

# Good Practices and Challenges in the Financial Statement Audit of SMEs in Poland

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## Abstract

**Objective:** The aim of this study is to identify and analyse good practices applied by audit firms in Poland during the preliminary and final audit of financial statements, with a particular focus on the small and medium-sized enterprise (SME) sector.

**Research methodology / approach:** The primary research method used was a case study, supported by an in-depth interview (IDI) questionnaire, in which the opinions of a statutory auditor and a chief accountant were compared in the context of auditing SME financial statements. The study examined various audit procedures undertaken during financial audits, with the core research based on two in-depth interviews conducted with (1) the chief accountant and (2) the statutory auditor.

**Research limitations / implications:** The study is limited to one audit firm and one SME based in Poland. As a result, the findings may not be fully representative of other economic sectors or geographical regions. Future research could encompass a broader geographical scope and include various industrial sectors.

**Original contribution / value:** This study offers an insight into audit practices in Poland, particularly in the SME context. The comparative analysis of perspectives from a statutory auditor and a chief accountant provides valuable insights into collaboration and challenges encountered during the audit process, which may contribute to improving audit service quality.

**Keywords:** financial audit, SMEs, good practices, statutory auditor, chief accountant.



## **Introduction**

**F**inancial audit plays a crucial role in ensuring the reliability and credibility of financial statements of enterprises (Voss, 2011). The dynamically evolving legal provisions and increasing expectations of investors and other stakeholders contribute to the growing importance of professional audit services (Kranc, 2024). The purpose of this article is to identify and analyse good practices applied by audit firms in Poland during the preliminary and final audit of financial statements, with a particular focus on the small and medium-sized enterprise (SME) sector. Financial audit is an essential component of the modern economy, playing a key role in ensuring transparency and trust in the financial information presented by enterprises (RĂVAȘ & DĂNEȚ, 2019; Voss, 2008). In a rapidly changing legal and economic environment, auditors face growing challenges, aiming not only to verify the accuracy of financial data but also to identify risks and provide advisory support for improving business processes (Kermani, Molanazari & Rahmani, 2019). SMEs form the backbone of the economy, generating a significant portion of GDP and employing a large proportion of the workforce (Fila, Grzegorzczak & Paduszyńska, 2022). In Poland, SMEs play a key role, and their operations require support in ensuring the reliability of financial statements (Matejun, 2015). Professional audit services are essential for these enterprises to effectively manage their resources, attract investors and creditors, and comply with legal requirements (Antoniuk, Chyzhevska & Semenyshena, 2019). Auditors operating in the SME sector must adapt their approach to the specific characteristics of these enterprises, which often have limited resources and less formal organisational structures. Consequently, auditing SMEs requires not only technical expertise but also interpersonal skills and flexibility in adapting work methods to the needs of the client. The statutory auditor plays a key role in the audit process, being responsible for assessing the compliance of financial statements with applicable provisions and accounting standards (Rydzak, 2016). As part of their duties, the statutory auditor must conduct detailed analyses and tests, identify potential irregularities, and recommend corrective actions (Xiao, Geng & Yuan, 2020). In the work of a statutory auditor, adherence to professional ethics is particularly important, including independence, objectivity, and confidentiality. High ethical standards are crucial for maintaining trust in audit results and the professional reputation of the statutory auditor. The financial audit process can be divided into several key stages, each of which plays a significant role in ensuring the accuracy and completeness of the examination. During the planning stage, auditors conduct a preliminary risk assessment and develop an audit plan. Preliminary examination involves gathering basic information about the enterprise, its organisational structure, internal control systems, and accounting processes.

The main audit examination involves detailed operational and analytical tests aimed at verifying the accuracy of financial data, analysing transactions, and assessing the effectiveness of internal control systems. At the conclusion of the audit, statutory auditors prepare a report in which they present their findings and potential recommendations for improving accounting processes and internal control systems. In an economic reality that is subject to constant and dynamic transformations, auditors face numerous challenges. Changes in legal provisions, the introduction of new accounting standards, and increasing expectations from financial statement stakeholders require auditors to continuously update their knowledge and adapt their working methods to new requirements. One of the key challenges is the growing complexity of organisational structures within enterprises, along with the increasing volume of financial data to be analysed. Auditors must effectively manage these challenges by leveraging modern information technology and analytical tools.

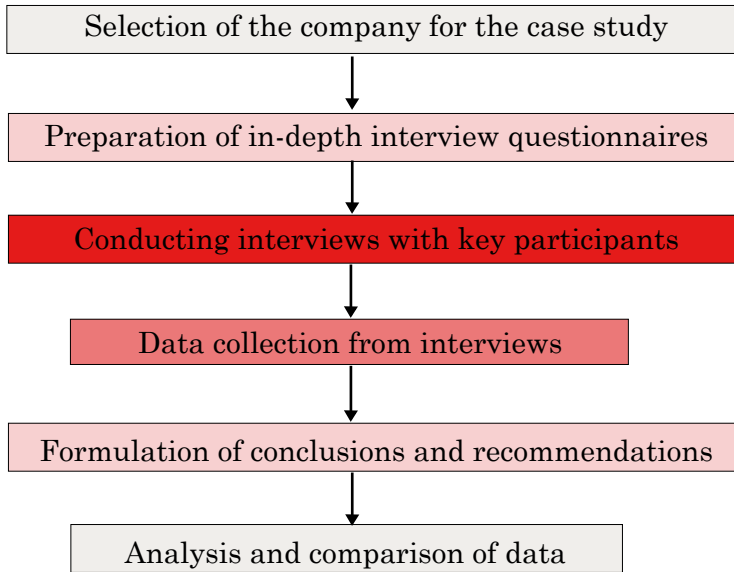
## **1. Methodology of the conducted analysis**

The aim of this study is to identify and analyse good practices applied by audit firms in Poland during the preliminary and final audit of financial statements, with a particular focus on the small and medium-sized enterprise (SME) sector. The research was conducted using the case study method, enriched with an in-depth interview (IDI) questionnaire. The case study focused on a single SME undergoing a financial audit. The selection of an SME was motivated by the desire to understand the specific nature of auditing in small and medium-sized enterprises, which constitute a significant segment of the Polish economy. The analysis involved a detailed examination of financial documentation, accounting processes, and control procedures applied within the company. The in-depth interview questionnaire was designed to compare the perspectives of two key participants in the audit process: the statutory auditor and the chief accountant of the enterprise. These interviews aimed to gain insight into their perspectives, experiences, and challenges related to financial statement auditing. The questionnaire consisted of 20 questions, both closed and open-ended, covering various aspects of the financial audit, including:

1. The main tasks and responsibilities of the chief accountant and the statutory auditor;
2. Key stages and procedures used in the preparation and examination of financial statements;
3. Challenges encountered during the audit process;
4. Methods and tools applied to ensure the accuracy and completeness of financial statements;

5. Assessment of collaboration between the chief accountant and the statutory auditor.

The stages of the study are illustrated in Figure 1.



**Figure 1.** Stages of the study.

Source: Own elaboration.

The statutory auditor interviewed is an employee of a renowned audit firm that primarily serves entities from the SME sector. He has extensive experience in conducting financial audits, both in SMEs and larger enterprises. The interview focused on his work methods, tools used during audits, and challenges encountered in his profession. The chief accountant interviewed works at a medium-sized accounting office located in the Kujawsko-Pomorskie Voivodeship. With approximately 12 years of experience in accounting and financial management, he is well-equipped to handle the comprehensive financial oversight of an enterprise. The interview focused on his daily responsibilities, financial statement preparation processes, and collaboration with statutory auditors. The audited enterprise, operating in the SME sector, provided the necessary data and documentation for a detailed examination. The company engages in both production and service activities, making it an interesting

case study for analysing audit processes in the context of diverse financial operations. Preparation for the interviews involved the development of detailed questionnaires containing both closed and open-ended questions. These questions aimed to obtain in-depth information about audit processes, challenges, and applied methods and tools. Each questionnaire was tailored to the specific professional background of the respective respondent, ensuring the collection of valuable data. The interviews were conducted as individual meetings held at the audited company's headquarters and the chief accountant's office. Each interview lasted approximately 60 minutes and was recorded with the respondents' consent, allowing for a thorough analysis of their responses. The interview with the statutory auditor focused on his experiences with SME audits, applied work methods, encountered challenges, and suggestions for improving audit quality. Meanwhile, the interview with the chief accountant addressed his daily professional duties, financial statement preparation processes, encountered challenges, and cooperation with statutory auditors. After completing the interviews, the collected data was carefully analysed. The analysis process included transcribing recordings, coding responses, and identifying key themes and patterns. Particular attention was given to comparing the views of the statutory auditor and the chief accountant, allowing for a confrontation of their perspectives and the identification of potential differences and similarities in their approach to auditing.

## **2. Financial statement audits in the SME sector**

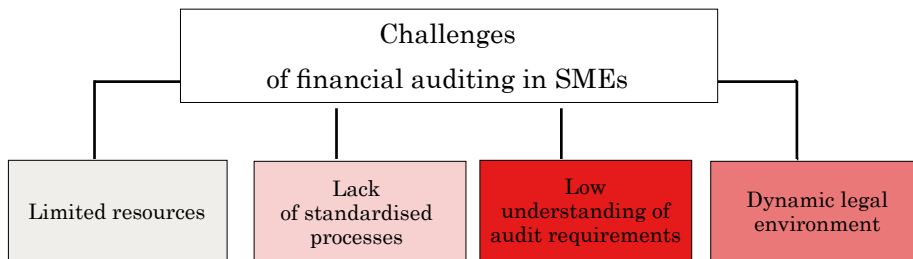
Small and medium-sized enterprises (SMEs) play a crucial role in the economy, representing a significant segment both in terms of the number of entities and their contribution to gross domestic product (GDP). In Poland, SMEs account for over 99% of all enterprises, highlighting their importance for the country's economic stability (Łudzińska, 2024). However, due to their specific characteristics, these enterprises face unique challenges, particularly in the context of financial and non-financial reporting as well as auditing. This subsection aims to discuss the specific aspects of financial statement audits in SMEs, with a particular focus on best practices and challenges encountered by auditors and chief accountants. Financial statements in SMEs differ from those prepared by larger entities in terms of scope and level of detail. While SME financial statements are often less complex, they must still be accurate and comply with applicable provisions. The key components of SME financial statements include the balance sheet, profit and loss account, statement of changes in equity, and cash flow statement (Zawadzki & Zielińska, 2018). Due to limited resources, many SMEs take advantage of legal accounting simplifications, which may lead to specific issues related to the accuracy and completeness of financial data (Voss, 2016). Additionally, small businesses often lack internal control mechanisms,

which are commonly implemented in larger enterprises, thereby increasing the risk of errors and irregularities.

As noted, among others, by M. Chorowski and J. Kawalec (Chorowski & Kawalec, 2017), the process of auditing financial statements in SMEs can be divided into several key stages:

1. Audit planning – At this stage, auditors conduct a preliminary risk assessment related to the financial statements. Planning is particularly important in SMEs due to the diversity of business activities and the lack of standardised accounting processes. Auditors must gain a thorough understanding of the company’s operations and identify key risk areas.
2. Preliminary examination – In SMEs, this involves gathering fundamental information about the enterprise, such as its organisational structure, accounting systems, and control procedures. Auditors also conduct initial compliance tests to evaluate the effectiveness of existing control mechanisms.
3. Main audit examination – This is the core stage of the audit, during which auditors perform detailed operational and analytical tests. In SMEs, the main audit examination may include transaction verification, account balance analysis, and an assessment of the company’s accounting policies. Auditors must pay special attention to compliance with applicable provisions and accounting standards.
4. Audit completion – At this stage, auditors prepare a report on the conducted audit, presenting their findings and recommendations for improving accounting and control processes. In SMEs, the audit report is often used as a tool for implementing operational improvements within the company

It is important to note that auditing financial statements in the SME sector presents specific challenges (Figure 2).



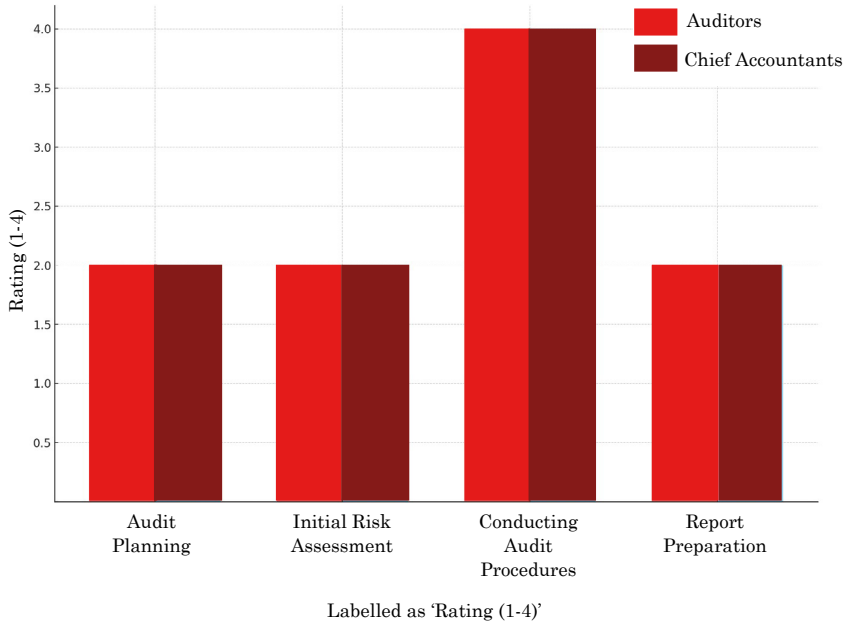
**Figure 2.** Challenges of financial auditing in SMEs.

Source: Own elaboration.

SMEs often have limited financial and human resources (Kogut, 2017), which can make it difficult to conduct a comprehensive and accurate audit. The lack of specialised accounting and control staff increases the risk of errors and irregularities in financial statements. Unlike larger enterprises, SMEs often lack defined and standardised accounting and control processes. As a result, auditors must devote more time to understanding the specific nature of the business and adapting audit methods to the individual needs of the enterprise. SMEs must continuously adapt to changing legal provisions and accounting standards. Auditors need to stay up to date with these changes to ensure compliance of financial statements with applicable provisions. Many SMEs, especially the smallest ones, may not be fully aware of audit requirements and the benefits of conducting a reliable audit. Education and communication between auditors and enterprises are crucial for the effective execution of the audit process.

### **3. Research findings**

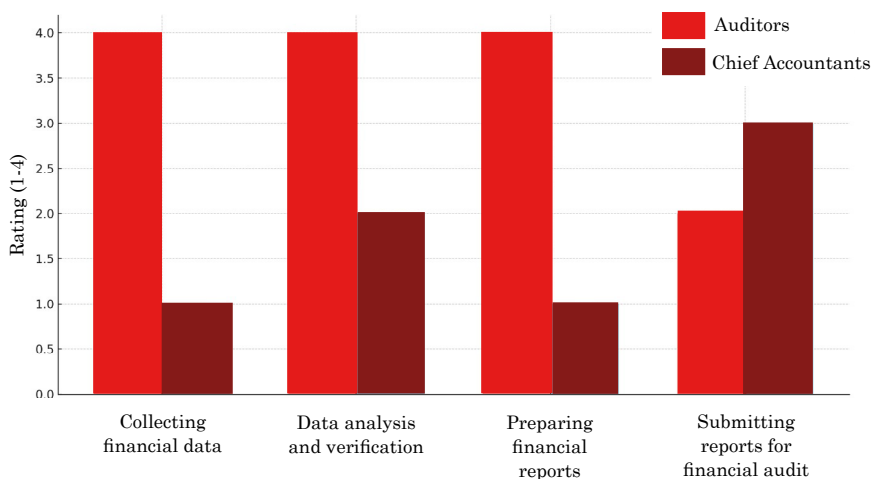
The conducted study aimed to understand and compare the perspectives of statutory auditors and chief accountants regarding the audit of financial statements in SMEs. This research enabled the identification of key audit process stages, commonly used methods and tools, major challenges, and expectations for cooperation between both parties. Below are the detailed results and conclusions from the in-depth interviews. An inductive reasoning approach was adopted, assuming that an in-depth interview with a respondent could serve as a reference point for a broader population. Consequently, in the following sections of this study, the terms ‘statutory auditor’ and ‘chief accountant’ are expressed in the plural form. The respondents’ answers—(1) chief accountant and (2) statutory auditor—were assigned importance ratings ranging from highest (4) to lowest (1). Statutory auditors considered the execution of audit procedures the most crucial stage of the audit process, rating it the highest (4). Audit planning, preliminary risk assessment, and preparation of the final report were assigned a rating of 2. Chief accountants, on the other hand, viewed managing the accounting team as the most important stage (2), while rating other stages lower.



**Chart 1.** Comparison of ratings for key audit stages between statutory auditors and chief accountants.

Source: Own elaboration.

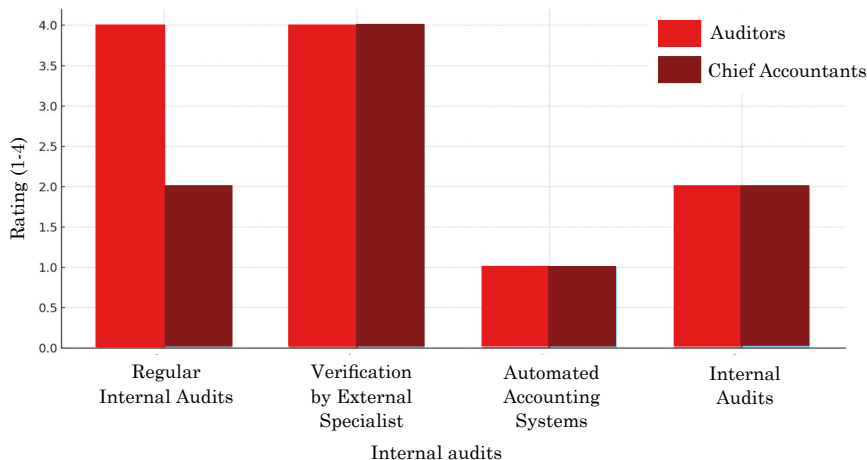
Statutory auditors and chief accountants agreed that financial data collection and financial report preparation are key stages in the financial statement preparation process—both groups rated these stages highly (1). Data analysis and verification, as well as the submission of reports for audit, were also rated similarly by both groups.



**Chart 2.** Key stages of the financial statement preparation process – ratings by statutory auditors and chief accountants.

Source: Own elaboration.

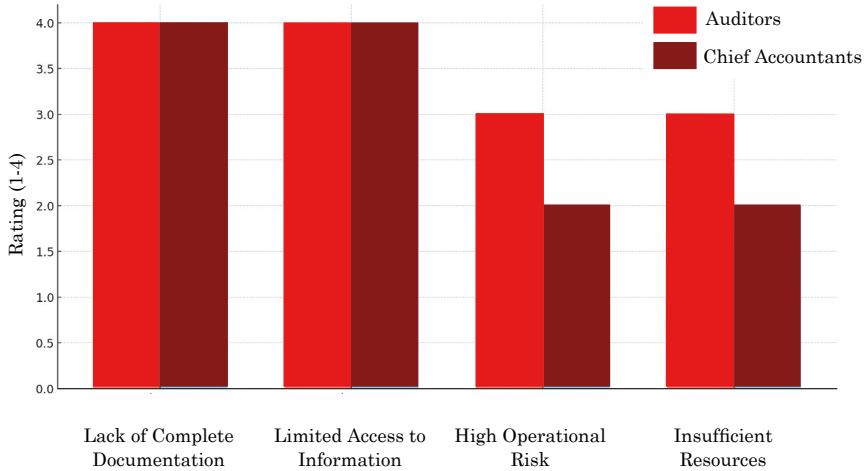
Statutory auditors considered data verification by external specialists as a key procedure (4), while chief accountants also rated it highly (4). Regular internal controls and internal audits received average ratings from both groups.



**Chart 3.** Procedures ensuring the accuracy and completeness of financial statements – ratings by statutory auditors and chief accountants.

Source: Own elaboration.

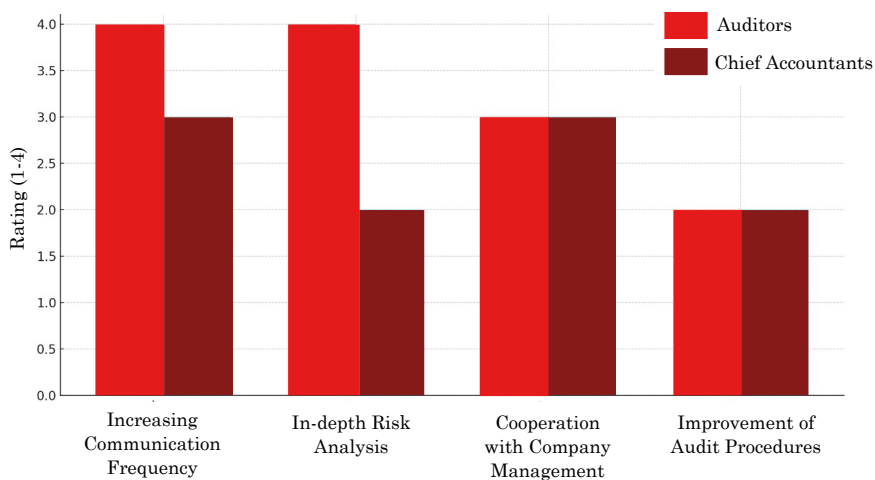
Statutory auditors indicated that the most common challenge is the lack of complete documentation and limited access to information (4). Chief accountants, on the other hand, pointed to insufficient data (4) and the complexity of legal regulations (2).



**Chart 4.** Main challenges encountered during the audit – comparison of ratings

Source: Own elaboration.

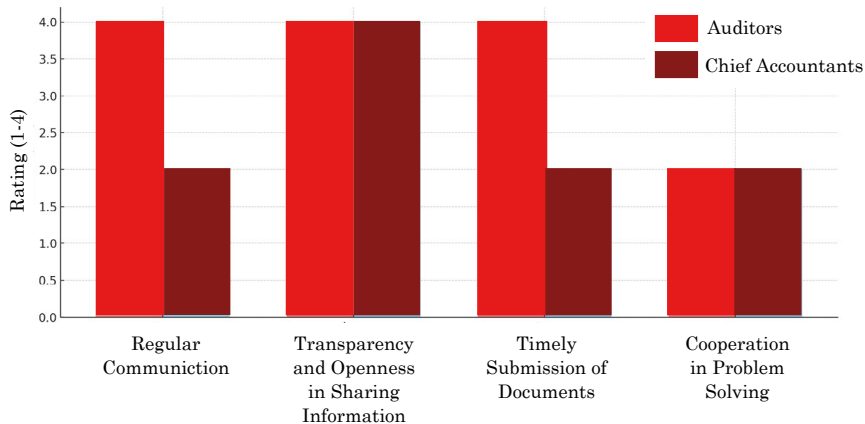
Statutory auditors most frequently pointed to increasing the frequency of communication and in-depth risk analysis (4) as key actions. Chief accountants, on the other hand, highlighted hiring additional staff (3) and improving internal processes (2).



**Chart 5.** Actions taken to address challenges – ratings by statutory auditors and chief accountants.

Source: Own elaboration.

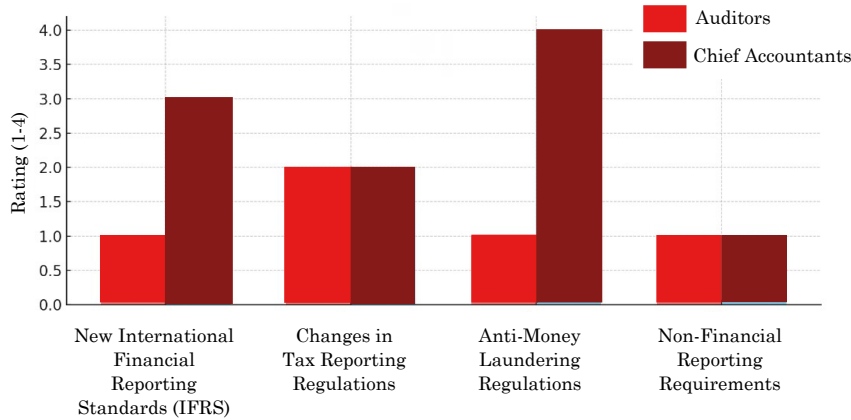
Statutory auditors rated the verification of internal controls the lowest (1), whereas chief accountants attached greater importance to it (2). Financial ratio analysis was significant for both groups, receiving ratings of (2) and (3), respectively. Regular communication and transparency in information sharing were key for both groups, achieving the highest ratings (4). Additionally, chief accountants highlighted the timeliness of task completion as a very important aspect of cooperation (4).



**Chart 6.** Key aspects of cooperation – ratings by statutory auditors and chief accountants.

Source: Own elaboration.

Statutory auditors prefer email communication (4), while chief accountants indicate teleconferences and videoconferences as the most important communication method (4). Statutory auditors noted that new financial reporting standards had the least impact (1), whereas chief accountants rated non-financial reporting regulations as the most influential (4).



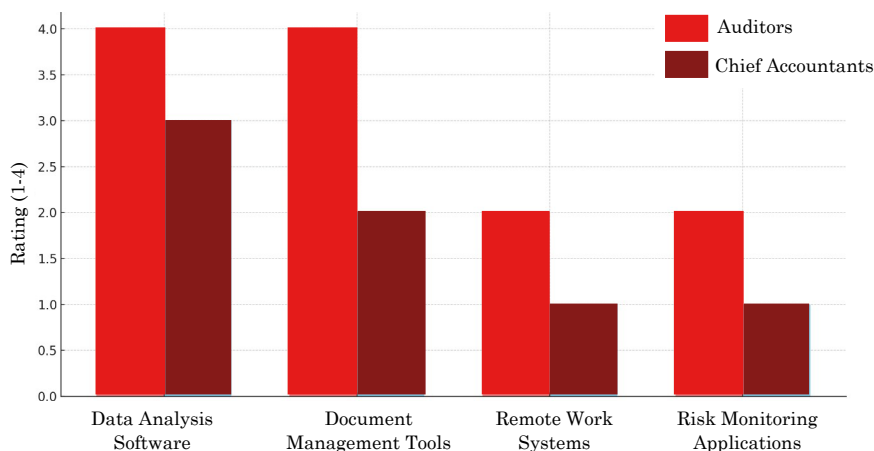
**Chart 7.** Changes in accounting provisions – evaluation by statutory auditors and chief accountants.

Source: Own elaboration.

The assessment of cooperation quality was varied. Statutory auditors rated it as very good (3), whereas chief accountants indicated both very good and unsatisfactory cooperation (4). Statutory auditors highlighted enhanced financial statement reliability (2) and compliance with legal provisions (2) as key benefits. Meanwhile, chief accountants emphasised increased investor confidence (3). It is worth noting that the COVID-19 pandemic affected the audit process, as observed by both respondent groups. Statutory auditors pointed to an increased frequency of remote work (4), fewer on-site visits (4), and greater flexibility in scheduling (4). Chief accountants also recognised these changes but considered them less significant, assigning them lower ratings. Statutory auditors expect greater accuracy in documentation (4) and better communication (2) from chief accountants. In contrast, chief accountants identified greater flexibility and an increased number of improvement recommendations as key expectations from statutory auditors in the future. Statutory auditors and chief accountants agreed on the key skills and competencies of a statutory auditor. Technical knowledge in accounting, analytical skills, communication and collaboration

abilities, and an understanding of industry specifics all received the highest ratings (4) from both groups.

Statutory auditors identified data analysis software as the most important tool (4), while chief accountants considered remote work support systems (4) and risk monitoring applications (4) to have the greatest impact on audit efficiency.



**Chart 8.** Technologies and IT Tools used during audits – comparison of ratings.

Source: Own elaboration.

Both respondent groups agreed on the key ethical aspects of auditing. Independence and objectivity, information confidentiality, professionalism, and integrity received the highest ratings (4) from both groups, indicating a shared understanding of the importance of ethics in the audit process. Statutory auditors and chief accountants engage in various activities to maintain and develop their professional competencies. Statutory auditors highlighted regular training and courses (3) and reading professional literature (2), while chief accountants rated participation in industry conferences (1) as the least important activity.

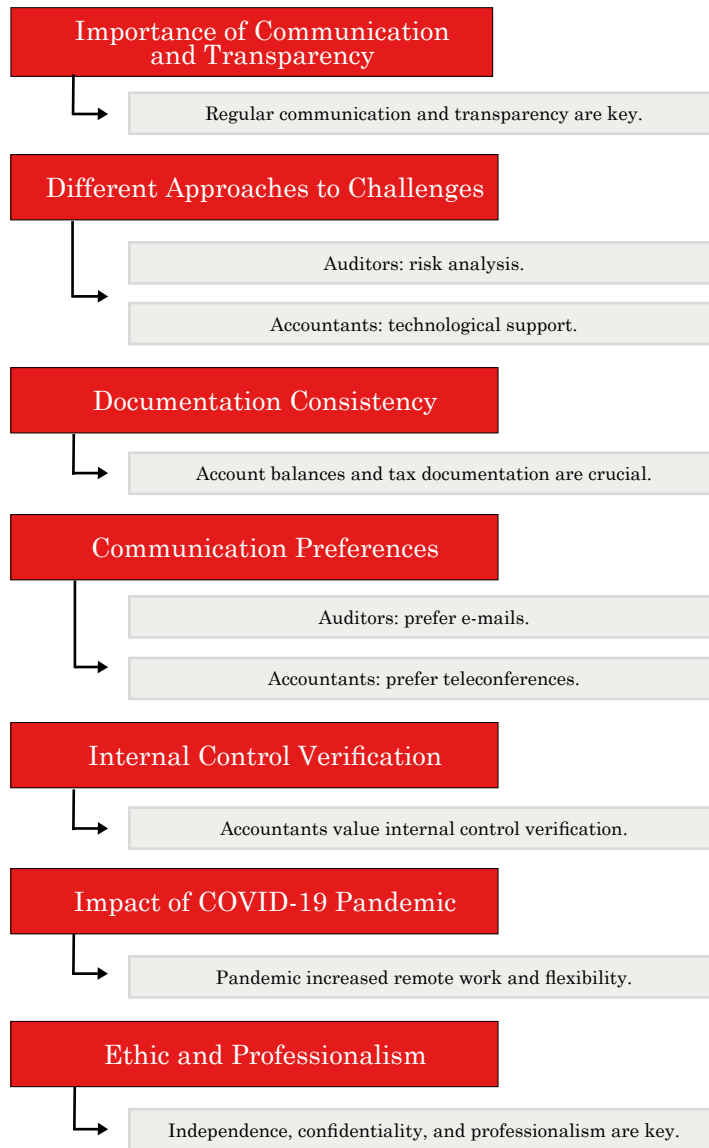
## **Conclusion**

The conducted study provided valuable insights into the differences and similarities in the approach of statutory auditors and chief accountants to the audit of financial statements in SMEs. The analysis of results allows for the formulation of several key conclusions:

1. Importance of communication and transparency – Both parties emphasise the significance of regular communication and transparency in information sharing. This is a crucial element of an effective audit, which can improve the quality of cooperation and the efficiency of the auditing process.
2. Different approaches to challenges – Statutory auditors focus on risk analysis and communication frequency, while chief accountants value additional personnel and technological support. These differences may stem from the distinct roles and responsibilities each group holds in the audit process.
3. Common ground in documentation – Account balances and tax documentation are essential for both parties, indicating shared priorities regarding key audit documents. Ensuring the completeness and accuracy of these documents is critical for an effective audit.
4. Communication preferences – Preferences regarding communication methods differ between statutory auditors and chief accountants. Statutory auditors favour email communication, while chief accountants prefer teleconferences and videoconferences. Understanding these preferences can help streamline the communication process.

A graphical representation of the approach of chief accountants and statutory auditors to auditing financial statements in SMEs is presented in Figure 3.

Compared to statutory auditors, chief accountants place greater emphasis on verifying internal controls. Strengthening internal control mechanisms can enhance the quality of financial statements and reduce the risk of errors. The pandemic has significantly impacted the audit process, necessitating an increase in remote working hours and greater flexibility in scheduling. Adapting to these changes is crucial for maintaining audit effectiveness in the future. It is also worth noting that independence, confidentiality, professionalism, and integrity are fundamental values for both groups. Emphasising these aspects can contribute to building trust and credibility in the audit process.



**Figure 3.** Key findings from the in-depth interview questionnaire study.

Source: Own elaboration.

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