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Report on the Observance of Standards and Codes on Accounting and Auditing

Update

Poland

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Contents

Main Abbreviations and Acronyms

A&A	Accounting and Auditing
ACCA	Association of Chartered Certified Accountants
CFRR	World Bank Centre for Financial Reporting Reform
EC	European Commission
CPD	Continuing Professional Development
EFRAG	European Financial Reporting Advisory Group
FDI	Foreign Direct Investment
FRTAP	Financial Reporting Technical Assistance Program
GDP	Gross Domestic Product
GoP	Government of Poland
IAASB	International Assurance and Auditing Standards Board
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPD	Initial Professional Development
ISA	International Standards on Auditing
KIBR	Chamber of Auditors of Poland
KKN	National Supervisory Committee
KNA	Audit Oversight Commission
KNF	Financial Supervision Authority
KRBR	National Council of Statutory Auditors
KRD	National Disciplinary Spokesperson
KRS	Court Register
KSD	National Disciplinary Court
KSR	Accounting Standards Committee
KZBR	National Assembly of Statutory Auditors
MoF	Ministry of Finance
Polish GAAP	Accounting Law, Decrees and Standards
PIE	Public Interest Entity
PNB	Polish National Bank
ROSC	Report on the Observance of Standards and Codes
SAD	EU Statutory Audit Directive (2006/43)
SKWP	Association of Accountants
SME	Small and Medium Enterprises
SMOs	IFAC Statements of Membership Obligations
SMP	Small and Medium Practices
WSE	Warsaw Stock Exchange

CURRENCY: POLISH ZLOTY
1 USD = 3.02 PLN as of December 31, 2013

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Executive summary

This third Report on the Observance of Standards and Codes Accounting and Auditing (ROSC A&A) for Poland provides an updated assessment of the financial reporting requirements and practices in the country's enterprise and financial sectors from the 2002 and 2005 ROSC A&A. It was conducted under the Financial Reporting Technical Assistance Program (FRTAP) managed by the Centre for Financial Reporting Reform (CFRR), with funding provided to the Government of Poland by the Swiss Enlargement Contribution. The Polish Government understands that high-quality accounting, auditing and corporate governance, aligned with the requirements of the European Union, contributes to enhanced international trade and investment. Based on the Government's past performance with the 2005 ROSC A&A, we are confident that it will address issues identified by this Update; thus, to provide scope for the government to develop its own solutions, this report refrains from making explicit recommendations.

Strong economic fundamentals, sound macroeconomic policies, coupled with limited external imbalances, allowed Poland to avoid a recession despite the 2008 global economic crisis. Poland is the only European Union (EU) country that has grown continuously over the last four years. Countercyclical policies and the floating exchange rate regime, together with ample international reserves and the precautionary Flexible Credit Line arrangement with the International Monetary Fund (IMF), helped insulate the economy and supported confidence. The years of 2006 – 2011 were the first period of the financial supervisory authority (KNF) and during that period no collapse of any financial institution was reported. Throughout the global crisis on financial markets, a secure and stable financial sector has remained the stronghold of the Polish Economy[1].

The ROSC acknowledges that many of the issues raised in this report are being actively worked on through the nine components of FRTAP (see Appendix B) by a system of annual planning with the Ministry of Finance and the other beneficiaries. The progress of the matters identified in the report is not however entirely the responsibility of the FRTAP as we need to recognise that a willingness to embrace suggestions and good practice regionally and globally remain a key driver of success.

This report uses International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA) and the relevant portions of European Union (EU) law (also known as the *acquis communautaire*) as benchmarks.

Company financial statements are accessible by the public but online access is burdensome

A key pillar of transparency is the public's right to have easy access to company financial statements. In Poland, such access is possible but the system is labour and time intensive and generally not user friendly. For Poland, being very advanced in the area of information technology connected country, improved electronic access to the financial statements registry should be possible.

[1] Polish Financial Supervision Authority, Five Years of Activity, www.knf.gov.pl

IFRS are required for consolidated financial statements of banks and listed companies.

In Poland, IFRS are required for consolidated financial statements of the banks (except cooperative banks) and listed companies. IFRS are permitted for consolidated and legal entity financial statements if the entity is a subsidiary (direct or indirect) of a parent preparing its consolidated financial statements in accordance with IFRS as adopted by the EU (Endorsed IFRS) or a branch of a foreign enterprise preparing its financial statements in accordance with IFRS as adopted by the EU. IFRS for SMEs is prohibited.

The Accounting Act applies to all other companies.

The Accounting Act is the primary piece of legislation regulating accounting and financial reporting, and also sets forth a number of requirements pertaining to statutory audit. It is largely based on the Fourth and Seventh EU Company Law Directives, and applies to all companies, including SMEs. Companies not required to apply IFRS must apply the requirements of the Accounting Act. Following the publication of the new EU Accounting Directive in 2013, the authorities are currently in process of developing proposals to revise the Accounting Act accordingly.

Poland's legal framework for accounting and auditng is fully aligned with the acquis with the creation of the Audit Oversight Commission (KNA)

Poland has fully aligned its legal framework with the EU *acquis communautaire* as it relates to accounting and auditing and implemented most of the recommendations of the previous ROSC A&A. The country has now implemented the IAS Regulation requiring EU-endorsed IFRS for the preparation of consolidated financial statements of companies whose securities are admitted to trading on a regulated market of any Member State. In 2009, the Act on Auditing established an Audit Oversight Commission (KNA), responsible for overseeing statutory auditors, audit firms and the operations of the Chamber of Auditors of Poland (KIBR) that related to matters of the audit oversight.

KNA is moving through a settling-in period with early stage challenges to the oversight function

Whilst the form of the oversight has been legally established, the functioning substance of the activity remains in need of increased capacity to move KNA to a fully-fledged independent body operating in the public interest. Significant operational weaknesses remain with the reporting function which is overly compliance-based and strong tensions exist between the organisations most closely associated with audit oversight with the result that the current trialogue (KNA, KRBR and National Supervisory Committee - KKN) seems insufficient to identify possible improvements.

Polish GAAP and the income tax base are linked but requires simplification

The income tax base and profits for financial reporting purposes are related but can involve multiple and burdensome adjustments, particularly for SMEs.

The accounting profession has been contracting, a positive trend which reflects greater emphasis on quality assurance.

The Polish Constitution enshrines and protects the concept and legal status of self-governing professions in public trust. There are two accounting professional bodies: the Association of Accountants (SKWP) and KIBR, both of which are members of the International Federation of Accountants (IFAC); KIBR is considered a self-governing professional body in public trust, whilst SKWP is regarded as an ordinary association. Whilst KIBR is broadly compliant with IFAC's SMOs, some improvements are needed as well as changes to its business model with 2011 and 2012 having been years of loss-making. Finally, it continues to lag behind the Government in terms of reforms in the financial reporting arena with outstanding reform issues from the 2005 ROSC report remaining unfinished at best and untouched at worst. SKwP, as an Association of Accoutants, is not recognised by the Act on Statutory Auditors and although a full member of IFAC, has a market recognition issue for its qualification offerings and as a consequence is perceived as mainly a training provider.

Significant efforts were made in order to enhance its quality assurance system but challenges remain particularly with urgent need to modernise the QA methodology

The Audit Quality Inspection Unit within KIBR (KKN) made significant efforts in order to enhance its quality assurance system by expanding its staff. The quality assurance systems are supervised by KNA. The first challenge of the quality assurance team was to complete a cycle of reviews, i.e. on a 3 year cycle for firms performing the audits of public interest entities to December 31, 2012.

The current methodology for inspections is heavily compliance-based and is undergoing refom and recommendations with the support of FRTAP (see Appendix B). The impending EU Audit Directive with changes to audit regulation, particularly in the area of quality assurance, will bring additional burdens on a system that is currently undergoing significant upgrading.

There is limited integration between the profession and academia

University curricula are not in line with the needs of the profession (as proxied by the professional examination). There is a need to ensure greater consistency between the curriculum at the university level and the content of the professional examination. Matching the supply of highly educated graduates with the demand for professional services is a key component of sustainability for the profession. International qualification providers in Poland are pursuing this route vigorously with, for example, record exemption levels being achieved between universities and the ACCA. This level of competiton is likely to increase as demand for accounting services is driven by outsourcing organisations moving to Poland.

Whilst CPD requirements are in line with good international practice, CPD course offerings are limited

KIBR issues a list of approved continuing professional development (CPD) courses on an annual basis. CPD providers must be approved by and registered with KIBR; only those courses taken from such approved training providers count towards CPD requirements. The list of approved courses is quite limited, in part because competition is limited among CPD providers, as well as being closely regulated under the Audit Law, preventing an open and competitve market for CPD provision based upon individual member needs. As a result, accounting professionals are restricted from having a wide choice of topics and providers to suit their own CPD needs.

The standard setting process for accounting and auditing standards could be strengthened

The Accounting Standards Committee (ASC) sets Polish accounting standards, and the Chamber of Auditors sets auditing standards. In ten years of existence the ASC has produced seven standards and 4 positions as at the date of this report, based upon IFRS. The accounting standard-setting process requires modernisation with a development vision or strategy published for stakeholder consultation. The Chamber has issued three auditing standards since 2010 and despite overwhelming support for ISA-adoption from other organisations such as the KNA, this process has not been completed. Neither body follows an openly transparent process in issuing standards.

The integrated financial supervision authority, KNF reports annually on compliance issues with IFRS and comments on auditing issues

A single agency, the KNF, is responsible for supervising listed companies, banks, insurance companies, and other financial institutions. Public interest entities under KNF supervision are subject to similar requirements. There is no formal link between KNF and KIBR's CPD Committee where issues identified by the regulator can be translated into education and training for auditors with a cascade to preparers.

Listed companies IFRS-based financial statements are generally of high quality but the role of audit committees needs to be reinforced

The review of a sample of IFRS-based financial statements by the ROSC team indicates that companies whose securities are listed on a regulated market implemented IFRS to a high quality standard. The team noted that a substantive effort was made by most of the companies to avoid boiler-plate language and to link disclosures to their transactions. The role of audit committees within listed companies needs to be reinforced to ensure timely and reliable financial reporting for investors and ensure the integrity of Poland's capital market.

KNF and KNA annual reports provide useful information but their usefulness would be enhanced if they conveyed a better sense of the impacts of the issues reported

The annual report of KNF, produced by the Accounting Division of the Public Offerings and Financial Information Department of the KNF, reports on the compliance of the financial statements of security issuers other than investment funds with the applicable reporting framework, particularly with the requirements of IFRS. KNF reports are legalistic in design by listing issues and lack any impact analysis that would allow the reader to quickly understand the financial effect of the issues raised on the financial statements. The KNA reports are also legalistic and provide little information on the progress being made by the profession towards improving the quality of auditing.

I. Introduction

1. **Reports on the Observance of Standards and Codes (ROSC) Accounting and Auditing (A&A) assess accounting and auditing practices in participating countries.** They form part of a joint initiative that is implemented by the World Bank and the International Monetary Fund to review the quality of implementation of twelve internationally recognized core standards (the ROSC Program). These standards and their related codes are relevant to economic stability, and private and financial sector development. The program was developed at the end of the 1990s, in the wake of financial crises that affected many countries in several regions of the world. In the case of the ROSC A&A for Poland, the international standards used as benchmarks are (i) relevant portions of European Union legislation (also called the *acquis communautaire*), (ii) International Financial Reporting Standards (IFRS),[2] (iii) clarified International Standards on Auditing (ISA),[3] (iv) the International Federation of Accounts (IFAC) Code of Ethics, and (v) other international good practice in the field of accounting and auditing regulation.

2. **This is the third ROSC A&A for Poland. The first two were conducted in 2002 and 2005. This report updates the findings of the 2005 report, and assesses the extent to which prior recommendations have been implemented.** Since its inception in the early 2000s, the ROSC A&A program has concluded evaluations in more than one hundred countries around the world. ROSC A&A reports have been produced for all countries of the Europe and Central Asia region, except the Russian Federation.

3. **Poland has been a member state of the European Union since 2004; it has not adopted the Euro.** Poland is in central Europe, with a coastline on the Baltic Sea in the north. It is shares its borders with numerous countries: Germany, Czech Republic, Slovakia, Ukraine, Belarus, Lithuania, and Russia. The capital and largest city is Warsaw. Poland has a stable population of about 38.2 million. Its 2012 Gross Domestic Product (GDP) per capita was US$12,708;[4] almost double what it was when Poland acceded to the EU (US$6,620 in 2004). This is still lower than most of its peer countries from the EU8[5] (average: US$ 15,909), and significantly below the EU average of US$ 32,677; however this gap has narrowed significantly in recent years.[6]

4. **Poland is the largest economy in Central Europe; it has performed well in a challenging environment, growing at an average real rate of 3.4 percent over the period 2008-12.**[7] Strong economic fundamentals, sound macroeconomic policies, coupled with limited external

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[2] In this report, IFRS refers to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) issued by IASB's predecessor the International Accounting Standards Committee (IASC), and the applicable interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

[3] ISAs are issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

[4] GDP per capital in current US$. Source: World Development Indicators, World Bank.

[5] The EU8 are the group of eight former World Bank client countries that acceded to the European Union in May 2004: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia. Poland's GDP per capita is lower than all its EU8 peers, except Hungary. Slovenia leads the group, at US$ 22,001.

[6] In 2004, Poland's GDP per capita at was only 25% the EU average. In 2012, that figure climbed to 39%. Source: World Development Indicators, World Bank.

[7] Source: Economist Intelligence Unit's Country Forecast for Poland. November 2013.

imbalances, allowed Poland to avoid a recession despite the 2008 global economic crisis. Poland is the only European Union (EU) country that has grown continuously over the last four years. Countercyclical policies and the floating exchange rate regime, together with ample international reserves and the precautionary Flexible Credit Line arrangement with the International Monetary Fund (IMF), helped insulate the economy and supported confidence.

5. **Nonetheless, the economy has slowed recently, reflecting a combination of external factors and weaker domestic demand. GDP** growth slowed to 1.9 percent in 2012 and further decelerated in early 2013 as renewed turmoil in the Euro zone weakened business' and consumers' confidence, leading to a drop in investment and stagnation in private consumption. The deceleration is further amplified by the negative impact of the ongoing fiscal consolidation effort, and by negative growth of real wages. Prospects for future economic growth will depend on developments in the Euro zone, as the Polish economy is closely linked to the EU through trade and financial flows. Due to the difficult external environment, Poland's real GDP was expected to grow by 1.3 percent in 2013, and prospects beyond 2013 largely depended on developments in the Euro zone. Growth projections were at 2.4 percent in 2014 should the external environment strengthen and investment increase (in the context of the new EU financial perspective). The unemployment rate was expected to further increase until 2014 and may start to decline only in 2015 if growth accelerates.

6. **Poland's financial system appears to be resilient.** Poland's financial system has been expanding rapidly and is dominated mostly by foreign-owned banks. Total financial system assets grew from 86 percent of GDP in 2005 to 124 percent of GDP in 2012. Banks account for about 70 percent of financial assets, and foreign-owned banks control about 63 percent of the banking sector's total assets. The state owns controlling shares in four banks, which together account for about 23 percent of banking sector assets, including Poland's largest commercial bank, with a market share of 16 percent. The banking system is not highly concentrated: the top five banks account for about 44 percent of system assets. Credit unions and cooperative banks constitute a small segment of the banking system, but the latter are growing rapidly. Pension and mutual funds are the main non-bank players in the financial system.

7. **Poland is the second-largest insurance market in Central and Eastern Europe, after the Russian Federation, although it is still small, about half the size of mature European markets (insurance premiums account for 3.5 percent of GDP in Poland).** The Polish insurance industry recovered in 2010-12, following a sharp contraction in the slump year of 2009. Gross premiums reached US$ 19.1 billion in 2012, a 9 percent increase from the previous year. Life insurance accounts for just under half of all premiums (48 percent). PZU, a domestic firm, is the country's largest insurance company, with a market share of around 30 percent. Insurance companies may be state-owned or private, and many are controlled by international insurers. Foreign owners control the bulk of both life and non-life insurance firms.

8. **The Warsaw Stock Exchange (WSE) is the dominant exchange in Central and Eastern Europe, and ranks second only to the London Stock Exchange in the number and value of initial public offerings in Europe.** There are 438 listed companies, totalling EUR 177 billion in market capitalization (equivalent to 36.3 percent of GDP).[8] Warsaw has led European stock exchanges in terms of new listings – it had 105 initial public offerings in 2012 on its main market and its New Connect alternative market for smaller companies, accounting for 40 per

[8] Source: Economist Intelligence Unit's Industry Report on Financial Services for Poland, June 2013.

cent of all new listings in Europe. However, the value of those companies was small, EUR 731 million, compared with the EUR 5.1 billion in new listings on the London Stock Exchange, for example. Vienna, in contrast, had no new listings in 2012, while Budapest had one and Prague, three.[9]

9. **This ROSC A&A serves three main objectives: (i) to support Poland's development strategy, particularly regarding the enhancement of economic competitiveness, (ii) to assess progress achieved under the Financial Reporting Technical Assistance Program (FRTAP), and (iii) to update the findings of the 2005 ROSC A&A.** The FRTAP is a Swiss-funded program aimed at strengthening accounting and auditing practices in Poland through the implementation of high quality standards in these areas**.**

Objective 1: Supporting Poland's development strategy

10. **The World Bank is supporting Poland's national development priorities through the Country Partnership Strategy of FY2014-17; in particular, the ROSC A&A supports the first pillar, on economic competitiveness.** The CPS rests on four strategic engagement areas, which are aligned with the "Europe 2020" strategic agenda of smart, sustainable, and inclusive growth as well as with the country's overall national development strategy. The most relevant pillar for the ROSC A&A is the first one, on economic competitiveness**.** Although Poland improved its business environment ranking between 2011-12 more than any other country worldwide much still remains to be done. Poland is ranked 55th in the Doing Business 2013 Report, below the EU average (40th). The Government has made it a priority to improve competitiveness in the coming years. During the CPS period, the World Bank will provide continued support, with a focus on (i) reducing unnecessary regulatory burdens for private sector development, (ii) further strengthening the financial sector, and (iii) enhancing financial auditing, accounting and reporting.[10]

11. The ROSC A&A contributes to each of these focus areas specifically.

- ***Appropriate regulatory requirements and reduction of unnecessary burdens:*** The ROSC A&A looks at the accounting, audit, and reporting requirements applicable to most types of companies, including public interest entities (PIEs), and small and medium-sized enterprises (SMEs) to ascertain whether the requirements are appropriate and necessary. While PIEs have fiduciary responsibilities to depositors, shareholders, or the public at large, this is not true for most SMEs. Smaller companies need a simplified accounting and financial reporting framework, with requirements commensurate with their size, the types of transactions they conduct, and their limited range of stakeholders. It is important that they are not hampered with unnecessary or unduly complex regulations, as many SMEs lack the capacity or resources to comply. Therefore, the ROSC seeks to ensure that the A&A requirements for SMEs do not represent an unnecessary administrative burden or impediment to doing business.
- ***Supporting stability and depth of the financial sector:*** Accurate and timely financial information from banks, insurance companies, and pension funds allows for the more effective financial sector supervision that is required for financial sector stability and its

[9] Source: "Stock exchanges: Sound of overtures in Warsaw and Vienna." Financial Times, 2013. May 9. http://www.ft.com/intl/cms/s/0/a80d3bb4-ae7c-11e2-bdfd-00144feabdc0.html#axzz2l1jSmBMs
[10] Source: Poland Country Partnership Strategy for FY14-17, World Bank.

related benefits, such as safeguarding savings and providing liquidity and investment capital to businesses.[11] Furthermore, improved financial reporting lowers borrowing costs (since creditors are given access to standardised and reliable financial information, thus lowering transaction costs); therefore more companies, particularly SMEs, are able to access finance at reasonable rates. The availability of complete and accurate financial information also contributes to raised investor confidence, a requirement for the further developing capital markets.[12]

- ***Enhancing financial auditing, accounting and reporting:*** This is the core objective of the ROSC A&A: to improve the accounting, auditing, and reporting requirements and practices in the country. The ROSC takes a holistic view of the A&A environment and will assess how the statutory and institutional framework, accounting profession, education system, and enforcement mechanisms contribute to overall A&A quality.

Objective 2: Assessing progress under FRTAP

12. **The ROSC A&A will also serve to assess progress achieved under the Financial Reporting Technical Assistance Program (FRTAP) in Poland.** The program is aimed at strengthening the institutional and human capacity required to allow for effective implementation and enforcement of the *acquis communautaire*, as it relates to accounting, audit, and financial reporting, in four countries: Poland, Czech Republic, Latvia and Slovenia. FRTAP is managed by the World Bank Centre for Financial Reporting Reform (CFRR), and financed under the Swiss Enlargement Contribution.[13] This ROSC A&A will provide a basis for assessing the results of FRTAP activities in Poland, which began in December 2009. The activities include technical assistance and training to a number of Polish stakeholders, with a strong focus on public oversight and quality assurance for the audit profession.

Objective 3: Updating the findings of the 2005 ROSC A&A report

13. **The 2005 ROSC set forth a number of recommendations, the most important of which have been undertaken by the Government of Poland; although full implementation will still take some time**. The creation of Audit Oversight Commission (KNA) in 2009 is a significant step forward but must be recognized as 'work-in-progress' as further improvements and changes honed through experience, training and benchmarking will be felt over the coming years. Oversight is improving through evolution rather than revolution so patience coupled with determination will be required to see the KNA fully functioning in its area of responsibility. Working arrangements with the Chamber of Auditors (KIBR) will also require a settling-in period as both organizations seek to co-exist in the Polish institutional landscape. KIBR has been less progressive with reforms, particularly with education (both IPD and CPD), Quality Assurance by resistance to embracing technology to improve the effectiveness and efficiency of statutory audits and the adoption of International Standards on Auditing (ISA).

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[11] Source: Fortin et al. *Accounting for Growth in Latin America and the Caribbean* (Washington: The World Bank, 2010), 5.

[12] Ibid., 3-4.

[13] The Swiss Enlargement Contribution funds projects to help reduce economic and social disparities within the enlarged European Union. With a total of CHF 1 billion, significant assistance has been given to the group of ten countries that joined the EU on 1 May 2004: Estonia, Lithuania, Latvia, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Malta and Cyprus.

II. Institutional Framework

A. Statutory Framework

14. **Poland implements the requirements of the EU *acquis communautaire* as a member state of the EU, including those pertaining to financial reporting**. In accordance with the *acquis*, IFRS—as endorsed by the European Commission—are required for the consolidated financial statements of listed companies and banks in Poland. Additionally, subsidiaries may apply IFRS in their legal entity financial statements, if the parent company reports under IFRS. Other entities, including SMEs, follow rules set forth in the Accounting Act, which are consistent with the Fourth and Seventh Company Law Directives.

15. **Since Poland is a Code Law country, the majority of accounting requirements are contained in the Accounting Act rather than in accounting standards**. Polish accounting requirements are set forth in the Accounting Act and its by-laws. Seven Polish Accounting Standards and four ASC positions, issued by the Accounting Standards Committee (ASC) provide additional guidance for entities. These standards pertain to Cash Flow Statements, Income Tax, Construction Services, Impairment, Leasing, Provisions and Contingent Liabilities, and Changes in Accounting Policies. A further two Polish Accounting Standards (Building contracts and Management report) were being developed as at the end of 2013.

16. The following table summarizes the accounting, auditing, and reporting obligations of Polish companies, and should be read in conjunction with paragraphs 17 - 28.

	Public Supervisory Authority	Accounting Requirements	Audit Requirements	Publication
Listed companies				
Consolidated	Financial Supervision Authority (KNF)	Endorsed IFRS	Yes; 5-yr key audit partner rotation with 2-yr cooling-off period; for listed insurance entities also 5-yr audit firm rotation with 2-yr cooling-off period; audit committee required	Court register, company's website; a summary f/s is also published on the Stock Exchange website*
Legal Entity		Accounting Act; or endorsed IFRS		
Banks (non-listed)				
Consolidated	KNF	Endorsed IFRS	Yes; 5-yr key audit partner rotation with 2-yr cooling-off period; audit committee required	Court register*
Legal Entity		Accounting Act and MOF regulations; or endorsed IFRS		

	Public Supervisory Authority	Accounting Requirements	Audit Requirements	Publication
Insurance (non-listed)				
Consolidated	KNF	Accounting Act and MOF regulations; or endorsed IFRS	Yes; 5-yr audit firm rotation; 5-yr key audit partner rotation with 2-yr cooling-off period audit committee required	Court register*
Legal Entity				
Other PIE's (non-listed)				
Consolidated	KNF	Accounting Act and MOF regulations; or endorsed IFRS	Yes; 5-yr key audit partner rotation with 2-yr cooling-off period; audit committee required	Court register
Legal Entity				
Other Non-listed, including SMEs				
Consolidated	None	Accounting Act; IFRS permitted for subsidiaries of companies that apply IFRS	Yes	Court register*
Legal Entity			Yes, for joint stock and large companies	

* All companies are required to submit their financial statements to the Companies Registry, which makes this information available to the public. In addition, many companies voluntarily publish their financial statements on their websites.

17. **The Accounting Act is the primary piece of legislation regulating accounting and financial reporting, and also sets forth a number of requirements pertaining to statutory audit**. It is largely based on the Fourth and Seventh EU Company Law Directives. It applies among others to all joint stock and limited liability companies, including banks, insurance companies, listed companies, and pension and investment funds. The Act lays down the principles governing the preparation of legal entity and consolidated financial statements, as well as a number of accounting requirements that are normally found in accounting standards (e.g., valuation rules, and information that must be provided in the notes to the financial statements). Further, it mandates which entities are subject to statutory audit, and sets forth requirements pertaining to the scope of audit, and rights and duties of statutory auditors relating to statutory audits.

18. **All Polish companies, with certain exceptions, as well as certain entities with other legal forms or whose annual revenues amount to EUR 1.2 million or more, are required to prepare their legal entity and consolidated financial statements in accordance with detailed accounting requirements within the Accounting Act and its regulatory decrees.** Article 10.3 of the Accounting Act states that companies are required to follow the provisions

of the Act but where no specific provisions exist within the Act then a company "may" apply National Accounting Standards, and where these are silent then it "may" follow *endorsed* IFRS.

19. **Annual, legal entity financial statements consisting of a balance sheet, profit-and-loss statement, and notes have to be prepared within 3 months of the year-end[14,15].** The financial statements of companies subject to audit requirement are also required to include a statement of changes in equity and cash flow. Limited liability companies, joint-stock companies and certain other entities are required to prepare an annual report on their activities, containing financial and non-financial information on the previous year's operations.[16]

20. **Parent companies with a registered office in Poland are required to prepare annual consolidated financial statements for the group within 3 months of the year-end.** Consolidated financial statements must include a consolidated balance sheet, profit and loss statement; cash flow statement, statement of changes in equity, and notes.[17]

21. **Companies, with the exception of sole proprietorships, are required to file their legal entity and consolidated financial statements with the Court Register (KRS), who makes these available to the public.** Companies are required to hold an Annual General Meeting of shareholders (AGM) within six months of the year-end to approve the legal entity and consolidated financial statements of the company (if audit is required, the financial statement must be audited prior to approval)[18]. Once approved by the AGM, companies have fifteen days to file the financial statements with the Court Register, which serves as a repository of the financial statements but does not conduct any verification of the information received. The Accounting Act requires statutory auditors to disclose in the audit report if a company failed to submit its financial statements for the previous financial year to the Court Register.

22. **Access to the financial statements filed with the Court Register is not particularly efficient and will be improved.** Improvements are under way to resolve the challenge of financial statements that are not made available online in the Court Register and some of them are not digitized. In order to gain access to the financial statements, one must go in person to the central information point of the Court Register or the branch office of the Court Register or submit the request electronically via the Ministry of Justice website (the certified electronic signature and a fee of 50 PLN is required). Following a walk-through test by the ROSC team, the process was found to be quite cumbersome (in relation to those financial statements which must be digitized before being made available to public), which limits the utility of making financial statements publicly available.

23. **Listed companies and financial institutions have a common oversight authority, the Financial Supervision Authority (KNF), which was created in 2006.** The KNF supervises listed companies, banks, insurance companies, pension funds, investment funds, credit unions, brokerage-houses, and payment system institutions.

[14] Articles 2, 45, and 52 of the Act on Accounting (1994), as amended.
[15] For investment funds, a statement of changes in net assets, instead of statement of changes in equity. Financial statements of open-ended investment funds, and specialized open-ended investment funds are not required to include a cash flow statement. Article 45.3 and 45.3(a) of the Act on Accounting (1994), as amended.
[16] Article 49 of the Act on Accounting (1994), as amended.
[17] Art. 55 of the Act on Accounting sets the requirements pertaining to consolidated financial statements.
[18] Except the investment funds who are required to approve their financial statements within 4,5 months after the year-end.

24. **Listed companies are required to prepare their consolidated financial statements in accordance with IFRS, as endorsed by the European Commission.** Listed companies are permitted to apply IFRS in their legal entity financial statements.[19] Additionally, subsidiaries may apply IFRS in their legal entity financial statements, if the parent company reports under IFRS.

25. **Listed companies are required to submit their audited annual legal entity and consolidated financial statements to KNF within four months of the year-end.[20] Companies also make the full versions of their financial statements available at their websites.** In addition, listed companies must submit legal entity and consolidated semi-annual reports electronically to KNF within two months of the end of the period. Semi-annual financial statements must be reviewed by an auditor.[21] Quarterly financial statements (legal entity and consolidated) are required to be submitted electronically to KNF within 45 days of the quarter-end (60 days for the fourth quarter).[22] An excerpt of the financial statements is published on the website of the stock exchange; however, this excerpt is quite limited in information and disclosures and is of limited utility for investors, creditors, and other users so usually they refer to the full versions of financial statements available at the entities' websites.

26. **Polish banks are required to prepare their legal entity financial statements according to the Accounting Act and applicable regulations of the Minister of Finance.** Banks (whether listed or not) are required to prepare their consolidated financial statements in accordance with IFRS, as endorsed by the European Commission. In most cases they are also permitted to prepare their legal entity financial statements in accordance with IFRS. In practice, banks prefer to apply IFRS when given the option. Additional reporting requirements are for the National Bank of Poland, including, "Regulatory and monetary reporting" (as required by NBP Resolution 53/2011), Mandatory reserve, Balance of payments (as required by NBP Resolution 78/2009), Information about Payment Instruments pursuant to Art 64 (2) of the Act on electronic payments (12 Sep 2002). For the KNF, banks report a calculation of quantitative risk measures and deposit information is required for the Bank Guarantee Fund.

27. **Insurance companies are required to prepare their legal entity and consolidated financial statements in accordance with the Accounting Act, as well as with relevant regulations of the Ministry of Finance.[23]** Listed insurance companies, however, are required to prepare their consolidated financial statements in accordance with endorsed IFRS. In most cases insurance companies are also given the option to apply IFRS if they wish (in their legal entity and consolidated financial statements); however, none do so voluntarily. In addition to the reporting requirements stated above, insurance companies are required to submit additional solvency and statistical reports to KNF on an annual and periodic basis.[24]

[19] Article 45 of the Act on Accounting (1994), as amended.
[20] Per Ministry of Finance Ordinance of February 19, 2009.
[21] Art. 89, para. 1, point 2 of the Ministry of Finance Ordinance of February 19, 2009.
[22] Art. 101 of the Ministry of Finance Ordinance of February 19, 2009.
[23] Specifically, Regulation of the Minister of Finance of 28 December 2009 (on the detailed accounting rules of insurance and reinsurance undertakings), and Regulation of 12 December 2001 (on detailed rules for the recognition, valuation, disclosure and presentation of financial instruments).
[24] E.g., Report on intra group transactions, Actuary's report on the insurance portfolio, Report on co-insurance operations, Quarterly financial plans, Report on the Insurance Capital Funds, and Information on Individual Retirement Accounts.

28. **Banks and insurance companies have the same deadlines for approving and submitting their financial statements to KNF.** As with regular companies, legal entity and consolidated annual financial statements of banks and insurance companies must be audited by an independent auditor and approved by the AGM within six months of the year's end.[25] The financial statements must then be submitted to KNF within 15 and 30 days of their approval (for legal entity and consolidated financial statements, respectively).[26] Additionally, financial statements must be filed with the Court Register, also within 15 days of their approval.[27] The Court Register makes the financial statements available to the public upon request. Banks and insurance companies are not required to publish their financial statements on their websites, nor does KNF publish the financial statements on its website.

Audit Requirements

29. **The annual, legal entity financial statements of almost all public interest entities, as well as of joint-stock companies and large companies, must be audited.** In addition, all consolidated financial statements must be audited.[28] The following public interest entities must undergo an annual financial statement audit: listed companies, banks, insurance companies (including reinsurance companies), pension funds, investment funds, brokerage houses and credit unions.[29] Large companies are those which, in the prior financial year, met two or more of the following conditions: (a) 50 full-time employees, (b) total assets of EUR 2.5 million, or (c) net revenues of EUR 5 million. In 2012, over 28 thousand companies underwent a financial statement audit; 84 percent of these audits were statutory, and the rest were voluntary. The vast majority of audits were of PIEs and large companies, only about two percent of audits were of SMEs.

30. **The Annual General Meeting of Shareholders (AGM) is responsible for appointing the external auditor unless the company's bylaws or other regulations state otherwise.[30]** The management of a company as well as the external auditor is required to notify the Audit Oversight Commission in cases of termination of an audit contract.[31]

31. **Public Interest Entities (PIEs) are required to rotate their key audit partner as well as form an audit committee**. There is a five-year key audit partner rotation requirement in place for public interest entities[32], with a cooling-off period of at least two years prior to a re-engagement.[33] Additionally, some Public Interest Entities are required to form an audit committee, whose members are appointed by the supervisory board or control board. Audit committees must consist of at least three members, with at least one member being independent

[25] Article 53 and 63c of the Act on Accounting (1994), as amended.
[26] Articles 134 and 141g of the Banking Act (1997), as amended.
[27] Article 69 of the Act on Accounting (1994), as amended.
[28] Art. 64 of the Act on Accounting governs statutory audit.
[29] Art. 2 of the Act on Auditors and their Self Governing Body (2009) sets the definition of public interest entities. In addition to the ones above, electronic money institutions are also defined as PIEs; however, these are not required to undergo annual external audits.
[30] Art. 66 of the Act on Accounting, as amended.
[31] Art. 66, para. 7 of the Act on Accounting, as amended.
[32] If the PIE is an insurance company it is additionally required to rotate its audit firm every 5 years with 2 years cooling-off period.
[33] Art. 89 of the Act on Statutory Auditors, as amended.

and having qualifications in accounting or audit. [34] Audit committees have a number of responsibilities, including recommending an external auditor to the supervisory board, monitoring the financial reporting process, overseeing internal control systems, as well as ensuring that independence requirements of statutory auditors are heeded.

B. The Profession

32. **The "Act on Statutory Auditors" regulates the audit profession and is in line with the requirements of the EU Company Law Directive on Statutory Audit.**[35] The Act contains provisions on the certification of auditors and organization of the profession. It also establishes a public oversight body for the profession (Audit Oversight Commission, or KNA), in line with the Directive's requirements.

33. **There are two accounting professional bodies in Poland: the Association of Accountants (SKWP) and the National Chamber of Statutory Auditors (KIBR), both of which are members of the International Federation of Accountants (IFAC).** KIBR is also a member of the European Federation of Accountants. The Association of Accountants was founded in 1907 and has approximately 25,000 members. The Chamber of Auditors was founded more recently (in 1992), has 7,159 members, and is regarded self-governing body for the profession in public trust in the context of the Constitution. The size of the accounting profession has been contracting steadily in Poland. In 2002, membership stood at over 30,000 at SKWP and 7,547 at KIBR, which represents a decline of 17 and 5 percent, respectively. This downward trend is a positive one, as the profession places greater emphasis on quality assurance, and its numbers move to an equilibrium one that balances supply and demand for accounting and audit services.

34. **The Polish Accountants Association (SKWP) is the older and larger accounting professional body in Poland.** While it does offer a Certified Accountant qualification, this is not widely recognized by the market. Professionals who wish to obtain a widely recognized certification tend to opt for either the Statutory Auditor designation (offered by the National Chamber of Statutory Auditors), or for one of the international qualifications, such as ACCA. Thus, the focus of SKWP is on research and publication of studies. Additionally, it is an important training provider, and provides a broad range of continuing professional development courses for the entire profession (e.g., financial accountants, management accountants, and auditors). Membership of SKWP is voluntary, and most members of the Chamber of Auditors are also members of SKWP.

35. **The Ministry of Finance has the authority to certify bookkeepers; however, the government intended to discontinue this certification in 2014.** Approximately 64,500 bookkeeping certificates have been issued by the Ministry of Finance in the past. These were granted to candidates who proved the professional experience in the field of accounting (of at least 2 years) and passed the exam on accounting, taxes, social security rules and elements of civil law organized by the MoF. Candidates with a Master's degree (or Postgraduates) in Accounting could apply for exemption from the exam (however, in such a case the 3 years of experience was requested)... It is the opinion of the ROSC team that the deregulation of the certificate is a positive one, which would provide SKWP the opportunity to have a stronger presence in the marketplace, potentially through establishing an Accounting Technician

[34] Art. 86 of the Act on Statutory Auditors governs audit committees in public interest entities.

[35] Act on Auditors and their Self Governing Body (2009), as amended, transposes EU Directive 2006/43/EC of 17 May 2006.

certification that would require demonstrating professional competence (e.g., with a professional examination, etc.).

36. **The right to conduct statutory audits of financial statements is reserved for members of the Chamber of Auditors.** In order to practice as an auditor, one must be included in the register of auditors, which is maintained by the Chamber. The Audit Oversight Commission (KNA) has the authority to reject the inclusion of a prospective auditor in the register.

37. **In addition to registering auditors, the Chamber has a number of additional responsibilities, including setting auditing and ethical standards, carrying out training activities, and protecting the professional interests of its members (those related to public oversight are the ultimate responsibility of the KNA).** The Chamber is headquartered in Warsaw and has 27 regional branches. It has a relatively complex organizational structure, comprising six bodies, including:

- *National Assembly of Statutory Auditors (KZBR)*: the main governing body, which convenes every four years. It consists of delegates from the regional branches, and representation is proportional to the number of auditors registered with each branch. During its sessions members of the Chamber's bodies are elected.
- *National Council of Statutory Auditors (KRBR)*: manages the activities of the Chamber in periods between the quadrennial national assemblies. It is responsible for issuing regulations pertaining to the profession, including the adoption of national auditing standards and ethical standards, as well as rules pertaining to continuing professional education, discipline, and other matters relevant to the profession.
- *National Internal Audit Committee (KKR)*
- *National Supervisory Committee (KKN)*: responsible for quality assurance of the profession, including conducting public oversight inspections of PIE auditors (see paragraph 37).
- *National Disciplinary Spokesperson (KRD)*: acts as a prosecutor during disciplinary proceedings, and
- *National Disciplinary Court (KSD)*: imposes sanctions and penalties against statutory auditors.

38. **The Chamber of Auditors is broadly compliant with IFAC's Statements of Membership Obligations (SMOs), which are considered a benchmark of good practice for professional accountancy bodies.** As with most professional accountancy bodies, there are areas for enhancement, most notably the full adoption and implementation of International Standards on Auditing, IESBA Code of Ethics, International Standards on Review Engagements; International Standards on Assurance Engagements, International Standards on Related Services, and International Standards on Quality Control.

39. **Using *best endeavours* is the language of IFAC to note that any Professional Accountancy Organisation is in-progress towards achieving compliance with the SMOs.** Unfortunately there is no scale to measure best endeavours so it can be difficult to determine how close or how far from the required mark we are, but the ROSC team were persuaded that the KIBR management have a clear and time scaled reform programme that will see the SMO progress being encouraged, with assistance from FRTAP (see Appendix B), over the next two years and beyond.

40. **September 2013 was the last recorded updated KIBR SMO action plan on the web site of IFAC[36]**. The details of the progress on each SMO are given in Box 1.

Box 1: KIBR Compliance with IFAC SMOs

SMO 1 - Quality Assurance (QA): restricted to comments on publishing information on quality assurance as reported by KNA annually to activities of the Council Committees that support statutory auditors and entities authorised to audit financial statements. No detailed activity updates since July 2013 and no information on the on-going work with FRTAP and KKN.

SMO 2 – International Education Standards (IESs): Statutory auditors: systematically update knowledge and qualifications with regard to changes concerning audit assessment and IT techniques, according to global trends. No up to date information on KIBR's education initiative, assisted by FRTAP.

SMO 3 - International Auditing and Assurance Standards (IAASB) pronouncements: The Committee should develop a document of divergences between ISA and the Polish legal provisions including instructions for statutory auditors and entitles authorised to audit financial statements to be followed. No updates on the progress being made with FRTAP on the installation and training on translation software.

SMO 4 - International Ethics Standards Board for Accountants (IESBA) Code of Ethics: The IFAC Code of Ethics is considered inferior to the provisions of the Act (see para 43).

SMO 5 - International Public Sector Accounting Standards (IPSAS): Continue to use best endeavours by identifying opportunities to assist the Ministry Of Finance with the implementation of IPSAS. In cooperation with FRTAP, Poland's consideration of adopting IPSAS is being closely examined.

SMO 6 - Investigation & Discipline (I&D): Whilst a compliant structure exists, there is the ever-present legal challenge available to all auditors under Polish law and this appears to restrict the effectiveness of I & D.

SMO 7 - International Financial Reporting Standards: Continue to use best endeavours to ensure that the investigation and disciplinary mechanisms continue to address all SMO 6 requirements. IFRS materials, university lecturers and the training of trainers is being supported and delivered by FRTAP across Poland.

41. **The National Supervisory Committee (KKN) is responsible for the system of quality assurance for the audit profession and conducts regular inspections of all statutory audits within the system of public oversight.** There is a three-year cycle during which all auditors of public interest entities must be inspected; for non-public interest entities, there is a six-year cycle.[37] The Audit Oversight Commission is permitted to participate in inspections, as an observer; however, it has only exercised this occasionally. It seems that KKN has had

[36] www.ifac.org/about-ifac/membership/compliance-programme/compliance-responses
[37] Art. 26 of the Act on Auditors and their Self Governing Body (2009)

difficulties in managing the review cycle, since while 8 and 11 inspections were carried out in 2010 and 2011, respectively, 71 inspections were carried out in 2012 alone.

42. **Membership with the Chamber is mandatory.** In order to become an auditor, one must meet a number of criteria, including: holding a university degree, completing a practical experience requirement (i.e., two-year internship with a statutory auditor or one year practical experience in accounting in other EU Member States), and passing a professional examination (oral and written).[38] The examination is organised by the Examination Committee, which is a separate body, independent of the Chamber (see para. 49).[39] For graduates of universities outside of Poland, one must also demonstrate fluency in the Polish language. Once registered, auditors must meet Continuing Professional Development (CPD) requirements. These requirements are generally in line with international good practice and are suitable for auditing professionalism; however, the Chamber of Auditor's examination should be made more commercial, market-based and assess the ability to apply theoretical knowledge in practice as opposed to being legally dominated and compliance-oriented.

43. **The Chamber adopted the IFAC Code of Professional Ethics for Statutory Auditors in 2012.** The Act on Statutory Auditors and the Code of Ethics establish that a statutory auditor must be independent in his or her professional activity. However, there are differences between both the Act (or other regulations) and the Code of Ethics in their approaches to independence, including differences in auditors accepting non-audit work from audit clients, partner rotation and dependence on audit fees from one client. The Code of Ethics gives sufficient guidance on how to deal with such differences.

44. **The mandate of the Chamber has not yet been amended to reflect the need to serve the public interest.** The 2005 ROSC A&A noted that the duties of the Chamber, as defined by the Act on Statutory Auditors, include representing the members of the Chamber and protecting their professional interests. However, the mandate of a professional association of auditors should not be to defend themselves, but rather the public interest. The 2005 report therefore recommended that the Act should make it the explicit duty of KIBR to serve the public, which consists of clients, credit grantors, governments, employers, employees, investors, the business and financial community, and others who rely on the objectivity and integrity of auditors to maintain the orderly functioning of commerce. However, the Act has not yet been amended to reflect this.

45. **Under the EU Statutory Audit Directive, Poland is obliged to recognize professional auditing qualifications of other Member States, as long as the individual is able to demonstrate proficiency in Polish law and language.** However people interviewed by the ROSC team said the examination and the examining process are such that they do not constitute a genuine test of relevant auditor skills so much as a perceived barrier to entry that, whether by design or not, discourages applicants. Exam content was described as being excessively complex and obscure. Thus reciprocal recognition of professional auditing qualifications is essentially in form rather than substance.

46. **KRBR takes a very casual and unobtrusive role in the detailed scope of the audit examination and recommends many members of the Examination Committee and this is**

[38] Art. 5 of the Act on Auditors and their Self Governing Body (2009) sets forth the requirements for becoming an auditor.
[39] Art. 6-9 of the Act on Auditors and their Self Governing Body (2009) discusses the Examination Board.

formally regulated by the Ministry of Finance. Based on the existing legislation (Act on Statutory Auditors from 2009) KRBR determines, in the form of resolutions approved by the Audit Oversight Commission: a framework schedule for conducting qualification proceedings, the place and the date of examinations for candidates; a detailed thematic scope of examinations; the amount of fees for individual examinations and amount of remuneration for members of the Board; the manner of appointing examiners and the amount of their remuneration; conditions for granting exemptions; principles for documenting practice and internship; the scope, manner and principles of other tasks indispensable for the correct operation of the Board and qualification proceedings for candidates for statutory auditors.

47. **In practice, KRBR does not prepare those resolutions – they are prepared by Examination Committee and formally approved by KRBR.** This is a reflection of the old legislation prior to 2009 and the introduction of the Audit Directive and Act on Statutory Auditors did not change the habits in respect of those resolutions. The main purpose of the Examination Committee is to oversee the independence and integrity of the examination process.

C. Professional Education and Training

48. **A number of Polish universities offer accounting and auditing courses; however there is limited integration between what is required in professional examinations and university curricula.** There is no Bachelors degree in auditing per se; instead, students interested in pursuing a career in auditing tend to obtain a degree in business, although candidates may have a university degree in any field in order to sit the professional audit examinations. The Examination Commission and ACCA offer exemptions for students who have completed coursework in recognized universities. However, while ACCA recognizes courses from 173 universities from Poland (thus offering exemptions for up to 9 of their 14 papers), only four universities (in Warsaw, Krakow and two in Katowice[40]) are given such exemptions by the Commission.

49. **The Examination Commission, an independent body outside of the Chamber of Auditors but co-operating closely with it, is responsible for drafting the professional examination questions and granting exemptions.** However, the granting of exemptions is proving to be a slow, administratively burdensome process, from which few of Poland's institutions of higher learning have benefitted. In the case of accountancy and auditing education, a significant portion of the technical skills required in the professional is best learned in an academic setting. The learning institutions and professional body need to cooperate to plot an academic path that facilitates entry to professional learning. The current lack of integration could be due to approval bottlenecks or, more problematically, due to a lack of interest at the university level in Polish statutory auditing. There is therefore a need to ensure greater consistency between the curricula at the university level and the content of the professional examination.

50. **Since the 2005 ROSC, some minor improvements have been made to the professional examination, and it is now in line with the requirements of the EU Company Law Directive on Statutory Audit and IFAC's International Education Standards for Professional Accountants but the examination process itself was perceived as neither transparent nor fair.** Candidates who fail cannot review suggested answers in order to

[40] KIBR exemption information: www.kibr.webserwer.pl/_docuchwala_1802-41-2010.pdf

improve their chances on a next attempt. Multiple attempts are not uncommon. The Examination Commission does not make available official study materials for students wishing to prepare for the examination. It also does not publish any resources, such as practice examinations, copies of previous examinations, study guides, etc.

Continuous Professional Development (CPD)

51. **Statutory auditors are obliged to undergo Continuing Professional Development (CPD) for at least 40 hours every calendar year.** Members of the Chamber of Auditors who are not practising in the profession (not conducting audits of financial statements) must undergo CPD for at least 24 hours in a calendar year. The Chamber of Auditors' National Council of Statutory Auditors issues a list of approved CPD courses on an annual basis; they add new courses and remove old courses each year. CPD providers must be approved by and registered with the Chamber of Auditors. Only those courses taken from such approved training providers count toward CPD requirements. The National Council has the authority to conduct inspections of CPD courses to ensure quality. After the training has been completed, the training entities forward to the Council the list of participants so they receive credit, and the Chamber of Auditors monitors compliance with the training requirements. Auditors who do not fulfil CPD requirements are referred to the Chamber of Auditors' National Disciplinary Spokesman, who can then instigate disciplinary procedures. The members concerned are not publicly named, and the sanctions vary according to the individual circumstances.

52. **The Chamber of Auditors has attempted to expand the number of CPD-approved courses and course providers; however, in practice CPD choices are limited.** The list of approved courses and providers provides only a limited range of topics. It is considered good practice to take a more comprehensive view of CPD, so that for example, if an auditor needs to improve language skills to better serve clients, language courses could count toward fulfilling their CPD requirement. The same could be applied to training for soft-skills and communication, seminars and conferences. As an example, the Annual IFRS conference hosted jointly between the World Bank and SKWP does not count for CPD. This narrow view of CPD and required coursework detracts from the goal of professional development, which will vary according to the individual's own goals and interests, and need not be set explicitly by the Chamber. On a positive note, in 2012 the Chamber made it possible for companies and individuals to be approved for the delivery of CPD events. There is no control for ensuring registrations is processed in a timely manner, nor is there an appeals process for providers that have been denied registration. As a result, competition is limited among CPD providers and accounting professionals are restricted from having a wider and arguably richer choice of topics to choose from for their own CPD needs.

D. Setting Accounting and Auditing Standards

53. **The Accounting Standards Committee (ASC) is responsible for issuing accounting standards.** The ASC was established in April 2002 and, as at the date of this report, in ten years it had issued seven accounting standards and four positions with a further two standards being developed for the end of 2013. The Committee consists of eighteen members, recommended by various institutions, and subject to appointment by the Minister of Finance, as follows:

- One is recommended by the Minister of Treasury

- One is recommended by the Chair of the Financial Supervisory Authority
- One is recommended by the Chair of the National Bank of Poland
- Five are recommended by the Minister of Finance
- Five are recommended by the National Chamber of Statutory Auditors
- Five are recommended by the Association of Accountants in Poland

ASC has no permanent staff, just the members themselves who meet on a monthly basis, on average. They do not receive remuneration for their activities, although they do receive a modest per diem for attending meetings. There is no requirement for the private sector to be represented in the ASC, which is wholly comprised of the public sector and accounting profession. In order to have a more robust view of the needs of a wider range of stakeholders, Poland may wish to consider requiring representatives from business (as preparers of financial statements) and investors (as users of financial statements).

54. **ASC does have a formal process for issuing standards.** The areas in which standards are issued are chosen on a demand-driven basis, in the sense that accountants and auditors send informal communications to the ASC, requesting that standards be issued or amended. In their meetings (which take place on a monthly basis, on average), the ASC may choose to discuss these requests, particularly if many requests are made on any given topic. ASC then issues a proposed standard and make it available to the general public for comments through the internet site of Ministry of Finance and a professional monthly magazine. ASC would then review comments and issue the final standard. However, in practice, there is no trace of such public debate regarding proposed accounting standards on the MoF website after the process is completed.

55. **The ASC should develop a formal strategy to help raise public awareness of the role and function of the committee**. In 2012 in the International Accounting Standards Board (IASB) moved to more evidence-supported decision-making with more emphasis put on a research phase within the overall process. The research phase was created to help address a number of perceived problems, including limited resources.

56. **The ASC has an important role to play in promoting greater participation in the standard-setting process, both in Poland and internationally.** The Committee encourages Polish constituents to take part in the IFRS consultation process in cooperation with EFRAG. For example, ASC organized several outreach events in Warsaw both to raise awareness of the EFRAG IFRS exposure draft process and to help EFRAG in gathering feedback from Polish stakeholders on particular IASB exposure drafts (overall the events were aimed at increasing Polish participation in the IFRS setting process). The funding for the ASC is provided by the state budget and it seems to be moderate, but still enabling to cover the expenditure required by ASC in the current process of update and creation of accounting standards.

57. **The Chamber of Auditors is responsible for setting auditing standards (in cooperation with the KNA as it has to formally approve them before they come into force), as well as translating and publishing ISAs.** Auditing standard-setting follows an ad hoc system with no due process. ISAs have not yet been adopted in Poland, despite the well-documented support of the Audit Oversight Commission, National Supervisory Committee, and KNF. It is expected that Poland will adopt full ISAs in 2015. The Chamber's activities (including standard-setting)

are mostly financed by its members in the form of annual fees and it seems that, until recently, the annual fees covered sufficiently the expenditures of the organization.

E. Enforcing Accounting and Auditing Standards

58. **The Polish Financial Supervision Authority (KNF) was created in 2006 and is responsible for supervision of financial sector activities in the Poland.** KNF supervises the banking sector, the capital market, the insurance industry, pension funds, investments funds, credit unions, and investment firms, and payment system institutions. The institution is comprised of the KNF and KNF office. KNF is composed of a chairman, two vice-chairmen and four members. The chairman is appointed by the Prime Minister. The vice-chairmen are appointed by Prime Minister upon recommendation by the chairman. The four members of KNF are appointed by the Ministry of Finance, Ministry of Labour and Social Policy, the Governor or Deputy Governor of the National Polish Bank, and the President of the Republic of Poland. The KNF office comprises several departments which supervise and review prudential indicators of various sectors, e.g. banking, insurance, pension funds. In the structure of KNF there is a Department of Public Offerings and Financial Information, which reviews the financial statements of listed companies; and a Department of Investment Firms and Capital Market Infrastructure, which reviews the financial statements of non-listed and listed investment firms. The KNF office is financed by the fees payable by the institutions being supervised by the office. The amounts of fees levied as a percentage of particular items of revenues or assets of those institutions are described in relevant legislative acts. It seems the financing is sufficient for the activities of the office. Staff at the KNF office includes professionals from the field of accounting and auditing as well as lawyers. They have experience in the fields of IFRS, accounting and auditing and receive regular training in these areas.

59. **KNF's first term (2006–2011)[41] was the first five-year period in Poland when no collapse of a financial institution took place.** Throughout the global financial crisis that began in 2008, Poland managed to maintain a secure and stable financial sector, which was a stronghold of the economy. Since the establishment of the KNF, the condition of the Polish financial market has improved significantly despite turmoil on the global financial markets: banks' equity rose by 63 percent to over PLN 100 billion, and the average solvency ratio in the Polish banking sector increased from 10.8 percent at the end of 2008 to 13.7 percent at the end of 2010. In the insurance sector, gross premiums written soared by approximately 45 percent and the number of companies listed on the WSE went up by about 40 percent.

60. **Consistent with the recommendations of the European Securities and Markets Authority (ESMA),[42] KNF utilizes a mixed model whereby a risk based approach is combined with a rotation and/or a sampling approach in its reviews of financial statements of listed companies.** KNF reviews the financial statements of listed companies, including listed banks and insurance companies to ensure compliance with accounting standards. In conducting its review, it focuses on annual and semi-annual financial statements with qualified audit opinions or disclaimers of opinion/adverse opinions. In addition, a sample of financial statements with

[41] http://www.knf.gov.pl/en/publications/cross_sector/index.html

[42] The methods of selecting financial statements for the review were based on the CESR (currently ESMA) recommendations contained in the CESR Standard No. 1, and the CESR guidelines on the application of selection methods.

"clean" audit opinions and reports is also selected for review. In 2011, approximately 20 percent of listed companies were subject to a compliance review.

61. **Since 2006, KNF has published an annual report of its activities, in Polish and English, in an effort to raise compliance with financial reporting requirements, particularly IFRS**. The report is quite comprehensive and details the most common areas of non-compliance, including non-disclosures and partial disclosures, over the previous year.[43] The 2012 KNF Report covers 182 annual and interim financial statements of 87 issuers prepared in 2011. Forty percent of the report is dedicated to listing instances of non-compliance with IFRS, the vast majority of which are not particularly serious. The report also has a section on selected issues that require special attention in the preparation of financial statements, and details instances of non-compliance both with IFRS and Polish Accounting Standards.

62. **KNF's audit review team comprises 7 staff; they are trained in the area of IFRS and take part in IFRS update training annually.** However, none is a KIBR certified auditor. Due to the limited number of controllers and lack of specific control tools, they usually do not follow up issues from previous years' reviews, unless they were very serious issues in nature and scope. In the business community there is an increasing awareness of KNF's annual report on the review of financial statements.

63. **Issuing a report on its activities is a significant positive step in the direction of greater accountability and transparency.** In order for the report to be more effective and have a more direct impact on audit practices, however, KNF could consider making the report more educational. For example, rather than or in addition to listing all instances of non-compliance, KNF could focus on the most serious problems, and recommend solutions for addressing these in practice. Interestingly, the ROSC team's review of financial statements of public interest entities found no evidence that supported KNF's views of widespread non-compliance with IFRS. Additionally, the timeline for issuing the report could be revised so that it may be used as an educational tool for interested parties. Therefore, rather than issuing the report in February, in the middle of audit season, KNF could try to issue the report in September, so that preparers, auditors and audit committees are able to use and apply the recommendations of the report in their work.

64. **Each year, KNF invites all firms that have conducted audits of PIEs to a meeting where KNF elaborates on shortcomings and other notable issues.** This is a laudable initiative which is beneficial the public interest. In order to derive even greater benefit from this exercise, the linkage between KNF and the Chamber of Auditors could be strengthened, so that CPD courses are offered for those areas in which weaknesses were identified in the KNF report.

65. **KNF is responsible for banking supervision in Poland and this is regulated by the provisions of the Banking Law of 29 August 1997 and the Financial Market Supervision Act of 21 July 2006.** KNF is also responsible for Insurance supervision in Poland as regulated by the provisions of the Act on Insurance Activity of 22 May 2003.

66. **KNF supervises the financial market to ensure its proper operation, stability, security and transparency, as well as to instil confidence in that market, and to safeguard the**

[43] http://www.knf.gov.pl/en/Images/Raport_MSSF_2012%20do%20publikacji_EN_tcm81-34334.pdf

interests of market participants. Based on the responsibilities described in legislation (particularly art 4 of the Act on Financial Market Supervision), the KNF:

1) supervises the financial market;
2) fosters proper operation of the financial market;
3) promotes development of the financial market and its competitiveness;
4) takes educational and informational actions related to the operation of the financial market;
5) participates in the preparation of drafts of legal acts related to financial market supervision;
6) creates opportunities for amicable and conciliatory dissolution of disputes between the participants of the financial market, including in particular disputes arising from contractual relationships between the entities subject to KNF's supervision and the customers buying their services;
7) performs other statutorily assigned tasks.

As a way of exercising its oversight responsibilities, KNF issues quarterly and annual reports summarizing separately the condition of banks and insurance companies in Poland. The reports are available to the public from the KNF's website.

67. **The Audit Oversight Commission (KNA) is responsible for overseeing the audit profession, including the Chamber of Auditors**. It was created in 2009 in order to align Poland with the requirements of the 2006 revision of the EU Eighth Company Law Directive on Statutory Audit. The Oversight Commission has a number of responsibilities, including: (a) approving resolutions of the Chamber of Auditors pertaining to national auditing standards and ethics standards, professional qualification requirements, professional education requirements, and rules of disciplinary proceedings against auditors; (b) supervising the inspection work conducted by the Chamber's National Supervisory Committee (KKN) in relation to PIE auditors; (c) initiating, participating as a party or appealing in relation to disciplinary proceedings conducted by relevant bodies of the KIBR; (d) conducting its own ad-hoc investigations of audit firms; (e) international cooperation; and (f) registering auditors from third countries. Specifically regarding its supervision work in relation to inspections of PIE auditors, KNA is responsible for approving the annual inspection plans of the National Supervisory Committee, approving the hiring of inspectors, and approving the appointment of inspectors to specific firms. KNA also approves the results of the inspections in PIE auditors and is permitted to be an observer in all inspections, not only of PIE auditors.

68. **Audit Oversight Commission comprises nine members, most of whom represent the public sector.** Members are appointed by the Minister of Finance for a four-year term, and represent six organizations. Two members are from the MoF and KNF (serving, respectively, as chair and vice-chair), two are from the Chamber of Auditors, and one each from the Ministry of Justice, Employers' Organizations, and Warsaw Stock Exchange. The majority of members must be independent, i.e., they may not carry out audit activities, have voting rights in an audit firm, or be a member of a management or supervisory board of an audit firm for at least three years prior to their appointment, and during their term. There has been a great deal of turnover (six chairmen since 2009) due to the requirement that the Chairperson be appointed, *ex-officio*, by the Minister of Finance amongst Secretaries of State or Undersecretaries of State in the Ministry of Finance. Instead, the Chairman should be appointed individually, and with a set

term. The high rate of turnover may have made an impression that it has made running of Commission very difficult, at a sensitive and critical time in its early life.

69. **The Oversight Commission enjoys a level of funding such that there appears to be no immediate issue regarding its sustainability on the presumption that its tasks and organizational structure remains unchanged.** It receives a state budget allocation which amounted to approximately US$ 57,500 in 2012 that is insufficient to cover the costs of the 11 staff of the Ministry of Finance who support the KNA (despite the fact that 20 employees were predicted to support the KNA when it was at the stage of establishment). [44]

The state budget is supplied in connection with the operation of the public oversight system with income from the following sources (but they are not directly allocated for the funding of the KNA):

- 20% share in oversight fees paid annually by PIE auditors to the Chamber of Auditors;
- Registration fees for third country auditors;
- Penalties imposed by the KNA on auditors.

70. **The Audit Oversight Commission issues an annual report that is made publicly available on the Ministry of Finance website.** The report includes information on the Supervisory Committee's quality assurance activities (KKN), although the Committee also issues a separate report as required by the Act on Statutory Auditors. KKN recognized the significant problems encountered in delivering 75 percent of the required inspections by the end of 2012. Further, two salient issues were discussed: (1) declining audit remuneration poses a risk to the quality of audits, and (2) the current inspection procedures are not sufficient for a comprehensive assessment of the auditor or audit firm. Additionally, the report includes information on the results of disciplinary procedures and penalties imposed on entities authorized to audit financial statements, as well as on the demographics of the audit profession, the Commission's budget and revenues/expenses, as well as its composition. International cooperation also features prominently in the annual report, including information on its cooperation with the European Union, PCAOB (Public Company Audit Oversight Board, the Commission's counterpart in the United States of America), the International Forum of Independent Audit Regulators (IFIAR), and the Swiss Contribution Programme.

71. **Penalties and sanctions in disciplinary proceedings are administered by the National Disciplinary Spokesperson (KRD) and the National Disciplinary Court (KSD).** The Audit Oversight Commission may participate as a party in disciplinary proceedings against statutory auditors. The Commission may also appeal against the decisions of KSD.

In 2012 the Commission considered 317 rulings and decisions regarding statutory auditors submitted by KSD with regard to a number of issues, including failure to complete CPD, violations of professional ethics, and violations of the Act on Accounting.

A total of 150 disciplinary penalties were applied in 2012, most of which were warnings or reprimands (73 percent). The remainder consisted of fines (19 cases), mandatory training (8), one-year suspension from performing audits (12), and a three-year suspension (1).

[44] 60 percent of the Oversight Commission's expenses went to remuneration of members. All but the chair receive remuneration – www.mf.gov.pl/kna

72. **The report also details all instances of non-compliance detected during inspections of PIE auditors, the most common of which are detailed below:**

	Number	%
Content of the opinion and report with formal requirements of NSA No. 1	134	11
Documentation of assertions listed in part 13 of NSA No. 1	112	9
Completeness of activity report	105	9
Proper audit planning	72	6
Cooperation with the audit committee	71	6
Documenting audit procedures on fraud	68	6
Audit documentation	65	5
Documentation of events which occurred after the balance sheet date	64	5
Documentation of audit procedures related to contingent liabilities, court cases, limitations of property rights	58	5
Documenting audit methods, techniques and procedures	54	5
Completeness of additional information (*Disclosure*)	54	5

73. **Unfortunately KKN do not have similar tables for 2010 and 2011 where trending of the types of non-compliance could be tracked and analysed.** Without this information it is difficult to recommend to KIBR what issues should be prioritized in their CPD offerings and no sense of improvement can be measured over time on the remedial actions of both education initiatives and compliance punishment.

74. **The report also contains information on the challenges and the way forward for the inspectors and inspection process.** Amongst the matters identified for improvement in the future, were the need to adopt ISAs and a critical review of inspection procedures, with particular attention being given to a risk-based approach. KKN is also very interested in participating in international programs and bilateral contacts serving to transfer knowledge and experience of more established oversight bodies.

75. **The fact that both Audit Oversight Commission (KNA) and the Supervisory Committee (KKN) issue reports on the results of their oversight and quality assurance activities is beneficial for the public interest.** Both bodies make a commendable effort in ensuring transparency of their activities. In order to further improve the reports, however, they could be made less academic and more user-friendly in style.

76. **The Supervisory Committee's (KKN) report focuses on activities and listing of events rather than explanatory findings with actual examples used of what the inspectors found; what the problem was; and a suggested solution or solutions**. The significant issues should be identified and where necessary, an impact assessment should be given. Also the reports do not describe what support is available to members and how to access that assistance. Many quality assurance bodies promote targeted courses for auditors and a practice review service to assess the level of compliance before any official inspections of auditors or audit firms.

77. **All resolutions taken and all inspection reports in respect of PIE auditors and some other deliverables produced by the KKN including some relatively minor administrative decisions, have to be referred to the KNA either for consideration with the right of appeal to administrative courts or for approval.** The predictable consequence is a number of delays,

especially in connection with individual audit firms and sole practice inspection reports. The process of approval of inspection reports although lengthy is a way of guaranteeing the quality of inspections. Both bodies appear understaffed and the KKN sometimes resorts to hiring part-time inspectors.

78. **KNA is independent from the profession (as mentioned above) and its nine members are not permanent employees but meet occasionally (at least once a month) and its staff (employees of the Ministry of Finance), including a 3-person inspection team, comprises civil servants, some of them being auditors but non-practising.** On the other hand, all KKN members are part-time practitioners as are most KIBR officials. The Chief Inspector in KIBR and his staff work on a full-time basis,are non-practitioners and are accountable to the members of the committee. Since all inspections are delegated to the KKN there is a potential independence problem.

79. **The operation of the public oversight function appears to be more directed to the execution of the tasks prescribed by legislation rather than to improving the quality of statutory audit.** Every step taken by the competent authority should be measured in terms of the contribution it gives to that concept. The current application of quality assurance inspections as designed and performed by KKN leads more to compliance oriented investigations to undercover law violations (no matter how unimportant they may be) than to focusing on basic elements such as independence, ethics, client acceptance and retention, human resources and quality monitoring.

80. **The KKN procedures and tools used in the inspections of audit firms do not appear adequate at first sight**. A questionnaire/checklist in force known as “protocol” (it is currently being reformulated) fails to properly cover sensitive areas like ethics, independence, HR policies, certain execution and documentation aspects and quality monitoring.

81. **In common with many other EU countries, the audit profession in Poland is experiencing a downward pressure on fees and we noted cases of extremely low fees, occasionally less than 4,000 PLN ($1,300).** It looks clear that there is a potentially serious breach of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics in these cases which, under current inspection procedures, have to be largely left aside.

82. **Communication processes are not strong.** Individual private reports to inspected audit firms, issued by KKN once approved by the KNA, do not offer a great deal of information for improvement of audit quality but largely consist of lists of inadequacies vis-à-vis legislation in force. General annual summaries for public consumption, placed on the KNA´s website, comprise detailed information about KNA activities, compliance with legal aspects and enforcement action but reserve little space for audit quality issues and future developments.

III. Accounting Standards as Designed and as Practiced

83. **While recent Polish accounting requirements are generally in line with the 2013 Accounting Directive (previously Fourth and Seventh EU Company Law Directives), certain differences with IFRS may impede the reliability of financial statements of *public interest entities*.** These accounting requirements are generally adequate for SMEs. However, there are some fundamental differences between IFRS and Polish accounting requirements, which may not always provide the general public with sufficient information, particularly in public interest entities. Selected differences include the following:

- ***Property, plant, and equipment (PPE) may be under or overstated.*** Polish GAAP falls short of IFRS and may result in under/overstatement of PPE:
    - ***Measurement at recognition.*** Polish GAAP does not specifically require that the initial measurement of PPE include the estimated cost of dismantling and removing an item and restoring the site (e.g., nuclear plant, restoration of a quarry, clay pits, etc.). This may result in an understatement of the related provisions for decommissioning and other environmental costs.
    - ***Measurement after recognition.*** Revaluations are carried out only when required by the Minister of Finance. The last revaluation took place on January 1, 1995 when fixed assets—other than land—were revalued with either use of market values or adjusted by inflation indices calculated specifically for each major category of assets. Although Poland was regarded hyperinflationary in 1995 and 1996, assets were not revalued. This may result in an understatement of PPE and related depreciation expenses.
    - ***Measurement after recognition.*** Polish GAAP does not indicate what depreciation methods are allowed, while IFRS allows a choice between straight-line, diminishing balance or units of production. This may lead then to policies being implemented that obscure the financial performance of the organisation that may affect the financial result.

- ***Lease accounting could mislead users.*** Polish GAAP provides definitions of the lessor and the lessee in a manner that is substantially consistent with IFRS. Further guidance on issues such as measurement, revenue recognition, and sale and leaseback transaction is provided by Polish Accounting Standard No 5. For the uncovered issues, companies may—but do not have to—refer to IAS 17 Leases, to account for a lease. A company may therefore elect to recognize immediately gains on a "sale" transaction in circumstances where IFRS would not allow immediate recognition of the gains (e.g., if a sale and leaseback transaction results in a finance lease), which could be misleading.
- ***Provisions for employment benefits may be understated.***. Polish GAAP includes a general requirement consistent with IFRS, which some auditors, but not all, interpret as meaning that a provision should be recognized. While pension schemes that are based on defined benefits are non-existent, there are other benefits such as jubilee bonuses paid by some entities to employees, usually every five years, or one-off retirement payments obligatory for all companies. Guidance on these issues is provided by Polish Accounting Standard No 6.
- ***Capitalized foreign exchange losses may overstate PPE***. Polish GAAP provides that the cost of purchase or manufacture of tangible fixed assets comprises the total costs incurred

by an enterprise in relation to the period of construction, including related foreign exchange differences. For example, a company building a plant financed by a loan in Euro would capitalize all foreign exchange losses on the Euro loan as part of the cost of the building during construction of the plant. This is not permitted under IFRS (except in the limited circumstances foreseen under IAS 23, *Borrowing Costs*), which require that such foreign exchanges differences be recognized in the income statement. In capital-intensive industries borrowing in Euro this may result in materially overstated PPE.

- ***Impairment of assets may not be recognized in a timely manner.*** Polish GAAP requires the use of the permanent diminution in value concept and provides some guidance on application via the National Accounting Standard. Still practitioners assert that the use of permanent diminution in value is likely to result in a delay in recognizing impairment losses and hence overstated assets.
- ***Agriculture.*** Polish GAAP does not contain any provision similar to IAS 41, *Agriculture*. Taking into account the current discussions regarding the need to introduce accounting requirements in bigger agricultural farms the lack of rules compliant with IAS 41, this may become a major inconvenience for farmers and their sector.

84. **The financial statement review found that companies generally comply with necessary requirements.** In addition to the PIE financial statement review referred to earlier, the ROSC team assessed the compliance gap by sampling financial statements that purported to be prepared in accordance with Polish GAAP. For the review, the ROSC team selected enterprise sector companies (small and medium, non-listed, and audited by audit entities other than "Big 4" companies). In total, 26 financial statements were obtained from the Court Register (KRS). Of these, 20 had clean audit opinion, 1 had a qualified audit opinion, 1 had an audit opinion with emphasis of matter and 4 had disclaimers for going concern issues. All 26 financial statements included a balance sheet, income statement, cash flow statement, statement of changes in equity, notes to financial statements, management's activity report, and audit report**.**[45] Six sets of financial statements, however, were missing the audit report. Notes to financial statements were in line with requirements, and the complexity of notes was commensurate with the types of transactions undertaken by the company. Introduction to financial statements (as part of the notes) included the explanation of accounting policies adopted in entities and major changes in those policies in comparison to prior years. Numerical notes to financial statements included analytical analyses of balances of items in the balance sheet and income statement, with an explanation of major items. Activity reports, as an additional element of financial statements, included further information about achievements and goals of companies, vital information regarding financial operational conditions of companies, management's assessment of financial and operational results, and management's assessment of major risks, threats, opportunities and competitors.

85. **The assessments revealed that financial statements are often influenced by taxation rules.** To satisfy requirements of taxation authorities with regard to recognition of revenues and expenses, preparers of general-purpose financial statements of small- and medium-size private companies and public interest entities tend to follow tax rules rather than the accounting treatment set required by Polish accounting requirements in various areas (e.g., depreciation, revenue recognition, provisions).

[45] In line with requirement described in According to Act on Accounting of 29 September 1994, Art. 45 paragraph 2, 3 and 4

IV. Auditing Standards as Designed and as Practiced

86. **Poland has not yet adopted ISAs but the three National Auditing Standards do not significantly differ from their ISA counterparts; in areas where NAS are silent, ISAs are to be followed.** In 2010, the following national auditing standards were adopted by the Chamber and subsequently approved by Audit Oversight Commission:

- NAS 1, General Principles of Auditing Financial Statements
- NAS 2, Auditing Consolidated Financial Statements of Capital Groups
- NAS 3, General Principles for conducting reviews of financial statements/abridged financial statements and providing other assurance services**.**

Since 2010 and with the assistance of the Swiss Programme, implemented by the World Bank's CFRR, the Chamber has introduced a large-scale programme to train auditors in ISA. This programme is expected to continue until 2016.

87. **The delay in adopting ISAs has had little effect on the practice of auditing in Poland.** The reason for this is that that incompatibility between ISA and the Auditing Act is a matter of language rather than of substance. The Chamber of Auditors and the Oversight Commission has made two unsuccessful attempts to have the matter resolved and it is hoped that by the end of 2015 a clear and agreed timetable for adoption will be issued.

88. **Polish Auditing Standards are not yet replaced by ISAs despite a continued pressure by KNA to do so.** KIBR is responsible for issuing auditing standards, and translating and publishing International Standards on Auditing. With the assistance of the World Bank (see Appendix B Component 8), the Chamber has introduced a large-scale program to train auditors in the new clarified International Standards on Auditing funded by the Swiss Contribution. This represents a major improvement from 2005 when Polish Auditing Standards fell below the levels of International Standards on Auditing.

89. **The review of financial statements did not enable the team to identify issues about ISA implementation.** When published, audit reports reviewed were of good quality. All the reports reviewed provided for clean opinions, and two of them included an emphasis of matter. However the size of the sample does not allow any general conclusions about the quality of implementation of auditing standards to be drawn.

90. **The quality of standards on audit implementation as reviewed by the KKN quality assurance team is higher among member firms of international networks.** The quality assurance team, which currently reviews statutory audits, finds a correlation between the size of the audit practice and the quality of audits. Typically member firms of international audit networks have a better record for performing quality audit under ISAs. To some extent the review of financial statements found that the quality of financial information under IFRS and Polish GAAP was better when audited by the larger firms.

91. **The use of audit software is not widespread in Poland, particularly amongst the small and medium size practitioners (SMPs).** Through FRTAP (see Appendix B), teaching ISA using audit software is being piloted in selected universities to encourage wider use of the tool. The same teaching tool will be modified for CPD purposes and extended to practitioners over the

remainder of the life of the project. Commercially available software will be in the Polish language to provide customer choice.

92. **Poland uses a long-form reporting mechanism for all companies that require a statutory audit.** The length of the audit report is not perceived as a reason for greater audit fee, especially that in current environment where audit fees are under a downward pressure as a result of greater competition between auditors. This is also a result of the fact that readers and users have got used to the current format of the report and it would be difficult to explain to the market any significant reduction on the part of the auditors. The general expectation of the readers and users of financial statements is for the auditor to produce a long-form version of the audit report.

V. Perception of the Quality of Financial Reporting

93. **The investor community continues to have a mixed perception on the quality of financial reporting.** Not surprisingly, financial statements play an important role in qualifying for bank credit in Poland. Indeed, in discussions with several banks, the ROSC team was told that companies would typically be unable to get bank credit approval without complying with the Accountancy Act (in terms of financial statements and/or audits in accordance with the various size thresholds). Financial statements are typically used as inputs into credit risk rating models that set the overall boundaries of an assessment on creditworthiness. Of course, credit is granted based on a spectrum of criteria including forecasted debt service capacity, credit bureau history, account activity, collateral protection, reputation in the trade/community, faith in management etc.

94. **Thus financial statements are a necessary, but not sufficient, condition to obtaining bank credit in Poland**. This is consistent with a virtually universal pattern found in most developed market economies. At the SME level audited financial statements are seen in the same compliance light as tax returns and other monthly/quarterly returns to Government. No clear and tangible benefit is attached to an audit report because the information sought is not generally available publicly and so further information is sought directly from the company. However a qualified audit opinion will have some impact on the credit risk assessment as it is the only source of verification of the assets of a company.

95. **There remains a marked contrast between the financial information of listed and non-listed companies.** Confidence in financial statements appears highest in regulated PIEs where a qualified audit opinion will trigger an enquiry by KNF.

96. **Audit committees play an increasingly important role in ensuring listed companies and PIEs provide the timely and reliable financial reporting that investors need to make properly informed investment decisions.** A conference organized in January 2013 at the Warsaw Stock Exchange promoted greater awareness and understanding of the audit committee's role and responsibilities in the financial reporting process. The conference provided audit committee members with practical insights on how they could fulfil their role more effectively, drawing on Polish, European and international experience. It also provided an opportunity for them to discuss with their peers the challenges facing audit committees and how they can contribute to improving audit quality and safeguarding shareholders' interests. Additional efforts will be needed to continue raising awareness on the contribution that audit committees can make to the quality of financial reporting and to the integrity and effectiveness of independent audits.

97. **There is a perception that the technical proficiency of Polish auditors varies substantially, resulting in significant differences in audit quality.** Audit firms include local member firms of international audit firm networks, as well as local firms. Institutional investors, commercial banks, and other users of audited financial statements point to an uneven profession in which the level of professional competence varies significantly. However, the financial statement review conducted as part of this ROSC exercise could not substantiate these views.

98. **The fact that there have been more Chairs of the KNA than its years of existence points to an excessive turnover in this important function.** The Governance of the organisation is

critical to the public interest perception as the mission and delivery of KNA is seen to be protecting the public and advancing the quality of the financial statements to ensure reliance on the information provided. A significant churn rate of the Chair of the Commission indicates that future selection process for this post should be designed in such a way to guarantee more stability and continuity in this respect.

99. **The selection process under the Audit Law for members of KNA to be nominated or appointed *ex officio* requires careful examination as to whether this method makes the oversight process fit-for-purpose.** The numerous dangers of nominated members, rather than those vetted and selected based on qualification and experience, make this commission potentially overly bureaucratic where decisions taken, or not taken, tend to be sub-optimal and narrow. It is advisable to consider an enhanced member selection process.

100. **The years of 2006 – 2011 were the first period of activity of the financial supervisory authority (KNF) and during that period no collapse of any financial institution was reported.** Throughout the 2008 global crisis on financial markets, a secure and stable financial sector remained the stronghold of the Polish Economy.[46] The perceived success of KNF suggests that a single regulator, where audit regulation is consolidated within an already established structure, could be an alternative to a separate Audit Oversight Commission (KNA). But on the other hand, it should be noted that the KNF may not be suited to oversight of non-PIE auditors as it covers only public interest entities.

[46] Polish Financial Supervision Authority, Five Years of Activity, www.knf.gov.pl

VI. Areas for Consideration

101. **The regulatory regime for the accounting and auditing practice in Poland has been significantly strengthened over the recent years, in a variety of ways. Improvements included, inter alia, (i) the introduction of oversight and a system of quality assurance within the audit profession; and (ii) strengthened enforcement of corporate financial reporting obligations by regulatory agencies in the banking and insurance sectors and on the securities market**. On other fronts, however, progress has been slow, partly because efforts to reform the Professional Bodies have not advanced. Overall, Poland's accounting and auditing standards need to be improved, in order to provide investors and other stakeholders more complete and useful financial information for use in making a wide range of decisions that have a substantial economic impact. The main findings arising of this ROSC are presented below:

a) The current system of audit oversight is functioning and reporting to the public annually on its activities however with an increased demand coming from the new Audit Directive which is due to be fully implemented by Member States by 2016, further capacity building in the secretariat, the usefulness of the current public reporting content and style, a review of appointments process and a communication strategy that sees all members of the trialogue having an input, could be considered in the short term.

b) The current system of audit oversight and quality assurance is not in line with the 2014 Audit Directive and as an EU Member state, Poland will need to respond quickly to the reshaping of the system but also to improve the standard of the current inspection process.

c) The Financial Services Authority (KNF) is clearly 'gearing up' as the demands on compliance are ever increasing with increased capacity inside the organisation, and this essential impetus must be maintained. There is a need to link the findings and recommendations of the regulators with the ability of the profession to educate the auditors and preparers on the urgent issues. This action coupled with an analysis of the trend of non-compliance issues by the quality system will better inform the regulators on the success or otherwise of the warnings given.

d) The professional bodies need to work more closely with the universities to ensure that the supply chain of graduates to the profession continues. The professional examinations process needs to be more transparent in the setting of exams, syllabus, materials availability, marking and help to the student in understanding the mark awarded, as well as publishing past examination papers.

e) The Government has signalled a change to the regulation on CPD and it is expected that this will lead to a market enrichment of courses to educate and develop the professional accountant and auditor leading to improvements in the quality of financial reporting and auditing. The Government has also signalled the deregulation of the bookkeeper certificate and this is also welcomed with the hope that SKWP will establish greater market recognition.

f) Adoption of ISAs should be agreed between the parties concerned as quickly as possible to remove confusion by the profession and the users.

g) The EU has acknowledged that SME simplified reporting is an urgent issue. In Poland, a significant contribution to reduce the administrative burden on all parties could be made by harmonising the tax reporting and financial reporting system to the possible extend, especially for SMEs.

Annex A: Status of Implementation of the 2005 ROSC A&A Policy Recommendations

2005 ROSC recommendation	Status of implementation
1. Enhancing the quality of corporate financial reporting	
1.1. Strengthening Poland's financial architecture and reducing the risk of financial market crises, including through increased transparency about the financial condition and performance of *public interest entities.*	The establishment of the Financial Services Agency (KNF) in 2006 and the Audit Oversight Commission (KNA) in 2009 is acknowledged as vital pillars in reducing the risk of financial market crises and increasing transparency. The continued improvement in monitoring and control activities of the Financial Services Agency (KNF) have arguably been a major contributor to fact that Poland was the only EU member to escape recession and a significant banking collapse.
1.2. Facilitating the access of smaller-scale corporate borrowers to credit from the formal financial sector by shifting from collateral-based lending decisions to lending decisions which are financial performance based.	The slow progress of the need and desire to use independently audited financial statements as a basis for lending is being felt within the banking sector but the reliance upon guarantees persists as does the overarching impression that financial statements are for compliance purposes only. Many banks in Poland extend their enquiries to the management accounting zone when making lending decisions. In the credit borrowing process, non-financial data regarding market expansion and business plans is required by suppliers of credit.
1.3. Allowing shareholders and the public at large to assess management performance (financial reporting is a building block of a market-based monitoring of companies).	The development of the Warsaw Stock Exchange and the relatively low cost of floating on the exchange is a positive influence on the information being made available through exchange rules and the opportunity for shareholders to obtain high quality information is ever present.
1.4. Assisting the authorities to monitor and enforce compliance with the relevant portions of the *acquis communautaire.*	In the case of quality assurance, monitoring and enforcement are taking precedent over education and training in the SMP sector. The need to comply with the *acquis* should be matched with the responsibility to teach and educate the audit profession that quality in the audit process and profession is to the benefit of the members of KIBR as well as being in the public interest.

2005 ROSC recommendation	Status of implementation
2. Further enhancements to the statutory framework are needed.	
2.1. Take more advantage of the simplified financial reporting framework permitted by the Directives for SMEs.	The 2013 Accounting Directive has given new energy to this area of financial reporting in Poland. Through FRTAP (see Appendix B) a study has been commissioned to examine the minimum level of financial record keeping and reporting in micros.
2.2. Ensure all public interest entities are required to present their consolidated financial statements in accordance with (endorsed) IFRS.	Within the Polish definition of PIE, this has been done.
2.3. Conflicting or ambiguous financial reporting requirements. To ensure that regulatory requirements do not affect IFRS-based general-purpose financial statements.	FRTAP (see Appendix B) has two studies being conducted on areas of potential ambiguity; one on Consolidation and the other on Financial Instruments with a view to harmonizing with other EU countries.
2.4. Appointment and dismissal of statutory auditors. To ensure that the legal provisions regarding the dismissal and resignation of statutory auditors provide adequate safeguards for his or her independence.	Auditor independence and ethical standards of the profession are stated in the legislation, including in the "Act of Statutory Audit and Their Self-Governing Organisation, Entities Authorised to Audit Financial Statements and on Public Oversight" from May 2009; and in the bylaws issued by the Chamber of Auditors (KIBR). The Accounting Act requires both: entity's management and auditor to notify to KNA about the termination of the audit contract. The Act also states that neither differences between the auditor and audited entity regarding any accounting policy used, nor auditing standards could be a reason to terminate the audit assignment. The issue of audit independence and ethical issues is also addressed in CPD for existing and IPD for potential auditors.
2.5. Use of the work of statutory auditors by regulators. While present laws do give regulators relevant authority with respect to banks and insurance companies, the KPWIG (predecessor of KNF) appears to have less authority regarding the statutory auditors of listed companies. Also, requirements such as auditor rotation, auditor appointment, resignation, and dismissal should be harmonized	Done through entering into force of the new Act in auditing and creation of KNA and work of KNF on compliance of financial statements of issuers with the requirements of the legislation.

2005 ROSC recommendation	Status of implementation
2.6. Adoption of the forthcoming Eighth EU Company Law Directive. To assess the effects of the Eighth EU Company Law Directive.	Done. The requirements of the directive have been fulfilled in the changes to the legislation "Act of Statutory Audit and Their Self-Governing Organisation, Entities Authorised to Audit Financial Statements and on Public Oversight" from May 2009, and the creation of the PAO.
2.7. Readily and publicly available audited financial statements of limited liability companies.	See paragraph 20 and 21,
2.8. Readily and publicly available audited financial statements of listed companies.	See paragraph 24, work in progress
3. Polish institutions should have resources to actively and systematically participate in the European policy-making process, through an active role in relevant EU Committees.	Representatives of Polish legislators through the Accounting Department of the Ministry of Finance and the Polish Accounting Standard Committee take active part in the process of establishment of European legislation with ESMA, Eurostat, EFRAG and FEE.
4. Enhance statutory audit quality and public trust in the audit profession.	
4.1. A Public Overview Body for KIBR should be established.	Act created in the name of 'Statutory Audit and Their Self-Governing Organisation, Entities Authorised to Audit Financial Statements and on Public Oversight' from May 2009
4.2. Ensure that KIBR formally endorse and follow its mandate to serve the public interest.	Continues to be debated by the members
4.3. Assess whether the minimum level of professional indemnity insurance should be increased or determined by reference to the auditor's portfolio of statutory and contractual audits.	The "Act of Statutory Audit and Their Self-Governing Organisation, Entities Authorised to Audit Financial Statements and on Public Oversight" from May 2009 and in the bylaws issued by the Chamber of Auditors (KIBR) was introduced the requirement of holding a valid civil liability insurance agreement by statutory auditors from the date of entering the profession until the date of removal from the list of auditors.
4.4. Greater transparency should be introduced to KIBR's quality assurance and disciplinary procedures.	Work in progress with FRTAP (see Appendix B, Component 1 and 2)
4.5. Poland should adopt both ISA and the IFAC Code of Ethics in their entirety.	Adoption of ISA is expected in 2015 (source KNA) IFAC Code adopted January 1, 2012
4.6. The Capacity of KIBR should be increased so as to enable it to make a	Work in progress with FRTAP (see Appendix B, Component 9)

2005 ROSC recommendation	Status of implementation
more effective contribution to the Polish auditing profession.	
4.7. Ensure greater transparency on the relationship between local firms and their network, according to the forthcoming requirements under the proposal for a new Eighth EU Company Law Directive.	The National Supervision Committee (KKN) published its annual report (2012) following the first three year cycle of PIE auditor quality inspection. The detailed comments on their findings are available to the public.
5. The Polish Accounting Standards Committee (ASC) should include enough persons with extensive experience in preparing and analysing financial statements.	The number and experience of the members has been substantially enhanced with the introduction of people from the large audit firms and PIEs
6. Poland should strengthen the institutionalized incentives for the rigorous application of high quality financial reporting requirements in the corporate—financial and non-financial—sector.	Work in progress with FRTAP (see Appendix B, Component 4, National IFRS Community of Practice)
7. KPWIG (now KNF) should develop a unit dedicated to, and with clear responsibility for, the monitoring of financial information staffed by appropriately experienced and senior personnel.	Done and under constant review
8. The unit should consider and develop a targeted approach to the monitoring of financial information consistent with the risk-based approach identified in the CESR Standards of Enforcement.	Done through creation of KNA and work of KNF on compliance of financial statements of issuers with the requirements of the legislation.
9. The KIBR syllabus should be updated and modernized.	Improvements have been made and the syllabus has been aligned to IFAC's International Education Standards, however the main reform of transparency in the Education and Examination system remains a problem.

Annex B: Financial Reporting Technical Assistance Programme (FRTAP) 2010 – 2016

Components	Activities
1. Implementing a public oversight system (POS) for statutory auditors	A key objective of the Statutory Audit Directive is to support public confidence in the statutory audit function. To that end, it requires, among other things, Member States to organize an effective system that subjects all statutory auditors and audit firms to Public Oversight Systems (POS). The purpose of POS Activities included in the FRTAP is to support the implementation of an effective system of public oversight of statutory auditors in line with the Directive and evolving or recommended practices, in a manner that is cost effective and reflects appropriately the specific characteristics and needs of each country. By the end of the Program, each country should have a fully operational and internationally credible POS with the capacity to adapt to changing needs and expectations on an ongoing basis.
2. Implementation of a quality assurance system (QAS) for statutory auditors	The purpose of these activities, which complement the POS activities described in 1 above, is to support participating countries in strengthening their existing QASs for statutory audits, in line with the Statutory Audit Directive and consistent with relevant international practices.
3. Enhancing the relationship between tax and accounting	The objective of Component 3 is to assist Poland in clarifying and enhancing the relationship between applicable financial reporting standards and the determination of corporate tax liabilities and facilitating a formal understanding between the tax authorities and those responsible for financial reporting on how to better align their respective requirements. This is expected to contribute to (a) increasing the effectiveness of the tax accounting system, (b) helping the tax authorities deal with the tax consequences of changes in financial reporting standards (including the statutory adoption of IFRS as financial reporting standards for legal-entity accounts), and (c) alleviate the regulatory burden on Polish corporate taxpayers, especially SMEs. This issue is especially important given the growing use of IFRS for financial reporting purposes and the resulting consequences on the computation of tax liabilities for business entities.
4. Institutional capacity building regarding financial reporting	The objective of these activities is to enhance the capacity to prepare, audit and regulate IFRS financial statements with the aim of ensuring that financial statements prepared in accordance with IFRS comply fully with those standards and that entities and users of those financial statements obtain the benefits flowing from the use of IFRS.
5. Enhancing the accounting regulatory framework and ensuring compliance	Analytical reports prepared by the World Bank, with the assistance of specialist international and local experts, prepared on a participatory basis involving all stakeholders. The results will be widely disseminated in order to stimulate the appropriate responses on the part of those concerned, and to facilitate public debate as an input to any policy responses. The final reports will also be published on the World Bank website.

Components	Activities
6. Monitoring and evaluation, incl. accounting and audit ROSC updates	With a view to monitoring the effectiveness of this Programme, a ROSC report on accounting and auditing practices will be prepared by the CFRR along with Key Performance Indicators (KPIs) to ensure that agreed activities, outputs and deliverables are clearly measured under the time frame of the program.
7. Specialised English training for financial reporting experts	This activity is specifically designed to increase the capacity of Polish policymakers to participate effectively in European and international policymaking arenas, including by being able to make their case persuasively, and to increase the sustainability of the project's achievements. Acknowledging the importance of English in EU and international policymaking in the area of financial reporting, including accounting and audit, the project will provide participants the opportunity to attend foundation and specialized English language training, as well as training in communications, presentations, and negotiations skills
8. Adoption and implementation of international standards on auditing (ISA)	The primary purpose of this activity is to achieve a broadly based and in-depth understanding of ISA and their application in practice among statutory auditors, with the objective of supporting effective implementation of the "clarified" ISA. A similar level of understanding of ISA will be sought among those responsible for conducting external quality assurance inspections relating to statutory auditors.
9. Continuing professional education programme for professional accountants	With respect to the review of the curriculum and quality assurance / authorization procedures for the continuing education programs of the Chamber and the Association, consultations with stakeholders to agree on the details of the review, performance of the review on a participatory basis and submission of a report and recommendations, and facilitated consultations with stakeholders (including drawing on experience in other countries) to agree on the steps to be taken to implement the recommendations, together with support for implementation. In relation to the possible development of core continuing education course offerings of interest to members of both the Chamber and the Association, consultation-based needs assessments, mobilization of best EU and international practice, and support for implementation.

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