



Polish
Agency
for Audit
Oversight

REPORT ON THEMATIC REVIEW REGARDING THE ADJUSTMENT OF INTERNAL QUALITY CONTROL SYSTEMS IN AUDIT FIRMS TO THE NEW QUALITY MANAGEMENT STANDARDS

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WARSAW, 2023

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LIST OF ABBREVIATIONS:

Abbreviation	Expansion of the abbreviation
Agency, PANA	Polish Agency for Audit Oversight.
AML	Act of 1 March 2018 on counteracting money laundering and financing of terrorism (Journal of Laws of 2022, item 593, as amended)
BR	Certified auditor (statutory auditor)
ODZ	Obligatory professional development as required by the Polish Chamber of Statutory Auditors (PIBR)
DKA	The Annual Conference of Auditors
FA	Audit firm within the meaning of Art. 46 of the Act
IESBA	International Ethics Standards Board for Accountants
PIE	Public interest entities
KC	Act of 23 April 1964 - Civil Code (Journal of Laws of 2022, item 1360, as amended)
KPC	Act of 17 November 1964 - Code of Civil Procedure (Journal of Laws of 2021, item 1805, as amended)
KBR	Key certified auditor (key statutory auditor)
IESBA International Code of Ethics	International Code of Ethics for Professional Accountants (including International Standards of Independence), adopted as the principles of professional ethics for statutory auditors by Resolution no. 3431/52a/2019 of the National Council of Statutory Auditors of March 25, 2019, amended by Resolution no. 1760/27a/2021 of the National Council of Statutory Auditors of August 6, 2021.
KRBR	National Council of Statutory Auditors
KSKJ	National Quality Control Standard in the wording of the International Quality Control Standard No. 1 adopted by Resolution No. 2040/37a/2018 of the National Council of Statutory Auditors of March 3, 2018, as amended
KSKJ 1	National Quality Control Standard 1 in the wording of the International Quality Management Standard (PL) 1 - "Quality management for firms performing audits or reviews of financial statements or commissioning other assurance or related services" developed by the International Standards Board on Auditing and Assurance

	Services (IAASB), established by Resolution No. 38/I/2022 of the PANA Council of November 15, 2022.
KSKJ2	National Quality Control Standard 2 in the wording of the International Quality Management Standard (PL) 2 - "Quality Controls of Order Execution" developed by the International Auditing and Assurance Standards Board (IAASB), established by Resolution No. 38/I/2022 of the PANA Council of November 15 2022
KSB	National Auditing Standards
KSB 220(Z)	National Auditing Standard 220 (amended) in the wording of the International Auditing Standard (PL) 220 (amended) - "Quality management for the audit of financial statements", constituting Appendix No. 3 to the Resolution, which replaces Appendix No. 1.3 to Resolution No. 3430 /52a/2019 of the National Council of Statutory Auditors of March 21, 2019 on national auditing standards and other documents, with later amendments, established by Resolution No. 38/I/2022 of the Council of PANA of November 15, 2022.
MSZJ 1	International Quality Management Standard
PIBR	Polish Chamber of Statutory Auditors (PIBR)
Regulation	Regulation No. 537/2014 of the European Parliament and of the Council (EU) of April 16, 2014 on specific requirements for statutory audits of public-interest entities, repealing Commission Decision 2005/909/EC (EU Journal L. 2014.158.77 of May 27, 2014, EU Journal L. 2014.170.66 of June 16, 2014 and EU Journal L. 2019.187.52 of July 12, 2019 .)
SF	Financial statement
SSF	Consolidated financial statement of the capital group
IQCS	Internal quality control system
TOP12	Audit firms from group A and B of the list of audit companies conducting statutory audits in public interest entities in 2022 (as of March 27, 2023)
Accounting Act (UoR)	Accounting Act of September 29, 1994 (Journal of Laws of 2023, item 120, as amended)
Act on Statutory Auditors (Act)	Act of May 11, 2017 on statutory auditors, audit firms and public supervision (Journal of Laws of 2023, item 1302, as amended)

1. INTRODUCTION

The present publication was prepared in connection with the thematic review of the Polish Audit Oversight Agency (PANA) carried out in 2023 in 40 Polish audit firms¹.

The inspections were carried out pursuant to Art. 123 sec. 1 of the Act. The scope of thematic review included:

- 1) assessment of the adjustment of the internal quality control system in the controlled audit firm to the provisions of KSKJ 1, KSKJ 2 and KSB 220 (Z) in the scope of:
 - a. setting quality objectives, identifying and assessing quality risk, and designing and implementing responses to quality risks,
 - b. designing and implementing monitoring activities in relation to:
 - i. applicable professional standards and quality control,
 - ii. ethics and independence requirements set out in the Act and the rules of professional ethics,
 - iii. other applicable laws and obligations arising therefrom.

The main objectives of the thematic inspections were defined as follows:

- assessment of the method of designing of the internal quality control system in accordance with the new standards,
- indication of significant problems that occurred during the process of designing and implementing the internal quality control system in accordance with the requirements of the new standards,
- indication of recommendations that the audit firm should consider regarding the correct design of its internal quality control system.

The study was based on the analysis of documents and information on individual areas of IQCS of the audit firms, including:

- the content of notes from thematic review resulting from conversations with the management of the audit firms and designated persons performing the entrusted functions, the purpose of which is to ensure the proper operation of the IQCS of the audit firms,
- the results of the analysis of IQCS documentation of the audit firms.

The interviews were conducted by PANA inspectors during thematic review meetings in the period from January 9, 2023 to March 31, 2023. The study covered a total of 40 audit firms selected in part: randomly based on annual reports submitted for 2021 by audit firms or by submitting an FA self-report.

¹ Legal basis: art. 123 sec. 6 of the Act

An additional activity during the thematic review was a survey conducted by PANA among audit firms in Poland regarding the sources of knowledge on the new quality control standards and the possibility of applying this knowledge to the way specific audit firms operate.

Table No. 1. Selection of audit firms for thematic inspections.

Audit Firms	Random	Firm's own application	Total	Population	Coverage %
Audit firms ranked in TOP12	7	1	8	12	67%
Audit firms doing audits of PIEs financial statements or with revenues over PLN 500,000 for 2021	6	7	13	189	79%
Audit firms not auditing PIEs financial statements and with revenues up to PLN 500,000 for 2021	17	2	19	993	2%
Total	30	10	40	1 194	3%

The analysis in the report on thematic review also included the results of inspections of two IQCS documentations of audit firms included in the TOP12, which were subject to planned inspections in the first quarter of 2023. Therefore, the IQCS of 10 audit firms from TOP12 was analyzed in total, which gave the coverage for this group at the level of 83%.

Due to the conclusions drawn from the analyses, the assessment of the method of designing of the audit firms' IQCS in accordance with the new standards, a descriptive analysis of individual areas of their system together with an indication of findings and remedial actions are presented in the following chapters of this report according to the following division:

- Chapter 3 deals with TOP12 audit firms (10 entities),
- Chapter 4 deals with audit firms with staff (24 entities),
- Chapter 5 deals with unstaffed audit firms (8 entities).

2. SUMMARY

The key changes compared to the former quality control standards include:

- a more proactive approach to quality management adapted to the method and scope of operation of the audit firm, by focusing on achieving the set quality objectives, identified quality risks related to these objectives and responding to such risks (hereinafter referred to as the company's risk assessment process),
- greater emphasis on corporate governance and leadership requirements, including increased responsibilities and accountability of the management itself,
- modernization of standards by taking into account technology requirements, network requirements, use of external service providers,
- new information and communication requirements,
- enhanced requirements for the monitoring and remediation process to more proactively monitor the IQCS of the audit firm and correct weaknesses effectively and in a timely manner.

Summing up the irregularities in the design of the IQCS, which in particular translate into an increased risk of irregularities in the examination, the following should be pointed out:

- lack of or unclear rules related to the need to use consultations;
- lack of, unclear or unmatched with the activities of the audit firm rules related to the selection of documentation of the engagement for quality control;
- lack or imprecise manner of defining the principles of performing the quality control;
- lack of or unclear rules of rotation of the key statutory auditor or quality controller related to minimizing risks related to independence; in relation to this point, the lack of compliance with the provisions of the KSKJ1 as well as the IESBA code of ethics should also be indicated;
- lack of definition of the method of conducting ongoing monitoring;
- lack of or unclear rules for selecting a partner or an engagement for inspection;
- lack of or imprecise description of the rules for carrying out the engagement inspection;
- lack of information on how to find the root cause of irregularities;
- lack of or unclear rules for periodic monitoring, not adapted to the activities of the audit firm (along with specifying who will carry out such monitoring).

The main problem highlighted during the thematic review was the mismatch between the IQCS adapted by the individual audit firms and their actual activities. Therefore, when preparing the inspection procedures, the Agency decided to divide them due to the differences in the law (regulation, act and quality control standards) and prepared separate control procedures in relation to:

- audit firms examining public interest entities (the need to verify the fulfillment of the requirements of Regulation 537/2014 and the increased requirements of the Act and standards);
- staffed audit firms that do not audit public interest entities;
- unstaffed audit firms that do not audit public interest entities (due to the possibility of not taking into account some of the requirements of the KSKJ1).

In connection with the thematic review carried out, with regard to future activities in the field of quality control systems of audit firms, the Agency is considering:

- conducting annual surveys among audit firms in order to obtain information on:
 - o the number of employees and cooperating persons (broken down by, among others, assistants, experts, trainees, quality controllers)
 - o method of organizing quality control
 - o method of organizing ongoing monitoring
 - o method of organizing periodic monitoring and inspections
- carrying out a thematic control devoted to the subject of both current and periodic monitoring in audit firms, and as a result, preparation of in-depth control procedures in the field of testing the correctness of implementation of quality control standards by audit firms.

Additional conclusions that the Agency plans to submit to the Polish Chamber of Statutory Auditors result from the survey conducted during thematic inspections, as audit firms consider the following to be practical and useful ways to acquire knowledge about the standards:

- workshops during which they have the opportunity to consult the individual needs of audit firms
- template documents (the Agency also indicates that they should be named appropriately)
- answers to questions asked by audit firms.

3. THEMATIC REVIEW AT TOP12 AUDIT FIRMS

3.1. SUMMARY OF CONCLUSIONS

As a rule, TOP12 audit firms are mainly entities belonging to global networks, which, with minor exceptions, had top-down support in adapting their system to new quality management standards. This has been described in detail in subchapter 3.2 of this document.

As a result of the thematic review in the analyzed group, only single deviations from the requirements of the new standards were noticeable in selected audit firms, such as:

- templates used to document the requirements of KSKJ 2 and KSB 220(Z) in audits of financial statements starting after January 1, 2023 were not yet ready and were still in the preparation process. An update of the audit methodology in this field was also under preparation;
- the designed matrix of quality objectives of the audit company, quality risks and responses to these risks did not show how and to what extent the estimated quality risks may adversely affect the achievement of quality objectives (i.e. the levels of estimated risk have not been defined in accordance with par. 25 KSKJ 1);
- responses to the assessed quality risks in relation to corporate governance and leadership have not been designed and implemented, in accordance with the risk assessment process referred to in par. 23 KSKJ 1;
- response to the quality risk related to the assessment of the management of the audit company has not been designed, in accordance with the indication, among others, in par. 28 (b) KSKJ 1;
- response to the quality risk related to the monitoring of the rotation and withdrawal periods of the engagement quality controllers, has not been designed;
- the withdrawal period for the quality controller was incorrectly specified for PIEs financial statements audit engagements;
- no list of technological or intellectual resources was presented;
- responses to quality risk related to communication with third parties were incompletely designed, which should take into account the type, timing, scope and their appropriate form of communication.

An important problem was the adaptation of the audit firm's internal quality control system to the Polonized standards in relation to the provisions contained therein and resulting from the provisions of the Act. It is worth noting that as a result of the inspections carried out, some of the irregularities described in chapter 3.2 of this report relate to the above-mentioned area. These are irregularities such as:

- indicating the superiority of documents in the English version which are part of the IQCS documentation of the audit firm;

- establishing documents that are part of the IQCS documentation of the audit firm in a language other than Polish;
- assignment of final or operational responsibility for the IQCS of the audit firm to a person who is not a statutory auditor entered in the register kept by the KRBR;
- designing a matrix of the audit firm's quality objectives, quality risks and responses to these risks, which does not contain references to responses related to the requirements of par. 30-1 KSKJ 1 with regard to the requirement for the audit firm to determine remuneration for audit services, assurance services other than audits and related services based on labor intensity, the degree of complexity of the work and the required qualifications;
- establishing entries in policies relating to the review of engagement quality control that specify that the person performing the engagement quality control must not be a member of the team carrying out the audit;
- establishing entries in the IQCS documentation of the audit firm that allow the use of the work of subcontractors acting as the key statutory auditor on the engagement;
- failure to establish policies or procedures that relate to communication with the replacing and replaced audit firm and indicated in the requirements of par. 33 letter d point ii KSKJ 1 and art. 82 of the Act.

3.2. GENERAL FINDINGS FROM THEMATIC REVIEW AT THE TOP12 AUDIT FIRMS

3.2.1. Implementation process

In all 10 controlled audit firms, the process of implementing the new IQCS was carried out in stages. Its first stages were carried out in three audit firms already in 2020-2021. In the remaining audit firms, work began in 2022. It is worth noting that in two audit firms the implementation process began only after the publication by the KRBR of a resolution on the adoption of Polonized standards at the end of April 2022, and in another audit firm the process began after December 15, 2022.

In the case of 4 audit firms belonging to networks, the implementation process was initiated and carried out globally. In the case of other audit firms belonging to networks, the network provided auxiliary materials, but did not impose a top-down format or content of the IQCS of a given audit firm.

The division into implementation groups was most often as follows:

- steering committee/management of the audit firm,
- implementation team,
- owners of processes/procedures,

- operators (testers) of procedures (controls).

The number of personnel involved in the implementation process in the individual audit firms was difficult to compare. Most often, the implementation teams consisted of a dozen or so persons, similarly when it comes to the group of process owners and control testers. In total, from a dozen to several dozen persons were involved in the implementation process. According to information from the audit firms, it happened sometimes that a larger group of personnel was involved in the process of implementing new standards, where 109 persons, including 35 testers, participated in the implementation.

If the audit firm belonged to a network, it used network sources to implement new standards. Such sources included matrix of quality objectives, quality risks and responses to these risks, intellectual and technological resources, internal training for implementation teams.

The companies did not use external training. Participation in them was an individual matter for the employee. Apart from online sources, audit firms included among the sources of knowledge: materials published by the IAASB, including the MSZJ 1 implementation manual. Except for two audit firms, the controlled entities did not use the materials published by PIBR, arguing that they started adapting their IQCS much earlier than the PIBR publications, or declared that the materials provided by PIBR concerned smaller companies, and therefore did not meet the needs of an audit company included in the TOP12.

With regard to the method of documenting the IQCS, various approaches of companies in this regard should be indicated:

- In half of the audit firms, the established IQCS consisted of policies, procedures and mechanisms described in the main document, which was the IQCS with additional procedures, methodological manuals and a matrix of quality objectives set by the company, assessed risks and designed and implemented responses to mitigate these risks.
- In 30% of the analyzed audit firms, the IQCS was defined in the implementation resolution as a set of policies and procedures located on a dedicated disk available to the staff. Therefore, the audit firm did not distinguish the guiding document describing the structure and operation of the IQCS.
- 10% of the analyzed audit firms adopted in the implementation resolution only a supplement to the IQCS, which described specific policies and procedures in relation to the requirements of the network, supplementing the basic set of procedures and policies required by the network. In this case, the audit firm itself indicated in the document that the overall picture of the functioning policies is contained in the network manual, which is supplemented with procedures at the local level (i.e. a supplement indicated in the implementation resolution).
- 10% of the analyzed audit firms adopted an implementation resolution introducing the IQCS without a description of what constitutes the IQCS documentation. The documents submitted for inspection contained a single document describing the network's policies and procedures, along with information that the document in

question is a translation of the English original into Polish, and in the event of doubts or discrepancies between the language versions, the English version of the document is binding and decisive. In addition to the above document, additional descriptions of procedures adapting to Polish requirements and a matrix of quality objectives, quality risks and responses to these risks were provided.

In 10% of the analyzed audit firms, it was noted that the IQCS documentation was made available to the personnel in an incomplete manner, i.e. without a matrix of quality objectives, quality risks and responses to these risks, and the matrix in question was made available only to senior staff (partners and directors).

PANA therefore points to the following irregularities:

- adoption of the implementation resolution regarding the application of the new IQCS of the audit firm:
 - o without specifying what falls within the scope of such an internal quality control system,
 - o or without indicating the location where the IQCS documentation is described and made available, in particular for personnel;
- adoption of an incomplete or inconsistent set of documents to be used as IQCS documentation;
- indicating the superiority of documents in the English version which are part of the IQCS documentation of the audit firm (which is in contradiction to Article 50 (1) of the Act);
- incomplete IQCS documentation of the audit firm made available to the staff.

3.2.2. Process of risk assessment by the firm

All audit firms in this group have conducted a risk assessment process in accordance with the requirements of par. 23-27 KSKJ 1 and their results in the form of an Excel file as: a matrix of quality objectives, quality risks and responses to these risks.

It should be noted that audit firms belonging to networks have been given for use a global matrix with quality objectives, quality risks and responses to them. The process of determining this matrix was carried out in cooperation with local audit firms. Therefore, most of them declared no significant impact of Polonized standards on the matrix in question.

The risk assessment process at the audit firms level included the following inputs:

- analysis of the matrix received globally from the network and determination of suitability for purposes of local audit firms;
- analysis of the PANA inspection from the year;
- analysis of the Polonization of MSZJ 1.

As a result of the risk assessment process, none of the audit firms defined additional quality objectives nor saw the need to define partial objectives. Only 30% of the analyzed audit firms identified additional quality risks in order to assign appropriate procedures/controls in response to the Polonized requirements of the standards. In the assessment of other audit firms their matrices included risks and responses to these risks that could result from PANA's post-review recommendations or Polonized standards.

Audit firms adopted a 2-stage or 3-stage risk assessment. 10% of the analyzed audit firms did not specify quality risk levels - there was no such distinction in the matrix.

Only 10% of the analyzed audit firms declared that they provide services other than assurance in accordance with Art. 47 sec. 2 of the Act. For this reason, in the matrix of quality objectives, quality risks and responses to these risks, the audit firm identified and assessed additional quality risks.

In the opinion of some audit firms, the areas that still require analysis, design or implementation are as follows:

- reference in the risk assessment process to PANA's post-inspection recommendations, the deadline for implementation of which had not yet expired at the time of the thematic review;
- templates used to document the requirements of KSKJ 2 and KSB 220(Z) in audits starting after January 1, 2023.

PANA points out the following irregularities in the area of "company risk assessment process":

- not all the documents that were part of the IQCS, which were made available during the thematic control, were adopted in Polish. For example, in one audit firm the matrix of quality objectives, quality risks and risk responses adopted for use by this firm was in English;
- in one audit firm, its IQCS documentation did not present the results of quality risk assessment in accordance with par. 25 KSKJ 1. The matrix of quality objectives, quality risks and responses to these risks did not show how and to what extent the estimated quality risks may adversely affect the achievement of quality objectives (i.e. the levels of estimated risk have not been defined);
- in some audit firms, the templates used to document the requirements of KSKJ 2 and KSB 220(Z) in audits starting after January 1, 2023 remained at the preparation stage.

3.2.3. Corporate governance and leadership

All audit firms recognized an element of corporate governance and leadership in their IQCS. There were from a dozen to several dozen designed responses to quality risks in the above scope. One audit firm designed 85 control actions. The common elements in most audit firms' IQCS were the following responses to quality risks related to corporate governance and leadership:

- establishing a code of conduct, including sanctioning mechanisms for non-compliant behavior;
- establishing communication channels to understand and assess employees' views on ethics, audit firm's culture, the Code of Conduct and assess whether employees are satisfied with the audit firm's culture;
- establishment of mandatory staff training activities in the field of ethics, code of conduct;
- establishing a formalized process of dealing with complaints and infringements where proposed actions are reviewed and approved by the appropriate personnel;
- establishing a coherent process of evaluating employees in terms of their responsibility. Employee performance reviews are to take into account expected standards of behavior consistent with the audit firm Code of Conduct and quality objectives of the engagement;
- establishment of the organizational structure, including the assignment of appropriate roles and responsibilities, and accountability for these responsibilities;
- management succession planning;
- establishing direct channels of information and communication between the management and the persons mentioned in par. 20 KSKJ 1 and between these persons;
- obtain confirmation annually from staff that they know and understand the policy, including the audit firm Disciplinary Policy;
- performing by the management a review and approval of the audit firm's strategic plan, including an assessment of whether the audit firm has or is committed to acquire sufficient human, intellectual and technological resources for the coming years to support the quality of the audit firm's audits and operational effectiveness;
- annual budget preparation, including planning resource needs on an annual basis by estimating the expected staff hours needed to serve customers;
- introduction of the process of identifying, analyzing, reacting to and documenting problematic issues at various levels of IQCS FA operation.

Some audit firms attributed responses to established communication channels, training, employee appraisals, and process of dealing with complaints and infringements to other areas of their IQCS.

10% of the analyzed audit firms in the matrix of quality objectives, quality risks and responses to these risks for the area of corporate governance and leadership did not specify a response to the estimated quality risks in this aspect. FA had no established code of conduct.

In some audit firms, the following solutions were observed in terms of meeting the requirements of par. 20 letters a-b KSKJ 1, par. 21-1 KSKJ 1 and art. 50 sec. 4 of the Act:

- assigning final and operational responsibility for the IQCS to persons from the FA management **who have** statutory auditor qualifications;
- assigning final responsibility for IQCS to a person from the FA management who **does not have** statutory auditor qualifications;
- assigning final responsibility for the IQCS to persons from the FA management (joint and several liability), where **not all the persons have** statutory auditor qualifications;
- assigning final responsibility for the IQCS to persons from the FA management (joint and several liability), where **all the persons have** statutory auditor qualifications;
- assigning operational responsibility for IQCS to a person who **does not have** statutory auditor qualifications.

PANA analyzed whether the audit firms correctly assigned responsibility for the IQCS in the light of the provisions of the Act and the KSKJ 1. It should be noted that Art. 50 sec. 4 of the Act has a higher rank than the requirements of par. 20 letters a-b KSKJ 1. In view of the above, par. 20 letters a-b KSKJ 1 should be interpreted in accordance with the provisions of Art. 50 sec. 4 of the Act. The provision of art. 50 sec. 4 of the Act introduces an obligatory rule that the person responsible for the internal quality control system in the audit firm is a statutory auditor (in the meaning of the Act, it refers only to statutory auditors entered in the register of statutory auditors kept by the KRBR). At the level of par. 20 KSKJ 1, a distinction was made between responsibility: final responsibility and operational responsibility. Nevertheless, due to the provision of art. 50 sec. 4 of the Act, each of the persons to whom responsibility was assigned - whether it is final or operational responsibility for IQCS in audit firm (within the meaning of par. 20 letters a-b of KSKJ 1) - should be a statutory auditor entered in the register. The statutory auditor, while performing the duties assigned to him by the audit firm, in accordance with the IESBA Code of Ethics is obliged to act in a professional manner and comply with the principles of professional competence and due diligence.

With regard to the issue of "joint and several liability" in the context of assigning responsibility for audit firm's IQCS to several persons, it should be emphasized that this concept refers to the sphere of civil law liability. It gains importance in internal relations in the audit firm, in the case of property claims, for example, for damage on the part of the audit firm as a result of actions or omissions of responsible persons. Therefore, there are no contraindications from the PANA's point of view for several persons to be appointed as responsible for the IQCS, provided that they are statutory auditors entered in the register kept by the KRBR.

In several audit firms, the allocation of final and operational responsibility for the IQCS according to KSKJ 1 to an audit firm's officials and, separately, appointment of a person responsible for the IQCS in accordance with Art. 50 sec. 4 of the Act was observed. The Agency does not recommend the above solution and use of this approach. By assigning final and operational responsibility to the person who is a statutory auditor, the audit firm already fulfills the requirements of Art. 50 sec. 4 of the Act.

PANA indicates the following irregularities in the area of "corporate governance and leadership":

- in 40% of the analyzed audit firms, assigning final responsibility for the audit firm's IQCS to a person who is not a statutory auditor entered in the register;
- in 10% of the analyzed audit firms, assigning operational responsibility for the audit firm's IQCS to a person who is not a statutory auditor entered in the register;
- 10% of the analyzed audit firms did not design and implement a response to the assessed quality risks in relation to the area of corporate governance and leadership in accordance with the risk assessment process mentioned in par. 23 KSKJ 1;
- 10% of the analyzed audit firms did not design a response to quality risk (procedure) for the assessment of the audit firm's management, which would meet the requirements of e.g. par. 28 letter b KSKJ 1.

3.2.4. Relevant ethical requirements

All inspected audit firms identified an element of relevant ethical requirements in their IQCS and implemented the requirements of par. 29 KSKJ 1 and par. 34 letters a-c KSKJ 1. Audit firms unanimously declared that for this area the least changes were made resulting from the implementation of new standards. Nevertheless, it was the area with the largest number of designed responses to the estimated quality risks - there were from a dozen to several hundred of such responses. The most frequently designed responses to quality risks are presented below:

- establishing policies and guides on ethical requirements, including keeping them up to date and compliant with regulations;
- establishing professional secrecy policies and procedures, including relevant provisions in contracts with employees;
- establishing channels of consultation on ethical requirements;
- establishing communication channels of breaches of relevant ethical requirements, including maintaining a register of complaints and breaches;
- submitting annual self-declaration by the staff on compliance with independence requirements;
- submitting declarations of independence before undertaking an audit engagement (applies to: members of the audit team and audit firm);
- maintaining up-to-date customer/potential customer family tree databases and taxonomies in the scope of services provided to a particular customer and personnel associated with the customer;
- maintaining the database and updating the list of member companies (in terms of independence confirmations);
- establishing at least double validation of client acceptance/continuation and engagement acceptance/continuation forms;

- identifying all the third parties subject to ethical requirements, including independence;
- establishing training on understanding the importance of complying with relevant ethical requirements and on correctly filling the relevant FA databases;
- the establishment of quality indicators in the annual staff appraisals to ensure compliance with ethical requirements;
- development of current and periodic monitoring activities, such as:
 - o establishing controls over self-declarations of personal independence by staff, including monitoring their reported investments and financial relationships;
 - o monitoring audit firm's financial investments and business relationships;
 - o monitoring requirements for rotation on engagements (FA, KBR, quality controller), including ensuring the adequacy and reliability of these data;
 - o monitoring quality related incidents.

All audit firms declared lack of identification of additional risks that would require the development of new controls in specific areas of relevant ethical requirements. Possible changes consisted in clarifying the documentation regarding individual responses to quality risks (formalizing the response regarding the description of the type, timing, scope and designation of the person responsible for the response). The implementation of the new standards also did not create any new technological tools with regard to the relevant ethical requirements.

There were no significant changes to the content of the annual declarations made by staff regarding compliance with ethical requirements or the declarations of independence made before the audit engagement by the audit firm and team members. The only changes that were identified concerned updating in relation to the change of the legal basis (Act, KSKJ 1).

It is worth noting the case relating to declarations of independence recorded in one audit firm. According to its declaration, it has declarations of independence submitted by members of the audit team and the audit firm prior to the start of the audit engagement, but they are in the form of electronic records in the database of a dedicated system. Therefore, they are not human readable without the appropriate tool, and the human readable form is a report generated from this system showing a list of people along with their position and date of signature. Two issues should be noted in this case:

- a documentary form of a declaration of independence submitted by a member of the team performing audit engagements or the audit firm prior to the commencement of the audit engagement, and
- using internal mechanisms of the audit firm's IT system to authenticate submitted statements.

Due to the audit firm's doubts regarding the form of the statement referred to in Art. 74 sec. 2 of the Act, it is worth briefly referring to the types of forms of declarations of will/knowledge indicated in the Civil Code. Statements of knowledge may be submitted in the following forms:

- in writing, as provided for by art. 78 § 1 of the Civil Code with the following wording: *"to maintain the written form of a legal action, it is sufficient to affix a handwritten signature on the document containing the content of the declaration of intent. To conclude a contract, it is sufficient to exchange documents containing the content of declarations of intent, each of which is signed by one of the parties, or documents, each of which includes the content of the declaration of intent of one of the parties and is signed by it"*.
- in the electronic form, as provided for by art. 78 1 § 1 of the Civil Code, according to which: *"to maintain the electronic form of a legal act, it is sufficient to submit a declaration of intent in electronic form and affix it with a qualified electronic signature"*. Pursuant to art. 78 1 § 2 of the Civil Code *"a declaration of intent made in electronic form is equivalent to a declaration of intent made in writing"*;
- in the documentary form, as provided for by art. 77² of the Civil Code with the following wording: *"to maintain the documentary form of a legal act, it is sufficient to submit a declaration of intent in the form of a document in a way that allows the identification of the person making the declaration"*. Pursuant to art. 77³ of the Civil Code, *"a document is an information carrier that allows to get acquainted with the content of the agreement"*.

However, it should be noted that a document drawn up in documentary form, unlike a written or electronic document, does not benefit from the presumption of truth (authenticity) under art. 245 CPC (Civil Proceedings Code). As a result, the rules of evidence contained in art. 253 CPC do not apply. To sum up, failure to comply with the written/electronic form of declarations (submitted under pain of criminal liability) PANA qualifies as a violation of the provision of art. 74 sec. 2 of the Act.

With regard to further analysis of the "relevant ethical requirements" element, the areas that differentiated individual audit firms concerned the policies setting the rotation and withdrawal periods for KBR, quality controller or persons performing other key roles during the execution of audit engagements. Table 2 below presents the choices that the audit firms use in their IQCS, broken down into PIE and non-PIE audit of financial statements.

Table No. 2. *Established rotation and withdrawal periods for KBR, quality controller, other key role, broken down into PIE and non-PIE audit.*

	PIE		Non-PIE	
	Rotation period number of years	Withdrawal period number of years	Rotation period number of years	Withdrawal period number of years
KBR	5	3/5	5/10/12/none	2/3/none
Quality controller	4	2/3	4	2
Other key role	7/8/9	2	7/9/10/none	2/none

Source: PANA study based on controlled documentation of IQCS FA included in TOP12.

It should be noted that all audit firms use the same criteria for rotation periods of the KBR and quality controller when auditing PIEs' financial statements. The same applies to the rotation and withdrawal period for the quality controller when auditing non-PIEs' financial statements, which results directly from the KSKJ 2 provision. However, it should be pointed out that in half of the audit firms a withdrawal period of 2 years was specified for the quality controller for PIE audit engagements, which is in contradiction with the provisions of the IESBA Code of Ethics (R540.12). It should also be noted that two audit firms set a rotation period for KBR above 10 years for non-PIE audits, which may indicate risk of overfamiliarity and weakness in the design of the policy. One audit firm did not establish rotation and withdrawal periods at all for KBR for non-PIE audits.

A different approach was also applied by the audit firms in monitoring the fulfillment of the requirements under Art. 4 and 5 of Regulation No. 537/2014. In some audit firms this process was not significantly formalized, i.e. there was no description of the reaction with regard to the type, timing, scope and designation of the person responsible for the reaction. In one audit firm there were no established procedures in this respect at all. In two audit firms compliance with the requirements was performed only at the engagement level, where KBR confirmed their fulfillment in the audit documentation.

A different approach was also applied by the audit firms in terms of including the requirements of the Act (for example, Article 64(1) of the Act, Articles 69-72 of the Act, Article 135 of the Act, Article 136 of the Act) in the matrix of quality objectives, quality risks and responses to these risks. Most of the audit firms in this matrix did not identify specific quality risks related to the implementation of the above requirements. Therefore, there was a doubt whether appropriate responses had been designed in the above scope to meet the requirements of the Act (or the provisions listed in par. 34-1 KSKJ 1). Only one audit firm identified a separate quality risk, to which it assigned responses corresponding to the requirements of the Act, and another audit firm, as part of the IQCS documentation, attached a mapping showing the inclusion in the matrix of quality objectives, quality risks and responses to these risks, additional requirements resulting from the Polonized standards (including the Act, Regulation No. 537/2014, Code of Ethics, AML regulations). For the needs of the thematic review, part of the audit firms provided explanations that showed that the requirements of the Act were included in the policies and procedures of the FA, but they were not visible in the matrix of quality objectives, quality risks and responses to these risks due to the generality of these provisions.

All audit firms identified responses to establishing communication channels for breaches of appropriate ethical requirements, including keeping a register of complaints and breaches. Within this area, most audit firms provided a hotline or possibility to report incidents anonymously through an external service provider. Only in the case of one audit firm the possibility of "anonymous" reporting was established only by sending a message to a specially created e-mail box in the audit firm.

PANA indicates the following irregularities in the area of "relevant ethical requirements":

- inspected audit firms' IQCS accepted declarations of independence submitted by members of the team performing audit and the audit firm before the commencement of the audit engagement in a form other than in writing or in electronic form;
- in half of the inspected audit firms, the withdrawal period for the quality controller was defined as 2 years for PIE audits;
- in some inspected audit firms, relatively long rotation periods or their absence were established for KBR when performing non-PIE audits, which may indicate the lack of appropriately designed responses to the risk of excessive familiarity and weakness in IQCS of the audit firm;
- in some inspected audit firms, monitoring the fulfillment of the requirements under Art. 4 and 5 of Regulation No. 537/2014 was not designed at the company level, but was only performed at the engagement level;
- in some inspected audit firms, in the matrix of quality objectives, quality risks and responses to these risks, no links to the relevant requirements of the Act and Regulation No. 537/2014 were visible.

3.2.5. Acceptance and continuation of customer relationships and specific engagements

All inspected audit firms identified the element of acceptance and continuation of customer relations and specific engagements in their IQCS. For this area, the audit firms in their matrices primarily implemented the requirements resulting from par. 30, par. 30-1 and par. 34 letter d KSKJ 1. The most frequently designed responses to quality risks for this area are presented below:

- establishing a strategy regarding the types of the engagements performed by the FA;
- defining roles and responsibilities related to the risk assessment process of the engagement prior to its acceptance or continuation;
- design and implementation of the customer/engagement acceptance/continuation form, including the development of rules for their correct use and completion;
- setting up training in the correct completion of questionnaires and their assessment by persons accepting the client/engagement;
- determination of acceptance levels of the customer/engagement acceptance/continuation form (the so-called approval matrix), including the rules for determining the client general risk;
- establishing a process for making changes to the customer/engagement acceptance/continuation forms, including, if the changes are significant, providing appropriate communication to the staff;
- establishing AML procedures;
- developing procedures to monitor the completeness of the list of accepted services, including ensuring that the process of acceptance and continuation of the engagement is performed in a strictly defined manner;
- conducting a review and allocation of a portfolio of partners' engagements, taking into account the distribution of their workload;

- conducting a periodic review and approval of the planned staffing needs for the implementation of accepted engagements, including determining the needs for the required experts;
- establishing a periodic confirmation that there are no significant staff shortages, taking into account available resources, or that actions are being taken to ensure that sufficient resources are available;
- determination that additional authorization is required in the engagement acceptance/continuation forms for all clients for whom the risk is defined as high;
- establishing standard templates of contracts, including the determination that deviations from them require approval;
- establishing procedures for terminating contracts with customers, including defining procedures for communication with third parties, if required by law;
- establishment of IT control:
 - in the customer/engagement acceptance/continuation questionnaires, all mandatory fields must be completed before they are submitted for approval;
 - the customer acceptance questionnaire is set up to properly determine the overall risk appraisal based on the responses to the questions;
 - the engagement acceptance questionnaire can only be validated after the customer acceptance questionnaire has been approved;
 - the engagement code may be set up and opened only after the engagement evaluation process is completed and approved;
- developing current and periodic monitoring activities:
 - periodic review of engagement acceptance and continuation policies, including review of forms in terms of appropriateness and reliability;
 - periodic review of selected forms to assess the completeness and accuracy of the completed form, assess whether the acceptance levels in the form are consistent with the FA approval matrix in relation to the customer's identified risk;
 - periodic review in order to assess that the engagement code opened in the FA system follows only after the completion and approval of the engagement evaluation process;
 - periodic review of the completion of the training course concerning the correct completion of the questionnaires and their assessment by the persons accepting the customer/ engagement;
 - periodic check that customer contracts have only been signed after the date of formal approval of the acceptance of the ordered audit;
 - periodic check that changes in customer contracts have previously obtained the required approval in line with audit firm policy;
 - periodic check of monitoring the completeness of contracts;
 - ongoing monitoring of terminating the contracts, including the obligation to communicate with third parties.

With regard to the accepted forms for acceptance/continuation of the customer/engagement, all the audit firms unanimously declared that the content of the forms in question had not changed as a result of the implementation of the new standards. Any changes in the content

of the forms or the approval process were the result of the imposed sanctions related to the war in Ukraine.

The content of the form most often covered the following areas:

- customer identity verification (including AML procedures);
- honesty and ethical values of the customer (business reputation of owners, management, those charged with governance);
- type of business activity of the customer;
- assessment of the customer 's internal control environment (including organizational structure, established corporate governance, business model, method of financing);
- questions to the previous statutory auditor (after obtaining consent for such contact from the customer);
- assessment of the audit firm's ability to perform the audit (in terms of availability of resources and required qualifications);
- assessment of independence confirmation;
- assessment of the correct determination of remuneration for the service.

The validation matrices of the forms in question were predetermined in each audit firm. Most often, when assessing a low-risk customer, 1-2 levels of authorization were established. For customers with a higher level of risk, 2-3 levels of authorization were established, usually performed by the customer 's lead partner, the head of the audit department and the partner responsible for audit firm's risk management. The forms were signed in writing (by hand), electronically (with a qualified signature) or by means of internal mechanisms of the audit firm's IT system in the database used to fill in and collect the forms in question.

Audit firms most often adopted three levels of customer risk in their IQCS, i.e. low, medium and high. There were no strictly defined criteria resulting in an increase in the customer 's risk assessment. The audit firms unanimously declared that the estimated level of risk is the result of the selection of factors increasing the risk described in the acceptance/continuation form, i.e. significant uncertainty regarding continuation of activity, high level of interest in the customer by regulators, potential merger or acquisition, public offerings, concerns regarding integrity, significant violations of law or regulation, entities perceived to have close ties to government entities. It happened that the audit firm adopted a mandatory rule that as regards PIE audits, the level of risk is indicated as not lower than medium.

In none of the audit firms was it possible to accept the customer and accept the engagement without the formal acceptance of the completed form by the appropriate persons.

Audit firms in their IQCS documentation did not have strictly defined criteria when given engagements are rejected. In the case of the customer's highest risk assessment, the audit firm declared that prior to its authorization, the management's assessment is carried out on the basis of an analysis of all risks. Any potential rejection according to audit firm's policy should be consulted, even obvious cases such as rejection of a company from the Russian market or suspicion of terrorist financing.

In most audit firms, in their matrix of objectives, quality risks and responses to these risks, there was no reference to the designed responses related to par. 30-1 KSKJ 1 with regard to the requirement for the audit firm to determine remuneration for audit services, assurance services other than audits and related services based on labor intensity, complexity of the work and required qualifications. Nevertheless, in the IQCS documentation, the audit firms had descriptions of the adopted remuneration policy and an indication of what tools are used in this respect, e.g. the budget of the engagement, which ensures compliance with the requirements of the Act. According to the policy in question, in audit firms, the remuneration for the service was determined on the basis of the engagement budget, which defined:

- estimated labor intensity expressed in the number of hours estimated for the performance of the service, broken down by the involvement of individual team members, including specialists;
- hourly rates for staff groups according to estimated commitment.

The applied hourly rates took into account the level of remuneration of individual staff groups, the assumed structure of the share of costs in revenues and the mark-up of the profit margin.

The audit firms unanimously declared that the changes to the remuneration policy were mainly the result of PANA's post-inspection recommendations and not changes resulting from the implementation of new standards. The changes most often concerned the area of budgeting and related to the assumption that budgets are prepared separately for individual engagements, thanks to which remuneration is set separately for each individual service. In addition, the settlement of the working time of individual team members began to be documented in a way that allowed to determine the number of working hours spent on each of the services separately (even if the services were performed under the same contract).

In 10% of the inspected audit firms PANA pointed to very general provisions in the remuneration policy regarding the requirement for the audit firm to determine remuneration for providing assurance services. For example, it was regulated that when calculating the price one should be guided by the adopted range of PLN 1,000 to 3,000 per one working day, taking into account the sector of activity, the degree of complexity of operations, the existence of a capital group. During the inspection, no remuneration calculation template was presented to confirm that the method of calculation takes into account labor intensity or hourly rates for groups of personnel according to the estimated commitment.

PANA indicates the following irregularities in the area of "acceptance and continuation of customer relations and specific engagements":

- in some audit firms in their matrix of objectives, quality risks and responses to these risks, there is no reference to the designed responses relating to par. 30-1 KSKJ 1 in the scope of the requirement for the FA to determine remuneration for audit services, non-audit assurance services and related services based on labor intensity, complexity of the work and required qualifications;
- in 10% of the inspected audit firms, a response developed to meet the requirement of par. 30-1 KSKJ 1 was not sufficient to confirm that the fees set by the audit firm for

audit, non-audit assurance and related services are based on labor intensity, complexity of the work and the required qualifications.

3.2.6. Execution of the engagement, including engagement quality control

All inspected audit firms identified an element in their IQCS such as: engagement execution. For this area, the audit firms implemented in their matrices primarily the requirements resulting from par. 31 and par. 34 letter f KSKJ 1. The most frequently designed responses to quality risks for this area are presented below:

- establishing a budget for the execution of the engagement approved by the partner. The budget includes labor intensity expressed in the number of hours estimated for the performance of the service, broken down by the involvement of individual team members, including specialists;
- establishing audit methodology and methodology for performing assurance services other than audits and related services, including ensuring that they are kept up-to-date;
- establishing a consultation policy, with a list of mandatory items for consultation;
- establishing a policy on persons competent to provide consultations and how they are selected;
- establishing a policy for resolving disagreements within the audit engagement team;
- establishing exemplary IT controls for the audit program used:
 - o access to the audit engagement documentation only for authorized persons (access granted individually),
 - o the ability to create diagnostic reports detailing which working paper screens and attachments do not have a signature of preparation or a signature of a higher-level checker,
 - o the ability to create diagnostic reports detailing files added and modified after the date of issuing the engagement report;
- establishing an audit engagement review program to be executed during the audit engagement;
- establishing an engagement quality review;
- establishing a policy regarding the storage of documentation and archiving, including the creation of audit files in accordance with Art. 67 sec. 4 of the Act;
- separation of a server where closed engagements are stored and which is configured so that only specific persons have access to it.
- developing current and periodic monitoring activities:

- ongoing monitoring whether budgets are approved in accordance with the audit firm's policy, i.e. after obtaining the appropriate parameters (e.g. in terms of the minimum involvement of KBR);
- ongoing monitoring of the validity of the audit firm's methodology in the field of assurance services;
- periodic review of the engagement execution by comparing the planned hours with the actual hours spent on the service;
- setting milestones for engagement execution and periodic monitoring of the list of tasks with outliers;
- establish an annual review of partners' workload to assess whether they have sufficient capacity (time, competencies) to fulfill the role and related responsibilities;
- periodic monitoring of the timeliness of archiving.

Responses to quality risks related to audit teams in the scope of e.g. their misunderstanding of their duties, failure to exercise proper professional judgment or professional skepticism have been assigned to the area of human resources for the purposes of the analysis of this report.

Each audit firm established a procedure for appointing a statutory auditor, including submitting a declaration that a KBR has the appropriate competences and capabilities as well as sufficient time to perform the service.

In each audit firm, a response was designed in which, each time before starting the execution of an engagement, it prepares a budget for a given engagement, which requires approval by the engagement partner/KBR. The budgets specified the number of persons taking part in the engagement (including experts), the number of hours planned for them, together with the expected date of their execution. Minimum thresholds for the involvement of key personnel were also often included. In one audit firm, there was a minimum threshold of 2.5% of the hours of the entire audit team for KBR, and 7% for the manager. In another audit firm, the minimum involvement of KBR was quantified (from 8 to 35 hours for KBR) depending on the agreed hourly budget of the entire audit team. For projects over 1,500 estimated hours, KBR hours were to be no less than 2% of the total project hours. On the other hand, in the next audit firm, the minimum involvement of KBR was diversified based on the estimated customer risk and whether the audit concerns PIE or non-PIE. The scope of the minimum KBR involvement ranged from 12 hours (or 3% of the total budget hours) with low risk and non-PIE audit to 5.5% of the total budget hours with very high customer risk, regardless of the type of audited entity. Part of audit firms did not specify the minimum involvement of KBR on the engagement. The audit firms argued that the quality risk was not identified in this area due to the significant involvement of KBR in the audit in relation to the share of his/her working hours in the team's total working hours.

As part of their monitoring activities, some audit firms designed procedures in their audit programs that include milestones set at the beginning of the project to monitor the quality criteria in the audit engagement. The milestone program was used in 30% of cases.

Moreover, as a monitoring procedure, in 20% of cases, it was planned (on a monthly basis at the level of a particular engagement) to check the share of KBR's registered working hours in relation to the number of hours recorded by other team members. Subsequently, the audit firms designed a procedure for reviewing the report in terms of the risk of a low share of KBR hours in the engagement and further actions were taken depending on the circumstances.

In 30% of cases, a response consists in reviewing the partners' workload in order to assess whether a given person has the capacity (time) to perform the designated functions was designed. One audit firm established an annual partner workload assessment. Upon initial assignment, and at least annually thereafter, the relevant approver verifies whether the workload is appropriate by confirming with the individual that he or she has sufficient capacity to fulfill the role and associated responsibilities. In another audit firm, a response was designed where every year the person responsible for risk management in the audit firm reviews the workload (involvement) of the partners. The annual portfolio analysis identifies and justifies the workload of individual partners with excessive portfolios. If the explanations are not convincing, an assessment is made as to whether there is a need to reallocate part of the portfolio or to apply additional security procedure. In still another audit firm, partners fill in a dedicated form every year, the purpose of which is to assess whether this partner has the capabilities and ability to perform the designated functions, and the form contains threshold criteria regarding, for example, the maximum number of PIEs which the partner can audit, the maximum number of entities in which the partner may be the quality controller or the maximum number of hours (specified in the budgets of engagements) that he/she can supervise in a 12-month cycle.

Each audit firm established policies for consultation on difficult or contentious issues related to the engagement and whether the consultations are in accordance with the relevant audit firm's methodological manuals. The engagement team is required to document the issue that was the subject of consultation, the conclusions, and their implementation in the audit documentation. There was no fixed list of mandatory matters to be consulted in part of audit firms. In other audit firms, there was a mandatory list of matters for consultation. The lists were varied. For example, in one audit firm the list contained 79 mandatory items. In another audit firm consultations included a dozen or so matters, e.g. prior year adjustments, Art. 4 Accounting Act (UoR), modifications of the opinion in the audit report for PIE, key audit matters (in terms of the manner of presenting the content in the audit report) or MSSF areas such as mergers under common control or complex remuneration programs.

The inspected audit firms established policies for the creation of an audit file for each audit in accordance with Art. 67 sec. 4 of the Act. Due to the fact that the audit files consist of many elements from various systems, 30% of the audit firms declared that they keep some of the elements required by law separate from the audit documentation. However, according to the information obtained from audit firms, they close repositories containing individual elements of audit files no later than 60 days after the date of preparation of the audit report and store them for a period of at least 8 years from the date of their closure, what ensures compliance with the regulations. One audit firm has a 10-year archiving period.

In 10% of cases, the possibility of opening audit files after their archiving was noted. Such an opening is registered in the system with a mandatory explanation of what has been changed and what was the reason for the change.

In 10% of cases, there were no references in the IQCS documentation to the establishment of a policy and procedure for conducting audits, performing assurance services other than audits and related services that would meet the requirements of par. 34-1 KSKJ 1 (Article 64(1)(2) of the Act).

In 40% of the audit firms, an in-process review program was established in response to the assessed quality risk. The program concerns the review of selected audit areas by a individuals independent of the audit team, and the review of selected audit documentation is generally carried out after the completion of the procedures in question and after review by senior team members. Observations from the review are communicated to the engagement team. In 10% of cases, the selection of engagements for review by such a controller was based, for example, on the following risk criteria: higher-risk entity, audit partner had significant audit quality deficiencies in the previous year, publicly traded customer, audit for the first time. In other audit firms, the selection of engagements to be reviewed by such a controller was based on a risk analysis performed by a dedicated team. The scope of this review is similar to that of an engagement quality control, except that the scope may be limited. Most often, it covered the areas, such as: revenues, areas with significant risk, areas in which accounting entries were audited, review of the audit report, review of the financial statements. Such controllers, in accordance with the established audit firm policy, are persons with appropriate competence and experience, including the powers of a statutory auditor. To perform the review, a questionnaire was developed, which indicated areas to be verified and documented by such a controller.

Another mandatory reaction from the point of view of the new standards was the establishment of the review of the engagement quality controller in accordance with par. 34 letter f KSKJ 1. In all audit firms the criteria for engaging an audit or review engagement quality controller depending on the category of audited entity concerned:

- entities listed on the stock exchange, including the New Connect market, the Alternative Market of the Warsaw Stock Exchange (GPW ASO), the Alternative Bond Spot (BS ASO) market;
- public interest entities other than issuers of securities on regulated markets (as defined in the Act).

Then, the audit firms determined the criteria for engaging an engagement quality controller (including other than audit engagements) due to the specific category of the entity, e.g.:

- entities meeting the criteria of an entity with a high public profile;
- entities from emerging industries or with which the audit firm had no prior experience;
- companies of high importance, where high transparency of reporting is required in the public interest;

- entities in relation to which regulators issued public information expressing concern about specific issues concerning the entity or its environment;
- other large units (with a planned budget of over 1000 hours);
- high-risk entities.

In addition, the audit firms established criteria for involving an engagement quality controller (including other than audit engagements) by the type of an audit engagement, for example:

- engagements with a high or increased risk profile;
- engagements characteristic due to identified quality risks, e.g. audit engagement that involves a high level of complexity or judgment, an audit engagement where issues were encountered, such as an audit engagement with recurring inspection findings, uncorrected significant deficiencies in internal control, or significant adjustments to comparative data in the financial statements, audit engagements where there are doubts about the entity's ability to continue as a going concern, audit engagements for which unusual circumstances were identified during the firm's acceptance and continuance process, audit engagements that relate to the reporting of financial or non-financial information that is expected to be included in the documentation required by the regulations and which may involve a higher degree of judgement, such as pro forma financial information to be included in a prospectus.

Within the scope of competence of the quality controller, a policy was usually established within the network, to which a local policy was created, according to which the quality controller had to have appropriate experience and authorization, he/she could not be a person without appropriate experience, he/she had to have experience in the industry. In the case of engagements where responsibility for these engagements rests with a statutory auditor entered in the register kept by the KRBR, there was a requirement that such cases only a statutory auditor entered in the register could be the quality controller. In connection with the above, changes in this respect were observed in one audit firm compared to the audits for previous years, where the audit firm allowed for the possibility of executing quality control by a statutory auditor from a network company based in another country.

In 30% of cases, it was indicated in the policy regarding the appointment of a quality controller that the quality controller cannot be a member of the audit team, which is in contradiction with par. 16 letter f KSKJ 1 in the case of appointing a quality controller for audits of financial statements.

In 20% of cases, there was no record of tool for monitoring rotation of the quality controller that would show history from previous periods and track rotation and withdrawal periods for individual quality controllers.

In 10% of cases, established policies for the review by the quality controller were general in nature. No policies or procedures were noted for notifying the engagement partner when the quality controller had concerns that significant judgments made by the audit team

or conclusions reached thereon are not appropriate. No policies or procedures were noted for documenting the review by the quality controller.

In 30% of cases, the development of the templates to document the review executed by the quality controller in accordance with KSKJ 2, was still in progress. These templates, based on the declarations of the audit firms, were to be ready for the 2023 audits in the first quarter or first half of 2023.

PANA indicates the following irregularities in the area of "execution of the engagement, including engagement quality control":

- in 20% of cases, no response was noted to the quality risk related to the monitoring of the rotation and withdrawal periods of the quality controllers;
- in 30% of cases, in the policies relating to the review by the quality controller it was indicated that the person performing the quality control could not be a member of the audit team, which is in conflict with par. 16 letter f KSKJ 1;
- in 10% of cases, no policies or procedures were noted for documenting the review by the quality controller;
- in 30% of cases, work on templates for documenting of the review by the quality controller in accordance with KSKJ 2 was not completed;
- in 10% of cases, work on updating the audit methodology in the scope of the review by the audit engagement partner was not completed;
- in 10% of cases, the possibility of opening audit files after closing them was noted.

3.2.7. Resources

3.2.7.1. Human resources

All audit firms identified an element of human resources in their IQCS. In this area, the audit firms designed the most responses in their matrix of quality objectives, quality risks and responses to these risks, primarily regarding the requirements under par. 32 letters a-e and par. 56 KSKJ 1. The most frequently designed responses to quality risks for this area are presented below:

- establishing a planning policy regarding the need for human resources on an annual basis, for example, by estimating the expected hours/staff needed to serve customers;
- establishing a recruitment process with employment criteria that are approved by the relevant people;
- establishing a training program for new employees;
- determination of training needs for a given financial year;
- establishing a training policy applicable to mandatory training, including defining the criteria for appointing trainers, the minimum pass threshold, actions to be taken in case of failure to meet training requirements;

- establishing a policy of setting goals to be achieved by each employee, which are then assessed (usually on an annual basis);
- establishing a defined employee appraisal process (usually on an annual basis);
- establishing an employee remuneration policy, including bonuses and promotions, which takes into account the results of employee appraisals;
- establishing a procedure for reviewing and approving the assignment of engagement lead partners, taking into account their respective competencies, capabilities and whether they have sufficient time;
- establishing a procedure for reviewing the allocation of engagement managers, taking into account that these people have the appropriate competences, capabilities and sufficient time;
- establishment of a procedure for reviewing and approving the resource requirements plan supporting the activities of the IQCS by the person(s) responsible for the audit firm's IQCS;
- developing current and periodic monitoring activities, including:
 - in a specific cycle, e.g. monthly, all new records created or items changed in the HR system are checked for relevance and reliability by a person other than the person entering the data;
 - establishing a procedure that verifies whether all employees who perform audits or reviews of financial statements and other assurance or related services are fully identified, including the person's grade group and any specific training requirements;
 - in a specific cycle, e.g. half-yearly, the audit firm monitors the timely completion of mandatory training courses as well as the fulfillment of the training volume requirements in accordance with the audit firm's training policy;
 - in a specific cycle, e.g. annually, the audit firm monitors the fulfillment of the requirement of obligatory professional development (ODZ) by the audit firm's statutory auditors;
 - monitoring staffing needs on a periodic basis, e.g. on a monthly basis, assessing whether changes in key assumptions indicate significant expected staffing shortages, taking into account the available resources;
 - in a specific cycle, e.g. annually, the audit firm checks whether the information contained in the partner's workload assessment in all functions performed (including the function of quality controller and other roles performed in the audit firm) agrees with the assumptions of the audit firm.

In most audit firms, each employee was required to set goals to be achieved in a given financial year, which then formed the basis for his/her annual assessment. Audit firms had exemplary lists of goals tailored to individual positions, which the employee could assign to himself. The number and scope of possible goals to be set by individual employees varied between

companies. Most often, the goals concerned the development of the employee, including improving his qualifications, efficiency and quality of work. In accordance with the presented policies, at the end of the year, the employee verifies the achievement of his goals and performs a self-assessment. Then, on an annual basis, an employee evaluation meeting is held, attended by people cooperating with him (above his position), where, based on the interview and the project evaluations collected during the year, a final evaluation is issued, which is then transmitted to the employee and included in the documentation.

Most audit firms have also established a procedure for collecting bottom-up reviews from rank and file employees evaluating experienced managers, directors and partners. Appraisals are given anonymously.

In 30% of cases, the employee appraisal system was simplified, which consisted in issuing an appraisal (once a year) by the immediate superior.

All audit firms unanimously declared that the level of remuneration depends on the employee's annual appraisal. Bonuses are also paid (usually quarterly, annual) depending on the fulfillment of certain indicators set out in the bonus policy. In one audit firm, variable remuneration (bonuses) for managers depended, among others, on the assessment obtained, the number of days worked in a year, but also on the financial result achieved by the audit department. In two other audit firms, bonuses depended on the number of completed projects, the margin achieved on these projects and the operational efficiency of the project (appropriate structure of hours of lower and higher level personnel on the project) and quality indicators. On the other hand, in another audit firm, the incentive system for employees consist in quarterly bonuses, which in no way depend on the quality and number of completed engagements and are paid, for example, for conducting trainings, writing publications.

In most audit firms, a program of mandatory trainings has been established, adapted to individual positions. The average number of compulsory training hours for individual grade levels in individual audit firm was varied. The table below shows the number ranges for the hours of mandatory trainings for individual positions in the sample of audit firms.

Table No. 3. *Range of training hours per year in selected audit firms, broken down by position.*

Position	Audit firm No. 1 (range of training hours)	Audit firm No. 2 (range of training hours)	Audit firm No. 3 (range of training hours)
Assistant	70-100	95-110	40-50
Senior Consultant	40-100	70-100	40-50
Manager	70-120	30-40	80-90
Partner	60-120	30-40	80-90

Source: PANA own study.

In a situation where the employee is a statutory auditor, he/she participates in obligatory professional development (ODZ) training separately. The audit firms have procedures for monitoring compliance with the obligatory professional development (ODZ) requirement by statutory auditors.

During the pandemic, all training was conducted remotely. For the most part the training was completed by passing a knowledge test. Remote training ends with a test, however, until the participant passes the test, such training is not considered completed. The levels at which the test is passed were usually 70 - 80% of correct answers.

In some audit firms, the IQCS documentation of these companies in the area of human resources does not clearly identify and divide human resources into internal company resources (staff) and resources obtained from outside, e.g. from the company's network or service providers. It should be noted that for external resources, the audit firm should establish requirements relating to competence, compliance with ethical requirements or responsibilities of both parties, therefore it is important to clearly identify these groups for subsequent appropriate reference to par. 32 letters a-e KSKJ 1. It should also be noted that one audit firm uses the work of several subcontractors who act as the key statutory auditor.

3.2.7.2. Technological and intellectual resources

All audit firms identified an element of technological and intellectual resources in their IQCS. In their matrices, the audit firms referred primarily to the requirements resulting from par. 32 letters f-g KSKJ 1. The most frequently designed responses to quality risks for this area are presented below:

- establishing a list of technological and intellectual resources, specifying the use for the needs of audit firm's IQCS operation and for the execution of engagements, as well as giving the source of these resources (from the service provider, from the network, own);
- establishing a procedure for evaluating service providers when using service providers' support in developing audit firm's technological and intellectual resources;
- in the case of contracts with third parties, establishing the procedure for standard contracts, completeness of the list of third parties;
- establishing a policy on data security, access to databases, including archived engagement documentation;
- establishing a data confidentiality policy;
- establishing support structures for end users in the form of instructions for use and/or the obligation to conduct appropriate training for the end users in the use of specific IT applications and intellectual resources;
- establishing a procedure in the field of intellectual resources ensuring that these resources have been designed in accordance with the applicable methodology, and updating changes are introduced by appropriate persons;
- developing current and periodic monitoring activities, including:
 - o in a specific cycle, e.g. annually, a review of the list of technological and intellectual resources in terms of their relevance and compliance with regulatory requirements;

- developing an annual program to test the effectiveness of general IT controls of the audit firm's IT environment;
- review of resources in a specified cycle, e.g. annually, based on an assessment of the risks associated with consistent operation and completeness and accuracy of the output of these resources.

Most of the audit firms had a register/list of technological and intellectual resources, which were part of the audit firm's IQCS documentation. In some companies the lists were limited to the largest items (approx. 40-70), in other FA the lists were presented in great detail (e.g. approx. 350 items). Most often, the lists presented the name of the resource, its functionality, source of origin (own resource, from the network, from the service provider), area of operation (audit firm's IQCS, execution of engagements), responsible person, date of last update.

Most of the inspected audit firms belonging to a network did not use service providers for the provision of intellectual resources, and the technological resources were provided and maintained by the audit firm's network. Network resources were translated into Polish. Then, their suitability for the audit firm was verified and adapted to local requirements, if necessary.

In part of the audit firms, information security was implemented through the implementation of an appropriate security system in accordance with ISO 27001. This system defined the requirements, rules for initiating, implementing, maintaining and improving information security management in the company, and included developed safeguards in the following areas of information security management, including:

- information security policy;
- the organization of information security;
- human resource security;
- asset management;
- access control;
- communication security;
- acquisition, development and maintenance of systems;
- management of incidents related to information security;
- aspects of information security in the management of business continuity.

Intellectual resources were most often divided into the following sections:

- auditing database - methodology of engagement execution, training materials;
- accounting database - MSR/PSR manuals, other accounting materials, checklists for assessing the completeness of financial statements according to IAS/PAS, other templates, training materials;
- legal regulations database - current legal acts, accounting, reporting;
- other – website subscriptions (Lex, links to websites of the authorities and organizations, e.g. PIBR, PANA, MF, ESMA, external portals, e.g. e-KRS).

All audit firms had methodologies of engagement execution (for financial statements audit and review services and assurance services other than audit and related services). Some of the audit firms did not have separate methodologies for auditing the financial statements of banks

or insurance companies, but for individual industries (from the financial market) there were defined libraries or standard lists of required audit procedures.

Instructions for proper use were developed for each resource. In case of more complex resources, trainings were developed, which were then recorded and made available to people who did not participate in the training. In some audit firms a support group was involved in the correct use of the audit program.

3.2.7.3. The summary of irregularities for the area of resources.

PANA indicates the following irregularities in the area of "resources (human, technological, intellectual)":

- in 10% of cases, the variable remuneration of managers depends on the financial results on completed projects, which may negatively affect the completeness of their timesheets and credibility of engagement efficiency reporting on a particular engagement in order to improve the overall margin on the project, and thus the financial results of the audit firm;
- in some of the audit firms, in the IQCS documentation of these companies in the area of human resources, there was no clear identification and division of human resources into internal company resources and resources obtained from outside, e.g. from the company's network or service providers;
- 10% of the controlled audit firms used the work of subcontractors who acted as the key statutory auditor in the audit engagement;
- some of the audit firms do not keep records of technological or intellectual resources.

3.2.8. Information and communication

Not all audit firms identified the element: information and communication in their IQCS. In some of the audit firms, the quality objectives related to the above area were assigned to other elements of the system, for example to corporate governance and leadership. Below are presented the most frequently designed responses to the assessed quality risks related to the quality objectives resulting from par. 33 and par. 34 letter e KSKJ 1:

- identification and description of the information system in the audit firm's IQCS, including in particular a description of the processes and tools used for recording, processing, appropriate use and archiving information relevant to the implementation of individual tasks;
- defining the communication within the audit firm, including providing information to the staff about the regulations and changes in force in the company, in particular in the field of audit independence and methodology;
- establishing communication channels between the audit firm, staff and teams executing audits;

- establishing ongoing communication between persons responsible for the audit firm's IQCS (responsible: ultimately, operationally, for a particular aspect of the system);
- establishing on a periodic basis (usually once a year) an anonymous survey completed by the staff regarding questions relevant to the quality of the audit, ethical issues, culture, code of conduct, values, trends set at senior management levels and a culture of continuous learning;
- establishing external communication channels for raising issues by employees or by third parties, e.g. in the form of an anonymous hotline or anonymous access on the audit firm's website;
- establishing communication with the network and with service providers;
- establishing the procedure for the correct and timely determination of the supervision fee and payment to PANA;
- establishing the procedure for the timely publication of the transparency report, including the specification of source documents constituting the basis for the preparation of the report and verification of its content in terms of compliance with the law;
 - establishing communication with third parties (taking into account the type, timing, scope and appropriate form of communication), in particular: with the Polish Financial Supervision Authority (KNF) regarding:
 - information on which the statutory auditor or audit firm became aware during the statutory audit of the PIE's financial statements, on the intention to issue a negative opinion or a qualified opinion,
 - information on termination of the audit agreement with PIE;
 - with PANA regarding:
 - information on revenues from assurance services and related services performed in accordance with national professional standards,
 - revenue forecasts for a given year and subsequent calendar years,
 - notifications of changes to the data contained in the register of audit firms,
 - information on termination of the audit agreement,
 - information resulting from art. 90 of the Act or resulting from inspections conducted by PANA in the audit firm;
 - information of which the statutory auditor or audit firm became aware during the JPZ statutory audit, on the intention to issue a negative opinion or a qualified opinion;
 - with persons performing supervision during performing the audit of financial statements;
 - with the replacing audit firm providing access to all information about the audited entity and the last audit of this entity;
 - with the replaced audit firm in order to obtain information on the audited entity and the last audit of this entity.

In some of the audit firms, the designed reactions with regard to communication with third parties were of a general nature without distinguishing individual third parties (e.g. PANA, KNF), which meant that the designed reactions mostly did not meet the requirement resulting, for example, from par. 34 letter e KSKJ 1 regarding the establishment of policies and procedures that take into account information, including the type, timing, scope and appropriate form of communication.

Most of the audit firms did not distinguish separate policies or procedures (as part of the audit firm's IQCS) that relate to communication with persons performing supervision during the audit of financial statements, which the audit firm justified by the fact that the above solutions were established in the audit firm's audit methodology (thus referring to the requirements of KSB 260). Similarly, most audit firms did not distinguish separate policies or procedures that relate to communication with the replacing and replaced audit firm.

PANA indicates the following irregularities in the area of "information and communication":

- in some of the audit firms, the designed reactions did not meet the requirement resulting from par. 34 letter e KSKJ 1 regarding the establishment of policies and procedures that take into account information, including the type, timing, scope and appropriate form of communication in the field of communication with third parties;
- in some of the audit firms, no policies or procedures were established in the IQCS documentation that relate to communication with persons performing supervision during the audit of financial statements in accordance with par. 34 letter e KSKJ 1;
- in some of the audit firms, no policies or procedures were established in the IQCS FA documentation that relate to communication with the replacing and replaced audit firm that would meet the requirements of par. 33 letter d point (ii) KSKJ 1 and Art. 82 of the Act.

3.2.9. Monitoring and correcting process

As part of the monitoring and correction process, audit firms established ongoing and periodic monitoring activities. Most audit firms included the above activities in the matrix of quality objectives, quality risks and responses to these risks in relation to separate 6 areas: corporate governance and leadership, relevant ethical requirements, acceptance and continuance of customer relationships and specific audit engagements, execution of audit engagements, resources, information and communication. In addition to the ongoing monitoring activities described above in the various subsections of this report, the audit firms established the following periodic monitoring activities:

- inspection of completed audit engagements;
- root cause analysis (RCA);

In addition, the audit firms belonging to the network were included in the program of global monitoring activities regarding the testing of the audit firm's IQCS in order to maintain the consistency of their international assumptions, methodology and comparability between countries.

All audit firms designed policies or procedures for a root cause analysis (RCA) program. In some of the audit firms, the program was not used in the previous system or was used only in relation to the execution of engagements, e.g. adjustments to the opening balance, the need to issue a new opinion to the same financial statement. In the new IQCS, based on information obtained from current monitoring activities, inspections of completed engagements, other sources, such as PANA inspection results, it is planned to identify areas related to audit quality problems and shortcomings identified in the audit firm's IQCS, and then design actions to determine the root cause of the weakness and implement appropriate corrective actions. The execution of the program is usually designed according to the following scheme:

1. Problem definition
2. Data collection
3. Determining Root Cause(s)
4. Corrective Actions
5. Monitoring and reporting.

In the audit firms belonging to the network, the inspection of completed audits is designed as a global procedure, performed once a year by partners outside the local audit firm. The persons carrying out inspections are the persons with appropriate experience (in the examination of engagements selected for inspection) who are partners from other audit firms (outside Poland) belonging to the network. In accordance with the provisions of the policies, the audit firms provide appropriate materials for inspectors in terms of taking into account the specific requirements of Polish legal regulations.

In most audit firms, the selection of engagements for inspection was planned in two stages, first by selecting a partner, then by selecting, most often, one engagement from the portfolio of the partner selected for inspection. When selecting a partner to be inspected, the following factors are taken into account: the results of the previous inspection of completed engagements, workload, whether he is a new employee or just promoted, whether he has risky engagements for the audit firm in his portfolio. The element of unpredictability is taken into account when choosing a partner.

The standard period of the inspection cycle for each partner in each audit firm was different and amounted to:

- once a year;
- once every three years;
- once every three years (unless the partner has a small portfolio of engagements, then once every four years);
- once every three, four or five years (determined individually for the partner);
- once every three years (unless the previous inspection had a high rating, then it is possible to extend the cycle to once every five years);
- once every four years;

- once every five years (unless there are high-risk engagements in the partner's portfolio, then once every three years).

In 40% of the analyzed audit firms, the period of the inspection cycle that was dominant for each partner was once every three years.

In 10% of the analyzed audit firms, controlling by PANA of the completed engagement of a given statutory auditor was treated as subjecting him to inspection of the completed engagement.

Corrective actions for a partner who received an unsatisfactory rating as a result of inspections of completed engagements include:

- additional review in the same inspection cycle of completed engagements;
- inspection of completed engagements in the following year;
- performing quality control of selected current engagements;
- elimination of riskier engagements from the partner's portfolio.

If in a given audit firm it was possible for a person in a managerial position to be the key statutory auditor, and the global program covered the inspection of completed engagements only in relation to partners, then the audit firm included such a KBR in a separate inspection of completed engagements in order to meet the requirement of par. 38 KSKJ 1 (with reference to the definition in par. 16 letter c KSKJ 1).

Audit firms established communication with staff regarding summaries of inspection results.

Most of the audit firms had policies or procedures in place for carrying out the audit firm's IQCS assessment. It was designed to make an assessment once a year on a fixed day.

In 20% of the analyzed audit firms, the descriptions of policies with regard to the annual evaluation of the IQCS, including the determination of the date for which the assessment will be performed, the description of sources constituting the basis for the assessment of the IQCS and the forms of presenting such an assessment were not specified and were under preparation.

PANA indicates the following irregularities in the area of "monitoring and correcting process":

- in some of the audit firms, the persons appointed to perform inspections of completed engagements did not have the qualifications of a statutory auditor, what may affect the risk of non-compliance with the requirement under par. 39 letter a KSKJ 1, according to which these persons have e.g. appropriate competencies for the effective performance of inspections;
- in 10% of the analyzed audit firms, PANA's control of the performed engagement of a given statutory auditor was treated as subjecting him to inspection of the completed engagement;

- in some of the audit firms, descriptions of policies with regard to the annual evaluation of the IQCS, including the determination of the date for which the evaluation will be performed, description of the sources constituting the basis for the evaluation of the IQCS and the forms of presenting such an evaluation were under preparation.

3.3. INDICATIONS FOR REMEDY ACTIONS

With regard to the IQCS documentation, audit firms should consider and ensure that:

- the IQCS documentation of the company is kept in Polish, including forms and other output documents being the products of applications and tools used in the company and used in the proper operation of the quality management system of the audit firm,
- there are no entries in the IQCS documentation indicating the superiority of documents available in the English version that are part of the IQCS documentation (this is in contradiction to Article 50(1) of the Act),
- all IQCS documentation is available for inspection by all personnel.

With regard to the “risk assessment process by the firm”, a component of IQCS, the audit firms should consider and ensure that:

- the matrix of quality objectives, quality risks and responses to these risks shows how and to what extent the estimated quality risks may adversely affect the achievement of quality objectives (i.e. present certain levels of assessed risk),
- they have designed and implemented templates used to document the requirements of KSKJ 2 and KSB 220(Z) in audits starting after January 1, 2023.

With regard to the “corporate governance and leadership”, a component of the IQCS, the audit firms should consider and ensure that:

- the final and operational responsibility for IQCS has been assigned to persons who are statutory auditors entered in the register;
- they have designed responses to quality risk related to the assessment of the audit firm’s management, that would also implement the requirements of par. 28 letter b KSKJ 1;
- they have in the matrix of quality objectives, quality risks and responses to these risks for this area sufficient responses to the assessed quality risks, in particular, depending on the size of the audit firm, they have an established code of conduct.

With regard to the “relevant ethical requirements” a component of the IQCS, audit firms should consider and ensure that:

- acceptance of declarations of independence submitted by members of the audit team and the audit firm prior to the commencement of the audit engagement is made in writing or electronically (within the meaning of the provisions of the Civil Code);

- the withdrawal period for the quality controller is at least 3 years for PIE financial statements audit engagement;
- they have appropriately designed in their IQCS responses to the risk of excessive familiarity in non-JPZ financial statements audits;
- they have sufficient and appropriate responses to the quality risk related to non-compliance with the requirements of Art. 4 and 5 of Regulation No. 537/2014;
- they have sufficient and appropriate responses to quality risks related to failure to meet the requirements of the Act (Article 64(1) of the Act, Articles 69-72 of the Act, Article 135 of the Act, Article 136 of the Act) and Regulation No. 537/2014.

With regard to the “acceptance and continuation of the relationship with the customer and specific audit engagements”, audit firms should consider and ensure that:

- in the matrix of objectives, quality risks and responses to these risks, there are appropriate and sufficient responses implementing the provisions of par. 30-1 of the KSKJ 1 with regard to the requirement to determine remuneration by the audit firm for audit services, non-audit assurance services and related services, based on labor intensity, the degree of complexity of the work and the required qualifications.

With regard to “the execution of engagement”, audit firms should consider and ensure that:

- designed responses to quality risk related to monitoring of rotation and withdrawal periods of quality controllers;
- in the policies relating to the quality control:
 - it is not indicated that the person performing the quality control cannot be the audit team member;
 - the manner of documenting the quality control in accordance with KSKJ 2 is designed;
- the audit methodology was updated with regard to the review by the partner responsible for the audit in accordance with KSB 220(Z);
- after closing the engagement files, they are not opened and modified.

With regard to the “resources”, audit firms should consider and ensure that:

- managers' variable remuneration should not depend on the financial results of the audit firm for services provided, as this may adversely affect the completeness of their timesheets and credibility of engagement efficiency reporting on a particular engagement recorded by them;
- in the IQCS documentation in the area of human resources, there is a clear identification and division of human resources into internal resources of the firm and resources obtained from outside, e.g. from the company's network or from service providers, in order to define requirements for these groups related to their competence, compliance with ethical requirements or scope of responsibility;

- they establish procedures for subcontractors not to play the role of the key statutory auditor;
- they have records of technological and intellectual resources.

With regard to “the information and communication”, audit firms should consider and ensure that:

- the designed reactions in the IQCS documentation meet the requirements of par. 34 letter e KSKJ 1 regarding the establishment of policies and procedures that take into account information, including the type, timing, scope and appropriate form of communication in the field of communication with third parties;
- the IQCS documentation defines policies or procedures that relate to communication with persons performing supervision during the audit of financial statements in accordance with par. 34 letter e KSKJ 1;
- policies or procedures have been established in the IQCS documentation that relate to communication with the replacing and replaced audit firm, which would meet the requirements of par. 33 letter d point (ii) KSKJ 1 and Art. 82 of the Act.

With regard to the area of "monitoring and correcting process", audit firms should consider and ensure that:

- persons carrying out inspections of completed engagements are persons with appropriate competences for the effective performance of monitoring activities;
- Including KBR’s engagement documentation for PANA's control does not extend the inspection cycle in the program of inspection of completed engagements for this KBR;
- they have descriptions of policies in relation to the annual evaluation of the IQCS, including the determination of the date for which the assessment will be performed, a description of the sources constituting the basis for the assessment of the IQCS and the form of presenting such an assessment.

4. THEMATIC REVIEW IN AUDIT FIRMS WITH STAFF (NO TOP12)

4.1. SUMMARY OF CONCLUSIONS

This chapter summarizes the conclusions from thematic review in 24 audit firms having personnel other than TOP12 firms. Table No 4 below additionally presents a breakdown of audit firms selected for thematic review by type of services provided and revenues generated for 2021.

Table No. 4. Structure of audit firms having personnel, selected for thematic audits.

Audit firms having personnel	Random selection	Checked themselves in for inspection	Total
Audit firms auditing financial statements of PIE (excluding audit firms included in the TOP 12)	1	3	4
Audit firms not auditing financial statements of PIE with revenues from assurance services in excess of PLN 500,000. achieved in 2021	5	4	9
Audit firms not auditing financial statements of PIE with revenues from assurance services up to PLN 500,000. achieved in 2021	9	2	11
Total	15	9	24

Source: PANA own study.

Over 70% of the audit firms in the analyzed group were limited liability companies, while the remaining part of the audit firms concerned business activities conducted by the statutory auditor on his own behalf and for his own account (3 audit firms), professional partnerships (2 audit firms) or companies run in the form of limited partnerships (2 audit firms).

On average, the personnel in the inspected audit firms generating revenues from assurance services above PLN 500,000 PLN was at the level of 8 statutory auditors and 10 assistants, including 2 apprentices. In audit firms with revenues below this level, the average personnel consisted of 2-3 statutory auditors and one assistant.

As part of the summary of the conclusions from the thematic review in the analyzed group of audit firms, it should be noted that as part of the implementation process, only in one audit firm (4%) lack of understanding and ignorance by the management of the firm of the requirements of KSKJ 1 was noted, including lack of consistency between the adopted policies and procedures, and the matrix of quality objectives, quality risks and responses to these risks developed by the audit firm.

It should be noted that more than half of the audit firms in the analyzed group based their IQCS on the documentation proposed by PIBR under the title "Exemplary IQCS documentation - new elaboration of PIBR for small audit firms". All of them used the proposed Excel file, being a matrix of quality objectives, quality risks and responses to these risks.

Subchapter 4.2 of this report describes the general findings identified in the individual audit firms, broken down into the following areas of the IQCS:

- (a) The firm's risk assessment process;
- (b) Governance and leadership;
- (c) Relevant ethical requirements;
- (d) Acceptance and continuance of client relationships and specific engagements;
- (e) Engagement performance;
- (f) Resources;
- (g) Information and communication; and
- (h) The monitoring and remediation process.

In each of the above-described areas of the IQCS, there were established from a dozen to several dozen requirements that the audit firm was obliged to comply with in relation to the new quality control standards, and the audit firm was obliged to take them into account, properly design and implement them in its internal quality control system. An excerpt from the policies and procedures regarding inspections of IQCS is available on the PANA website at the following link <https://pana.gov.pl/wp-content/uploads/2023/04/Wyciag-z-polityk-i-procedur-dotyczacych-kontroli-obszaru-systemu-kontroli-jakosci-firmy-audytorskiej.pdf> and allows for the identification of requirements broken down into individual areas of the IQCS.

For the purposes of preparing this report, PANA treated failure to design a given requirement in the audit firm's IQCS as an irregularity. In addition, PANA assessed the designed policies from the point of view of their adequacy and precision.

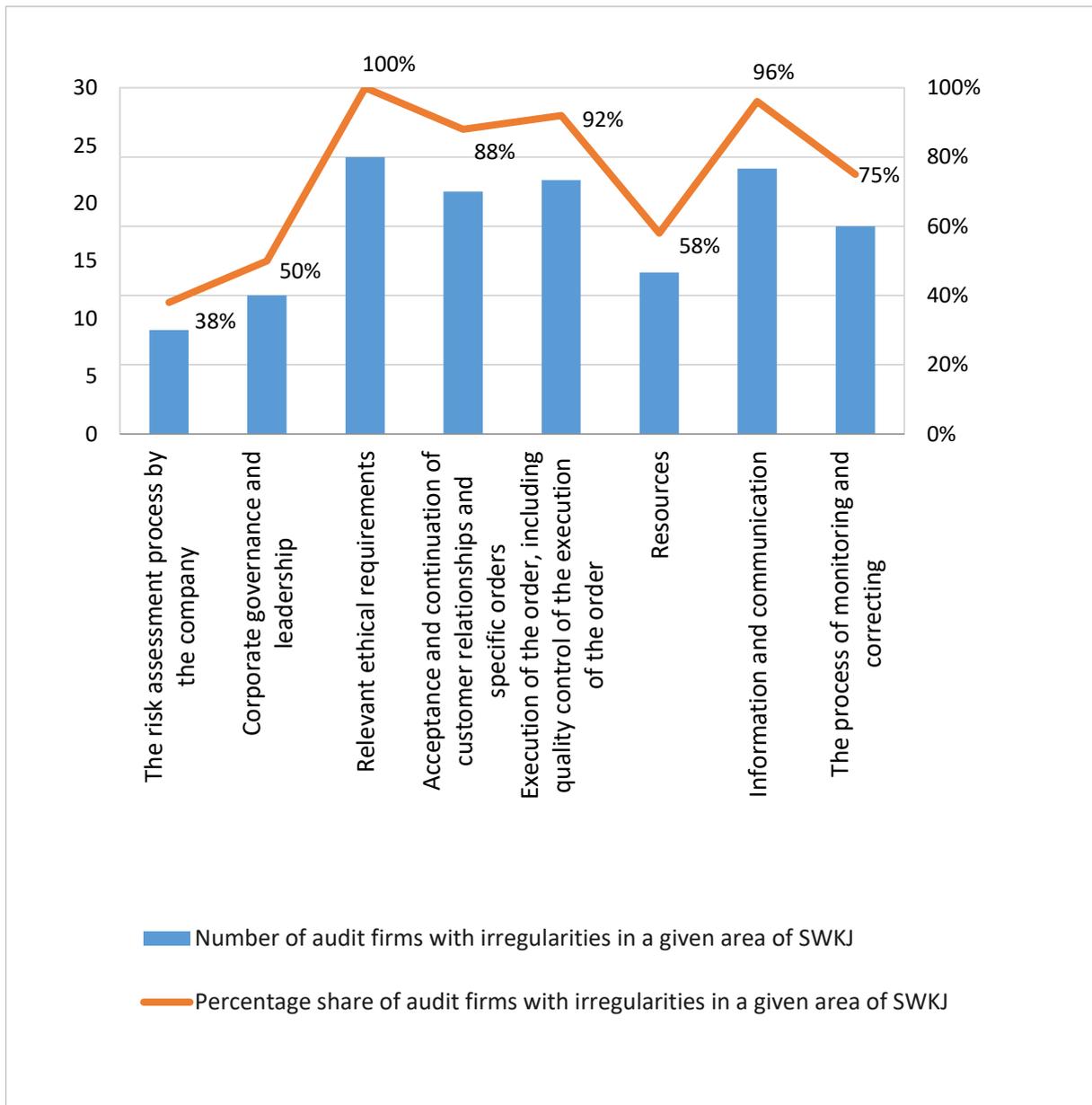
As part of the summary of the collected irregularities described in subchapter 4.2 of this report, it should be indicated that:

- in each area of the audit firms' IQCSs, it was found that the audit firms coped best with the area of the risk assessment process, which shows that audit firms had to change the approach in designing their quality management system, by focusing on achieving set quality goals, identifying quality risks related to these objectives and responding to these risks;
- in the majority of audit firms, irregularities related to the entire engagement execution process were identified (from compliance with relevant ethical requirements, acceptance of the engagement to its execution);
- no audit firm fully implemented requirements related to the information and communication area, which is a novelty in the quality control standards,

- ¾ of the audit firms did not design any monitoring activities in their IQCS or did it in an insufficient way and inconsistent with the requirements of the new quality control standards.

Chart 1. Below presents the number and percentage share of audit firms where irregularities were identified, broken down by individual areas of IQCS.

Chart 1. Number and percentage share of audit firms with irregularities in a given area of IQCS.



PANA's own elaboration

4.2. GENERAL FINDINGS FROM THEMATIC REVIEWS OF AUDIT COMPANIES WITH STAFF (WITHOUT TOP 12)

4.2.1. The firm's risk assessment process

With the exception of one audit firm in the analyzed group, the audit firms carried out the risk assessment process in accordance with the requirements of par. 23-27 KSKJ 1 and their results presented in the form of an Excel file as: a matrix of quality objectives, quality risks and responses to these risks.

More than half of the audit firms (54%) used the Excel spreadsheet proposed by PIBR, which is a matrix of quality objectives, quality risks and responses to these risks. The remaining audit firms had their own matrices of quality objectives, quality risks and responses to these risks, including two network audit firms (8%) which used the materials proposed by their networks.

As a result of the risk assessment process, none of the audit firms defined additional quality objectives or saw the need to define partial objectives.

It should be noted that over 70% of audit firms declared that they provided services in accordance with Art. 47 sec. 2 of the Act, however, 35% of them (which is 50% of this group of audit firms) **did not include any additional quality objectives, quality risks or responses to these quality risks in the matrix.**

The sample IQCS documentation proposed by PIBR contained a description of the scope of activities that the audit firm should undertake in order to obtain an understanding of the conditions, events, circumstances, actions or omissions that may adversely affect the achievement of quality objectives, which results directly from par. 25 KSKJ 1. Nevertheless, in more than half of the analyzed IQCS documentation of inspected audit firms, there were no descriptions summarizing the main findings in this regard, i.e. the nature and circumstances of the audit firm, or the type and circumstances of the engagements it performed.

As a result of the inspection, **irregularities were identified in 37.5% of the audit firms** in the area of "risk assessment process by the company", such as:

- 4% audit firms did not carry out at all the risk assessment process by the company, as a result of which the audit firm's documentation contained no matrix containing quality objectives, quality risk and designed responses to these risks;
- in 4% of audit firms, the created matrix of quality objectives, quality risks and responses to these risks was limited to only two points;
- in 8% of audit firms, quality objectives were not complete, for example, areas such as corporate governance and leadership or relevant ethical requirements were not included in the matrix of quality objectives, quality risks and responses to these risks, because FA did not identify quality risks in relation to them;

- in 4% of audit firms, in the matrix of quality objectives, quality risks and responses to these risks, responses were indicated, but these responses were not assigned to specific quality objectives and quality risks;
- in 4% of audit firms the quality objectives listed in the matrix of quality objectives, quality risks and responses to these risks were in fact not quality objectives, but reactions;
- in 4% of audit firms several quality risks were indicated in one position of the matrix and, at the same time, in the same position a group of responses to these quality risks was indicated. As a result, it was not known which response was adequate to which quality risk;
- in 4% of audit firms, the designed responses were the same in each case, which was an obvious mistake, as individual quality risks require different responses;
- in 4% of audit firms, in many points there were indicated responses to quality risks, which were either not attached to the firm's IQCS or did not apply to it at all;
- in 8% of audit firms in the matrix of quality objectives, quality risks and responses to these risks, the estimation of quality risk levels was not indicated;
- in 33% of audit firms not all designed responses to quality risks met the requirements of par. 8 KSKJ 1, i.e. they had details in terms of type, timing and scope.

4.2.2. Governance and leadership

As a result of the inspection, irregularities were found in 50% of audit firms in the area of "corporate governance and leadership", such as:

- **in 38% of analyzed audit firms, the allocation of roles and responsibilities for the IQCS was not correct** and not in accordance with par. 20 KSKJ 1 and art. 50 sec. 4 of the Act, which resulted from the following deficiencies:
 - ultimate responsibility or operational responsibility for the IQCS was assigned to a person who is not a statutory auditor,
 - operational responsibility for IQCS FA was not assigned;
 - operational responsibility for specific aspects of the quality management system was not assigned;
- in 29% of analyzed audit firms in the matrix of objectives, quality risks and responses to these risks:
 - some quality objectives were formulated as quality risks (applies to 4% of audit firms),
 - not all quality objectives were listed, in particular par. 28 letters b-e KSKJ 1 (concerns 4% of audit firms),
 - procedures and policies that do not exist in audit firms were referred to – e.g. code of conduct, methods of measuring quality in the firm (concerns 25% of audit firms).

4.2.3. Relevant ethical requirements

Most of the audit firms in the analyzed group identified an element of relevant ethical requirements in their IQCS and implemented the requirements of par. 29 KSKJ 1 and par. 34 letters a-c KSKJ 1. Audit firms unanimously declared that for this area few, if any changes were made resulting from the implementation of new standards.

As a result of the inspection, **irregularities were noted in 100% of the audit firms** in the area of "appropriate ethical requirements", such as:

- in 30% of the analyzed audit firms in the matrix of objectives, quality risks and responses to these risks:
 - procedures and policies that do not exist in the audit firms were invoked (applies to 17% of the audit firms),
 - procedures and policies were invoked that were not included in the IQCS documentation, e.g. template declarations of independence (concerns 13% of audit firms);
- in 13% of the analyzed audit firms, procedures and policies regarding relevant ethical requirements for service providers (which are used by the audit firms) were not recorded;
- in 42% of the analyzed audit firms, irregularities were identified in the templates of declarations of independence, such as:
 - no reference to closely related persons,
 - lack of a clause on criminal liability,
 - references to not updated requirements,
 - or not using at all the declaration on meeting the independence requirements referred to in Art. 69-73 of the Act by the audit firm prior to the audit;
- in 29% of the audit firms there were no considerations regarding the process of assessing the risk of non-compliance with Art. 70 sec. 1 of the Act, including designing possible responses to the above risk;
- in 21% of the audit firms there were no considerations on the process of estimating the risk of over-familiarity with the client for a given audit engagement, including defining clear criteria when the audit firm identifies the risk of over-familiarity and the description of responses constituting the mitigation of this risk;
- in 75% of the audit firms, no reaction was designed to determine the rotation and withdrawal periods for the engagement quality controller in accordance with par. 19-1 KSKJ 2;
- 67% of the audit firms a register of complaints and allegations was not established, including the option to submit complaints anonymously.

4.2.4. Acceptance and continuance of client relationships and specific engagements

Most of the audit firms identified in their IQCS the element of acceptance and continuance of customer relations and specific engagements. In this area, the audit firms implemented in their matrices primarily the requirements resulting from par. 30 KSKJ 1, par. 30-1 KSKJ 1 and par. 34 letter d KSKJ 1. It should be noted that most often the audit firms did not include in the IQCS documentation the requirements resulting from par. 30-1 KSKJ 1 in the scope of documenting the method of determining the audit fee in accordance with Art. 80 sec. 2 of the Act.

As a result of the inspection, **irregularities were found in 88% of the audit firms** in the area of "acceptance and continuation of customer relations and specific engagements", such as:

- the audit firms in their IQCS documentation referred to the designed responses to quality risk, such as: development of a business strategy, contract termination procedures, monitoring procedures related to the engagement acceptance and continuation process, but in fact these responses did not exist or they were not applied (applies to 25% of the audit firms);
- in the matrix of quality objectives, quality risks and responses to these risks, there was no reference at all to the area of "acceptance and continuation of customer relations and specific engagements", and the audit firms did not use engagement acceptance/continuation forms (applies to 4% of the audit firms);
- in 33% of the analyzed audit firms, irregularities were identified in the process of accepting and continuing the engagement, such as:
 - o allowing for acceptance of the engagement before completing the standard acceptance form (applies to 4% of the audit firms),
 - o the formal completion of the engagement acceptance form takes place after signing the audit contract (applies to 8% of the audit firms),
 - o lack of documenting in the engagement acceptance/continuation form who approved the engagement on behalf of the audit firm (applies to 4% of the audit firms),
 - o no form for continuation of the engagement (concerns 8% of the audit firms);
 - o lack of estimation of the customer's risk level (applies to 8% of the audit firms);
 - o lack of contact with the replaced audit firm before signing the audit agreement with the customer (applies to 4% of the audit firms);
- in 63% of the analyzed audit firms, irregularities were identified in customer/engagement acceptance/continuation forms, such as:
 - o in relation to customer identification (characteristics, industry, etc.) only one question was placed in the form (do you know the customer?) (applies to 4% of the audit firms),
 - o the assessment of the customer's internal control environment (including, for example, organizational structure, established corporate governance, business

model, method of financing) was not taken into account (refers to 58% of the audit firms);

- in 71% of the analyzed audit firms in relation to audit remuneration policy:
 - in the matrix of quality objectives, quality risks and responses to these quality risks, the audit firms did not indicate the objective specified in par. 30-1 KSKJ 1 regarding the determination of remuneration for the audit in accordance with Art. 80 sec. 2 of the Act and **did not specify the procedure for documenting the method of determining remuneration (applies to 42% of the audit firms)**,
 - the matrix of quality objectives, quality risks and responses to these quality risks did not refer to the requirements under par. 30-1 KSKJ 1, but there were policies and procedures in the audit firms for calculating remuneration for the audit (applies to 17% of the audit firms)
 - **irregularities were identified in the established policy of calculating remuneration for conducting the audit** (too general wording on the basis of which it was not possible to determine the method of calculating the fee, including the rates or budgets used, or the use of different hourly rates depending on the engagement without indicating how they were determined) (**concerns 13% of the audit firms**).

4.2.5. Engagement performance, including engagement quality control

As a result of the inspection, **irregularities were noted in 92% of the audit firms** in the area of "execution of the engagement, including the engagement quality control ", such as:

- audit firms in their IQCS documentation referred to the designed responses to quality risk, such as: procedures for team allocation and verification of KBR and team working time, procedures for planning the engagement and verification of differences in the team's opinions, or the procedure for archiving engagement files, but in fact they did not exist or were not used (applies to 21% of the audit firms);
- the updated requirements of KSB 220(Z) regarding the review of team work by the partner responsible for the engagement were not included in the procedure relating to engagement execution (refers to 21% of the audit firms);
- half of the audit firms had no policies or procedures for resolving differences of opinion between the KBR and the quality controller;
- the IQCS documentation did not have the established consultation policy (applies to 4% of the audit firms);
- the IQCS documentation provides for the possibility of entrusting subcontractors with the role of KBR in the audit (applies to 4% of the audit firms);
- in 13% of the audit firms, there was no established methodology for performing services, including policies and procedures for conducting audits, performing assurance services other than audits and related services referred to in Art. 64 sec. 1 point 2 of the Act;

- **in 79% of the inspected audit firms, no policy or procedure was noted for the creation of the audit files referred to in Art. 67 sec. 4 of the Act, files of assurance services other than audits, files of related services;**
- **in 58% of the inspected audit firms, no policy or procedure was noted for closing audit files, files of assurance services other than audits and files of related services;**
- in 13% of the inspected audit firms, the established policy of closing engagement files provided the possibility of opening and modifying the files after their closure;
- in 13% of the inspected audit firms, there were no data confidentiality procedures and data security procedures, including creating backups;
- **in 58% of the audit firms there were identified irregularities in the engagement quality control designed by the audit firms, such as:**
 - the criteria for including the engagement in the quality control process were inadequate for the profile and scope of activity of the audit firm (applies to 29% of the audit firms);
 - failure to establish an engagement quality control procedure in the IQCS (applies to 4% of the audit firm)
 - lack of designed forms to document the quality control, including:
 - forms ensuring that as part of the quality control, the quality controller performs all elements of the quality control as indicated in par. 25-26 KSKJ 2, as well as evaluates the elements required by Art. 8 sec. 5 of Regulation No. 537/2014, if the quality control concerns PIE's financial statements,
 - forms including requirement that the quality controller accepts responsibility for the documentation of the quality control and determines that the control is sufficient to enable an experienced practitioner, not previously associated with this engagement, to understand the nature, timing and extent of the procedures performed by the quality controller or persons assisting him, as well as understanding the conclusions drawn during the control,
 - forms containing the determination that documentation of quality control includes:
 - names of the quality controller and those who assisted in the quality control,
 - identification of the controlled documentation,
 - the basis for appointing the quality controller in accordance with par. 27 KSKJ 2,
 - notifications required in accordance with par. 26-27 KSKJ 2 and
 - date of completion of the quality control;
 - failure to specify safeguards regarding the risk of loss of objectivity by the quality controller (applies to 21%);
 - establishing in the IQCS documentation the possibility of performing quality control by audit firm employees who are not statutory auditors (applies to 4% of the audit firms).

4.2.6. Resources

Most of the audit firms identified an element of resources (human, technological and intellectual resources) in their IQCS.

In the area of human resources, in their matrixes of quality objectives, quality risks and responses to these risks, the audit firms implemented primarily the requirements resulting from par. 32 letters a-e KSKJ 1 and par. 56 KSKJ 1. The most important irregularities in this respect are presented below.

Most of the audit firms identified an element of technological and intellectual resources in their IQCS. In their matrices, the audit firms primarily implemented the requirements resulting from par. 32 letters f-g KSKJ 1. In part of the audit firms, it was observed that the IQCS did not specify which resources are used for the operation of the IQCS and which are used to execute engagements. Similarly, part of the audit firms had no established procedure to identify which resources were in-house and which were provided by the service provider. This therefore created uncertainty as to whether the audit firms had properly designed responses to quality risks related to the appropriate maintenance and use of these resources. In addition, it should also be noted that in half of the analyzed audit firms there was no inventory of technological resources and in 58% of audit firms there was no inventory of intellectual resources that would constitute the basis for the identification and management of these resources.

As a result of the review, **irregularities were noted in 58% of the audit firms** in the area of "resources", such as:

- in the analyzed 25% of the audit firms in the matrix of quality objectives, quality risks and responses to these quality risks:
 - quality objectives, quality risks and responses to these risks have not been designed at all (applies to 4% of the audit firms),
 - the designed responses to quality risks did not meet the response criteria, i.e. these were no policies or procedures, also they did not include descriptions of the timing and scope of the response (applies to 4% of the audit firms),
 - responses were planned that the audit firms do not actually perform (e.g. employee evaluation procedure, service provider selection procedure, procedure of executing engagements using subcontractors, periodic evaluation of experts and subcontractors, team allocation procedure) (applies to 17% of the audit firms);
- in 13% of the analyzed audit firms, no designed response to the risk of failure to comply with the mandatory professional training (obligatory professional development (ODZ)) was noted;
- in 29% of the analyzed audit firms, no designed response to the risk of non-compliance with the requirements under Art. 64 sec. 1 point 5 of the Act (par. 34-1 KSKJ 1) regarding the establishment of the remuneration policy was noted;

- in 8% of the analyzed audit firms, no designed response in the field of employee appraisal was noted.
- in half of the analyzed audit firms, there was no inventory of technological resources, and in 58% of FA there was no inventory of intellectual resources that would constitute the basis for identifying and managing these resources.

4.2.7. Information and communication

As a result of the inspection, **irregularities were found in 96% of the audit firms** in the area of "information and communication", such as:

- in the matrix of quality objectives, quality risks and responses to these risks:
 - quality risks and responses to these risks were not designed in the scope of par. 32 letter b KSKJ 1, i.e. the culture of the audit firm in order to recognize and strengthen the responsibility of the personnel for the exchange of information with the firm and with each other (applies to 4% of the audit firms);
 - quality risks and responses to these risks were not designed in the scope of par. 32 letter d KSKJ 1, i.e. communication with third parties (applies to 4% of the audit firms);
 - in the information and communication area, in the column for quality risks, "the audit firm's expectations" were entered (applies to 4% of the audit firms);
 - a number of procedures were designed that were not attached to the IQCS documentation (e.g. a data repository dedicated to key information, procedures for monthly meetings of persons responsible for the IQCS and with the personnel, information distribution and its contents approval policy, a set of instructions and information templates transferred between the auditor of the group and auditors of the part of the group, third party communication procedure) (applies to 21% of the audit firms);
- in 33% of the analyzed audit firms, the methods of communicating to the personnel and engagement teams the changes in the IQCS, conclusions and further actions resulting from the assessment of the IQCS were not established;
- **for quality risks related to communication with third parties, the audit firms designed responses that did not set out the rules for communicating with third parties with sufficient precision**, such as:
 - lack of a procedure for communicating with persons charged with supervision (applies to 50% of the audit firms),
 - lack of or incomplete regulations regarding the method of communication with PANA (applies to 92% of the audit firms);
 - lack of a fixed method of communication with the replacing or replaced audit firm (applies to 54% of the audit firms),
 - lack of procedures for the preparation and publication of a transparency report by the audit firm auditing PIE's financial statements and rules for including information in transparency reports (applies to 50% of such audit firms).

4.2.8. The monitoring and remediation process

As a result of the inspection, **irregularities were found in 75%** of the audit firms in the area of "monitoring and correcting process", such as:

- **in 29% of the analyzed audit firms, no mandatory procedure for inspection of completed engagements was designed, in this group 13% of the analyzed audit firms, no monitoring activities were designed in the IQCS at all;**
- in 17% of the analyzed audit firms, the current monitoring activities actually used in practice were not described in the IQCS;
- **in 75% of the analyzed audit firms, irregularities were identified in the area of inspection of completed engagements, such as:**
 - in 29% of the audit firms, no inspections of completed engagements were performed, as indicated above,
 - in 29% of the audit firms imprecise regulations were noted regarding frequency of inspections of completed engagements (no regulations or performed once every two years),
 - in 21% of the audit firms criteria were not specified for selecting engagements for inspection of completed engagements;
 - in 17% of the audit firms, the criterion of unpredictability was not included in the criteria for selecting documentation for inspection of completed engagements of the partner responsible for the engagements;
 - in 21% of the audit firms there are no procedures that require that the monitoring persons have the appropriate competences and time and relating to the objectivity of these people, or the inspection is carried out by the person ultimately responsible for the audit firm's IQCS;
- in 29% of the analyzed audit firms, the process of investigating the root cause was not designed;
- in 17% of the audit firms, the channels of communication between the person to whom operational responsibility for the IQCS was delegated and the person to whom ultimate responsibility was assigned, or the ongoing communication related to the process of monitoring and correcting between persons involved in this process, were not specified;
- in 46% of the audit firms, the IQCS did not regulate the moment in time the assessment of the IQCS is performed;
- in half of the audit firms, it was not considered and designed who and how would evaluate the persons responsible for the IQCS.

4.3. INDICATION OF REMEDIAL ACTION

With regard to the IQCS documentation of the audit firm that has personnel, the audit firm should consider:

- in the area of "firm's risk assessment process":
 - whether it carried out and documented the risk assessment process, which results in creating a matrix containing quality objectives, quality risks and designed responses to these risks,
 - whether the created matrix is complete in terms of mandatory quality objectives (par. 28-33 KSKJ 1) and specific responses (par. 34 and 34-1 KSKJ 1),
 - whether the matrix indicates the levels of quality risk assessment,
 - whether the matrix shows the links between quality objectives, quality risks and responses to these risks,
 - whether the designed responses to quality risks in the matrix meet the requirements of par. 8 KSKJ 1, i.e. they include details in terms of type, timing and scope,
 - whether the policies and procedures functioning in practice in the audit firm, which are in fact responses to quality risks, were included in the matrix of quality objectives, quality risks and responses to these risks;
- in the area of "corporate governance and leadership":
 - whether the assignment of roles and responsibilities for IQCS is correct and in accordance with par. 20 KSKJ 1 and art. 50 sec. 4 of the Act,
 - whether the matrix of objectives, quality risks and responses to these risks refers to the procedures and policies that exist in practice in the audit firm;
- in the area of "relevant ethical requirements":
 - whether the matrix of objectives, quality risks and responses to these risks refers to the procedures and policies that are in practice used in the audit firm,
 - whether the audit firm developed procedures or policies regarding relevant ethical requirements for service providers, if the audit firm uses their services,
 - whether the templates of independence confirmations are correct,
 - whether responses to the risk of non-compliance with art. 70 sec. 1 of the Act require designing,
 - whether the audit firm referred in its IQCS to the risk of over-familiarity with the client in a given engagement, including defining clear criteria when the audit firm identifies the risk of over-familiarity, along with a description of the responses constituting the mitigation of this risk,
 - whether the audit firm designed responses to determine the rotation and withdrawal periods for the quality controller in accordance with par. 19-1 KSKJ 2,
 - whether it established a register of complaints and allegations, including the option to submit complaints anonymously.

- in the area of "acceptance and continuance of client relationships and specific engagements":

- whether the matrix of objectives, quality risks and responses to these risks refers to the procedures and policies that exist in practice in the audit firm;
- whether the audit firm uses customer/engagement acceptance/continuation forms as a response to quality risk,
- whether the audit firm takes measures against the risk of engagement acceptance before completing the accepted engagement acceptance form,
- whether the audit firm takes measures against the risk of formal completion of the engagement acceptance form after signing the audit contract,
- whether the audit firm documents in the engagement acceptance/continuation form who approved the given engagement on behalf of the audit firm,
- whether the audit firm documents the level of assessed risk for the customer in the customer acceptance form,
- whether the audit firm makes contact with the previous audit firm before signing the audit contract with the customer,
- whether the content of inquiries in the customer /engagement acceptance/continuation forms meets the new requirements of KSKJ 1,
- whether in the matrix of quality objectives, quality risks and responses to these quality risks, the audit firm indicated the objective specified in par. 30-1 KSKJ 1 regarding the determination of remuneration for the audit in accordance with art. 80 sec. 2 of the Act and whether it specified the procedure for documenting the method of determining the remuneration,
- whether the agreed audit remuneration calculation policy contains clear wording on the basis of which it is possible to determine the method of calculating the price, including confirmation of the rates or budgets used;

- in the area of "engagement performance, including engagement quality control":

- whether the matrix of objectives, quality risks and responses to these risks refers to the procedures and policies that are used in practice in the audit firm,
- whether in the procedure relating to engagement performance the requirements of KSB 220(Z) were included concerning review of the team's work by the engagement partner,
- whether there are policies or procedures in the IQCS for resolving differences of opinion between KBR and the quality controller,
- whether consultation policies were established in the IQCS documentation,
- whether service performance methodology was established, including policies and procedures for performing audits, performing assurance services other than audits, and related services.
- whether policies or procedures were established for the creation of audit files referred to in art. 67 sec. 4 of the Act, files of assurance services other than audits, files of related services;
- whether policies or procedures were established to close audit files, non-audit assurance engagement files, and related service files,

- whether an engagement file closure policy was established, including safeguards against the possibility of opening and modifying the engagement files after they have been closed,
 - whether the audit firm designed data confidentiality procedures and procedures for maintaining data security, including creating backups,
 - whether the audit firm designed the engagement quality review, if in particular, the audit firm established clear criteria for selecting the engagement to be included in the quality control, if the audit firm designed the manner of documenting the quality control, if the audit firm defined the safeguards regarding the risk of loss of objectivity by the quality controller, if the audit firm established in the IQCS documentation that the engagement quality control can be performed only by statutory auditors;
- in the area of "resources":
- whether the matrix of objectives, quality risks and responses to these risks refers to the procedures and policies that are used in practice in the audit firm,
 - whether responses to the risk of non-compliance with mandatory professional training (obligatory professional development (ODZ)) were designed,
 - whether responses to the risk of non-compliance with the requirements under art. 64 sec. 1 point 5 of the Act (par. 34-1 KSKJ 1) regarding the establishment of the remuneration policy were designed,
 - whether responses as regards employee appraisal were designed,
 - whether an inventory of technological and intellectual resources was planned, which would constitute the basis for identifying and managing these resources;
- in the area of "information and communication":
- whether the matrix of objectives, quality risks and responses to these risks refers to the procedures and policies that are used in practice in the audit firm,
 - whether the method of communicating to the personnel and engagement teams changes in the IQCS, conclusions and further actions resulting from the assessment of the IQCS was established,
 - whether for quality risks related to communication with third parties, the audit firm designed responses that sufficiently set out the rules for communicating with third parties, such as: persons charged with supervision, PANA, the replacing or replaced audit firms,
 - whether the audit firm established procedures for the preparation and publication of the transparency report in case it accepts PIE's financial statements audits;
- in the area of "the monitoring and remediation process":
- whether the audit firm designed a mandatory procedure for inspection of completed engagements, including:
 - regulations regarding the frequency of inspections of completed engagements,

- clear criteria for the selection of engagements to be inspected as completed engagements,
 - taking into account the criterion of unpredictability when selecting documentation for inspection of completed engagements of a given partner,
 - choosing the monitoring persons who have appropriate competences and time and preparing procedures relating to objectivity of these people,
- whether the audit firm described in the IQCS documentation the current monitoring activities used in practice,
 - whether a root cause investigation process was designed,
 - whether communication channels were defined between the person to whom operational responsibility for the IQCS had been delegated and the person to whom ultimate responsibility had been assigned, or if ongoing communication related to the monitoring and correcting process between persons involved in this process was designed,
 - whether it is regulated for what moment in time the IQCS assessment is to be performed,
 - whether it was considered and designed who and how would assess the persons responsible for the IQCS.

5. THEMATIC REVIEW IN AUDIT FIRM WITHOUT PERSONNEL

5.1. SUMMARY OF CONCLUSIONS

Due to the possibility of using a significant scalability of its internal quality control system, it was decided to single out a specific group of entities (without personnel) in the report on thematic inspections. The analysis covered 8 audit firms of this type. 62% of them were business activities conducted by the statutory auditor on his own behalf and for his own account, and 38% of the analyzed group were limited liability companies, in which there was one statutory auditor who was also the owner and manager of the entity.

The lack of personnel in the audit firm meant a significant reduction in the requirements of the KSKJ 1, KSB 220(Z) standards due to the lack of necessity (after prior consideration by the audit firm) to determine some of the quality objectives, quality risks and responses to these quality risks. This refers to areas such as:

- in the area of corporate governance and leadership, the requirements resulting from par. 28 letters a-c KSKJ 1;
- in the area of relevant ethical requirements, the requirements of par. 29 letter a KSKJ 1 relating to the staff and the procedures for obtaining annual independence confirmations from the staff (resulting from par. 34 letter b of the KSKJ 1);
- in the area of engagement performance, the requirements resulting from par. 31 letters a-c KSKJ 1, and limited to ensuring that the owner of the audit firm who is the engagement statutory auditor fulfills its responsibilities, including ensuring sufficient and appropriate involvement throughout the engagement, exercising appropriate professional judgment and, where applicable due to the nature of the engagement, professional skepticism;
- in the area of resources, the requirements resulting from par. 32 letters a-b KSKJ 1 relating to human resources (employing, developing and maintaining);
- in the area of information and communication, the requirements resulting from par. 33 letters b-c KSKJ 1 relating to communication within the company.

It should be noted that **none of the audit firms took full advantage of the possibility of limiting the above requirements of KSKJ 1, KSB 220 (Z)** and these entities retained quality objectives, quality risk and designed responses to quality risks that relate to personnel. Only one audit firm partially identified some requirements that the audit firm considered not applicable.

All audit firms in the analyzed group based their IQCS on the documentation proposed by PIBR under the title "Exemplary IQCS documentation - new PIBR study for small audit firms". Most of them did it without the necessary adaptation of this documentation to the specifics of their activity and did not supplement it with the forms used in it or their own, existing procedures in use. The above approach often led to an incorrect design (and, as a result, implementation)

of the IQCS of the audit firm, which was not adapted to the size and type of business conducted.

The next subchapter of this report presents the main findings broken down by individual areas of the audit firms' IQCSs.

5.2. GENERAL FINDINGS FROM THEMATIC INSPECTIONS IN AUDIT FIRMS WITHOUT STAFF

5.2.1. General roles and responsibilities for the audit firm's IQCS.

As a rule, in an audit firm without personnel, the owner of the audit firm who is the statutory auditor is the person ultimately responsible for the IQCS of the audit firm. The owner also assumes operational responsibility for the quality management system as well as operational responsibility for specific aspects of the quality management system, including compliance with independence requirements and the monitoring and correction process, which is in line with par. 20 KSKJ 1. At the same time, due to its size, the audit firm should refer to the risk of self-control and assign (periodical) monitoring activities to the service provider (an external person).

It should be pointed out that **only in 25% of the analyzed audit firms the allocation of roles and responsibilities for the IQCS was correct** and in accordance with par. 20 KSKJ 1 and art. 50 sec. 4 of the Act.

The irregularities in this respect were as follows:

- in 50% of cases, the audit firm owner was assigned to perform periodic monitoring activities (as part of the monitoring and correcting process) or the IQCS documentation did not specify who would be assigned to this role;
- in 25% of cases, operational responsibility for IQCS was not assigned, as well as operational responsibility for specific aspects of the quality management system.

5.2.2. The firm's risk assessment process

As a general rule, the level of staffing does not affect the risk assessment process by the firm. Therefore, the findings in this regard should be similar to the findings made in the analysis of the audit firms with personnel described in Chapter 4 of this report.

With regard to the above process, the following irregularities are indicated:

- not all designed responses to quality risks met the requirements of par. 8 KSKJ 1, i.e. they did not have details in terms of type, timing and scope.
- 50% of the audit firms declared the **provision of services under art. 47 sec. 2 of the Act** (mainly bookkeeping), but **only one of them included the related quality risks** in the matrix of quality objectives, quality risks and responses to these quality risks;
- none of the audit firms took full advantage of the possibility to reduce the requirements of KSKJ 1, KSB 220 (Z) related to personnel;

- the sample documentation proposed by PIBR contained a description of the scope of activities that the audit firm should undertake in order to obtain an understanding of the conditions, events, circumstances, actions or omissions that may adversely affect the achievement of quality objectives. Nevertheless, in 75% of the IQCS documentation of individual audit firms there were no descriptions summarizing the main findings in this regard, i.e. the nature and circumstances of the audit firm, or the type and circumstances of the engagements it performed.

5.2.3. Governance and leadership

In terms of corporate governance and leadership, the standards mention par. 28 KSKJ 1 regarding the obligation of the audit firm to establish quality objectives related to this area.

It should be noted that **none of the audit firms in the risk assessment process performed by the company decided to assess that some of the quality objectives in the area of corporate governance and leadership did not apply to it.** The audit firms designed responses to the quality risks associated with each quality objective for this area, including the quality objective relating to the audit firm's culture despite having no personnel. It should also be noted that the identified quality risks described in the matrix of objectives, quality risks and responses to these quality risks were general and often described as denying the achievement of individual quality objectives.

As a result of the inspection of the above area, **no specific risks resulting from running a sole proprietorship were noted**, for example:

- the audit firm not consider whether, as the owner, from the point of view of strategic decisions and activities (including decisions regarding financial and operational matters), it does not show behavior that could indicate a lack of sufficient commitment to quality. In the context of corporate governance and leadership, this may result in a quality risk that time is allocated to a greater extent to services other than assurance, e.g. bookkeeping, which may adversely affect the quality of assurance engagements;
- the one-person audit firm assigns ultimate and operational responsibility for the IQCS, operational responsibility for specific aspects of the IQCS, including compliance with independence requirements and the monitoring and correcting process. Therefore, in a sole proprietorship there is a risk of self-control. As part of the quality risk response, the audit firm should determine to what extent external involvement will be necessary in this case;
- par. 28 letter e KSKJ 1 refers to the planning, acquisition, allocation of resources, including financial resources, consistently with the company's commitment to quality. The above means that even in a one-person audit firm, there may be quality risks that may adversely affect the achievement of the above quality objective, such as:
 - o the risk of insufficient financial resources for execution of accepted engagements including the risk of counterparty insolvency;

- the risk of insufficient human resources to carry out engagements (resulting from accepting too many engagements, uneven distribution of engagements over time, temporary inability of the owner to work);
- the risk of insufficient intellectual and technological resources (resulting from loss, theft, destruction of equipment, programs that are not updated).

5.2.4. Relevant ethical requirements

In the area of relevant ethical requirements (after prior consideration), the audit firm could consider as inadequate the requirements of par. 29 letter a KSKJ 1 relating to the staff and the procedures for obtaining annual statements from the staff confirming compliance with the independence requirements (resulting from par. 34 letter b KSKJ 1).

As a general rule, in an unstaffed audit firm, the firm should design quality objectives, quality risks and responses to those risks that address:

- an audit firm (resulting from par. 29 letter a of KSKJ 1), such as:
 - references to the application of the IESBA Code of Ethics (Chapters 300 to 399),
 - references regarding the independence of the audit firm (including the statutory auditor) resulting from the IESBA Code of Ethics (Chapters 400 to 990), in particular a description of how to assess the risk of excessive familiarity with the customer,
 - references resulting from the Act (Article 67(1) of the Act, Article 67(7) of the Act, Articles 69-73 of the Act).
- service providers (resulting from par. 29 letter b of the KSKJ 1) in terms of understanding and fulfilling ethical requirements that apply to them;
- designing a mandatory reaction resulting from par. 34 letter a KSKJ 1 relating to the method of identifying and assessing threats to compliance with the applicable ethical requirements and how to respond to them;
- designing a mandatory reaction resulting from par. 34 letter c KSKJ 1 and the provisions of the Act relating to the establishment of policies and procedures for dealing with complaints and allegations, including the establishment of a register of complaints and violations;
- establishing procedures for counteracting money laundering and financing of terrorism under par. 34-3 KSKJ 1.

As a result of the review, the following were not noted for some of the audit firms in their IQCS documentation:

- considerations regarding the process of assessing the risk of non-compliance with Art. 70 sec. 1 of the Act, including possible responses to the above risk (applies to 62% of the audit firms),
- consideration of the process of assessing the risk of over-familiarity with the customer for a given engagement, including defining clear criteria when the audit firm identifies

the risk of over-familiarity and a description of the responses that mitigate this risk (applies to 75% of the audit firms),

- designing responses to determine the rotation and withdrawal periods for the engagement quality controller in accordance with par. 19-1 KSKJ 2 (applies to 100% the audit firms);
- establishing a register of complaints and allegations, including the possibility of submitting complaints anonymously (concerns 50% of the audit firms);
- inclusion in the IQCS of the templates of independence confirmations to be submitted by the audit firm and members of the audit team (KBR) for specific engagements (applies to 50% of the audit firms).

5.2.5. Acceptance and continuance of client relationships and specific engagements

In the area of acceptance and continuation of customer relations and specific engagements, quality objectives, quality risks and responses to those quality risks that could be excluded from the IQCS of the audit firm due to the size of the firm (i.e. lack of staff) have not been identified. The documentation of IQCS of the audit firm in this area should be designed similarly to the firms that have such personnel.

As a result of the inspection, the following irregularities were identified:

- audit firms in their documentation of IQCS referred to designed responses to quality risk, such as developing policies and procedures for accepting additional engagements for existing customers or developing a business strategy, but in fact they did not have these policies and procedures (applies to 75% of the audit firms);
- in the matrix of quality objectives, quality risks and responses to these quality risks, the audit firms did not indicate the objective specified in par. 30-1 KSKJ 1 regarding the determination of remuneration for the audit in accordance with Art. 80 sec. 2 of the Act and **did not specify the method of documenting the method of determining remuneration** (applies to 75% of the audit firm);
- the audit firms did not have a form designed for the engagement continuation and did not use such a procedure at all when continuing the engagement (applies to 1 audit firm).

5.2.6. Engagement performance, including engagement quality control

As a general rule, in an audit firm without personnel, the firm should design quality objectives, quality risks and responses to those risks that address:

- ensuring that the owner of the audit firm being the engagement statutory auditor fulfills its responsibilities, including ensuring sufficient and appropriate involvement throughout the engagement, exercising appropriate professional judgment and, where applicable to the nature of the engagement, professional skepticism (paragraph 31 letters a-c KSKJ 1);

- undertaking consultations on difficult or contentious matters arising from par. 31 letter d KSKJ 1;
- the manner of resolving differences of opinion between the statutory auditor and the engagement quality controller resulting from par. 31 letter e KSKJ 1;
- designing a reaction resulting from Art. 66 sec. 1 of the Act, that the audit firm appoints at least one key statutory auditor for each audit, guided by the need to ensure high quality of the audit and meet the independence and competence requirements enabling the proper conduct of the audit;
- designing a reaction resulting from Art. 66 sec. 2 of the Act that the audit firm provides the key statutory auditor with appropriate resources, including a team performing the audit, having the competence and capabilities necessary to properly perform the respective audit;
- designing a reaction resulting from Art. 66 sec. 3 of the Act that KBR actively participates in the audit;
- designing a reaction resulting from Art. 66 sec. 4 of the Act that KBR and the audit firm allocate sufficient time and resources to properly conduct the audit;
- establishing a policy or procedure resulting from par. 34 letter f KSKJ 1, which refers to the engagement quality control, in particular the design of clear criteria (adequate to the audit firm), based on which the audit firm determines for which audits or other engagements the quality control is an appropriate response to the quality risk;
- establishing a policy or procedure for conducting audits, performing assurance services other than audits and related services resulting from Art. 64 sec. 1 point 2 of the Act (par. 34-1 KSKJ 1);
- establishing a procedure for the preparation of customer documentation in accordance with Art. 67 sec. 3 of the Act and creating audit files in accordance with Art. 67 sec. 4 of the Act;
- policy or procedure for the proper maintenance and storage of audit documentation (paragraph 31 letter f KSKJ 1), including the establishment of a policy or procedure for closing audit files not later than 60 days after the date of preparation of the audit report and storing it for a period of at least 8 years from the date of their closure (Article 67 sec. 5-6 of the Act).

As a result of the inspection of the above area, the following irregularities were identified:

- audit firms in their documentation of IQCS referred to the designed responses to quality risk, such as: the procedure for allocating sufficient working time to the key statutory auditor, the procedure for planning the engagement, the procedure for verifying the differences between planning and execution of the engagement, the procedure for using experts, the procedure for archiving audit files, but in fact they did not have these procedures (applies to 62% of the audit firms);

- the audit firms did not specify the method of resolving differences of opinion between the statutory auditor and the engagement quality controller (applies to 62% of the audit firms);
- **in 50% of cases, the audit firms did not specify the selection criteria for engagements to undergo the quality control or the described criteria were inadequate to the nature of the audit firm's activity;**
- the audit firms did not establish policies or procedures for the preparation of customer records in accordance with Art. 67 sec. 3 of the Act and creating audit files in accordance with Art. 67 sec. 4 of the Act (applies to 88% of the audit firms);
- the audit firms did not establish policies or procedures for the proper maintenance and storage of audit documentation, including **lack of policies or procedures for closing engagement files (75% of the audit firms);**
- in 25% of the audit firms the introduced rules for closing audit files did not protect those files from modification.

5.2.7. Resources

In the area of resources (after prior consideration), the audit firm could consider the requirements under par. 32 letter a-b KSKJ 1 relating to human resources.

As a general rule, an audit firm without personnel should design quality objectives, quality risks and responses to those risks that address:

- acquiring individuals from external sources in a situation when there is such a need in order to enhance the operation of IQCS or performance of engagements (par. 32 letter c of the KSKJ 1);
- ensuring that the owner of the audit firm, who is a statutory auditor has the appropriate competences and capabilities, including sufficient time to consistently perform engagements that meet the quality requirements (paragraph 32 letter d KSKJ 1), while meeting the requirements of Art. 66 of the Act;
- determining the need for persons, including service providers for the proper operation of IQCS, who have appropriate competences and capabilities, including time to perform such activities (par. 32 letter e KSKJ 1, paragraph 32 letter h KSKJ 1);
- technological resources, including their acquisition, implementation, maintenance and use (par. 32 letter f KSKJ 1);
- intellectual resources, including their acquisition, implementation, maintenance and use, as well as ensuring consistency with professional standards and applicable legal and regulatory requirements (paragraph 32 letter g KSKJ 1).

As a result of the inspection of the above area, the following irregularities were identified:

- in the matrix of quality objectives, quality risks and responses to these risks, procedures relating to personnel were designed (applies to 100% of the audit firms);

- in the scope of **technological resources**, responses related only to the provision of an appropriate IT infrastructure. The documentation of IQCS of the audit firms did not refer to the issue of proper maintenance and use of these resources (applies to 50% of the audit firms);
- in the scope of intellectual resources, the designed responses did not refer to the proper maintenance and use of resources, including ensuring their ongoing updating (applies to 50% of the audit firms);
- in 62% of the audit firms there was no inventory of technological and intellectual resources, which would constitute the basis for identifying and managing these resources.

5.2.8. Information and communication

In the area of information and communication (after prior consideration), the audit firm could consider the requirements of par. 33 letter b-c KSKJ 1 relating to communication within the firm.

As a general rule, in an audit firm without personnel, the firm should design quality objectives, quality risks and responses to those risks that address:

- identification and description of the information system in IQCS of the audit firm, including in particular a description of the processes and tools used to register, process, use and archive information relevant to the implementation of individual tasks (paragraph 33 letter a of KSKJ 1);
- establishing communication with service providers;
- establishing communication with third parties (taking into account the type, timing, scope and appropriate form of communication), in particular:
 - with persons performing supervision during performing the audit of financial statements;
 - with PANA regarding:
 - information on revenues from assurance services and related services performed in accordance with national professional standards,
 - revenue forecasts for a given year and subsequent calendar years,
 - notifications of changes to the data contained in the register of audit firms,
 - information on termination of the audit agreement,
 - information resulting from art. 90 of the Act or resulting from inspections conducted by PANA in the audit firm;
 - with the replacing audit firm providing access to all information about the audited entity and the last audit of this entity;
 - with the replaced audit firm in order to obtain information on the audited entity and the last audit of this entity.

As a result of the review of the above area, the following irregularities were identified:

- in the matrix of quality objectives, quality risks and responses to these risks, in the quality risk column, "expectations of the audit firm" were entered instead of the estimated quality risks related to this area, as well as procedures were mentioned that were ultimately not recorded in the documentation of IQCS of the audit firm (applies to 50% of the audit firms);
- for quality risks related to communication with third parties, the audit firms designed responses that were not sufficient to set out the rules for communicating with third parties, such as:
 - lack of procedure for communicating with persons performing supervision (75% of the audit firms);
 - lack or incomplete regulations regarding the method of communication with PANA (applies to 100% of the audit firms);
 - lack of a fixed method of communication with the replacing or replaced audit firm (applies to 38% of the audit firms).

5.2.9. The monitoring and remediation process

As a rule, in an audit firm without personnel, the owner of the firm is responsible for the monitoring and correction process, as already mentioned in subchapter 5.2.1 of this document.

In the process of monitoring and correcting, we separate ongoing and periodic monitoring activities. In accordance with the explanations contained in par. A139 KSKJ 1, ongoing monitoring activities are usually routine activities, embedded in company processes and performed on a real-time basis, reacting to changing conditions. It follows that ongoing monitoring activities are carried out on an ongoing basis by the audit firm, while in an audit firm without personnel, ongoing monitoring activities will actually be carried out by the owner of the firm.

However, due to the threats to objectivity (paragraph A155 KSKJ 1), the implementation of periodic monitoring activities should be carried out by an external person (service provider). This type of monitoring activities, constituting the basis for assessing the IQCS of the audit firm, should be performed at least once a year. Periodic monitoring activities include, for example, the mandatory inspection of completed engagement files.

As a result of the inspection of the above area, the following findings were identified:

- **38% of the audit firms did not design the inspection of completed engagements files at all;**
- one audit firm designed periodic monitoring activities by a person outside the firm once every three years;
- **in 50% of the audit firms, the following arrangements were not recorded in the documentation of IQCS regarding:**
 - **what is the frequency of inspections of completed engagements;**

- **how often the statutory auditor responsible for the engagement chosen for inspection is selected;**
- **what are the criteria for selecting completed engagements once the statutory auditor responsible for the engagement has been selected;**
- **62% of the audit firms did not design a mandatory root cause investigation procedure in the monitoring and correcting process;**
- in 38% of the audit firms, the documentation did not specify the moment when the IQCS of the audit firm would be assessed.

5.3. INDICATION OF REMEDIAL ACTION

With regard to the documentation of IQCS of the unstaffed audit firms, the audit firm should consider:

- **adjusting the documentation to the specifics and size of its business by:**
 - **the possibility of reducing the requirements of KSKJ 1 and KSB 220 (Z) due to lack of personnel;**
 - consideration of specific quality risks arising from running a sole proprietorship;
 - taking into account additional quality risks in the situation of providing services under Art. 47 sec. 2 of the Act;
- whether the audit firm correctly **assigned roles and responsibilities for IQCS** in accordance with par. 20 KSKJ 1 and art. 50 sec. 4 of the Act, while referring to the risk of self-control;
- in the risk assessment process by the firm:
 - failure to meet the requirement of Art. 70 sec. 1 of the Act, including designing possible responses to the above risk,
 - the risk of excessive familiarity with the customer in a given engagement, including defining clear criteria identifying the risk of excessive familiarity with the customer and designing responses constituting the mitigation of this risk,
 - designing a reaction to determine the rotation and withdrawal periods for the quality controller in the engagement in accordance with par. 19-1 KSKJ 2;
 - establishing a register of complaints and allegations, including the possibility to submit complaints anonymously;
- in the area of acceptance and continuation of customer relations and specific engagements:
 - in the matrix of quality objectives, quality risks and responses to these quality risks of FA, indication of the objective specified in par. 30-1 KSKJ 1 regarding the **determination of remuneration for the audit in accordance with Art. 80 sec. 2 of the Act and specify the method of documenting this process,**
 - establishing a procedure for the continuation of the engagement (filling in the continuation of the engagement forms), if it has not been established so far;

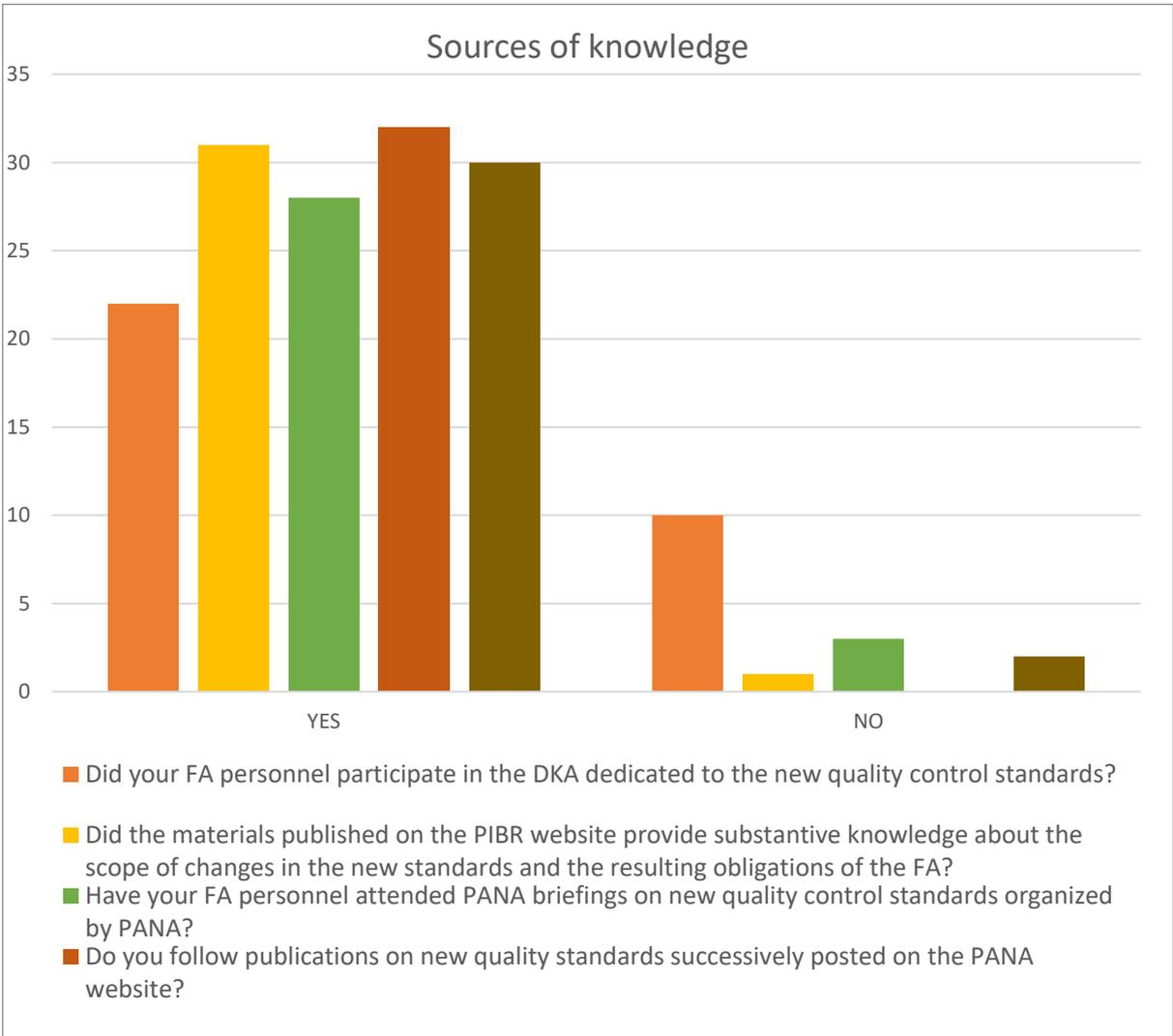
- in the area of engagement performance:
 - determining the manner of resolving differences of opinion between the statutory auditor and the engagement quality controller,
 - **establishing clear criteria for the selection of a given engagement for quality control, adequate to the size and scope of the audit firm's activities,**
 - establishing a policy or procedure for the preparation of customer documentation in accordance with Art. 67 sec. 3 of the Act and creating audit files in accordance with Art. 67 sec. 4 of the Act,
 - establishing a policy or procedure for the proper maintenance and storage of engagement documentation, including establishing a policy or procedure for closing files to protect closed records against loss or possible modification;
- in the area of technological and intellectual resources, do the designed responses in the matrix of quality objectives, quality risks and responses to these risks also refer to the issue of appropriate maintenance and use of these resources, as well as having an inventory of these resources (because it is the basis for identifying and managing these resources);
- in the area of information and communication, whether the designed responses related to communication with third parties fully meet the requirements of KSKJ 1;
- in the process of monitoring and correcting whether:
 - **it was designed to perform periodic monitoring activities by an external person (service providers),**
 - **it was designed to perform periodic, at least annually, monitoring activities,**
 - **it was designed to inspect completed engagement files, including defining:**
 - **what is the frequency of inspections of completed engagements,**
 - **how often the certified auditor responsible for the engagement for inspection is selected,**
 - **what are the criteria for selecting completed engagements once the certified auditor responsible for the engagement was selected,**
 - **a mandatory root cause investigation procedure was designed,**
 - **the moment at which the assessment of IQCS of the audit firm would be made was specified.**

6. RESULTS OF SURVEY RESEARCH

During the thematic inspections, a survey research was conducted in relation to audit firms outside the group of TOP12, concerning issues related to the process of acquiring knowledge by firms on new quality control standards. The surveys were answered by 32 audit firms out of 34 firms that received such a survey.

The survey asked questions about the sources of knowledge on the standards and their use. According to the answers provided, the most popular sources were those for self-use, i.e. materials published on the Polish Chamber of Statutory Auditors (PIBR) and PANA websites. Participation in on-line meetings (PANA’s cyclical meetings with audit firms) looked a bit worse. With regard to the Annual Conference of Auditors (DKA) organized by PIBR, participation in it was not perceived as a source of knowledge that should be used to acquire knowledge about new quality control standards by about 32% of the audit firms.

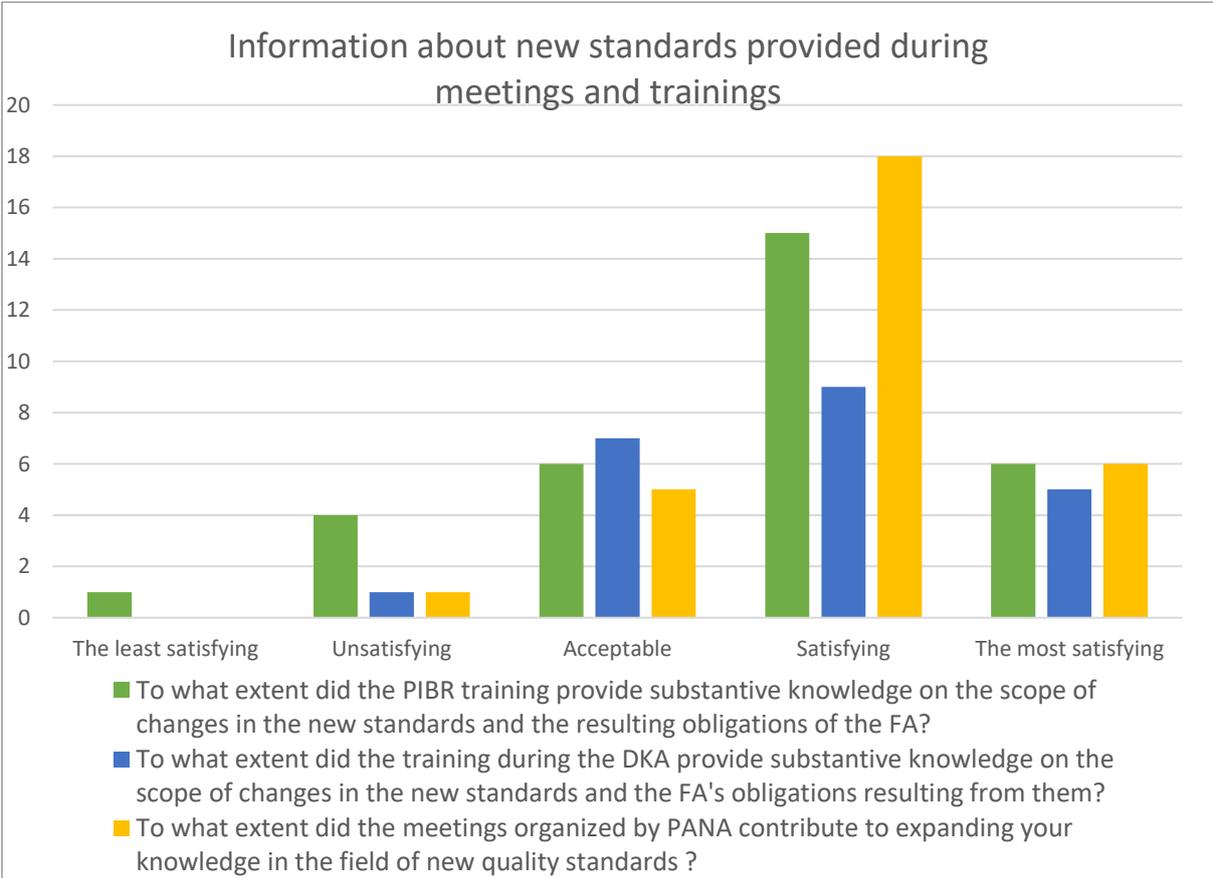
Chart 2. Sources of knowledge of audit firms about new quality control standards



Source: PANA

In subsequent questions, the Agency asked for referring to the issue how the audit firms assess the received materials and information from the point of view of obtaining theoretical knowledge about the new quality control standards and the resulting obligations of audit firms. The questions related to three ways of direct transfer of knowledge: trainings conducted by PIBR both in CE and in branches, Annual Conference of Auditors (DKA) organized by PIBR and on-line meetings organized by PANA. Trainings conducted by Polish Chamber of Statutory Auditors (PIBR) received the most critical opinions. The most positive (in relation to the answers provided) opinions were collected by on-line meetings conducted by PANA. 31% of the audit firms did not participate in the Annual Conference of Auditors (DKA), so the number of responses obtained was much lower, while the total percentage of positive responses was also among the lowest and amounted to 63%, compared to the positive assessment of trainings conducted by Polish Chamber of Statutory Auditors (PIBR) (65%) and 80% of positive assessments of meetings conducted by PANA.

Chart 3. *Evaluation of the materials and information received from the point of view of obtaining theoretical knowledge about the new quality control standards and the resulting obligations of audit firms*

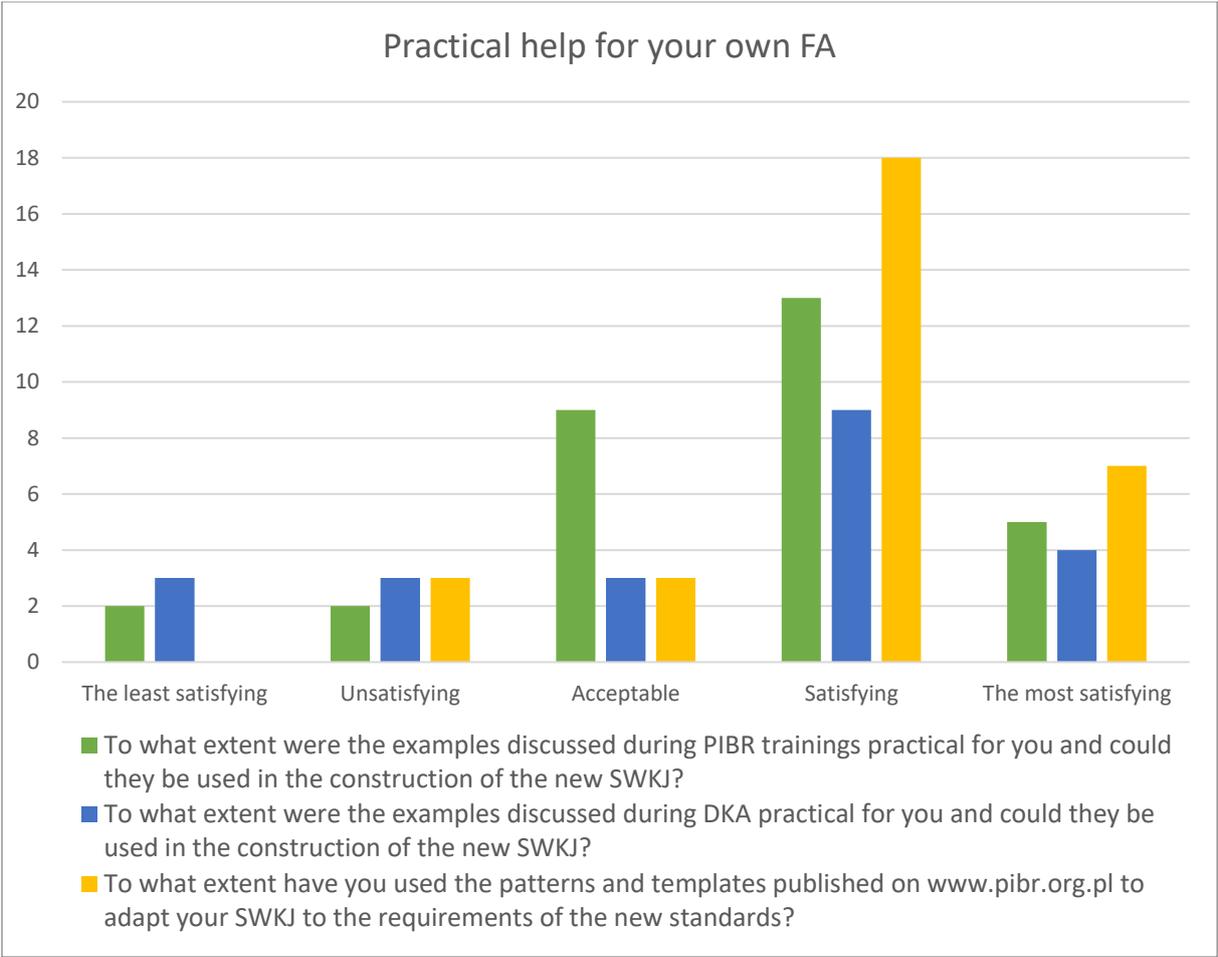


Source: PANA

Another issue raised in the survey was the assessment of practical assistance, i.e. aimed at implementing standards in a specific audit firm, obtained in various forms from Polish Chamber of Statutory Auditors (PIBR). Three forms of assistance were considered in the survey: practical information provided during the training, practical examples discussed at the

Annual Conference of Auditors (DKA), and examples and templates provided on the Polish Chamber of Statutory Auditors (PIBR) website. It should be noted that the companies found the examples and templates presented by PIBR to be the most useful for adapting their own quality control systems to the new standards (positive assessment in 80% of the responses). Both the trainings conducted by Polish Chamber of Statutory Auditors (PIBR) and the Annual Conference of Auditors (DKA) were assessed positively only in 58% of the responses.

Chart 4. Evaluation of practical assistance, i.e. aimed at implementing standards in a specific audit firm, obtained in various forms from PIBR



Source: PANA

Summing up the results of the presented survey, it should be noted that the Agency plans to submit to the Polish Chamber of Statutory Auditors (PIBR) the conclusions resulting from the survey conducted during thematic inspections. The study clearly shows that audit firms consider as practically useful ways to acquire knowledge about the standards:

- workshops during which they have the opportunity to consult the individual needs of audit firms,
- template documents (the Agency also indicates that they should be named appropriately),
- answers to questions asked by audit firms.