



**FRTAP  
POLAND**  
FINANCIAL REPORTING  
TECHNICAL ASSISTANCE  
PROGRAMME



**CHAMBER OF AUDITORS OF POLAND:  
INSTITUTIONAL ANALYSIS**



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## ABBREVIATIONS AND ACRONYMS

**CURRENCY:** POLISH ZŁOTY (PLN)

1 USD = 3.80 PLN as of September 30, 2015

1991 Act	1991 Act on Auditing
2009 Act	2009 Act on Auditing
CEO	Chief Executive Officer
CE KIBR	[KIBR's] Education Centre
CFO	Chief Financial Officer
CFRR	[World Bank] Centre for Financial Reporting Reform
CPD	Continuing Professional Development
EU	European Union
ExC	[MoF-appointed] Examination Commission
FRTAP	[Swiss-financed] Financial Reporting Technical Assistance Program
IAASB	International Assurance and Auditing Standards Board
IAESB	International Accounting Education Standards Board
IES	[IAESB's] International Education Standards
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
KIBR	Chamber of Auditors of Poland
KKN	[KIBR's] National Supervisory Commission
KKR	[KIBR's] National Internal Audit Commission
KNA	[MoF-appointed] Audit Oversight Commission
KRBR	[KIBR's] National Council of Statutory Auditors
KRD	[KIBR's] National Disciplinary Spokesperson (prosecutor)
KSD	[KIBR's] National Disciplinary Court
KSR	Accounting Standards Committee [at the MoF]
KZBR	[KIBR's quadrennial] National Assembly of Statutory Auditors
MoF	Ministry of Finance
NCQCA	[SKwP's] National Council of Qualified Chartered Accountants
PIE	Public Interest Entity
PLN	Polish Złoty
QAS	Quality Assurance System
ROSC	Report on the Observance of Standards and Codes
SKwP	Association of Accountants of Poland
SMOs	[IFAC's] Statements of Membership Obligations



## EXECUTIVE SUMMARY

- i. **The structures and means of financing of the Chamber of Auditors of Poland (KIBR) which might have been appropriate at the time of its formation have only marginally changed to incorporate its new responsibilities.** KIBR was created as a separate legal entity and its structures and means of financing were copies of those in place at the Polish Association of Accountants (SKwP) from which it was created. Since then, KIBR's responsibilities have grown significantly, primarily as a result of changes to Polish legislation introduced to reflect increased European Union (EU) requirements relating to statutory audits, but KIBR as an institution has remained essentially the same.
- ii. **KIBR has limited powers when compared to its EU peers with many of its decisions requiring approval from the Audit Oversight Commission (KNA) or prior approval from the Examination Commission (ExC).** For example, all aspects of initial professional development as well as KIBR's quality assurance function are tightly controlled by the ExC and KNA but these matters would be better delegated entirely to KIBR with the KNA overseeing KIBR on a **periodic** review basis for delegated tasks rather than as currently on a decision-by-decision basis. Notwithstanding that KIBR is legally constituted as a body of professional self-government<sup>1</sup>, the same legislation has constrained KIBR's ability to control key factors affecting its scope of activities, governance, structures, processes and procedures that KIBR is rendered less a body of professional self-government and more an administrative arm of the MoF, the KNA and the Examination Commission ExC. Also, the MoF, the KNA and the ExC can and do make significant administrative demands of KIBR without full consideration of costs and benefits as well as without reference to or accountability for an agreed budget or expenditure framework.
- iii. **Many KIBR members are anxious for the future of the institution.** They see substantial income being raised for quality assurance, perceive that the KIBR Office uses a considerable amount of resources and they see a significant reduction in the range of activities offered by their regional offices **which** they regard as valuable particularly in respect of social activities. They also perceive they are being required to comply with one-size-fits-all CPD requirements that are not appropriate for a substantial proportion of KIBR members who are not practicing statutory auditors. As a result, KIBR members expressed their considerable discontent with KIBR's predicament at the 2015 quadrennial National Assembly of Statutory Auditors (KZBR). Amongst other things, they: elected a new President to replace the previous long-standing incumbent; effectively removed representatives of the so-called Big 4 international audit networks from the National Council of Statutory Auditors (KRBR) and other KIBR commissions; and devised a very long list of very specific action

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<sup>1</sup> The term, "professional self-government", is a direct translation of the term used in Polish legislation for an entity with a specific legal form. An entity of professional self government operates to all intents and purposes as would an entity more commonly referred to in other jurisdictions as a self regulatory organization with the difference being that such a self regulatory organization might take one of many legal forms.

points for the KRBR to implement rather than, as had been the practice at previous KZBRs, devising a broad framework of issues for the KRBR to consider.

- iv. **KIBR's governance arrangements continue to be more appropriate for a common interest group to discuss common issues and socialize rather than also for a group with significant professional and legal obligations.** With the exception of the KIBR's President who very recently started receiving a salary, the other members of KIBR's commissions are volunteers. Volunteering in and of itself is not a bad thing but for an institution of the size and with the responsibilities of KIBR the cadre of volunteers needs to be balanced with permanent technical, professional and administrative staff. There is currently an over-reliance on the administrative staff of the KIBR Office to perform tasks that would be better suited to a technical and professional cadre of staff. The KIBR Office for its part has a very high workload to service KIBR's volunteer workforce as well as KIBR's key external stakeholders, the KNA and the ExC.
- v. **Overall, KIBR is broadly compliant with the Statements of Membership Obligations (SMOs) of the International Federation of Accountants (IFAC) as well as its International Education Standards (IESs)<sup>2</sup> of the International Accounting Education Standards Board (IAESB) but there is much that undermines that compliance.** Quality assurance (SMO 1) utilizes a weak compliance-based methodology. Audit and related standards (SMO 3) need to be updated to reflect updated international standards. The Polish Principles of Ethics (SMO 4) need to be revised to reflect the IFAC's revised Code of Ethics of the International Ethics Standards Board for Accountants (IESBA). The investigation and disciplinary system (SMO 6) needs: formally documented operating procedures; a new **process** for the independent review of alleged breaches of discipline that are not referred to a disciplinary hearing; and independent non-accountant members of the National Disciplinary Court. With respect to education (SMO 2 and all IESs): the ExC should be moved to and become an integral structure within KIBR under the oversight of the KNA; initial professional development qualification requirements needs to be reformulated to include greater specificity of the required technical competences, professional skills, and professional values, ethics and attitudes; and the examination process should be more transparent to include the publication of past examination papers.
- vi. **Whilst it is clear that KIBR could and should make considerable improvements in the way it operates, the primary constraint on KIBR is the legislative framework in which it is compelled to operate.** KIBR urgently **needs** amendments to its legislative framework to grant it greater freedom to be able to: take and execute decisions without continual reference to the KNA and the ExC; and hire a Chief Executive Officer and other professional and technical staff to take on the substantive work of KIBR and its commissions and thereby reduce the workload of volunteer KIBR members.

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<sup>2</sup> SMOs and IESs are considered benchmarks of good practice for IFAC member bodies to assist them in ensuring high quality performance by professional accountants.



vii. **Recommendations from this institutional analysis relating to the legislative framework could be incorporated at the same time that the legislation is revised to incorporate the EU's new audit framework.** In mid-2014, the EU adopted a new audit framework comprising a new Audit Directive and Audit Regulation. EU member states are required to implement the new audit framework from 17 June 2016. This will require EU member states **including** Poland to amend relevant audit legislation.

viii. The main areas for **consideration** arising from this report are summarized below.

- **In respect of KIBR's legislative basis and oversight:**
  - The Act on Auditing should be amended: to require the KNA to oversee KIBR on a periodic review basis for delegated tasks rather than as currently on a decision-by-decision basis; to make the ExC an integral structure within KIBR under the oversight of the KNA; and take account of the impact of its proposed financing by KIBR of the KNA on the financial position and sustainability of KIBR.
- **In respect of KIBR's internal governance and staffing arrangements:**
  - KIBR's President and members of its [statutory] commissions should be rotated in a manner so as to maintain institutional knowledge and memory.
  - KIBR's governance arrangements should be realigned to better correspond with its mandate and responsibilities especially those that are delegated.
  - KIBR's President, KRBR and commissions should more clearly take charge of all matters relating to KIBR.
  - KIBR should be supported by a full-time cadre of professional and technical staff.
- **In respect of KIBR's finances:**
  - KIBR should develop a strategy to put KIBR on a sustainable financial footing including revisiting its income from membership fees and quality assurance as well as the financial position of its many regional offices by closing those that are not viable.
  - KIBR's commissions and departments with authority to spend should be made much more explicitly and directly accountable for their budgets.
- **In respect of KIBR's operational systems and procedures:**
  - KIBR should upgrade its financial, operational and document management systems; devise operational procedures and manuals; devise detailed and specific job descriptions; and select and appoint KIBR staff in a transparent manner.
- **In respect of KIBR's roles and responsibilities as a professional accountancy body:**
  - KIBR should consider its categories of membership (e.g. member, fellow, associate, affiliate, accounting technician, student, trainee, on extended leave, retired) and on

that basis develop competency profiles for each including that of a practicing statutory auditor.

- KIBR needs to update its website through which the public may access the public register of auditors to ensure the information available on that website is consistent with the requirements of the Act on Auditing and the EU Statutory Audit Directive and Regulation.
- KIBR's quality assurance function should be strengthened including implementing a revised quality assurance methodology. (This activity is being addressed separately through the FRTAP).
- The investigation and disciplinary system needs: formally documented operating procedures; a new process for the independent review of alleged breaches of discipline that are not referred to a disciplinary hearing; and independent non-accountant members of the National Disciplinary Court.
- The education framework for aspiring and professional accountants should be updated to reflect the competence-based approach required by the revised International Education Standards and include: greater specificity of the required technical competences, professional skills, and professional values, ethics and attitudes; and a more transparent examination process including the publication of past examination papers.
- In respect of CPD, KIBR needs to: formulate CPD requirements commensurate with the professional activities of its various types of members; and establish a scheme to acknowledge and recognize CPD delivered other than by KIBR-accredited bodies.

# 1. PREFACE

1. This report is produced within the framework of the Swiss-financed Financial Reporting Technical Assistance Program (FRTAP or the Program) for Poland that is implemented by the World Bank Centre for Financial Reporting Reform (CFRR). FRTAP is part of the broader Swiss Contribution to Reduce Economic and Social Disparities within the enlarged European Union for the 2004 and 2007 cohorts of new EU Member States (the Enlargement Contribution). The main objective of the Program is to support Poland in putting in place sustainable regulatory and institutional frameworks which (i) correctly implements the *acquis communautaire* in the field of corporate sector financial reporting; (ii) properly monitor and enforce the application of the *acquis* in practice; and (iii) provide necessary education and training of individuals responsible for those tasks. The FRTAP specifically provides for a “comparative report on professional organizations of statutory auditors. This study is to be used to work out a new model for the chamber governance”. This institutional analysis is the FRTAP-referred study.
2. This report was prepared by consultants, Ranjan Ganguli and Aleksandra Rytko on the basis of fieldwork in September 2015 and April 2016 under the guidance of Andrei Busuioc, Senior Financial Management Specialist, and Jarett Decker, Senior Financial Management Specialist, of the CFRR. The consultants acknowledge the extensive and open cooperation and assistance received while researching and drafting this report particularly from KIBR but also from the MoF. The team wishes to thank Henri Fortin, Head of the CFRR, John Hodge, Senior Financial Management Specialist, Iwona Warzecha, Sector Leader for Financial Management Europe, and Waldemar Majek, Consultant, for their comments and valuable inputs for the draft report.
3. The report is draft. After review by the MoF/KNA and KIBR, and their consent, the report will (or may) become publicly available. It is a product of the consultants and staff of the International Bank for Reconstruction and Development / The World Bank. The findings, interpretations, and conclusions expressed in this paper do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent.

## 2. OBJECTIVES AND METHODOLOGY

4. This institutional analysis has the following major objectives: to provide policy options to KIBR on the areas remarked on and raised in previous analytical reports, notably the Accounting & Auditing (Update) ROSC report of December 2013; to provide policy options to KIBR on the areas that it is specifically considering and for which it devised a questionnaire and to which it collected replies from peer European professional accountancy organizations; and to assess KIBR's performance against matters suggested by IFAC as important in the establishment and development of a professional accountancy body.
5. This assessment benchmarks KIBR against the good practice guidance about the role of the accountancy profession and the role and responsibilities of professional accountancy bodies as provided in IFAC's 2010 *Guide to Establishing and Developing a Professional Accountancy Body*<sup>3</sup>. It also benchmarks KIBR against the IFAC's Statements of Membership Obligations as well as its International Education Standards which are considered benchmarks of good practice for member bodies to assist them in ensuring high quality performance by professional accountants.

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<sup>3</sup> See <http://www.ifac.org/publications-resources/establishing-and-developing-professional-accountancy-body>

### 3. BACKGROUND

6. KIBR is one of two professional accountancy organizations in Poland that is a member of the IFAC. It is also a member of the European Federation of Accountants. KIBR was founded in 1992 and as of end-2014 had 7,178 members having declined by 5 percent from its 2002 level of 7,547. The right to conduct statutory audits of financial statements is reserved for members of KIBR. KIBR has a number of additional responsibilities: including setting auditing and ethical standards, carrying out training activities, and protecting the professional interests of its members. KIBR has a relatively complex organizational structure including its headquarters in Warsaw and 27 regional branches.

## 4. PART ONE: ESTABLISHING A PROFESSIONAL ACCOUNTANCY BODY

### 4.1. Considerations in establishing a professional accountancy body

7. **In the 1990s, Poland tried to align its legislation with that of western European countries. As a result, the profession of statutory auditors was reintroduced into Polish law together with a body of professional self-government, KIBR.** The regulatory framework for KIBR was modeled on those of other bodies of professional self-government, being bodies to help regulate public interest professions such as doctors, lawyers and architects. However, this approach did not build upon the institutions already in place and the work performed since 1959 by the MoF, its then-Exam Commission as well as the SKwP in terms of examining prospective auditors and maintaining a list of them. For example, in 1989, the SKwP had established the National Council of Qualified Chartered Accountants (NCQCA) within its structure specifically for qualified auditors in order that it may demonstrate to IFAC that its members were professional accountants
8. **Thus, KIBR was created by the 1991 Act on Auditing (1991 Act) as a separate legal entity and its structures and means of financing were copies of those in place at the SKwP from which it was created.** Indeed, not only were NCQCA members grandfathered into KIBR but for its first eight years, KIBR and the SKwP had the same President. This had quite a few consequences, the impact of which continues to be felt to this day. In particular:
  - a. The SKwP had a very active social calendar. Many KIBR members continue to regard an active social calendar as being central to KIBR and regard those aspects of KIBR relating to its statutory obligations, and in particular, quality assurance, as non-core and even as a drain on its resources.
  - b. The SKwP was run and managed by volunteer members assisted by a comparatively small permanent administrative work force and hence so too was KIBR. Some KIBR members also believe that its permanent administrative work force should also be small even though the statutory obligations of KIBR are significantly greater than that of the SKwP.
  - c. Like the SKwP, KIBR has many regional offices, each with its own bureaucracy including president and committees, each with its own bank account and accounting systems, and each being funded by 75-90% of the membership fees collected by KIBR in respect of the members affiliated to that branch. Both the SKwP and KIBR have fairly low membership fees however the SKwP has four times as many members and supplements the income of its regional offices from the delivery of a significant amount of training courses. The majority of KIBR's regional offices have very little additional income (the notable



exceptions being in respect of the training courses offered by the Warsaw, Cracow, Poznań, Łódź and Gdańsk offices) which together with the comparatively low number of members places a significant administrative and financial burden on the offices. Hence the majority of KIBR's 27 regional offices are in a state of terminal financial decline as they try to live within reducing financial means.

- d. The present ExC continues as an undertaking of the MoF. KIBR representation on the ExC comprises a minority of seven of the total of 19 and as such the ExC remains very much a body external to KIBR. The ExC also continues to require the administrative support of KIBR without reference to any agreed budget framework but rather, exam fees and compensation of ExC members are specifically regulated by law. In addition, KIBR's resolutions on content and timing of Initial Professional Development as well as many aspects of the daily operation of the ExC require prior consultation with the ExC.
- e. Mirroring the relationship with the ExC, and as discussed further below in this report, the KNA also appears to make significant administrative demands of KIBR without reference to any agreed budget framework. The MoF, in its recent proposals to amend the Act on Auditing, seemed in the first proposed draft to take little account of the impact of its proposed financing by KIBR of the KNA on the financial position and sustainability of KIBR.

## 4.2. Legislation

9. **KIBR is legislated by the 2009 Act on Auditing (2009 Act), being the latest successor to the 1991 Act, which plays a critical role in terms of shaping KIBR's: relationships with other bodies and organizations; governance, management and internal processes; and finances.** Refer to annex 1 which presents extracts from the 2009 Act relating to these three sets of issues. Taking each of the three main aspects in turn:

### 4.2.1. Legislative impact on KIBR's relationships with other bodies and organizations

10. **The 2009 Act sets out very specific and detailed roles, responsibilities and complex relationships between statutory auditors, KIBR and its constituent commissions, the MoF, the MoF-appointed KNA and the MoF-appointed ExC.**
11. **The consequence of the legislation on KIBR's relationships with other bodies and organizations is that KIBR has limited powers when compared to its EU peers with many of its decisions requiring approval from the KNA or ExC. The degree of collaboration required with these other bodies renders KIBR less an organisation of professional self-government but rather a tightly controlled administrative arm of the MoF. In consequence and for the sake of illustration, KIBR annually records over 600 pieces of**

formal correspondence just with the KNA in addition to the likely significant amount of informal correspondence. It is understood that, unique amongst all Polish bodies of professional self-government, the supervision of KIBR includes approval of resolutions, appeal against resolutions or objection of registration resolutions. Further, it is understood that no other Polish body of professional self-government is subject to similar levels of intense scrutiny by a supervisory body or ministry nor has as much formal and informal correspondence. Notwithstanding that KIBR's self-governance structure is similar to that of other bodies of professional self-government, the team is of the view that this structure which is prescribed by law could be revised to give KIBR the flexibility to organize itself more appropriately. Such flexibility would enable KIBR to have additional permanent commissions (e.g. the ExC) as well as modified mandates for existing permanent commissions (e.g. the KKR).

#### BOX 1

In the Netherlands and the UK, neither of the professional oversight bodies are involved in the decision-making processes of their professional accountancy bodies nor do they ratify those bodies' decisions. In Germany, the only area of the chamber's decision-making in which the professional oversight body is involved is in respect of quality assurance inspections although this differs markedly from the situation in Poland because in Germany the professional oversight body performs all quality assurance inspections, the findings of which are then sent to the chamber for action.

12. **Perhaps rather than require the KNA to oversee KIBR on a decision-by-decision basis as is currently the case, the 2009 Act could be reformulated to require the KNA to oversee KIBR on a periodic *ex post* review basis.** This is the approach taken by all major EU public oversight bodies in respect of the professional bodies that they oversee. The EU's PIE Regulation of 2014 explains that *"in order to ensure a high level of investor and consumer confidence in the internal market by avoiding conflicts of interests, statutory auditors and audit firms should be subject to appropriate oversight by competent authorities which are independent from the audit profession and which have adequate capacity, expertise and resources. Member States should be able to delegate or allow their competent authorities to delegate any of the tasks of those competent authorities to other authorities or bodies except, for PIE audits and PIE auditors, those tasks related to the quality assurance system, investigations and disciplinary systems. ... The national competent authorities should have the necessary powers to undertake their supervisory tasks, including the capacity to access data, obtain information and carry out inspections."* It is believed that no other EU member state's professional bodies are subject to the same level of intense scrutiny and oversight by their public oversight bodies as is KIBR by the MOF, KNA and ExC. The manner in which leading EU member states, including Germany, the Netherlands and the UK, implement the statutory audit directive and PIE regulation in respect of oversight of the profession does

not lead to approvals of resolutions, appeals against resolutions or objections of registration resolutions. These countries' public oversight bodies periodically inspect the professional bodies *ex post* to assure themselves that all the things the professional bodies are and should be doing are being done to a satisfactory standard. The public oversight body, the KNA, could develop a KIBR-specific periodic inspection program to assure itself *ex post* that all the things KIBR is and should be doing are being done to a satisfactory standard. Further, the KNA could intervene and also require *ex ante* interventions only in high risk areas or where KIBR's performance is cause for concern. The current mode of operation to oversee KIBR on a decision-by-decision basis is excessively onerous, time-consuming and expensive for the KNA and KIBR alike.

#### 4.2.2. Legislative impact on KIBR's governance, management and internal processes

13. **The 2009 Act sets out in great detail KIBR's governance, management and internal processes, the consequence of which is that KIBR has significantly pre-determined governance, management and internal processes that are not fully aligned with its objectives.** See section 4.3 below for further discussion and analysis.
14. **KIBR's President and all members of its [statutory] commissions are elected at every quadrennial KZBR and as such there is a significant rotation of elected KIBR officials every four years which can and does result in a significant loss of institutional knowledge and memory as well as continuity in terms both of strategy and direction.** KIBR's President and members of its [statutory] commissions should be rotated in a manner so as to maintain institutional knowledge and memory as well as continuity in terms both of strategy and direction. This could be done by, for example, convening annual rather than quadrennial KZBRs at which a quarter of all positions are rotated off and filled by newly elected officials on fresh four-year appointments. Institutional knowledge and memory would also be strengthened with a strong executive function – see discussion below in paragraph 25.

#### 4.2.3. Legislative impact on KIBR's financing

15. **The 2009 Act establishes many parameters relating to KIBR's finances without regard to KIBR's financing requirements, the consequence of which is that KIBR cannot charge fees based on needs and the costs of meeting its legal obligations.** Rather, its income is prescribed by legislation with formulae which do not necessarily correlate well with its financing needs for those obligations. Notwithstanding the current financial status of KIBR, this means that the limits in the law are fixed and there are no means embedded in the regulations for regular review and update to ensure that the limits set are still reasonable and link to actual costs.

16. **The MoF, the KNA and the ExC can and do make significant administrative demands of KIBR** without full consideration of costs and benefits as well as without reference to or accountability for an agreed budget or expenditure framework. See section 4.4 below for further analysis.

#### BOX 2

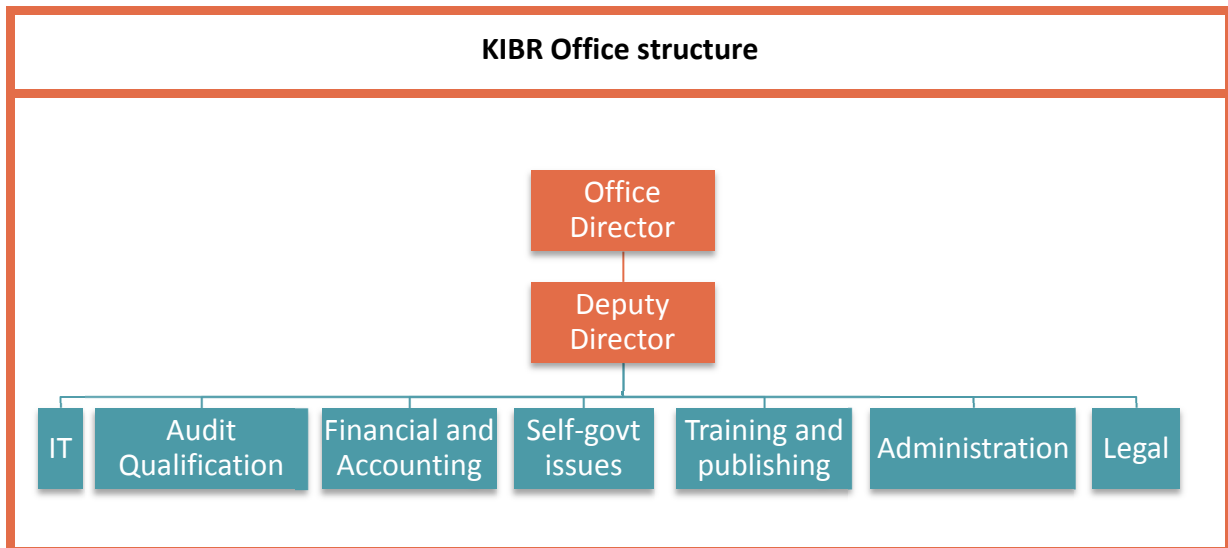
In Germany, the Netherlands and the UK, none of the professional oversight bodies require administrative support from their chambers or professional accountancy bodies. The professional oversight bodies make only regular and ad hoc requests for information for the purposes of their oversight.

### 4.3. Governance, committees, and management structure

17. **The 2009 Act compels KIBR to establish specific statutory commissions with Heads, Deputy Heads and commission members elected from amongst KIBR's members by and at the quadrennial National Assemblies** including the following:
- the KRBR - to manage KIBR and execute resolutions of the KZBR;
  - the KSD - to consider disciplinary matters;
  - the KRD - to act as prosecutor on disciplinary matters brought to the KSD;
  - the KKN - to implement KIBR's quality assurance system; and
  - the KKR - to control the financial operations of KIBR and report to the KZBR on the implementation and status of KZBR resolutions;
18. In addition, the following non-statutory commissions were established by the KRBR and comprise Heads, Deputy Heads and commission members selected from amongst KIBR's members:
- records - to maintain the register of statutory auditors;
  - training - to advise on all CPD related matters;
  - financial - to oversee KIBR's finances;
  - ethics - to adopt a code of ethics for KIBR members;
  - international cooperation,
  - legal acts - to review and comment on Polish legislation having an impact on statutory auditors and KIBR;
  - standardization of services provided by auditors - to provide KIBR members with up-to-date translations and guidance on implementation of standards; and

h. communication - to oversee the communication strategy of KIBR.

19. **KIBR has a so-called “Office” of around 55 permanent staff that is, from a legal and formal perspective, managed by the President with the assistance of an Office Director although for practical purposes it is effectively managed by the Office Director.** In addition, the KIBR Office employs a considerable number of individual contractors most of whom are contracted as quality assurance inspectors for the KKN. The KIBR Office comprises the following departments:



20. **KIBR’s governance arrangements do not correspond very well to its mandate and responsibilities. The governance arrangements continue to be more appropriate for a common interest group to discuss common issues and socialize rather than also for a group with significant professional and legal obligations.** With the exception of KIBR’s President who very recently started receiving a salary, other members of KIBR’s various commissions are volunteers who receive no remuneration save for nominal attendance fees, per diems and travel expenses. Volunteers in and of themselves are not a bad thing but for an institution of the size and with the responsibilities of KIBR the cadre of volunteers needs to be appropriately balanced with permanent technical and administrative staff. This current balance seems to be the result primarily of evolution rather than design. When KIBR was first formed in the early 1990s, the obligations imposed on it were not as onerous as they are now. The governance arrangements adopted initially by KIBR to comprise commissions led by volunteer members were copied from the SKwP and were not inappropriate for its range of activities at that time. However, KIBR’s elected structure has only evolved very marginally to accommodate its additional statutory obligations, particularly with respect to the legal requirements first introduced in the late-2000s to work with the then-established KNA and develop more rigorous and intensive quality assurance systems.

21. **The KIBR Office has a high administrative workload to support the KNA and ExC.** As IFAC notes, “committees constituted by volunteers can add value to professional accountancy bodies. Nevertheless, providing appropriate support to committees and working groups can consume a large amount of administrative resources. It is important to keep formalities to a minimum, limit the number of committees and working groups, and ensure that they are focused on actions and outputs that will achieve the organizations objectives”. Although the KIBR Office was initially small and focused primarily on supporting KIBR’s KRBR and commissions, it later grew significantly to support KIBR’s new and onerous relationships with its external stakeholders, particularly the KNA and ExC. The table below presents a summary of the volume of transactions and documents handled annually by the KIBR Office:

**Number of transactions and documents handled annually by the KIBR Office<sup>4</sup>**

KIBR Office department	No. of employees	Annual no. of document pages	No. of document pages per employee per month
IT	3	31,650	880
Audit Qualification	5	31,000	517
Finance and Accounting	7	41,000*	488
Self-government issues	11	92,600	702
Training and publishing	3	21,600	600
Administration	6	95,300	1324
Legal	3	11,500	319

\*Many documents contain long lists of individual items which are processed separately. This number excludes transfer documents between KIBR’s systems, IP 24 and SIMPLE ERP.

22. **The relationships between, on the one hand, the various departments of the KIBR Office, and on the other hand, the KRBR, KIBR’s commissions as well as KIBR’s external stakeholders are not well aligned and entirely clear.** Many of the heads and members of the KIBR’s commissions are unaware of which particular departments or staff of the KIBR Office are providing or supposed to provide them with support.

23. **The hands-off, informal and volunteer ethos of KIBR’s KRBR and commissions effectively forces the KIBR Office to make decisions because the absence of decisions would almost certainly result in significant problems for KIBR.** It would seem fair to conclude that the KIBR Office operates the way it does because of the way the elected KIBR and its commissions operate. The KNA and ExC in particular have significant power and influence over KIBR and as such require significant amounts of information and support from KIBR that only permanent staff such as those employed by the KIBR Office can provide in a timely

<sup>4</sup> Source: KIBR Office



manner. Whereas, elected but volunteer members of KIBR's KRBR and commissions cannot. Thus, some of the staff and departments of the KIBR Office seem to report directly to external stakeholders without first consulting or acting in accordance with clear delegation from a KIBR commission, sometimes because there is no responsible KIBR commission (e.g. on matters relating to the ExC) but sometimes even though there is a responsible KIBR commission (e.g. on matters relating to the KNA).

24. **That all key positions of KIBR, its KRBR and commissions are filled by volunteers also creates other problems** including: volunteers have only limited incentives to perform and attend to matters of importance to KIBR and therefore are often reluctant to make difficult decisions; volunteers face real and apparent conflicts of interest between their roles within and roles outside KIBR; independently wealthy KIBR members are more likely to assume key positions at KIBR whereas other very capable yet less independently wealthy KIBR members are likely to be deterred from seeking office because they cannot afford to forego income from their day jobs; and volunteers have less institutional memory than would full-time staff which results in little continuity and coherence of approach between the quadrennial elected KRBR and commissions.
25. **The President and KIBR have no cadre of full-time professional and technical staff to implement KIBR's professional and technical responsibilities.** As said earlier, from a legal and formal perspective, the President manages the KIBR Office and its cadre of permanent administrative staff as it executes KIBR's administrative responsibilities. Whilst the President can turn to the KRBR and KIBR's commissions for help in forming policies and positions, these bodies comprise volunteers. IFAC makes the observation that "in a small organization, committees, supported by volunteers, may perform tasks which in a larger organization would be delegated to staff". IFAC further notes that "the sustainability of any organization is significantly affected by the quality of the management of its operations. As soon as resources allow, the council should appoint a full-time [Chief Executive Officer (CEO)] to assume responsibility for the day to day management of the organization. The CEO fulfils a leadership role for the professional accountancy body, leading the organizations achievement of its strategic objectives, defined by the President and [KRBR], and responsible for the conduct of the day-to-day affairs of the body. The CEO is a strategic partner of the [KRBR]. The CEO should attend all [KRBR] meetings and report on the implementation of policy and strategic issues, operations and performance against strategic objectives, including financial performance against budget. The CEO works in close cooperation with the President in presenting to [KRBR] informed and sound recommendations for action. Although the President is primarily responsible for representing the professional body and present its mission and role to the membership and the public, the CEO can support the President and represent him in this role, when needed".
26. **KIBR needs to consider, in conjunction with revisions to its financing framework, the extent to which its President, the KRBR and other commissions should be supported by a**

**full-time cadre of professional and technical staff.** This would likely include a CEO and Chief Financial Officer (CFO) thus leaving KIBR volunteers free from onerous implementation responsibilities and able to focus on policy development and monitoring.

27. **either KIBR's commissions nor its Office correlate very well to its functions.** This leads to gaps between as well as overlapping functions. Thus, and for example: (i) KIBR is obliged to service the ExC but there is no KIBR commission to manage this relationship but rather this is left to a department of the KIBR Office; and (ii) there is no commission within KIBR that includes the specific remit to monitor whether KIBR members' have fulfilled their CPD requirements but rather this is left to a department of the KIBR Office even though there is a non-statutory KIBR commission, the Training Commission, which attends to matters of CPD content.
28. **KIBR's President, KRBR and commissions should more clearly take charge of all matters relating to KIBR. KIBR commissions should be clearly aligned with KIBR's tasks. The structure of the KIBR Office should be more clearly aligned with and subordinate to KIBR's commissions and should not purport to represent KIBR on any matters without expressly delegated authority from those commissions including and especially on matters relating to powerful external stakeholders such as the MoF, the KNA and the ExC.**
29. **Serious consideration should be given to the sustainability of KIBR's many regional offices with hard decisions perhaps being required to change their role, structure and financing or even to close those that are simply not viable.** As discussed earlier, KIBR has approximately 27 regional offices, each with its own bureaucracy including president and committees, each with its own bank account and accounting systems, and each being funded by 75-90% of the membership fees collected by KIBR in respect of the members affiliated to that branch. Also as stated earlier, the majority of these regional offices are in a state of apparent terminal decline as they try to live within their reducing financial means. It is possible that some of the activities currently undertaken by regional offices could be more efficiently and in a more cost-effective manner be undertaken by the KIBR head office e.g. development and delivery of CPD training courses. Perhaps the regional offices' main role could be that of social integration or maintaining a local social calendar.

#### 4.4. Financing the body

30. **There is considerable anxiety about KIBR's financial position. Also, only little activity is undertaken to analyse and remedy the situation including, if necessary, making the case for a change to KIBR's model of financing.** Since 2010, KIBR's audited financial statements have shown losses. KIBR's regional offices have undergone a considerable reduction in the level of their activities in order to keep afloat. However, other than financial projections for its quality assurance activities, KIBR has not prepared any medium-term financial

projections for the organization as a whole to help facilitate discussions and any necessary remedial action.

31. In the absence of financial projections prepared by KIBR, in order to help form an understanding of KIBR's financial position, Annex 2 presents a simplified 2015-2020 projection that was compiled by the authors of this report based on the latest known proposals on the new audit legislation. The highlights from that projection are presented in the table immediately below:

<b>KIBR Financial Forecast 2015-2020 – Highlights (PLN'000)</b>							
	<b>Actual</b>	<b>Plan</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Total loss</b>	(1 419)	(1 480)	(997)	(1 150)	(685)	(1 389)	(407)
<b>Net assets</b>	35 768	34 288	33 289	32 141	31 456	30 067	29 660
<b>of which:</b>							
<i>Cash balance</i>	10 541	9 267	9 293	10 457	10 719	10 277	10 816

32. **Notwithstanding its continued loss-making position, KIBR does not maximize its income.** As discussed above, the 2009 Act establishes many parameters relating to KIBR's finances including permitting KIBR to charge auditors of PIEs up to 2% of their audit fees for KIBR's quality assurance. KIBR only actually charges 1.75%. In addition, in respect of its membership fees which are not legislated, KIBR's members continue to demand in their National Assembly that fees remain low despite concerns about the low level of support provided to them by KIBR and in particular by KIBR's regional offices.
33. **Although there is an annual budgeting process, most KIBR commissions are not fully aware of the budgets allocated to them and regard budgeting as well as accountability for budget performance as the responsibility of the accounting department.** Further, the annual budgeting process is essentially an incremental budget formulated on the basis of past years' performance rather than also on the basis of a fuller review of the activities and needs of the commissions and organization including by reference to a strategic plan. Finally, there appears to be little in the way of monitoring actual performance against budgets. Reports on actual performance are produced in formats that are not comparable with the formats in which the individual commissions' budgets are produced and they are in any event not shared with the relevant commissions and spending departments. KIBR's commissions and departments with authority to spend should be made much more explicitly and directly accountable for their budgets and actual performance and should also be given regular reports to be able to monitor their position and performance.

34. **KIBR’s method of allocating administrative overheads may exaggerate the financial impact of KIBR’s initial examination and quality assurance system (QAS) activities.** In particular, KIBR allocates overheads only to and based on the salaries incurred for oversight, examination and trainings & publishing activities. The consequence is that no overheads are allocated to self-governing activities financed through membership fees. Additionally, KIBR appears to include certain costs within overheads that could be considered direct costs rather than overheads:

<b>KIBR Overheads (PLN'000)</b>		
<b>Overheads</b>	<b>2014 actual</b>	<b>2015 plan</b>
Office employees’ salaries	2 833	2 572
Materials and maintenance	1 037	1 202
Depreciation and amortisation	824	947
International cooperation (IFAC and FEE)	828	870
Organisation of the Assembly	7	530
Lawyers salaries	428	418
KRBR	315	391
Promotion and communication	325	383
Guest rooms and parking	74	70
Commission to provide feedback on legal acts	35	52
KKR (Internal Audit Commission)	17	30
Business cars	24	30
Finance Commission	19	25
International Cooperation Commission	7	25
Other	335	496
<b>Total</b>	<b>7 109</b>	<b>8 041</b>

35. **A more equitable allocation of overheads would likely reduce the apparent losses from QAS activities, examination and trainings & publishing activities and turn the small apparent profit from self-governing activities into a loss.** KIBR should urgently revisit its management accounting system including revisiting its allocation of overheads in order that it may produce more useful management information and consequently better understand and address its financial position including perhaps whether there is possibility to reduce the costs and/or generate revenues other than based on fees from members.

36. **The MoF, primarily through the KNA and ExC, make significant administrative demands of KIBR including those of an ad hoc nature without reference to an overall budget framework.** This creates significant financial uncertainty and strain on KIBR which is currently financing its losses from accumulated reserves. From the perspective of the MoF, KNA and ExC, it creates a considerable risk that KIBR will be unable to execute the tasks delegated to it. KIBR needs to have more autonomy and related accountability for tasks that are delegated to them. The competent authority would in this case indirectly oversee KIBR's performance and withdraw delegation if it is found to be unsatisfactory.
37. **The financial and operational systems at KIBR require urgent upgrading.** The bookkeeping system, SIMPLE ERP, is not serving the needs of KIBR. It was apparently chosen primarily because of its low initial cost rather than its functionality as well as ongoing service, maintenance and operational costs. It does not give ready access to the information required to enable KIBR's finances to be properly managed. As discussed earlier, the financial reports are produced in formats that are not comparable with the formats in which the individual commissions' budgets are produced.
38. **There are no operational procedures and manuals including of a financial management nature to describe the main processes and responsibilities within KIBR,** not just for the various departments of the KIBR Office but also for KIBR's various commissions and regional offices.
39. **There are only very general job descriptions for KIBR staff and the process for selecting and appointing KIBR staff is not transparent.**
40. **The document management system, MIS IP24 Document Flow System, is inadequately implemented and utilized.** More specifically: very few senior members of KIBR use the system; some departments merely use the system to obtain formal document reference numbers rather than also to file electronic copies of the documents themselves; and various internal subsets of the system are not linked with the result that, for example, users have to look at various subsets of the system to obtain all information pertaining to a single KIBR member.
41. As discussed earlier, KIBR's regional offices are in a state of apparent terminal financial decline. As such, serious consideration should be given to their sustainability with hard decisions perhaps being required to change their role, structure and financing or even to close those that are simply not viable.

## 5. PART TWO: ROLES AND RESPONSIBILITIES OF A PROFESSIONAL ACCOUNTANCY BODY

### 5.1. Membership requirements

42. **KIBR only has one membership classification category, being that of a Statutory Auditor, rather than a few membership classification categories.** One unfortunate consequence of this approach is that the 2009 Act requires all KIBR members annually to undertake approved CPD activities irrespective of whether they are actively engaged in audit or whether they are part of the 50% or so of KIBR members who are actively engaged in unrelated fields or inactive including being retired. Following on from this, many KIBR members fail to meet their CPD requirements and accordingly become subject to disciplinary action. A large number of KIBR members undertake CPD only so that they may comply with the 2009 Act and thus continue to be members of KIBR even though the CPD itself is of little relevance for their day-to-day work and is a considerable personal expense and inconvenience. Consistent with IFAC recommendations, KIBR should consider which categories of membership, studentship, titles and designation letters are required e.g. member, fellow, associate, affiliate, accounting technician, student, trainee, extended leave, retired. In conjunction with this, there should be a clear indication which categories of membership are entitled to conduct statutory audits and what non-practicing statutory auditors need to do if they wish once again to practice as a statutory auditor. A separate analysis will be conducted to assess the audit market which, in addition to audit market monitoring, will help shed light on the issue of KIBR's mandate and whether and how to adapt it.
43. **KIBR does not have a competency profile for a Statutory Auditor underpinning its qualification and CPD programs.** Although KIBR has a qualification program that it manages together with the MoF's ExC and although KIBR both designs and delivers CPD, KIBR does not appear to have a competency profile for a Statutory Auditor which would underpin both sets of activities. There is therefore a risk that both the qualification and CPD programs may fail adequately to address certain key competences required of a Statutory Auditor. See also observations in Part Three of this report in respect of compliance with International Education Standards (IESs) issued by IFAC's International Accounting Education Standards Board (IAESB), particularly IESs 2-4. In conjunction with the previous recommendation, KIBR should develop explicit competency profiles for each eventual membership classification category including, most importantly and urgently, that of a practicing statutory auditor.
44. **KIBR maintains a public register of auditors but the publicly accessible part of that register is not consistent with the requirements of the Act on Auditing and the EU Statutory Audit**



**Directive and Regulation.** The public register is readily accessible via KIBR's website<sup>5</sup> and is maintained in its document management system, the MIS IP24 Document Flow System. Unfortunately, this website only lists members in the order of their member number rather than also alphabetically, geographically or through filters to distinguish, for example, practicing from non-practicing auditors. In addition, although the public register identifies the KNA and gives its address, it does not specify that the KNA is the competent authority for oversight nor does it specify that the ExC, KRBR, KKN, KRD and KSD have delegated competence in the areas of auditor approval, quality assurance, and investigations and penalties. Also, the public register does not show even though the Act on Auditing requires that it show: the name, address, website address and registration number of the audit firm(s) by which the statutory auditor is employed or with whom he or she is associated as a partner or otherwise; all other registration(s) as statutory auditor with the competent authorities of other member states and as auditor with third countries, including the name(s) of the registration authority(ies) and, if applicable, the registration number(s); and all registered third country auditors. Finally, while the public register does not publish the address and nationality of each statutory auditor and while the Act on Auditing provides for this permitted derogation from the Statutory Audit Directive and Regulation, this derogation is not explained on the public register.

## 5.2. IFAC's Statements of Membership Obligations

45. **Overall, KIBR is broadly compliant with SMOs but there is much that undermines that compliance.** In summary: quality assurance (SMO 1) utilizes a weak compliance-based methodology. Audit and related standards (SMO 3) need to be updated to reflect updated international standards. The Polish Principles of Ethics need to be revised to reflect the IESBA's revised Code of Ethics (SMO 4). The investigation and disciplinary system (SMO 6) needs: formally documented operating procedures; a new process for the independent review of alleged breaches of discipline that are not referred to a disciplinary hearing; and independent non-accountant members of the National Disciplinary Court.
46. The remainder of Part Two of this report expands on the preceding paragraph by benchmarking KIBR's activities with six of IFAC's seven Statements of Membership Obligations (SMOs), being the benchmark for IFAC member bodies to assist them in ensuring high quality performance by professional accountants. SMO 3 is addressed and benchmarked separately in Part Three of this report.

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<sup>5</sup> See [https://kibr.org.pl/pl/rejestr\\_bieglych](https://kibr.org.pl/pl/rejestr_bieglych) and <http://www.kibr.org.pl/pl/podmioty>

### 5.3. Assuring the quality of professional services (SMO 1<sup>6</sup>)

47. KIBR is responsible for the quality assurance of statutory auditors and audit companies through its statutory body, the KKN, which was established specifically for this purpose and is overseen by the KNA. KIBR's quality assurance and the KKN have already been the subject of other recent analytical reports, notably a draft *Report on the current situation of Public Oversight and Quality Assurance Activities* of May 2015 which helped shape ongoing technical assistance being provided under the FRTAP. The following summarizes the main issues with the quality assurance framework as described in that report:

- the quality assurance methodology is in the main focused on compliance with legislation and does not appear to address issues such as ethics, independence, HR policies, certain execution and documentation aspects and quality monitoring;
- the KKN engages a significant number of inspectors to perform quality assurance inspections who are in the main relatively inexperienced particularly for the purposes of reviewing complex audit firms and audit engagements;
- the KKN is understaffed; and
- there are delays in finalizing KKN inspection reports because of the need to obtain prior approval of those reports from the KNA.

### 5.4. Adoption and implementation of auditing standards (SMO 3<sup>7</sup>)

48. KIBR is responsible for setting auditing standards with the approval of the KNA. On February 10th, 2015 KRBR issued a resolution that was ratified on April 1st, 2015 by the KNA adopting the following standards issued by IFAC's International Auditing and Assurance Standards Board (IAASB) as national standards: International Standards on Auditing; International Standards on Review Engagements; International Standards on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information; and International Standard on Quality Control 1. **KIBR now needs to focus on: adopting also International Standards On Related Services including ISRS 4400 and ISRS 4410; ensuring that there are regular updates to the national standards as necessary to adequately reflect all new and/or revised international standards; providing support to its members in the implementation process; ensuring that members will be timely notified on all new, proposed and revised international standards and other pronouncements issued by IAASB; and promoting the use of IAASB practice notes and other non-authoritative material to provide guidance and practical assistance.**

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<sup>6</sup> SMO 1 is formally titled: Quality Assurance

<sup>7</sup> SMO 3 is formally titled: International Standards and Other Pronouncements Issued by the IAASB

## 5.5. Code of professional conduct and ethics (SMO 4<sup>8</sup>)

49. KIBR is also responsible for establishing principles of professional ethics for Statutory Auditors with the approval of the KNA. On June 13th, 2011 KRBR issued a resolution on Principles of Ethics that was ratified on July 20th, 2011 by the KNA in which it adopted the IFAC IESBA Code of Ethics. **KIBR next priority needs to focus on: ensuring that the Principles of Ethics is updated to reflect the revised Code of Ethics issued in 2015 that will become effective in 2016; ensuring that members will be timely notified on all new, proposed and revised provisions of the IESBA Code of Ethics and other pronouncements issued by IESBA; and implementing learning activities for its members such as devising training courses as well as developing and disseminating implementation guidance.**

## 5.6. Public Sector Accounting Standards (SMO 5<sup>9</sup>)

50. **The MOF has sole responsibility for Poland's public sector accounting framework.** KIBR has no direct responsibility for developing and issuing public sector accounting standards such as would include International Public Sector Accounting Standards and other pronouncements issued by IFAC's International Public Sector Accounting Standards Board. KIBR could perhaps play a greater role in advocating such public sector standards and pronouncements.

## 5.7. Investigation and disciplinary process (SMO 6<sup>10</sup>)

51. **KIBR is responsible for investigating and disciplining its members with the close oversight of the KNA.** The two primary KIBR bodies for investigation and disciplinary matters are: the National Disciplinary Ombudsman (KRD) who acts as prosecutor on behalf of KIBR in disciplinary cases and whose chair and deputies are directly elected by KIBR members at every quadrennial KZBR; and the National Disciplinary Court (KSD) where disciplinary matters are prosecuted and whose chair and members are likewise directly elected by KIBR members at every quadrennial KZBR. The table below shows the number of cases dealt with by the KRD over the period 2011-2014 by source of referral:

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<sup>8</sup> SMO 4 is formally titled: *IESBA Code of Ethics for Professional Accountants*

<sup>9</sup> SMO 5 is formally titled: *International Public Sector Accounting Standards and Other Pronouncements Issued by the IPSASB*

<sup>10</sup> SMO 6 is formally titled: *Investigation and Discipline*

**Number of disciplinary cases dealt with by the KRD over the period 2009-2012<sup>11</sup>**

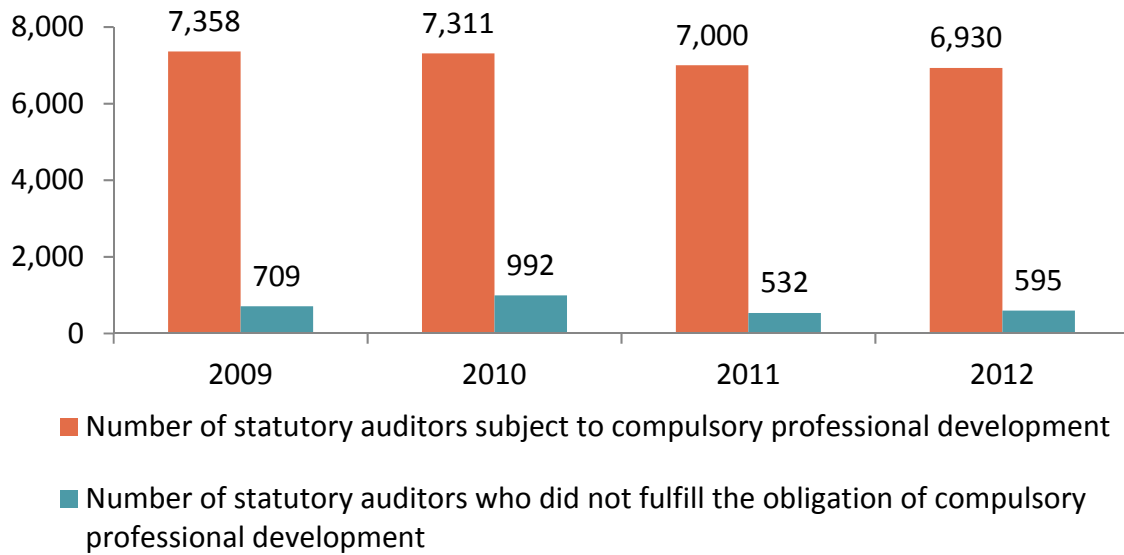
Source of referral	No. of cases 2011-2014	%
KRBR	2,001	82,3%
KKN	271	11,1%
KNA	25	1,0%
State bodies (i.e. tax authorities and bank oversight)	6	0,2%
Statutory auditors	12	0,5%
Audit companies	7	0,3%
Business entities	40	1,6%
Individuals	61	2,5%
Others (including ex officio)	9	0,4%
<b>Total</b>	<b>2,432</b>	<b>100,0%</b>

52. The following paragraphs describe the main issues with respect to the operation of the investigation and disciplinary system.
53. **Over 80% of cases dealt with by the KRD relate to the failure of KIBR members to comply with CPD requirements.** Over the period 2011-2014, CPD related cases accounted for 1,981 of the 2,432 cases dealt with by KRD but only around 15% were referred to the KSD. This is because the KRD appears to exercise considerable discretion in dealing with the 50% or so of KIBR members who are not actively engaged in auditing including those who are retired notwithstanding the provisions of the 2009 Act which requires all KIBR members annually to undertake approved CPD activities irrespective of whether or not they are actively engaged in audit.
54. The graph below shows the number of KIBR members who are subject to KIBR's CPD requirements together with the number of KIBR members who did not satisfy those requirements over the period 2009-2012.

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<sup>11</sup> Source: Performance Report prepared by the KRD in 2015 for the VIII National Assembly of Statutory Auditors

**Number of KIBR members subject to CPD requirements over the period 2009-2012<sup>12</sup>**



55. **KIBR has no process for the independent review of complaints by clients and others in cases where KRD has decided, following internal KRD investigation, that the matter will not be referred to a disciplinary hearing.** There is thus a risk that cases that should be subject to disciplinary hearing are inappropriately dismissed.
56. **KIBR together with its KRD and KSD commissions is not active in creating awareness of its investigation and disciplinary system.** In addition, while KIBR formally employs both complaints-based and information-based approaches to trigger investigation and disciplinary processes, KIBR is essentially passive particularly in respect of the latter. In the period 2011-2014 less than nine investigation procedures out of total of 2,432 were initiated by KRD in an information-based approach. KIBR needs to develop a formal surveillance function within the KRD to enhance its information-based approach to trigger investigation and disciplinary processes. It also needs to create greater awareness of its investigation and disciplinary system to enhance its complaints-based approach.
57. **The KRD and KSD need a documented set of internal KRD- and KSD-specific operating procedures and principles** to provide clear and authoritative guidance on matters such as procedures and tariffs, particularly for common disciplinary matters such as failure to comply with CPD requirements, as well as the division of responsibilities between and independence of KRD and KSD members.

<sup>12</sup> Source: FRTAP study, "Accountancy Market and Professions as of 30 September 2013", based on annual KIBR reports submitted to AOC

58. **The KSD currently comprises only elected members of KIBR.** Consistent with SMO 6, the KSD should comprise a balance of professional expertise and outside judgment and for this reason it should be composed of accountants and non-accountants.

## 5.8. Financial reporting standards (SMO 7<sup>13</sup>)

59. **The accounting and financial reporting regulations in Poland are established in the Accounting Act. The Accounting Standards Committee (KSR) supported by the MOF issues supplementary guidance in the form of accounting standards.** KIBR has no direct responsibility for developing and issuing financial reporting standards such as would include International Financial Reporting Standards and other pronouncements issued by the International Accounting Standards Board. KIBR supports implementation of IFRS and national financial reporting standards by recommending five members of the KSR, developing and promoting relevant CPD, and performing other outreach work including making public statements.

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<sup>13</sup> SMO 7 is formally titled: International Financial Reporting Standards and Other Pronouncements Issued by the IASB.

## 6. PART THREE: EDUCATION AND THE EXAMINATIONS (SMO 2)

60. **Overall, the education framework for aspiring and professional accountants is good in that there is broad compliance with International Education Standards<sup>14</sup> but there is much that undermines that compliance and therefore there is much that can be done to improve that framework.** In summary: the ExC should be disbanded with full responsibility for the education framework delegated to KIBR under the oversight of the KNA; initial professional development qualification requirements needs to be reformulated to include greater specificity of the required technical competences, professional skills, and professional values, ethics and attitudes; and the examination process should be more transparent to include the publication of past examination papers. The remainder of this Part Three expands upon this.
61. **Responsibility for the education framework for aspiring and professional accountants is divided between KIBR and the ExC with the KNA playing an oversight role.** As described earlier in this report, the original members of KIBR at the time of its formation in 1992, transferred into KIBR from the NCQCA of the SKWP, such members having been accredited as auditors after an examination process conducted by the antecedent Examination Commission. This structure and process was inherited by the new KIBR. Thus, the ExC has prime responsibility for all matters relating to initial professional development, qualification and entry to the audit profession; it sets, conducts and marks candidates' examinations and also determines the suitability or otherwise for admission into KIBR of prospective candidates. KIBR provides the ExC with all required administration support including funds to operate (utilising those examination procedure fees collected by KIBR from applicants), also specifies the initial education syllabus albeit at a very high level, and ratifies the decisions of the ExC by admitting new members as declared eligible by the ExC. KIBR for its part has primary responsibility for all matters relating to CPD. This complex and disjointed framework has seemingly never been revisited. Blurred accountability inevitably leads to no accountability.

### BOX 3

In Germany, the Examination Unit at the chamber of auditors has operational responsibility including the day-to-day business with regard to the examination and admittance of new members. In the UK, the professional oversight body needs merely to be satisfied that a professional accountancy body has an effective and rigorous system in

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<sup>14</sup> International Education Standards (IESs) as developed and approved by IFAC's International Accounting Education Standards Board (IAESB) are considered a benchmark of good practice for entry to professional accounting education programs, initial professional development of aspiring professional accountants, and continuing professional development of professional accountants.



place for registering firms and individuals as statutory auditors; the professional oversight body then reviews how that system is working in practice by looking at what the professional accountancy body has done.

62. **The 2009 Act should be reformulated to delegate all aspects of the framework for the education of aspiring and professional accountants including those aspects currently performed by the ExC relating to initial professional development, qualification and entry to the audit profession directly to an appropriate structure in KIBR. The legislative basis for the ExC should be removed.** The incremental risks attaching to admission into the profession by KIBR as opposed to by the ExC are likely to be very small. The public oversight body, the KNA, could assure itself *ex post* that all the things KIBR is and should be doing with respect to statutory auditors' initial education and examination programs as well as CPD are being done to a satisfactory standard. Further, the KNA could intervene and also require *ex ante* interventions only in high risk areas or where KIBR's performance is cause for concern. This is the approach taken by all major EU jurisdictions: professional bodies are responsible for admitting their own members and professional oversight bodies supervise the professional bodies on all aspects of their operation including admission of new members. This proposal could be implemented in conjunction with the proposal made earlier that KNA oversees KIBR on a periodic review basis. The current *modus operandi* with the ExC is excessively onerous, time-consuming and expensive, particularly for KIBR.
63. The remainder of Part Three benchmarks education framework in Poland with IESs acknowledging that, for the reasons discussed in the preceding paragraphs, matters relating to initial professional development, qualification and entry to the audit profession (i.e. IESs 1-6 and 8) are currently primarily the responsibility of the ExC whereas matters relating to continuing professional development (i.e. IES 7) are currently primarily the responsibility of the KIBR. The benchmarking of all IESs is included in this report to give a complete picture of the framework for the education of aspiring and professional accountants and also to give a sense of the issues facing KIBR if and when it assumes full responsibility for all parts of that framework.
64. ***IES 1 - Entry Requirements to Professional Accounting Education Programs (2014)*<sup>15</sup>. Polish entry requirements for professional accounting education programs needs to be reformulated to specify such educational entry requirements for professional accounting education programs that will allow entrance only to those with a reasonable chance of successfully completing, while not representing excessive barriers to entry. KIBR and ExC should be able to explain to its stakeholders the rationale behind those requirements and make it publicly available to help individuals assess their own chances of successfully completing a professional accounting education program.**

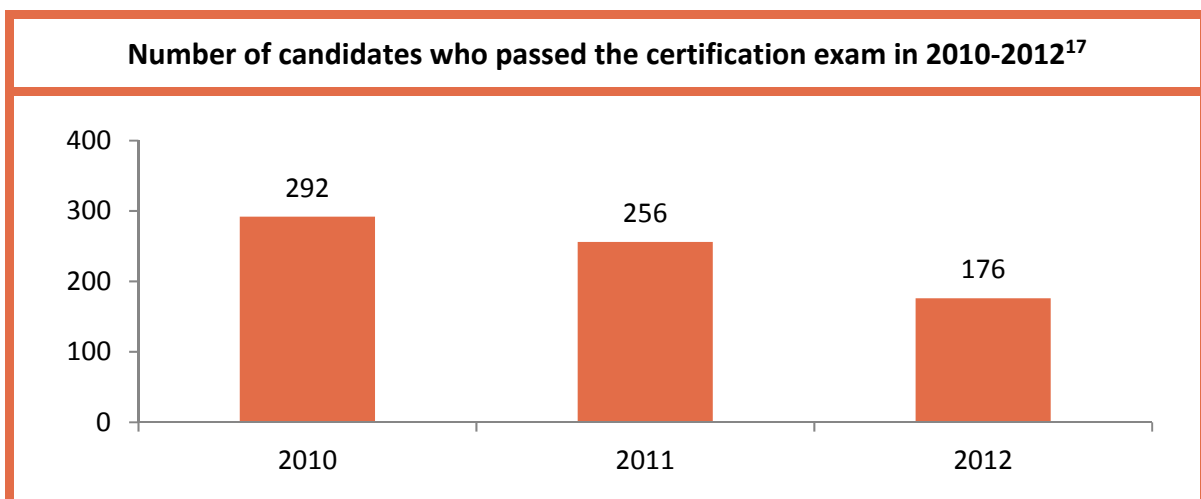
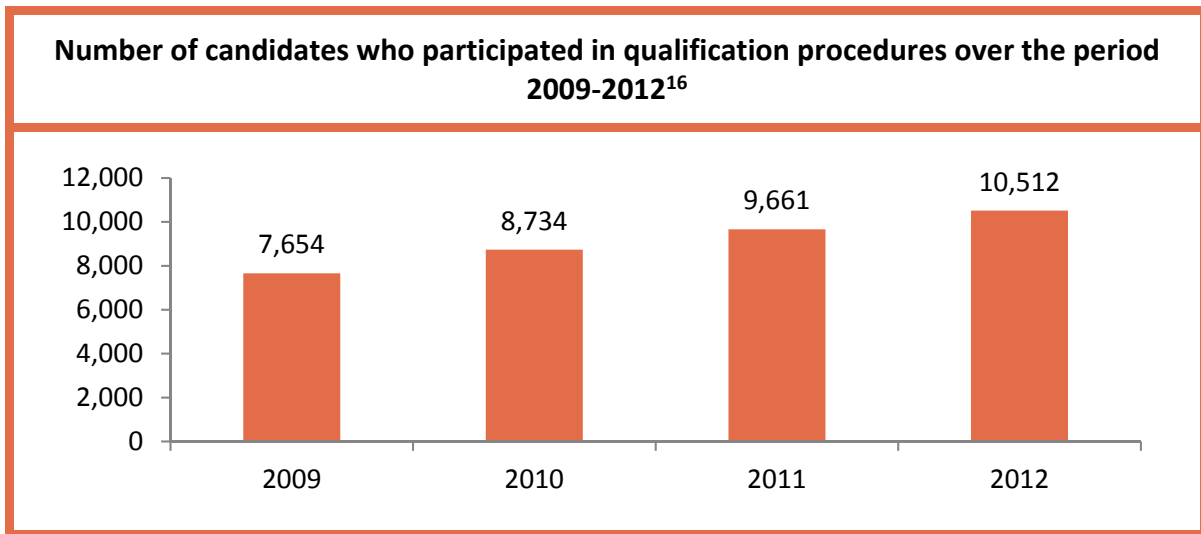
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<sup>15</sup> IES 1 is equivalent to the EC requirement for a statutory auditor per Article 6 of the Statutory Audit Directive.

65. Currently, in Poland there are no specific requirements regarding prior education for a candidate willing to start the initial qualification process. To enter the professional accounting education program, a prospective candidate is required only to submit an entry application and a personal questionnaire to the ExC which then makes a decision on whether to admit the candidate to the program. Although the candidate might do its own research and learn on the IPD process from the Auditing Act and related MoF decrees or KIBR's resolutions it would be recommended that this information is gathered by KIBR and ExC and clearly communicated to potential candidates especially emphasizing their expectations on the candidates education programs finalized so far.
66. *IES 2 Initial Professional Development – Technical Competence (2015)*. **Polish initial professional development qualification requirements need to be reformulated to include greater specificity of the technical competences required and expected learning outcomes consistent with the recently revised IES 2.**
67. In a manner mirroring the situation with respect to compliance with IES 4, the content of professional accounting education appears to cover the technical competence areas required by IES 2. However, the syllabus is stated in very broad terms with very little specificity which would enable either a student properly to prepare for the professional examinations or a training provider properly to devise a training course for such examinations. This lack of specificity undermines compliance with IES 2 which also states detailed learning outcomes for each technical competence as well as determines expected proficiency level. Compliance with IES 2 is further undermined by the lack of transparency of the examination process as discussed below with respect to IES 6 (assessment of professional competence).
68. *IES 3 Initial Professional Development – Professional Skills (2015)*. **Polish initial professional development qualification requirements need to be reformulated to include an explicit specification of the professional skills required and expected learning outcomes consistent with IES 3 i.e. intellectual interpersonal and communication, personal and organizational. KIBR and ExC must also ensure that they have established appropriate assessment activities to measure the achievement of the professional skills of aspiring statutory auditors.**
69. There is no explicit statement of the professional competences required of a candidate as required by IES 3 i.e. intellectual interpersonal and communication, personal and organizational. A successful candidate in Poland is required to have completed higher studies, gained work experience and passed examinations and as such it could be argued the candidate will have gained these professional competences. However, in the absence of an explicit specification of the required professional skills and appropriately designed assessment activities, it is probable that some or even many candidates will not get all professional skills required by IES 3.

70. *IES 4 Initial Professional Development – Professional Values, Ethics and Attitudes (2015)*. **Polish initial professional development qualification requirements need to be reformulated to include greater specificity of the required professional values, ethics and attitudes as well as expected learning outcomes consistent with IES 4. KIBR and ExC must also ensure that they have established appropriate assessment activities to measure the achievement of the professional values, ethics and attitudes of aspiring statutory auditors.**
71. In a manner mirroring the situation with respect to compliance with IES 2, the content of professional accounting education appears to cover the professional values, ethics and attitudes competence areas required by IES 4. However, the syllabus is stated in very broad terms with very little specificity which would enable either a student properly to prepare for the professional examinations or a training provider properly to devise a training course for such examinations. This lack of specificity undermines compliance with IES 4. Compliance with IES 4 is further undermined by the lack of transparency of the examination process as discussed below with respect to IES 6 (assessment of professional competence).
72. *IES 5 Initial Professional Development – Practical Experience (2015)*. Details of work experience objectives, tasks and required evidence are prescribed by the IPD Regulation together with details about the types of entities in which the work experience may be obtained. The KRBR has set out detailed principles and templates for documenting work experience through resolutions approved by the KNA. The ExC considers and approves each candidate's practical experience based on a review of the documentation. Accordingly, it would appear that Polish requirements sufficiently reflect the principles of IES 5.
73. *IES 6 Initial Professional Development – Assessment of Professional Competence (2015)*. **The current assessment process of professional competence should be reviewed and redesigned so that it presents high levels of reliability, validity, equity, transparency, and sufficiency within professional accounting education programs as required by revised IES 6. In particular, the qualification examination process should be more transparent to include publication of past examination papers.**
74. The formal assessments of professional competence are through a series of written and oral examinations however the examination process is not transparent. More specifically: as already described above with respect to IESs 2 and 4, the syllabus is stated in very broad terms with very little specificity which would enable either a student properly to prepare for the professional examinations or a training provider properly to devise a training course for such examinations; there are no recommended textbooks or other literature that might in the absence of a detailed syllabus give a better sense of the topics that are covered in the examinations; and, most notably, past examination papers and questions are not made available. This lack of transparency seriously undermines compliance with IES 6. It also does a great disservice to candidates in particular and the profession in general because candidates and employers invest a considerable amount of time and money preparing for the examinations in an environment of great uncertainty.

75. The graphs below show, first, the number of candidates who participated in qualification procedures over the period 2009-2012 and, second, the number of candidates who passed the certification exam in 2010-2012.



76. *IES 7 Continuing Professional Development (2014)*. **KIBR needs to: develop a CPD strategy; formulate CPD requirements that are commensurate with the professional activities of its various types of members; consider developing CPD based on a review of compliance issues raised in the annual reports of regulators including the financial sector supervisor; and establish a scheme to acknowledge and recognize CPD delivered other than by KIBR-accredited bodies.**
77. Continuing professional development is regulated primarily by the 2009 Act and CPD Regulation together with resolutions of the KRBR.

<sup>16</sup> Source: FRTAP study, "Accountancy Market and Professions as of 30 September 2013", based on annual reports of Audit Oversight Committee for 2009-2012, <http://www.mf.gov.pl/ministry-finansow/dzialalnosc/ciala-kolegialne/komisja-nadzoru-audytowego/plany-dzialania-i-sprawozdania/>

<sup>17</sup> *ibid*

78. There is no strategy for the development and delivery of CPD training. CPD topics appear to be selected by the Training Commission based on ideas submitted in response to a call for ideas but there neither is guidance in the call nor coherence in the submissions. Having chosen the topics, the Training Commission searches for and contracts experts to prepare books on the topics that KIBR publishes and sells to those who deliver that training or are interested in the topic. KIBR seems to hold quite a stock of unsold books.
79. The 2009 Act requires all KIBR members annually to undertake approved CPD activities irrespective of whether they are actively engaged in audit or whether they are part of the 50% or so of KIBR members who are actively engaged in unrelated fields or inactive including being retired.
80. KIBR does not recognize CPD training delivered by bodies other than those accredited by KIBR. As such, some KIBR members, notably those employed by international audit networks, attend other training tailored more specifically to their needs but are still required to attend the less relevant KIBR-accredited training at considerable cost in terms of both the expense of attending the training and income foregone. The so called Deregulation Act introduced changes to regulations concerning CPD, namely: (i) part of CPD can be fulfilled as so called “self-education”. That part does not have to be done in an entity accredited by KIBR; and (ii) it has also been changed that it is not at the discretion of KIBR to decide who is accredited. KIBR must accredit entities fulfilling requirements set by law.
81. *IES 8 Competence Requirements for Audit Professionals (2008)*. The requirements of the current and in-force version IES 8 are effectively described above in relation to IESs 1-7. KIBR is making preparations to implement a revised IES 8, “Professional competence for engagement partners responsible for audits of financial statements”, which was issued in December 2014 and becomes effective July 1, 2016.
82. **There is no formal strategy for the Education Center KIBR.** A few years ago, KIBR established an Education Center KIBR (CE KIBR) at considerable expense. There was no formal strategy as such for CE KIBR but discussions about its rationale and purpose seemed to revolve around: taking advantage of VAT benefits available to educational units; providing training to candidates for qualification exams; and providing CPD training in topics unpopular with other training providers. Some regional branches perceive CE KIBR as a potential threat however CE KIBR currently offers only four CPD training courses, all of them on quite popular topics. The absence of a strategy for CE KIBR creates both reputational and financial risks for KIBR.

## 7. AREAS FOR CONSIDERATION

83. The main areas for consideration arising from this report are presented below.
84. In respect of KIBR's legislative basis and oversight:
- The MoF, in amending the Act on Auditing, should take account of the impact of its proposed financing by KIBR of the KNA on the financial position and sustainability of KIBR.
  - KIBR should be made much less dependent upon the KNA and the ExC for decisions of any consequence. Rather than require the KNA to oversee KIBR on a decision-by-decision basis as is currently the case, the 2009 Act could be reformulated to require the KNA to oversee KIBR on a periodic review basis for delegated tasks. The public oversight body, the KNA, could develop a KIBR-specific periodic inspection program to assure itself ex post that all the things KIBR is and should be doing are being done to a satisfactory standard. Further, the KNA could intervene and also require ex ante interventions only in high risk areas or where KIBR's performance is cause for concern;
  - the ExC should become an integral structure within KIBR under the oversight of the KNA.
85. In respect of KIBR's governance and staffing arrangements:
- KIBR's President and members of its [statutory] commissions should be rotated in a manner so as to maintain institutional knowledge and memory as well as continuity in terms both of strategy and direction. This could be done by, for example, convening annual rather than quadrennial KZBRs at which a quarter of all positions are rotated off and filled by newly elected officials on fresh four-year appointments.
  - KIBR's governance arrangements should be realigned to better correspond with its mandate and responsibilities. KIBR commissions should be clearly aligned with KIBR's tasks especially those that are delegated.
  - KIBR's President, KRBR and commissions should more clearly take charge of all matters relating to KIBR. The structure of the KIBR Office should be more clearly aligned with and subordinate to KIBR's commissions and should not purport to represent KIBR on any matters without expressly delegated authority from those commissions including and especially on matters relating to powerful external stakeholders such as the MoF, the KNA and the ExC.
  - KIBR needs to consider the extent to which its President, the KRBR and other commissions should be supported by a full-time cadre of professional and technical staff especially in respect of its delegated tasks as well as tasks relevant to compliance with SMOs and IESs. This would likely include a Chief Executive Officer and Chief Financial Officer.

86. In respect of KIBR's finances:

- KIBR should analyze its financial position with a view to making the case for a change to KIBR's model of financing to put KIBR on a sustainable footing including revisiting its income from membership fees and quality assurance.
- To the extent that the MoF, the KNA and the ExC will continue to make significant administrative demands of KIBR, it should do so with explicit consideration of the costs and benefits as well as with reference to and accountability for budget agreed with KIBR.
- Serious consideration should be given to the sustainability of KIBR's many regional offices with hard decisions perhaps being required to change their role, structure and financing or even to close those that are simply not viable.
- KIBR's commissions and departments with authority to spend should be made much more explicitly and directly accountable for their budgets and should also be given regular reports to be able to monitor their position and performance.

87. In respect of KIBR's operational systems and procedures:

- KIBR should upgrade its financial and operational systems including its bookkeeping system, SIMPLE ERP, to enable KIBR's finances to be properly managed including producing financial reports in formats that are comparable with the formats in which the individual commissions' budgets are produced.
- KIBR should devise operational procedures and manuals including of a financial management nature to describe the main processes and responsibilities within KIBR.
- KIBR should devise detailed and specific job descriptions for its staff and should select and appoint KIBR staff in a transparent manner.
- The document management system, MIS IP24 Document Flow System, should be better implemented and utilized.

88. In respect of KIBR's roles and responsibilities as a professional accountancy body:

- KIBR should consider which categories of membership, studentship, titles and designation letters are required e.g. member, fellow, associate, affiliate, accounting technician, student, trainee, extended leave, retired. KIBR should also develop competency profiles for each eventual membership classification category including, most importantly and urgently, that of a practicing statutory auditor.
- KIBR needs to update its website through which the public may access the public register of auditors to ensure the information available on that website is consistent with the requirements of the Act on Auditing and the EU Statutory Audit Directive and Regulation
- KIBR's quality assurance function should be strengthened including implementing a revised quality assurance methodology. (This activity is being addressed separately through the FRTAP).



- Audit and related standards need to be updated to reflect updated international standards.
- The Polish Principles of Ethics need to be revised to reflect the IESBA's revised Code of Ethics and over time, IESBA's Code of Ethics should be considered for adoption.
- The investigation and disciplinary system needs: formally documented operating procedures; a new process for the independent review of alleged breaches of discipline that are not referred to a disciplinary hearing; and independent non-accountant members of the National Disciplinary Court.
- The education framework for aspiring and professional accountants should be updated to reflect the competence-based approach required by the revised International Education Standards and include: initial professional development qualification requirements needs to be reformulated to include greater specificity of the required technical competences, professional skills, and professional values, ethics and attitudes; and the examination process should be more transparent to include the publication of past examination papers.
- In respect of continuing professional development, KIBR needs to: develop a CPD strategy; formulate CPD requirements that are commensurate with the professional activities of its various types of members; consider developing CPD based on a review of compliance issues raised in the annual reports of regulators including the financial sector supervisor; and establish a scheme to acknowledge and recognize CPD delivered other than by KIBR-accredited bodies including in accordance with the Deregulation Act.
- KIBR should develop a formal strategy for the Education Center KIBR to set out its: rationale and purpose including its role in providing initial professional development and CPD; cooperation or competition with KIBR's regional offices and other training providers; management structure; and financial sustainability.

## ANNEX 1: EXTRACTS FROM 2009 ACT ON AUDITING RELATING TO KIBR

1. This annex presents extracts from the 2009 Act on Auditing (2009 Act) relating to KIBR's: (i) relationship with other bodies and organizations; (ii) governance, management and internal processes; and (iii) finances.

### Legislative impact on KIBR's relationships with other bodies and organizations

2. **The 2009 Act sets out very specific and detailed roles, responsibilities and complex relationships between statutory auditors, KIBR and its constituent commissions, the MoF, the MoF-appointed KNA and the MoF-appointed ExC.** More specifically, the 2009 Act establishes the following relationships:

#### **With respect to the register of statutory auditors:**

- a. Statutory auditors can only be considered as such if they are entered in the register of statutory auditors maintained by KIBR's KRBR (art 10.1) if not objected to within 30 days by the KNA (art 10.6). and after the prior notification of the KRBR (art 3. 4)

#### **With respect to initial and continuing professional development (CPD):**

- b. The scope, subject and minimum number of hours of statutory auditors' CPD shall be approved by the KRBR which in turn must be approved by the KNA (art 4.3).
- c. Prospective statutory auditors must, inter alia, have work experience satisfactory to the ExC, pass 10 exams set by the the ExC, and pass a diploma exam (with oral and written parts) before the ExC before swearing an oath to the KRBR (art 5.2.5-8).
- d. The ExC consists of 19 members appointed by the MoF (art 6.1) including seven representatives recommended by the KRBR (art 6.1.2).
- e. KIBR shall ensure servicing for the ExC (art 8.4).
- f. The KRBR shall adopt a resolution, in agreement with the ExC, regarding the rules and regulations pursuant to which the ExC operates. The resolution shall require the approval of the KNA. (art 8.5)
- g. The ExC shall furnish the KNA with a report on its operation for every calendar year. (art 8.6)

- h. The KRBR shall determine after consultation with ExC, in the form of resolutions approved by the KNA, all manner of detail regarding the statutory auditors' qualification examinations including timing and thematic scope of examinations. (art 9.9)

**With respect to the operation of KIBR:**

- i. Statutory auditors shall form a professional self-government of statutory auditors, KIBR, with many specific, detailed and onerous operating procedures and commissions (chapter 3, arts 13-30) of which the following matters explicitly require the KNA involvement:
- (a) The KNA shall be required to approve (art 21.3) KRBR resolutions regarding: national auditing standards, internal quality control requirements for audit firms, professional ethics, rules and regulations of professional disciplinary proceedings, principles of CPD, rules and regulations of operation of the ExC, and regulations in respect of art 9.9 (initial qualification procedures). (art 21.2.3)
  - (b) The KRBR shall inform the KNA about statutory auditors failing to comply with mandatory CPD (art 21.4).
  - (c) KIBR shall submit its financial statements to the KNA (art 21.5).
  - (d) The National Disciplinary Court (KSD) of KIBR shall submit an annual report to the KNA (art 24.7).
  - (e) The National Disciplinary Spokesman (KRD) of KIBR shall submit an annual report to the KNA (art 25.4).
  - (f) With respect to the National Supervision Commission (KKN) of KIBR:
    - (i) KKN quality assurance controllers delegated to control audit firms of PIEs shall be approved by the KNA (art 26.5)
    - (ii) The KNA may apply for employees of the accounting and audit unit of the MoF to join KKN quality assurance controls (art 26.6)
    - (iii) The KNA may issue recommendations and instructions regarding the conduct of KKN quality assurance controls (art 26.7)
    - (iv) The annual plan of KKN quality assurance controls of audit firms of PIEs shall be approved by the KNA (art 26.8)
    - (v) The KNA may commission KKN controllers and inspectors to perform additional quality assurance inspections (art 26.10)
    - (vi) The detailed conduct including rights and obligations of KKN quality assurance inspections shall be performed in a manner identical to that in which the KNA conducts its controls as specified in arts 75-82 (art 26.13)
    - (vii) The KKN shall submit reports on each of its quality assurance controls of audit firms of PIEs to the KNA (art 27.2)

- (viii) KKN quality assurance reports in respect of Public Interest Entities (PIEs) shall require the prior approval of the KNA which will have the right to access KKN control files and make modifications to the control reports (art 27.3)
  - (ix) The KKN shall submit an annual report to the KNA in respect of audit firms of PIEs (art 27.6)
  - (x) The KNA shall approve KKN resolutions in respect of its selection of quality assurance controllers, the CPD requirements of such controllers, and a sample of a report by KKN quality assurance controllers (art 27.9)
  - (xi) The KKN shall share information regarding declarations of independence by its quality assurance controllers of audit firms of PIEs with the KNA (art 27.11)
- j. All resolutions passed by KIBR's statutory commissions shall be shared with the KNA within 14 days (art 28.1).
- k. The KNA shall approve KIBR's statute including any changes to it (art 29).

## Legislative impact on KIBR's governance, management and internal processes

3. **The 2009 Act sets out in great detail KIBR's governance, management and internal processes.** More specifically, the 2009 Act specifies:
- a. Which [statutory] commissions should be established, their term of office, how their members should be selected, as well as their composition, competences and mode of operation - the KZBR, the KRBR, the National Internal Audit Committee (KKR), the KSD, the KRD and the KKN (art 17.1). The term of office of these bodies shall be four years (art 17.2). The KZBR shall select the President of the KRBR as well as the members of the various commissions (art 20.1.1-4). The composition, competences and mode of operation of the various commissions are described in considerable detail in articles 21-30.
  - b. How often the KZBR should convene and the circumstances under which an Extraordinary Assembly may be convened - The KZBR shall take place every four years (art 18.1). The KRBR or 10% of KIBR members or the KKR may summon an Extraordinary Assembly (respectively, arts 18.3, 18.5.1, 18.5.2)

## Legislative impact on KIBR's financing

4. **The 2009 Act establishes many significant constraints relating to KIBR's finances without regard to KIBR's financing requirements.** For example, the 2009 Act specifies:

- a. KIBR shall ensure servicing for the ExC and shall also cover the cost of remuneration of the members of the ExC (art 8.4). It further specifies that members of the ExC shall be entitled to specific remuneration based on the average remuneration in domestic economy announced by the President of the Central Statistical Office for the previous calendar year: 1) for participation in a meeting of the ExC or in an examination board; 2) for participation in an examination; 3) for preparation of examination tests and situational tasks, as well as preparation of a template of correct answers; 4) for examination of an appeal; 5) for examination of an application for acknowledgment of internship; 6) for examination of an application for acknowledgment of completion of practice; and 7) for verification of tests (art 8.7).
- b. A candidate for statutory auditor shall settle an examination fee as follows: the fee for written examinations shall be determined in an amount not exceeding the equivalent of 20%, whereas the fee for diploma examination in an amount not exceeding the equivalent of 30% of average remuneration in domestic economy announced by the President of the Central Statistical Office for the previous calendar year (art 9.4).
- c. The KKN may, based on irregularities ascertained during its quality assurance inspections, apply to the KRBR to impose a financial penalty on the entity authorised to audit financial statements in an amount not exceeding 10% of revenues obtained in the previous financial year from performance of audit activities and not higher than PLN 250,000 (art 27.1.3.a). The financial penalty shall constitute the revenues of KIBR (art 27.5).
- d. KIBR shall remit 20% of the fees charged to auditors of PIEs for quality assurance to the state budget (art 30.1) being not more than 2% of those auditors' revenue from audit and assurance engagements (art 52.1.2).
- e. A statutory auditor shall be subject to disciplinary liability with respect to conduct contradictory with legal provisions (art 31.1) which may include a financial penalty (art 31.2.3) equal to double the amount of minimum remuneration for work which is announced on the basis of the Act on Minimum Remuneration for Work of October 10, 2002 (Dz.U. No. 200 item 1679 of 2004, No. 240 item 2407 and of 2005 No. 157 item 1314). Receipts from financial penalties shall constitute the revenue of the KRBR (art 31.5).
- f. An entity entitled to audit financial statements shall pay a fee upon entry to the list of entities authorized to audit financial statements in an amount not exceeding 50% of average remuneration in domestic economy, announced by the President of the Central Statistical Office for the previous calendar year (art 52.1.1) as well as an annual oversight fee not exceeding 2% of annual revenue on account of performance audit and assurance engagements, however not less than 20% of the average remuneration in domestic economy announced by the President of the Central Statistical Office for the previous calendar year (art 52.1.2).

## ANNEX 2: FINANCIAL POSITION AND PROJECTIONS

1. This annex presents a 2015-2020 financial projection for KIBR that was compiled by the authors of this report. It was prepared in the absence of any other available projections including any by KIBR itself. The purpose of the projection is to give substance to and help form an understanding of the widely-expressed concerns about KIBR's financial position.
2. The methodology adopted for this projection is as follows:
  - a. Projection comprises both KIBR and its all regional branches.
  - b. The format adopted is consistent with the format used by KIBR for its annual financial plan though for the sake of simplicity, some lines presented separately in the KIBR's plan are combined in this projection.
  - c. The forecast for the years 2016-2020 are derived from KIBR's stated results for 2014, its stated financial plan for 2015 and the consequences of the MoF's recently proposed changes to the 2009 Act to reflect the new EU audit framework comprising Directive 2014/56/UE and Regulation 537/2014. In respect of the MoF-proposed changes, the main financial implication is in respect of the oversight fees to be collected by KIBR and paid over to the KNA.
  - d. The detailed financial assumptions underlying the forecast for the years 2016-2020 are presented further below.

<b>KIBR Financial Forecast 2015-2020 (PLN'000)</b>								
		Actual	Plan	Forecast	Forecast	Forecast	Forecast	Forecast
		2014	2015	2016	2017	2018	2019	2020
<b>REVENUES</b>								
<b>KIBR excluding branches:</b>								
1	Membership fees	721	618	649	682	716	751	789
2	Oversight fees	12 481	13 454	13 454	9,995	9 995	9 995	9 995
3	Registration fees	129	120	120	120	120	120	120
4	Exam fees	3 805	4 426	4 426	4 426	4 426	4 426	4 426
5	Training, publishing and conferences	782	1 037	1 014	1 014	1 014	1 014	1 014

		Actual	Plan	Forecast	Forecast	Forecast	Forecast	Forecast
		2014	2015	2016	2017	2018	2019	2020
6	Other income	367	474	420	420	420	420	420
7	Finance income	508	555	232	232	261	268	257
<b>8</b>	<b>Subtotal for KIBR excluding branches</b>	<b>18 792</b>	<b>20 684</b>	<b>20 314</b>	<b>16 888</b>	<b>16 951</b>	<b>16 994</b>	<b>17 020</b>
<b>Regional branches:</b>								
9	Membership fees	1 735	1 855	1 947	2 045	2 147	2 254	2 367
10	Trainings	2 690	2 172	2 183	2 165	2 147	2 129	2 112
11	Other income	146	88	117	117	117	117	117
12	Finance income	80	90	0	0	0	0	0
<b>13</b>	<b>Subtotal for regional branches</b>	<b>4 650</b>	<b>4 204</b>	<b>4 247</b>	<b>4 326</b>	<b>4 411</b>	<b>4 501</b>	<b>4 596</b>
<b>14</b>	<b>TOTAL KIBR REVENUES</b>	<b>23 443</b>	<b>24 888</b>	<b>24 561</b>	<b>21 215</b>	<b>21 362</b>	<b>21 494</b>	<b>21 616</b>
<b>EXPENSES</b>								
<b>KIBR excluding branches:</b>								
15	Costs of operating as a self-governing body	219	146	182	182	182	182	182
16	KNA fee	1 782	2 015	2 092	0	0	0	0
17	Registration of auditors and auditing entities	74	51	62	62	62	62	62
18	KRD	257	299	299	299	239	239	239
19	KSD	298	581	581	581	465	465	465
20	Salaries of KKN controllers	1 845	1 879	1 879	939	939	939	939



		Actual	Plan	Forecast	Forecast	Forecast	Forecast	Forecast
		2014	2015	2016	2017	2018	2019	2020
21	Other costs of KKN inc. inspections	2 343	2 018	1 958	1 808	1 808	1 808	1 808
22	Payroll costs of admin staff allocated to control and oversight	1 225	1 429	1 429	1 429	1 299	1 299	1 299
23	Costs of exams	1 960	1 862	2 279	2 279	2 279	2 279	2 279
24	Examination Commission costs	1 100	1 362	1 150	1 150	1 150	1 150	1 150
25	Costs of trainings, publishing and conferences	1 173	1 302	1 279	1 279	1 279	1 279	1 279
26	KIBR's Office and administration	7 109	8 041	7 215	7 215	7 215	7 763	7 215
27	Other operating costs	896	772	779	779	779	779	779
28	Finance costs	24	3	13	13	13	13	13
29	<b>Subtotal for KIBR excluding branches</b>	<b>20 304</b>	<b>21 758</b>	<b>21 196</b>	<b>18 015</b>	<b>17 709</b>	<b>18 257</b>	<b>17 709</b>
<b>Regional branches:</b>								
31	Trainings and conferences	1 984	1 774	1 761	1 749	1 737	1 725	1 713
32	Payroll and other compensation	1 418	1 500	1 500	1 500	1 500	1 500	1 500
33	Admin and office costs	1 156	1 335	1 101	1 101	1 101	1 401	1 101

		Actual	Plan	Forecast	Forecast	Forecast	Forecast	Forecast
		2014	2015	2016	2017	2018	2019	2020
34	Subtotal for regional branches	4 558	4 609	4 362	4 350	4 338	4 626	4 314
35	TOTAL KIBR EXPENSES	24 862	26 367	25 558	22 365	22 047	22 883	22 023
36	Loss for KIBR excluding branches	(1 512)	(1 075)	(882)	(1 127)	(758)	(1 264)	(689)
37	Profit or (loss) for regional branches	93	(405)	(115)	(23)	73	(125)	282
38	TOTAL LOSS FOR KIBR	(1 419)	(1 480)	(997)	(1 150)	(685)	(1 389)	(407)

#### Balance sheet highlights (PLN'000)

	Actual	Plan	Forecast	Forecast	Forecast	Forecast	Forecast
	31.12.14	31.12.15	31.12.16	31.12.17	31.12.18	31.12.19	31.12.20
<b>Net assets</b>	35 768	34 288	33 291	32 141	31 456	30 067	29 660
<b>of which:</b> <i>Cash balance</i>	10 541	9 267	9 293	10 457	10 719	10 277	10 816

3. Key assumptions made for the 2016-2020 forecasts in the above tables include:
- a. It was assumed that membership fees would increase 5% each year (there is a limit of 10% increase each year up to maximum amount of 15% of the average salary in the economy). Continuing current practice – 75% of those fees would be redistributed to the branches.
  - b. In 2016 the audit companies revenues would increase 3.8% (which is equal to GDP growth assumed in the state budget for 2016) compared to 2015 and will remain on this 2016 level in subsequent years.
  - c. Based on the published assumptions to the new law as well as information received from the MOF in April 2016 – starting from 2018 the oversight fee collected by KIBR from the audit companies will decrease to 1.5% (from 1.75%) charged on revenues from assurance engagements of non-PIE including auditing engagements.

- d. Exam fees, registration fees as well as revenues from trainings, publishing and conferences and other revenue would remain on the 2015 level except for revenues from obligatory trainings generated by KIBR's branches – as since 2015 there is more competition on the CPD training market allowed and additionally self-education also counts for CPD hours, it would be reasonable to expect some drop of CPD revenues – it was prudently assumed only 1% each year.
- e. Finance income (being bank deposit interest) was calculated only on the total KIBR's level – assumed 2.5% on the average cash balance in the year.
- f. Based on the published assumptions to the new law as well as information received from the MOF in April 2016 – the oversight fee paid by KIBR to KNA would remain at 20% until 2017 (paid till March 2018) and then would discontinue.
- g. As starting from 2018 KIBR would no longer control audit engagements of PIE, it was assumed that the oversight costs should decrease – mainly payroll costs of the controllers (50% decrease compared to 2015 plan) and its supporting admin (1 person less).
- h. Starting from 2018 it was assumed that KRД and KSD costs would decrease by 20% compared to 2015 plan.
- i. Direct exam costs were calculated using cost to exam fees revenue ratio as of 2015. Other costs related to the Examination Board were assumed not lower than in 2015 (payroll and rent costs) or as an average of 2014 and 2015 (all other).
- j. Training costs were calculated using cost to training revenue ratio as of 2015.
- k. It was assumed that the next Assembly will take place in 2019 and its costs would be PLN 830k which includes PLN 300k of costs to organize the assemblies in the regions.
- l. Other costs were assumed to be not lower than in 2015 (i.e. payroll and depreciation) or equal to the average of 2014 and 2015 (all other costs).
- m. Due to a negative cash balance appearing in 2019, finance interest cost were calculated on hypothetical borrowings necessary in such a case (WIBOR 1Y which is now 1,84% +1.5% margin).
- n. Due to incurred losses there would be no income tax.
- o. No inflation.
- p. Cash balance was calculated using as a starting point the actual balance as of 31 December 2014. Then for the next year it was increased by the profit/decreased by the loss but modified in terms of oversight fee payments (received from audit companies and then paid to KNA) which happen next year and increased by the depreciation/amortisation for the current year.



