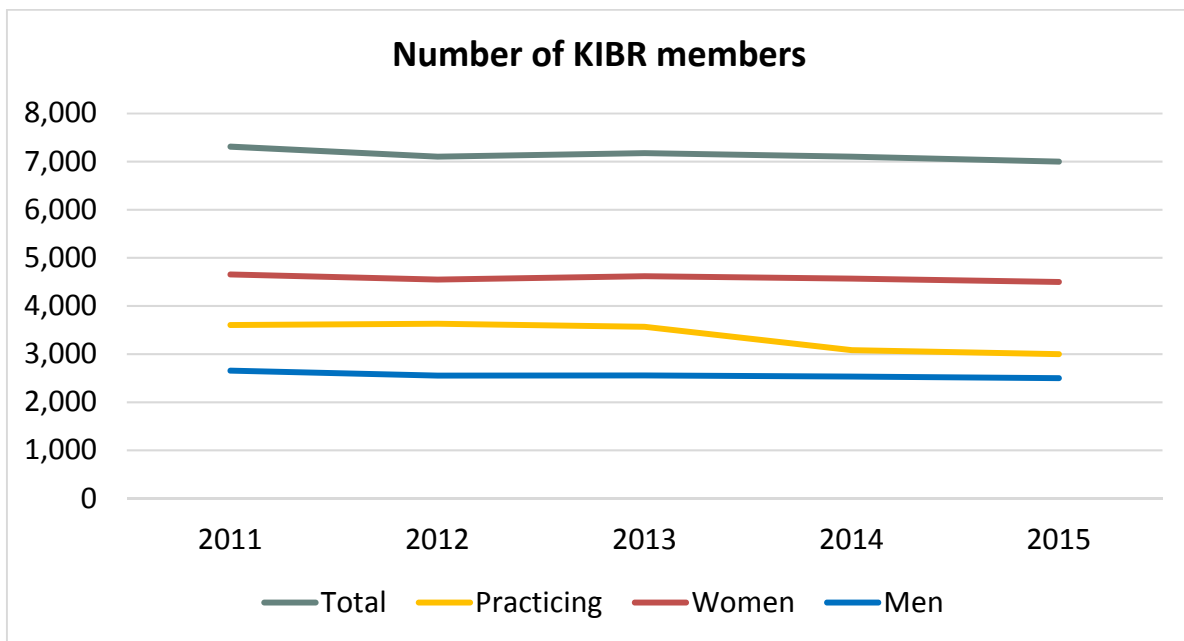
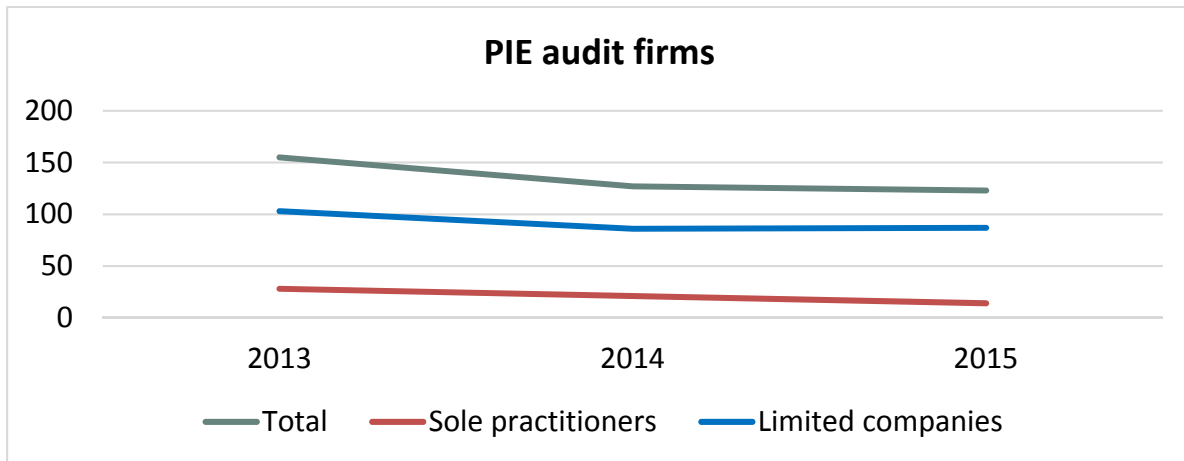
The following table provides statistics on audit firms in Poland⁷.

Description, as at 31 December	2015	2014	2013	2012	2011
Number of audit firms	1,612	1,647	1,669	1,704	1,784
of which the following are:					
• Sole practitioners	911	950	973	1,006	1,087
• Private limited liability companies	585	586	584	591	589

⁷ Source: KIBR, KNA reports: <http://www.mf.gov.pl/ministerstwo-finansow/dzialalnosc/ciala-kolegialne/komisja-nadzoru-audytowego/sprawozdania>

Description, as at 31 December	2015	2014	2013	2012	2011
• Limited partnerships	43	38	33	31	33
• Other legal forms	73	73	112	76	75
Number of new audit firms registered in the year	77	86	85	68	99
Number of firms de-registered in the year	96	109	151	149	127
Number of authorized audit firms which audit PIEs					
of which the following are:					
• Sole practitioners	14	21	28	bd.	bd.
• Private limited liability companies	87	86	103	bd.	bd.
• Limited partnerships	13	12	12	bd.	bd.
• Other legal forms	9	8	12	bd.	bd.
Number of KIBR Members					
of which the following are:					
• Holding practicing certificates	3,151	3,083	3,568	3,632	3,606
• Women	4,569	4,568	4,620	4,549	4,655
• Men	2,517	2,535	2,558	2,555	2,656
Number of new auditors registered in the year	202	157	236	174	323
Number of auditors de-registered in the year	219	196	162	407	496





The number of audit firms and practicing auditors has declined between 2011 and 2015 by 10 and 13 percent respectively. The reduction in audit firm numbers results from a reduction in the number of sole practitioners, with the number of limited liability company audit firms staying relatively constant.

The number of auditors who hold practicing certificates is also decreasing. There are almost twice as many women KIBR members as men.

2.3. Information on 20 leading Polish audit firms

The following table provides information on 20 of the leading audit firms in Poland. These 20 firms are included in the 2015 ranking of leading audit firms published by the

Rzeczpospolita newspaper. The audit fee income shown in the table is the amount given in the firms' annual Transparency Reports; this amount is further broken down into three sub-categories where the split is indicated in the Transparency Reports. The data presented is taken from the firms' 2015 annual Transparency Reports, though different firms chose different reporting dates within 2015.

There are other analyses of 'audit fee income', such as those in the Rzeczpospolita newspaper table, which differ significantly from the amounts shown in the table. These differences result from a range of factors such as including amounts for assurance activity that is not specifically reserved for registered auditors, and differences in the bases of including amounts of network audit fees from audits which international network firms undertake on their behalf. As a result of these uncertainties in the bases of the published audit fee incomes, the table lists the audit firms alphabetically rather than ranking them.

The Act on Auditing defines that non-audit activities that can be performed by auditors in addition to core audit activities, including the following (these are the non-audit fees that are reported in audit firms' transparency reports):

- 1) maintenance of accounting books and tax registers;
- 2) tax counselling;
- 3) conduct of bankruptcy and liquidation proceedings;
- 4) publishing or training activity within the scope of accounting, audit and taxes;
- 5) preparation of expert opinions or economic and financial opinions;
- 6) provision of certification services, counselling and management requiring knowledge in the area of accounting or audit;
- 7) provision of services foreseen in the auditing standards, as well as other services reserved in separate provisions for performance by statutory auditors.

Name	Location	Number of PIE audits	Number of audit staff ⁸	Total income PLN'000	Audit fee income PLN'000	Audit of financial statements PLN'000	Review of financial statements PLN'000	Other assurance services PLN'000
4 Audyt	Poznań	N/A	N/A	4,198	3,664 ⁸	N/A	N/A	N/A
BDO	Warsaw	40	99	51,847	15,872	13,791	1,336	744
Deloitte Polska	Warsaw	233	491	542,646	81,389	70,918	6,756	3,715
Ernst & Young Audyt Polska sp. z o.o. sp.k.	Warsaw	288	630	646,015	98,105	88,280	7,308	2,517
GK Rewit Księgowi i Biegli Rewidenci	Gdańsk	10	23	7,104	1,448	1,892	66	158
<i>Rewit Księgowi i Biegli Rewidenci</i>	<i>Gdańsk</i>		<i>14</i>	<i>4,704</i>	<i>1,575</i>	<i>1,410</i>	<i>66</i>	<i>74</i>
<i>Rewit Południe</i>	<i>Bielsko-Biała</i>		<i>9</i>	<i>1,886</i>	<i>972</i>	<i>482</i>	<i>0</i>	<i>84</i>
Grant Thornton Frąckowiak	Poznań	32	68	52,037	10,743	9,505	744	494
Grupa Gumułka-Audyt	Katowice	N/A	N/A	7,344	3,746 ⁸	N/A	N/A	N/A
Grupa ISP Modzelewski i Wspólnicy	Warsaw	N/A	12	25,900	1,194 ⁸	N/A	N/A	N/A
Grupa PKF Consult	Warsaw	71	126	20,861	9,436	7,845	1,191	400
Grupa Revision Poland	Katowice		31	10,900	5,100 ⁸	N/A	N/A	N/A

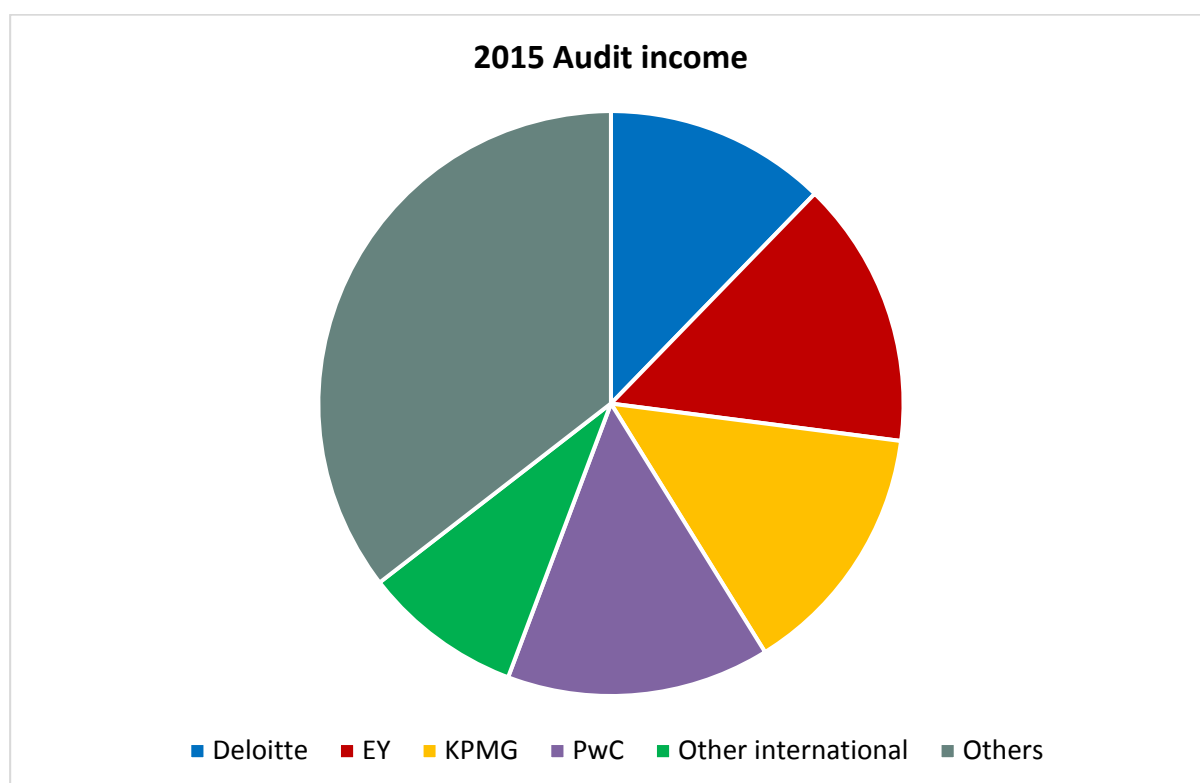
⁸ data from Rzeczpospolita newspaper rank

Name	Location	Number of PIE audits	Number of audit staff ⁸	Total income PLN'000	Audit fee income PLN'000	Audit of financial statements PLN'000	Review of financial statements PLN'000	Other assurance services PLN'000
<i>KPFK dr Piotr Rojek</i>	<i>Katowice</i>	11	25	5,400	2,800	2,029	315	116
<i>Revision-Rzeszów Józef Król</i>	<i>Rzeszów</i>			4,740	131 ⁸	N/A	N/A	N/A
<i>Idea Audyt</i>	<i>Poznań</i>			796	541 ⁸	N/A	N/A	N/A
Grupa UHY ECA	Kraków	69	116	8,703	5,290	4,275	640	375
<i>UHY ECA Audyt</i>	<i>Kraków</i>	69	42	4,909	3,940	2,948	640	352
<i>Auxilium Audyt</i>	<i>Kraków</i>	0	74	1,435	1,350	1,327	0	23
HLB M2 Audyt	Warsaw	N/A	N/A	4,659	2,898	2,442	188	268
KPMG	Warsaw	228	706	501,000	93,687	77,716	4,940	11,031
Mazars Polska	Warsaw	47	65	45,000	12,179	11,864	265	50
MW Rafin	Sosnowiec	19	41	2,584	2,048	1,828	133	87
Pol-Tax	Warsaw	N/A	68	3,540	2,889 ⁸	N/A	N/A	N/A
PwC	Warsaw	202	508	580,928	96,582	88,500	6,539	1,543
Rödl & Partner	Warsaw	N/A	N/A	11,577	9,000	8,628	355	16
RSM Poland KZWS	Poznań	N/A	34	15,800	7,000 ⁸	N/A	N/A	N/A
TPA Horwath Horodko Audit	Poznań	4	30	6,463	3,464	3,137	307	20

Similar to many other audit markets worldwide, four international network firms have the largest market share. According to published Transparency Reports, the top four firms have audit fees in the range of PLN 80-100,000, while audit fee incomes for the next seven largest firms are in the range of PLN 7-16,000.

The audits of 1,254 PIEs are covered by the 13 audit firms listed in the table above, which have provided information on the number of PIE audits they perform. These 13 firms include the international audit network firms in Poland.

There were 1,992 PIEs in 2015, up from 1,383 in 2014. The remaining 738 PIEs not covered by the 13 audit firms must be audited by the other 110 audit firms which report that they audit PIEs (123 audit firms audited PIEs in 2015, including 14 sole practitioners).



2.4. Information on the audits of the Warsaw Stock Exchange (GPW) 20 largest companies (WIG20) ⁹

Company name	Sector	2014 Total assets	2014 Sales	Auditor	2015			2014		
		PLN' 000	PLN' 000		Length of tenure	Audit fees PLN' 000	Other assurance PLN' 000	Non-audit PLN' 000	Audit fees PLN'000	Other assurance PLN'000
Assecco Poland	IT	10,679,600	6,231,900	EY, 13 years	1,000	-	-	1,400	-	-
Alior Bank	Banking	30,168,100	2,581,920	PwC, 2 years	430	330	-	430	-	150
Bank Zachodni WBK	Banking	134,502,000	7,934,380	Deloitte, 5 years	1,540	2,029	199	1,813	2,048	20
CCC	Retail trade	1,794,230	2,009,060	PwC, 8 years	339	-	126	284	-	82
Cyfrowy Polsat	Media	27,381,200	7,409,900	PwC, 5 years	1,700	-	600	1,800	-	2,000
ENEA	Energy	18,108,000	9,885,400	KPMG, 4 years	139	-	41	183	-	-
Energa	Energy	18,116,700	10,590,600	PwC, 2 years	59	74	225	41	239	-
Eurocash	Retail trade	5,361,500	16,963,800	KPMG, 9 years	480	220	18	400	200	85
KGHM	Materials	40,374,000	20,492,000	PwC, 6 years	3,741	625	4,373	3,283	716	2,048
LPP	Retail trade	2,933,730	4,769,290	GT, 12 years	90	50	392	90	50	239
Grupa Lotos	Oil & gas	18,947,200	28,501,900	EY, 6 years	1,575	799	429	1,475	1,746	625

⁹ Source for Total assets & Sales: <http://www.inwestinfo.pl/analiza-finansowa/wyniki-finansowe>

Company name	Sector	2014 Total assets PLN' 000	2014 Sales PLN' 000	Auditor Length of tenure	2015			2014		
					Audit fees PLN' 000	Other assurance PLN' 000	Non-audit PLN' 000	Audit fees PLN'000	Other assurance PLN'000	Non-audit PLN' 000
mBank	Banking	117,986,000	5,355,860	EY, 3 years	2,759	-	1,007	2,893	-	1,700
Orange Polska	Telecom	22,104,000	12,212,000	EY, 1 year	2,090	2,100	302	3,856	1,094	8
Bank Pekao	Banking	167,625,000	8,761,570	Deloitte, 3 years	3,351	1,827	-	3,397	1,454	-
PGE	Energy	66,201,000	28,143,000	KPMG, 9 years	1,244	-	232	1,326	-	826
PGNiG	Oil & gas	48,926,000	34,304,000	PKF, 3 years	120	471	-	120	471	7
PKN Orlen	Oil & gas	46,725,000	106,832,000	KPMG, 11 years	5,000	-	700	4,800	-	2,100
PKO Bank Polski	Banking	248,701,000	14,639,400	KPMG, 1 years	1,250	2,090	34	1,540	2,568	2,597
PZU	Insurance	67,572,800	16,884,600	KPMG, 2 years	1,488	248	27	714	248	27
Tauron PE	Energetics	34,559,200	18,577,500	Deloitte, 3 years	652	556	505	577	613	-
Total					29,047	11,419	9,210	30,422	11,447	12,514

2.4.1. Audit fees

Audit fees vary considerably, from less than PLN 100,000 up to PLN 3-5 million.

Similarly, there are marked differences in the amounts of non-audit and other assurance fees: in some cases, there is no fee while in others, the amount exceeds the audit fee. Some of the audit fees appear unrealistically low. This raises the significant potential risk that audits of very large entities in which there is a public interest may not be performed to a high quality. Where fees are very low, audit firms may either use insufficient resources to complete a fully ISA-compliant audit or would incur a large economic loss on the audit. Audit firms are unlikely to bear a recurring economic loss unless it is compensated by other profits, such as the provision of non-audit services which can, however, materially affect audit independence and will be restricted under the new legislative requirements.

Examples of 'outliers' in terms of lower audit fees from the above table include:

- Energa, an energy company with assets of PLN 18.1bn and sales of PLN 10.6bn, which has an audit fee of just PLN 59,000;
- LPP, a retail company with assets of PLN 2.9bn and sales of PLN 4.8bn, which has an audit fee of PLN 90,000; and
- PGNiG, an oil and gas company with assets of PLN 48.9bn and sales of PLN 34.3bn, which has an audit fee of PLN 120,000.

2.4.2. Audit tenure

Only three of the auditors of the top 20 listed companies have been auditors for more than 10 years, with many having held such a position for five years or less. The new regulations requiring audit firm rotation after 20 years would not appear to be likely to cause significant disruption to the audits of leading listed companies in Poland.

2.5. Accounting and audit education in Poland

This section provides information about the professional education of auditors in Poland.

2.5.1. Responsibility for audit qualifications in Poland

As per the Polish Act on Statutory Auditors (AoSA), in order to be eligible for entering the statutory auditors register, a person must, among others requirements, pass the statutory auditor exams and pass a final certification exam (Diploma Exam).

KIBR determines, in the form of resolutions approved by the KNA, the following:

- a framework schedule for conducting qualification proceedings, place and date of examinations for candidates;
- a detailed thematic scope of examinations;
- the amount of fees for individual examinations and amount of remuneration for members of the Examination Commission (EC);
- the manner of appointing examiners and the amount of their remuneration;
- the conditions for granting exemptions;
- the principles for documenting practice and internships;
- the scope, manner and principles of other tasks indispensable for the correct operation of the Examination Commission and qualification proceedings for candidates for statutory auditors.

The independent Examination Commission (EC), established by the Minister of Finance, is responsible for structuring and organizing official exams, including drafting the professional examination questions and granting exemptions. The EC also oversees the practicing certification process and requires adequate documents confirming the professional experience of the candidates. Candidates have to complete a one-year practical internship in accounting in an EU country and an internship of at least two years under the guidance of a statutory auditor, as a means of practical preparation for practicing the profession autonomously.

The statutory auditor exams consist of test questions and situational tasks, covering the following 10 examination subjects (art. 9 AoSA):

- 1) theory and principles of accounting;
- 2) principles of preparing financial statements, including consolidated financial statements;
- 3) International Financial Reporting Standards;
- 4) financial analysis;
- 5) cost accounting and management accounting;
- 6) risk management and internal control;
- 7) auditing;
- 8) standards of auditing;
- 9) professional ethics and independence of statutory auditors; and
- 10) legal requirements pertaining to the audit of financial statements as well as statutory auditors and entities authorized to audit financial statements.

These requirements are consistent with those of the EU Statutory Audit Directive. A Ministry of Finance (MoF) Qualifications Decree opens the possibility of granting exemptions from the first 10 professional exams by, for example, passing them with a tuition provider (e.g. university). The EC is responsible for overseeing the process of granting exemptions and of exemption accreditation. A rigorous process to assess tuition providers is to be established. As a result, there would only be one mandatory final professional exam – the Diploma exam – to be taken through the Examination Commission route, should maximum exemptions be obtained.

The Diploma exam, as per the AoSA, tests the practical application of the theoretical knowledge demonstrated in the first examination stage. As outlined in the MoF Qualification Decree article 15, the Diploma exam consists of two parts:

Part 1. A three-hour written analysis of selected areas to demonstrate practical application of the technical knowledge required to perform statutory auditor duties, and in particular: auditing single or consolidated entity financial statements; recognizing audit risk; developing audit strategy; selecting and applying adequate auditing methods and techniques when auditing financial statements, including documenting the work, writing the audit opinion, preparing the audit report and resolving ethical matters; applying professional judgment to solving business issues; assessing the adequacy of policies and procedures of internal audit function in the auditing firm; and communication and reporting.¹⁰

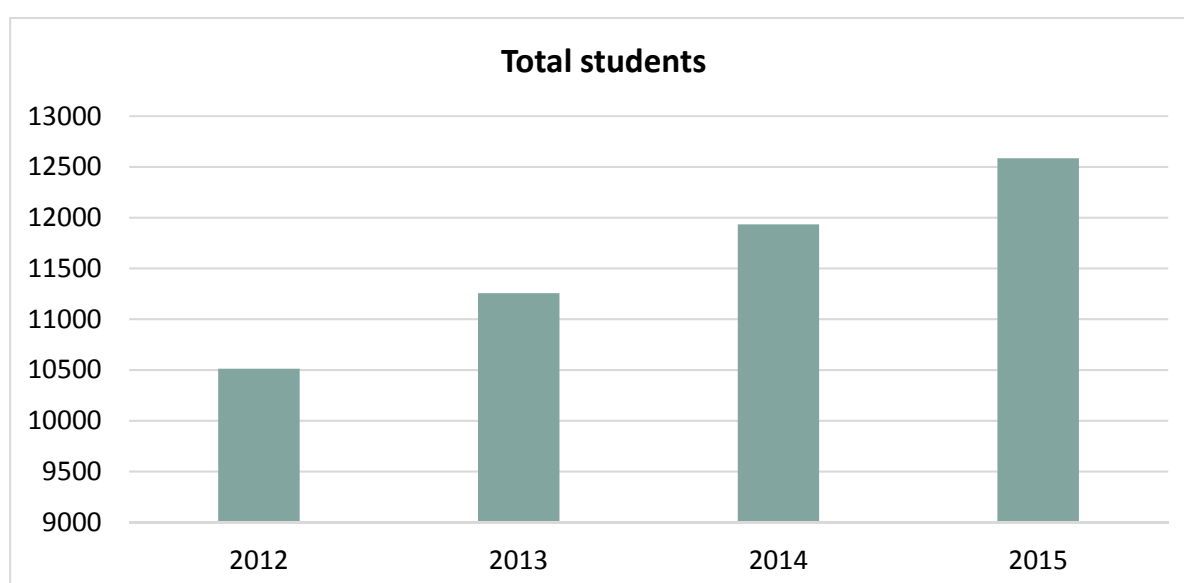
Part 2. A maximum 30-minute oral component comprising two questions, one of which relates to the written part of the Diploma exam. The candidate cannot refer to Acts or any other legislation, professional literature or guidance materials.

2.5.2. Data on the number of audit students in Poland

Education provider/Institution	2015	2014	2013	2012
KIBR				
Number of students (candidates)	12,585	11,934	11,256	10,512
• Female students	8,534	8,115	7,612	7,205
• Male students	4,051	3,819	3,644	3,307
• Number who have passed all 10 statutory auditor exams	759	876	1,019	1,055
• Number of candidates sitting the Diploma Exam	73	329	245	185

¹⁰ Although included in the decree, this description does not necessarily incorporate all the subjects that would normally be included in the professional level exams, such as advanced financial accounting, advanced financial management, etc.

Education provider/Institution	2015	2014	2013	2012
• Number of candidates passing the Diploma exam	71	298	231	176
• Students aged 20-30	3,872	4,259	4,121	3,93
• Students aged 31-40	5,216	4,986	4,802	4,514
• Students aged 41-50	2,553	1,968	1,654	1,441
• Students aged over 50	944	721	679	627
Number of students recruited in the year	1,041	971	996	1,050



The number of KIBR students/candidates has increased steadily between 2012 to 2015 by around 20 percent. The number of students recruited each year is relatively constant, standing at around 1,000 in 2015. Compared to the number of students studying for other accounting qualifications such as ACCA, KIBR has a high number of candidates studying for the audit qualification.

The number of students who have completed all 10 of the statutory audit exams and who are, in effect, waiting to sit the final Diploma exam has decreased from 1,055 in 2012 to 759 in 2015. However, a new format for the Diploma exam was adopted in 2015 and only 71 candidates were able to successfully sit the revised exam. At this rate, it would take over 16 years for all candidates currently on the waiting list to have sat the Diploma exam, while more candidates will join the waiting list each year.

3. PERCEPTIONS OF AUDIT IN POLAND

This section sets out the results of a number of interviews and surveys which explored perceptions of audit in Poland. A selection of key stakeholders was chosen for this exercise to give a perspective that is as wide and in-depth as possible from users, practitioners and regulators of audit.

3.1. The targeted group

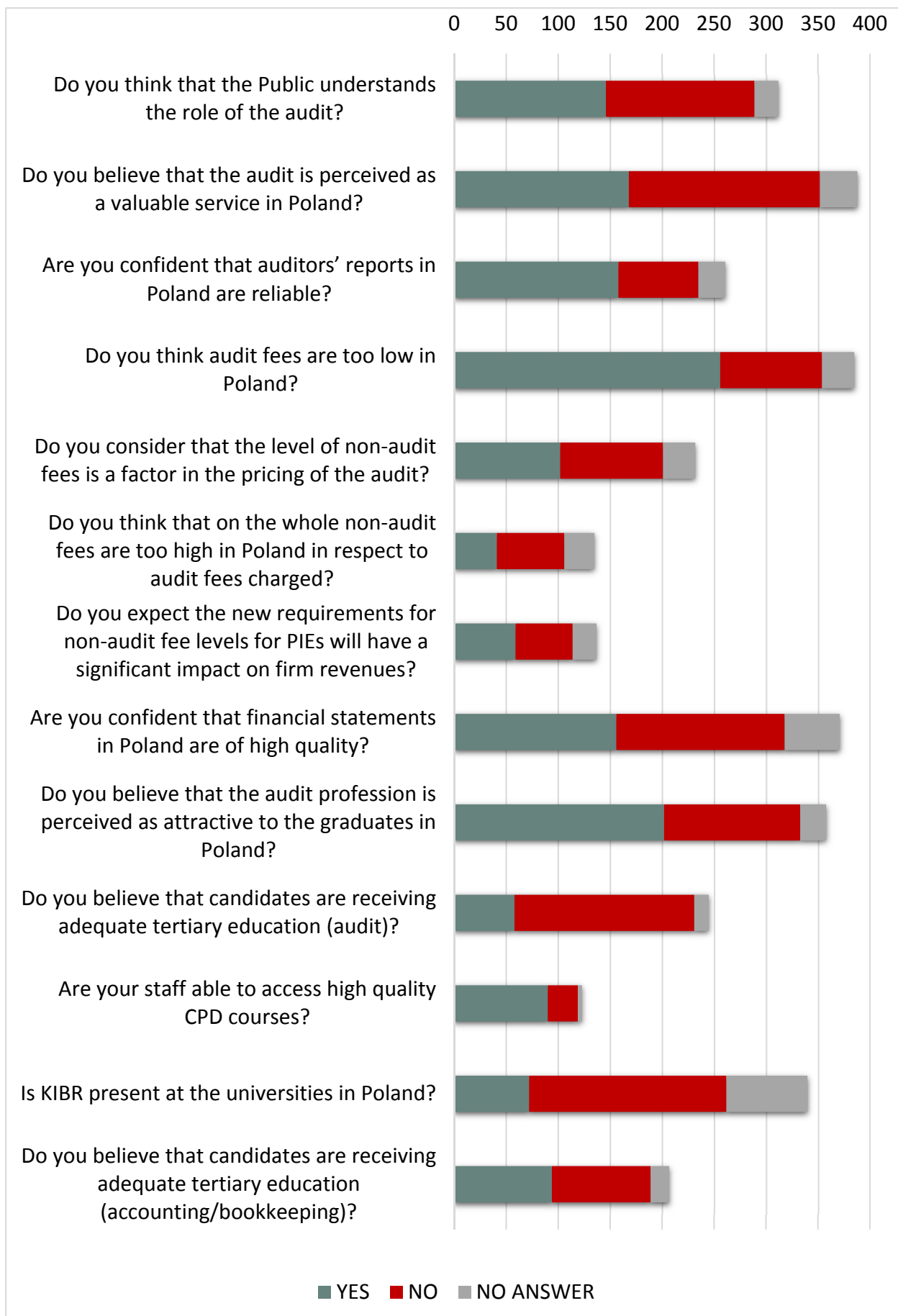
The following were interviewed and/or surveyed:

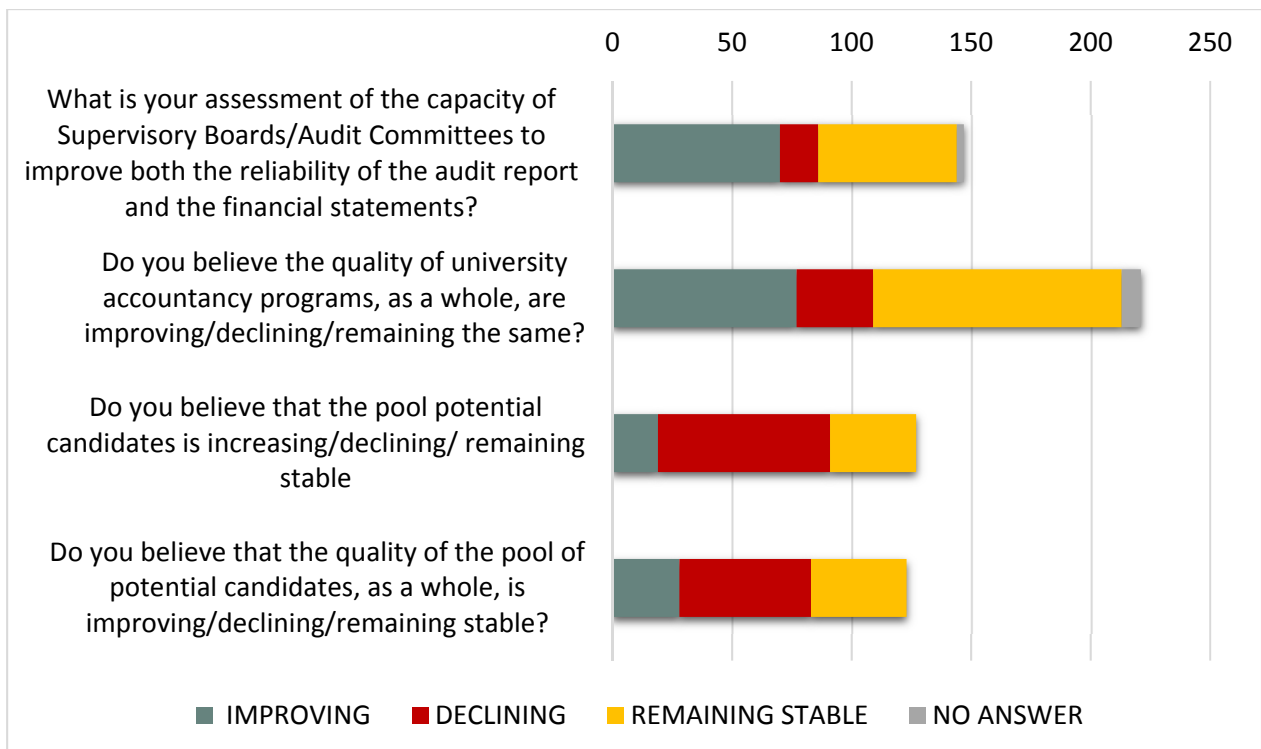
- 5 Company Directors, including finance directors;
- 6 Institutional Investors;
- 6 Chairs and members of audit committees;
- 9 Audit practitioners, including partners of large and small audit firms;
- 5 Regulators and trade associations;
- 4 Accounting educators, professional bodies etc.;
- 81 University students;
- 122 KIBR members; and
- 153 KIBR students.

Some groups were not asked questions that were either irrelevant or could lead to a conflict of interest.

3.2. Overview of the results

The results of the main questions asked in the interviews and surveys are as follows:





3.2.1. Key messages

While the interviewees were not all asked the same questions, some key messages emerged. These include:

- **Audit is often seen as a compliance requirement with little understanding or perception of the value of audit. Audit opinions do not appear to be valued by the market – even qualified opinions have little effect. Larger companies were perceived to value the audit more than smaller, owner-managed companies, although the latter was more likely to value the auditor’s guidance and advice.**

One partner at a non-Big-4 international network firm noted: *“Investors in the Polish stock exchange do not take the auditor opinion seriously – I did a going concern qualified opinion but the price of shares did not change at all. The company went bust soon after. The perception of investors is that it is not unusual to have a qualified opinion. Nobody cares.”*

- **A recent prolonged price war has resulted in low audit fees, which are possibly too low in some cases for an effective audit to be conducted.**

One audit practitioner noted: *“We are hopefully at the end of the 8-10-year price war. It’s a very competitive market. The war happened as value was not perceived. It is the auditor’s fault as we competed on price.”*

- **Audit committees or Supervisory Boards responsible for audit are improving but from a very low base – problems include low remuneration and family appointees, leading to low financial competence levels on some boards.**

One interviewee noted: *Supervisory Boards/Audit committees are starting from a low level and so, in this context, improvement is from a fairly low bar. Some listed entities are small/medium and do not have much capacity in their governance structures.*

- **The new audit oversight regulations will bring costs but the benefits are not well understood. The key to achieving the intended audit quality improvements is for KNA to have competent and experienced auditors performing inspections.**

Tertiary education in audit was widely held to be poor and inadequate. Respondents noted that in the relatively infrequent cases where students had studied audit as part of their degree, they still had to learn from the most basic level once they started working in a professional environment.

Some issues produced contrasting views from different stakeholder groups. For example, a large majority of current practicing auditors and KIBR members believed that graduates do not consider auditing to be an attractive profession, whereas the students and KIBR candidates themselves held the opposite view.

A senior audit partner at an international network firm noted: *“The attractiveness of the profession, and thus quality of entrants, is much reduced from 10-15 years ago. New entrants are less happy with having to train for 4-6 years before achieving some reward - they want quicker returns.”*

The following sections provide more details of the responses to the main question areas.

3.3. Public understanding of the role of audit

Audit aims to provide confidence and assurance to users of financial information that the information is reliable so that investment and other business decisions can be made on the basis of reliable information. Public understanding of the role of audit is key as to whether audit is providing this assurance successfully.

Interviewees and survey participants were asked for their overall views on their perception of the public’s understanding of the role of audit, and whether company management, investors, owners and other key stakeholders understood the role of audit.

Views expressed include:

- Forty-seven percent stated that they thought the public understands the role of audit; 46 percent said they did not believe that public understood the role well; 7 percent were unsure;

- There was a general view that the public and companies view audit, particularly smaller audits, as a legal and compliance requirement (i.e. a 'formality'), an imposed burden, and do not see the potential benefits of the audit;
- Auditors believe they have to explain and educate national companies on the role of audit; international companies understand the role better;
- Some participants believed the role of audit was becoming well understood and contributed to wider transparency. Some commented that it depended on the size of the audited company – smaller entities believed that an audit checks taxes. Other participants stated that the public view auditors like the police, or there to control the accounts;
- Some respondents noted that there was a perception that in the case of larger companies, auditors controlled the accounts and facilitated creative accounting and even fraud. Discussion with the 'public' is needed to address this;
- Other respondents noted that some of the public thought that the audit not only gave assurance over the accuracy of the financial statements but also guaranteed the solvency of the audited company and the non-existence of fraud.

3.4. Perceptions of the value of audit

In addition to providing assurance to users of financial information, audit can add further value through the process of an independent review of a company's financial systems and processes. Assessing public understanding of the actual and potential value of audit can help auditors and their regulators to understand how audit is perceived.

Interviewees and survey participants were asked for their overall perception of the public's understanding of the value of an audit. They were also asked whether they believed that company management, investors, owners and other key stakeholders understood the actual and potential value of an audit.

Views expressed include:

- Fifty-four percent stated that they thought audits were perceived as a valuable service in Poland; 47 percent said they did not believe that audits were perceived as valuable; 9 percent were unsure;
- The perceived value often depends on the ownership structure. An owner-managed company was more valuable if the auditor provided mentorship/advice to the CFO;
- There were mixed views on whether institutional investors valued the audit service. Some believed that even qualified audit opinions were ignored by the market, with no impact on the share price;

- There was a general belief that audit added value though management letter-style comments provided to audited entities. Some users only value the clean report and nothing else. Larger investors and companies seem to value audit more and ask more of their auditors. Greater value is perceived where auditors act as an adviser and understand the business that they audit.

3.5. Perceptions on confidence on the reliability of the audit report

For audit to deliver assurance on financial information, users of that information must have confidence on the reliability of the audit report and the audit work that backs the report. Participants were asked for their views on their perceptions of the level of confidence in audit reports and the audit work done in Poland. The following summarizes their views:

- Sixty percent said that they thought there was confidence, in general, in the reliability of audit; 30 percent stated that they did not believe there was such confidence; 10 percent were unsure;
- There were some reservations about the ability of auditors to fully understand complex transactions/deals;
- There was a belief that the audits of banks and audits performed by international audit firms were generally reliable;
- Independence is often easier for larger companies; in small companies the auditor is close to management;
- A concern was raised that more junior staff perform the bulk of the audit due to price pressure, with less specialists involved. Audit is reliable from a formal perspective but not in respect of broader considerations;
- Audits by smaller firms are less reliable – some are just rubber stamping the accounts. Some respondents noted that older auditors often did not understand how to apply risk-based auditing.

3.6. Audit and non-audit fees

The level of audit fees is important as unrealistically low audit fees can indicate that auditors may not be devoting sufficient time and resources to perform an adequate and effective audit. A downward trend in audit fees over a sustained period is a risk factor that audit regulators around the world need to consider in assessing risks to audit quality. In addition, the relationship between the audit fees and non-audit fees which an auditor receives from

an audit client is important due to the risk that such non-audit fees may impact the independence of the auditor in carrying out the audit.

Participants were asked for their views on the level of audit fees and whether non-audit fees had any impact on the pricing of audits or had the potential to cause a conflict of interest. The following summarizes their responses:

- Sixty-seven percent said they thought that audit fees are too low; 25 percent said they did not believe that to be the case; 8 percent were unsure;
- There is a general perception that audit fees are low compared with other countries following a recent sustained price war. Some believe the fees are often too low for a quality audit to be performed;
- One major listed company had a low price ‘E-Bay’ style bidding contest to obtain the lowest possible price;
- The view was expressed that increased regulation will increase the audit fees;
- Companies view audit as an additional tax and do not appreciate the value, so they try to minimize the cost. Audits of similar companies can vary hugely, in the range of PLN 3,000 to 50,000. Audit fees for the top 20 listed companies vary from PLN 59,000 to PLN 5million;
- Attempts to introduce a minimum price for an audit were frustrated by the competition authorities; and
- There is little support for any link between non-audit and audit fees, except perhaps for larger international audit networks.

A senior audit partner from a mid-tier international network audit firm noted: *“The price of an audit is connected to quality – we have a problem with low prices as clients cannot see the advantages of the audit service so they don’t value it highly.”*

3.7. The role of audit committees/supervisory boards

Audit committees (AC), whose role can be taken by a Supervisory Board (SB), play an important part in the audit process. They help to mitigate the potential conflict of interest where the auditor needs to establish a good relationship with management yet is accountable to audit management’s estimates. The effectiveness of ACs is important for effective audits and assurance, and it is important for regulators and others to understand how well audit committees fulfil their role, both currently and following the new legislation which will further expand their responsibilities.

Participants were asked for their views on whether the capacity of ACs to fulfil their role was improving, declining or remaining static, and whether they had the necessary financial skills and experience.

- Forty-nine percent of respondents said that they believed the capacity of ACs was improving; 11 felt it was declining while 40 said it remained stable;
- There was a general view that the capacity of AC/SB's is improving but from a very low starting point. There remains a wide range of how well the AC/SB interacts with the auditor and how well the AC/SB understands the audit;
- Local models of governance were often held to be less effective than international models. Polish companies struggle more with effective and independent governance arrangements than international companies;
- There was a view that AC/SB membership is just a formal role for compliance purposes, with no focus on the substance of supervision. It was noted that there are also related political risks since some appointments are political and not necessarily merit-based;
- The composition of the AC/SB is an important issue. Any requirement to include more people on the AC/SB with direct experience and audit knowledge would be an improvement.
- Low remuneration of SB members is a significant issue. Low pay levels indicate that the role of the AC/SB is not taken very seriously, restricts the ability to attract and recruit board members with the necessary financial capabilities and experience and limits the amount of work AC/SB members will carry out;
- The new requirements regarding the independence of AC/SB will be a challenge for many Polish companies which currently have family members of the leading shareholder(s) on the board;
- One view was that the slow pace in building the capacity of AC/SBs set against the rapid increase in requirements and expectations has resulted in declining compliance and capacity. There is a need for members of AC/SBs to have some direct responsibility to force change.

3.8. Perceptions of the developments in audit oversight and supervision

It is important for audit regulators to know how the market perceives what they are doing and how new regulations are expected to affect the audit market. Participants were asked for their views on how the new requirements from the legislation soon to be enacted would affect the audit market. Responses include:

- Sixty-seven percent felt that the new audit oversight system will improve audit quality; 30 percent said they did not believe that to be the case; 3 percent were unsure.
- There was a view that the new requirements would have little effect on audits of financial sector entities;
- Additional responsibilities for audit committees to directly supervise the audit, and the new requirement for two financially experienced members on ACs/SBs should lead to improvements;
- However, the new requirements will bring added costs and it is not clear if these can be shared by the auditors with the market. Benefits of the additional costs are also not clear.
- Investments are needed to improve audit quality but low fees may not allow such investment.
- It is crucial that the KNA supervision, including inspections, is technically competent and not too formal as has been the case with some similar agencies in the past. Some respondents noted that, in their view, the KNF's recent improvement in the competence and relative informality of their regulatory approach would be a good example to emulate;
- The impact of new regulation may be to drive small audit firms out of the market; and
- Outsourcing work between auditors and the ability of non-auditors to oversee audit work are concerns; such behavior needs regulatory attention.

3.9. How audit is perceived as a career and the attractiveness of the profession

Participants were asked whether they believed that the audit profession is perceived as attractive to graduates in Poland.

- Overall, 56 percent of respondents noted that they believed the audit profession to be attractive to graduates; 37 percent believed it was not attractive; 7 percent were unsure.
- Different groups had contrasting views. Among KIBR members and auditors, 26 percent believed it to be attractive compared with 60 percent who believed it not to be attractive. However, among students and KIBR candidates, the opposite view was prevalent, with 72 percent regarding the profession as attractive and only 25 percent not considering the audit profession as attractive;
- Many audit partners have indicated that the profession is declining in popularity – not only financially. The new generation of potential auditors have different interests and

are not focused solely on work. Many talented graduates are seeking opportunities elsewhere, including working abroad.

3.10. Other key issues

Participants were asked if they believed whether graduates were receiving adequate tertiary education in audit. Seventy-one percent said no, 24 percent said yes and 5 percent gave no answer. However, a higher percentage regarded tertiary education on accounting and bookkeeping as adequate – 45% agreed it was adequate against 46% believing it to be inadequate. Audit partners generally agreed that where graduates had been taught audit as part of their degree, which was not often, the teaching was of little relevance to their subsequent role in audit: they had to be taught to audit from the beginner’s level.

Fifty-six percent of respondents did not believe KIBR had a presence at universities; 21 percent believed KIBR were present; 23 percent gave no answer. KIBR engages in efforts to promote the profession at universities. This is important for securing high quality entrants to the profession to ensure the quality and competence of future audit practitioners. However, the survey responses suggested that more can be done in this area.

Seventy-three percent of respondents agreed that their staff could access high quality CPD courses; 24 percent said they could not; 3 percent did not answer.

