



Polish
Agency
for Audit
Oversight

**SELECTED ISSUES IN THE
AUDIT OF FINANCIAL
STATEMENTS FOR 2021,
WITH PARTICULAR
EMPHASIS ON THE IMPACT
OF THE WAR IN UKRAINE**

WARSAW 2022

When conducting research in 2022, in addition to the usual threats, the consequences of the war in Ukraine should also be taken into account.

The bestial and unprovoked attack of the Russian Federation on Ukraine is the most tragic event of our time. Civilians are suffering and dying. Houses, urban and communication infrastructure, as well as the economic potential of our eastern neighbour, are being ruthlessly destroyed. From the beginning, the Polish Audit Oversight Agency has expressed its solidarity with the victims of ruthless Russian aggression against the independent Ukrainian state.

Military operations in Ukraine are also having a very serious impact on the global economy. They are among the events affecting the audit market and issues related to auditing financial statements. Therefore, considering the fact that the audit of financial statements for 2021 is currently underway, the Polish Audit Oversight Agency (PANA) feels the need to draw attention to selected issues that may affect the course of the audit in 2022.

Issues worth paying attention to when planning audit tasks:

I. Assessment of going concern and events after the balance sheet date

The issue of assessing going concern and assessing events as corrective and non-adjusting has been extensively described in the [Recommendations of the Accounting Standards Committee](#), based in part on the [National Accounting Standard No. 7 "Changes in accounting principles \(policy\), estimates, correction of errors, events after the balance sheet date - recognition and presentation"](#) (with particular regard to Chapter 6).

Recommendations were created in response to events related to the COVID-19 pandemic, however, they also remain in force with regard to events related to the war in Ukraine.

In addition, on 9 March 2022, the [Accountancy Europe guidelines](#) were published, directly related to the subject of including war-related events in financial statements as well as those related to the audit of such statements. Accountancy Europe's approach is consistent with the above-mentioned Recommendations of the Accounting Standards Committee. These guidelines are also consistent with [previously published abbreviations of the IAASB announcements regarding the audit during the COVID 19 pandemic](#).

From the point of view of the financial statements prepared, this analysis indicates exemplary events or conditions that may be the result of the war (this is not a closed catalogue):

- suspending the operation of some legal regulations in connection with the state of war in Ukraine,
- changes in owned assets used to generate cash flows (e.g. due to war damage or nationalization),
- the impact of sanctions on the processes of sale, purchase, warehousing or on the payment capacity of contractors,
- loss of a large market, key customers, changes in demand, labour shortages,
- problems resulting from interrupted supply chains (shortages of raw materials, the need to introduce substitutes, other sources of supply, other means of transport),

- changes in prices of raw materials and energy,
- penalties for failure to keep contracts,
- large changes in exchange rates,
- high inflation,
- increased uncertainty of estimates (e.g. based on variable interest rates) caused, for example, by an increase in interest rates, inflation or high volatility of exchange rates),
- increased credit costs and increased credit risk, e.g. related to failure to comply with covenants as a result of the deterioration of the macroeconomic situation, changes in the solvency of the audited entity, payment backlogs.

a) Going concern assessment

The PANA draws the attention of statutory auditors to the obligations related to the examination of the entity's ability to continue as a going concern, i.e.:

- obtaining appropriate and sufficient evidence that the audited financial statements are based on the correct assumption (going concern or not),
- verifying whether there is no material uncertainty as to the ability to continue as a going concern,
- formulating an appropriate opinion in the audit report on the basis of the above conclusions.

The entity's manager should supplement the financial statements with additional disclosures related to events or conditions affecting the assessment of the entity's going concern over a period of 12 months. Auditors should perform additional procedures to investigate these matters. Therefore, it may be necessary to introduce a section on "Material uncertainty related to going concern" (paragraphs 22 and 23 of KSB 570 (Z)) to the audit report, as well as, in some cases, issue a modified audit report.

Par. 10 and par. 12 KSB 570 (Z) require the statutory auditor to conduct a risk analysis of whether there are events or conditions that may raise serious doubts as to the entity's ability to continue as a going concern.

The entity's manager should assess the entity's ability to continue as a going concern within 12 months. The statutory auditor, in accordance with par. 15 KSB 570 (Z), should ask the head of the entity whether he foresees subsequent events that may affect the going concern assumption.

In the event that the statutory auditor identifies events or conditions indicating doubts as to the going concern in accordance with par. 16 (and par. A16) KSB 570 (Z), the statutory auditor should perform additional activities as part of the procedures, such as:

- analysis and discussion with the head of the unit of forecasts and scenario analyses related to the identified risks,
- analysis and discussion with the manager of the entity of the most current available financial data of the entity and market information relevant to the entity,
- getting acquainted with the conditions of debt instruments (including loan agreements) and determining whether their conditions have not been breached.

On the basis of the audit evidence obtained, the statutory auditor should, in accordance with par. 17 and 18 KSB 570 (Z), consider whether the entity is able to continue as a going concern, and then in accordance with par. 19 and 20 KSB 570 (Z), consider whether, in the event of significant events

affecting the uncertainty of going concern, the entity's financial statements include appropriate disclosures about identified events or conditions related to going concern and, if applicable, the management's plans for this issue.

b) Assessment of events occurring after the balance sheet date

PANA, in connection with the indicated provisions of KSR 7 (Chapter 6), feels the need to draw the attention of statutory auditors to the necessary distinction of events after the balance sheet date

Par. 2 KSB 560 indicates that the financial reporting framework usually identifies two types of subsequent events:

- those that provide evidence of the conditions that existed at the date of the financial statements and those that provide evidence of conditions that arose after the date of the financial statements.

Type of Effect	Later Effect	Definition and Effect
Corrective Events		Events that provide evidence of existing conditions at the end of the reporting period (i.e. as at the financial report date). Impact: Adjusting the amounts included in the financial statement.
Non-corrective Events		Events indicating conditions that arose after the reporting period (i.e. after the date of the financial statement). Impact: Disclosure of the nature of the event and estimation its financial effects or a statement that such estimation cannot be made.

Statutory auditors are required to conduct procedures aimed at obtaining sufficient and appropriate audit evidence that all events requiring correction or disclosure in the financial statements, occurring between the date of the financial statements and the statutory auditor's report, have been identified and properly reflected in the financial statements in accordance with the applicable framework assumptions for financial reporting, pursuant to par. 6-8 KSB 560.

In accordance with par. 9 KSB 560, the statutory auditor should obtain a statement from the audited entity informing that all disclosures have been presented in the financial statements. The statement should be dated as close as possible to the date of the test report.

In accordance with par. 10 KSB 560, the statutory auditor is not required to perform any audit procedures regarding the financial statements after the date of preparation of the audit report, unless facts arise which, if known on the date of preparation of the audit report, could cause the statutory auditor to change the report. The behaviour of the statutory auditor in such a case is described in par. 10-17 KSB 560.

II. Assessment of the correctness of bookkeeping - special issues: IT security

The PANA emphasizes that, during the war, it is also necessary to pay special attention to securing the books of accounts in the IT field. One of the conditions for recognizing the keeping of books as correct is also the lack of manipulation in the data and software used to keep the books of accounts and constant access to them. Therefore, the statutory auditor should collect and assess server security, IT infrastructure security, correctness of processes related to making backup copies, antivirus and protection against cyberattacks. The expert should also obtain knowledge about cases of breach of IT infrastructure security that may possibly have taken place.

III. Obtaining audit evidence

One of the most important issues related to the war in Ukraine is the possibility of obtaining audit evidence related to the assets that exist. Inventory processes have taken place in a period not covered by the war. However, due to the necessary accurate disclosures in financial statements, consolidated statements or considerations regarding going concern, PANA feels the need to emphasise the need to obtain audit evidence as broadly as possible using both the direct method and alternative methods in the scope of events after the balance sheet date.

Certain audit issues may apply to consolidated accounts if the subsidiaries are found in a particular location. Each case should be carefully considered separately and lead to the adaptation of audit procedures to the situation. The statutory auditor should try to obtain the most reliable audit evidence based on the KSB 500 guidelines.

IV. Disclosures in the financial statements

The PANA would like to inform all entities whose financial statements are subject to audit by a statutory auditor that, due to the need to present the impact of war-related events, the entity's manager should describe these events in detail in all disclosures of the financial statements.

The PANA emphasizes that the statutory auditor should, in accordance with par. 24 KSB 330, design the audit procedures in such a way as to assess whether the financial statements have been presented in a manner that adequately takes into account the classification and description of financial information and related transactions, events and conditions, as well as the presentation, structure and content of the financial statements.

In accordance with par. 18 KSB 330, the statutory auditor should perform appropriate credibility procedures also with regard to disclosures. The statutory auditor should be guided by the material nature of a specific disclosure in accordance with the provisions of par. 2 KSB 320. Here, it should be borne in mind that the material nature of the disclosure is defined not only by the amount, but also by the type of information disclosed, as indicated by the definition of par. 2 KSB 320, distortions, including omissions, are considered material if it can be reasonably expected that, individually or

jointly, they will influence the economic decisions made by users on the basis of the financial statements.

Therefore, the assessment of distortion should be carried out through the prism of par. 11 KSB 450: the statutory auditor considers (...) the size and ***type of misstatements***, both in relation to individual groups of transactions, account balances or disclosures, and the financial statements as a whole, as well as the specific circumstances of their occurrence.

PANA would like to draw the attention of statutory auditors to the fact that, due to dynamic changes in the environment, until the date of approval of the financial statements by the supervisory body, it is advisable to pay attention to information regarding entities for which audit reports have already been issued. In the event of obtaining information about new significant facts, PANA recommends reconsidering, in consultation with the entity's manager, the impact of these facts on the entity's financial statements, and hence the audit report.

V. Disclosures in the financial report

In the case of drawing up a report on activities based on Art. 49 of the UoR, the head of the unit should refer specifically to issues related to war in the context of the description of risk factors and the description of threats, especially with regard to:

- events significantly affecting the entity's operations that occurred after the end of the financial year, until the date of approval of the financial statements,
- the anticipated development of the unit,
- the current and anticipated financial situation,
- financial instruments in terms of price change risk, credit risk, significant disruptions in cash flows and loss of financial liquidity to which the entity is exposed as well as the objectives and methods of financial risk management adopted by the entity.

The PANA emphasizes that the statutory auditor should make sure that the disclosures in the report on the activities adequately and in accordance with the financial statements describe the company's prospects and the impact they may have on the users of the financial statements. The statutory auditor should follow the indications of KSB 720 in this area.

VI. Test report

The PANA would like to remind statutory auditors of the need to exercise particular caution when selecting the type of opinion and to carefully consider the audit evidence obtained.

Statutory Auditor's Conclusion**Report Type****Circumstance Causing Modification**

Using the going concern principle is inappropriate

Negative opinion

If the financial statements have been prepared by management using the going concern basis, but in the opinion of the auditor, this basis is no longer appropriate.

The application of the going concern principle is appropriate, but there is a material uncertainty

Unmodified opinion + Paragraph on "Material uncertainty regarding going concern"

In the case of adequate disclosure of material information about a material uncertainty, the auditor's report includes a separate section under the heading "Material uncertainty related to going concern" in order to:

- draw attention to significant information contained in the financial statement,
- stating that these events or conditions indicate that there is a significant uncertainty that may undermine the entity's ability to continue as a going concern and that the opinion of the statutory auditor does not change with regard to this issue.

Qualified opinion or negative opinion

If there is no adequate disclosure of material uncertainty in the financial statements, the statutory auditor:

- expresses a qualified or negative opinion, as applicable, in accordance with KSB 705 (Z),
- in the "Basis for a qualified (negative) opinion" section, it is stated that there is a material uncertainty that may significantly undermine the entity's ability to continue as a going concern, and that it is not adequately disclosed in the financial statements.

Statutory Auditor's Conclusion	Report Type	Circumstance Causing Modification
	Refusal to express an opinion	It can be used in the case of a situation (in very rare cases) involving many uncertainties that are material to the financial statements as a whole. (par. A33 KSB 570 (Z))
No conclusion can be reached as management is unwilling to conduct or extend its assessment of the entity's ability to continue as a going concern	Qualified opinion or refusal to express an opinion	<p>If management is unwilling to make or extend its assessment of the entity's ability to continue as a going concern at the request of the statutory auditor, then the statutory auditor shall consider the consequences of this fact for the audit report (par. 24 KSB 570 (Z)).</p> <p>The statutory auditor may not be able to confirm the correctness of the going concern assumption. In accordance with KSB 705 (Z), if the possible impact of such an audit limitation on the financial statements is material, the appropriate opinion may be a qualified opinion or a refusal to express an opinion.</p>
The going concern assumption does not apply and the financial statements are prepared on another acceptable basis	Unmodified Opinion	<p>If the going concern assumption does not apply and management prepares the financial statements on a different basis (e.g. based on liquidation) and:</p> <ul style="list-style-type: none"> the statutory auditor concludes that the secondary basis of accounting is acceptable in the circumstances; and there are appropriate disclosures about the basis of accounting on which the financial statements are prepared; <p>the statutory auditor issues an unmodified opinion, but may consider it appropriate or necessary to include an explanatory paragraph in the statutory auditor's report, in accordance with KSB 706 (Z), in order to draw the user's attention to the alternative basis for preparing the report and the reasons for its use (paragraph A27 KSB 570 (FROM)).</p>

In the case of the statutory auditor's application of the KSB 701 standard and the presentation of key audit matters, the key audit matters may include:

- difficulties in obtaining sufficient and appropriate audit evidence: war-related conditions may cause difficulties in applying audit procedures, significantly hinder the assessment of the results of these procedures and consequently impede the process of obtaining relevant and reliable evidence on which to base the auditor's opinion, such as the valuation of financial instruments or estimation of other fair values,
- specific events or transactions that have a significant impact on the financial statements.

In case of doubts as to the going concern, the statutory auditor in accordance with par. 15 KSB 701 places such information in the section "Basis for qualified (adverse) opinion" or "Material uncertainty regarding going concern" and does not include it in key audit matters.

Due to the extraordinary responsibility imposed on statutory auditors in this difficult period, which results from social responsibility for the quality of the opinion expressed by the statutory auditor, the PANA encourages the most frequent consultations between statutory auditors in order to be able to comprehensively consider audit risks and, as a result, design appropriate test procedures.

In addition, the PANA would like to suggest that statutory auditors make use of audit procedures to check, as much as possible, the disclosure of the audited financial statements, so that users have the fullest possible knowledge of significant events affecting these statements. Therefore, correct disclosures in financial statements are carefully analysed during the Agency's inspections.

The PANA would like to emphasize that the purpose of the audit is to express a rational opinion with a high level of certainty whether the audited financial statements are free from material distortions, regardless of whether they result from fraud or errors.

The Agency also suggests reading the studies on the research for 2020, as these also remain valid during the research period for 2021.

Links to the available studies are found below:

- [Going concern](#)
- [Examining events after the balance sheet date](#)
- [Inventory](#)
- [Tests of controls](#)
- [Fraud](#)
- [The test report in the context of COVID-19](#)
- [Preparation for the survey for 2021](#)