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Letter from the President



Dear Readers,

We are very pleased to provide you with the third issue of *The Yearbook of Auditing and Accounting*. In the current edition, we have updated our approach and focused on articles of a more practical and applied nature.

The topics covered in this edition reflect the issues that have shaped the market over the past year. Therefore, we dedicate most of our attention to artificial intelligence. We consider how AI is reshaping the role of the statutory auditor and whether technology could replace auditors. The articles also describe the practical use of AI in various contexts, including reducing information asymmetry and the risk of fraud, as well as supporting ESG reporting. Sustainability is also discussed in the summary of the study conducted in 2025 by the Polish ESG Association.

We value our readers' feedback and strive to meet their expectations, so in this edition we have also focused on issues that may prove useful in professional practice. We describe the dilemmas and challenges associated with fair value in the financial reporting of investment funds in Poland. We publish an analysis of EU and Polish regulations concerning the limit on the remuneration of statutory auditors as well as two complementary articles – the first on the administrative liability of audit firms and the disciplinary liability of statutory auditors in selected case law of common and administrative courts, and the second on administrative sanctions imposed on audit firms by the Polish Agency for Audit Oversight.

The Yearbook includes summaries of the master's theses that won the PANA Competition for the best master's theses in the field of financial audit, with the Dr Zdzisław Fedak Grand Prize. We hope that the winners will continue to develop their skills in their field and these pages will serve as a source of inspiration for future statutory auditors.

I would like to express my gratitude to all the authors for their work and commitment, which has resulted in the publication of this issue of *The Yearbook of Auditing and Accounting*. I hope our readers find this issue insightful and engaging.

Jacek Gdański
President of the Polish Agency for Audit Oversight



Limit on audit firm fees according to EU Regulation No. 537/2014 and the Act on statutory auditors

ELŻBIETA JACECZKO

1. Introduction and purpose of the regulation

One of the key legal mechanisms to protect statutory auditor independence is the introduction of limits on fees received for providing services to public interest entities (PIEs). These regulations derive in particular from Regulation (EU) No 537/2014 of the European Parliament and of the Council which lays down specific requirements regarding statutory audit of PIE financial statements.

Under the said regulations, total fees and the structure of fees received for permitted non-audit services provided by a statutory auditor or an audit firm to a given PIE, its parent undertaking or its subsidiaries must not exceed a certain limit of fees payable for the audit of the last three financial years. The limit is absolute and applies beyond the three-year service period.

The purpose of introducing this limit is to reduce the risk of the statutory auditor or audit firm becoming economically dependent on the audited entity, which could compromise the maintenance of independence in the performance of the statutory audit. This mechanism is directly underpinned by Regulation (EU) No 537/2014 of the European Parliament and of the Council, in particular Article 4, setting a limit on fees for permitted non-audit services, and Article 5, providing for the prohibition of the provision of certain services to public interest entities. These limits are intended to prevent the economic relationship between the statutory auditor and the audited entity from undermining the objectivity and impartiality of the audit.

A general requirement for statutory auditor independence is established at the level of European Union law in Directive 2006/43/EC of the European Parliament and of the Council, according to which statutory audits should be carried out in an independent manner and neither the statutory auditor nor the audit firm should be influenced by any interest, including financial interests, business relationships or other links that could compromise their impartiality and objectivity. The directive establishes a horizontal independence framework applicable to all statutory audits, including audits of public interest entities.

This requirement is reflected in national law, in particular in Articles 69-71 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, which

require statutory auditors and audit firms to perform audit activities independently, with impartiality and without being influenced by financial, personal or organisational interests. These provisions also require that threats to independence are identified and appropriate safeguards are applied, and where such threats cannot be mitigated, that the audit activity is waived.

In this respect, the provisions of Directive 2006/43/EC, Regulation 537/2014 and the national law create a coherent and multi-level system for the protection of statutory auditor independence, in which the Directive establishes the general principle of independence, the Regulation introduces specific substantive mechanisms relating to public interest entities, while the national law provides the framework for the practice of the profession and the enforcement of these requirements in the national legal order.

It should also be pointed out that the fee limits operate alongside a catalogue of prohibited services, the provision of which to PIEs is not permitted regardless of their value. Both of these mechanisms, i.e. the fee limit and the prohibition of certain services, form a coherent system of safeguards designed to protect the auditor's independence in its relationship with the audited entity.

2. Fee limit in Regulation (EU) No. 537/2014

According to Article 4(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, where the statutory auditor or the audit firm provides non-audit services to a public interest entity, its parent undertaking or its controlled undertakings, for a period of three or more consecutive financial years, the total fees for such services shall be limited to no more than 70% of the average of the fees paid for the statutory audit in the last three consecutive financial years.

This provision is a substantive standard with direct effect, which means that it is binding on audit market entities without the need for implementation into national law. The fee limit of 70 % of the average fee paid for the statutory audit in the last three financial years applies only to permitted services, as in parallel Article 5(1) of Regulation 537/2014 establishes a catalogue of services which are prohibited vis-à-vis PIEs, regardless of their value (non-audit services).

The Polish Act of 11 May 2017 on statutory auditors, audit firms and public oversight does not replicate the 70% limit, which is a consequence of the direct applicability of the EU regulations. The national legislator adopted a complementary model aimed at ensuring the effective application of EU standards by regulating the rules of the profession, public oversight and administrative liability.

Of key importance in this context is Article 69 of the Act, which sets out the fundamental rules of the statutory auditor profession, including the duty to be independent, objective, fair and to act in the public interest. This provision does not set quantitative limits on remuneration, but creates a normative framework for assessing the financial relationship between the auditor and the audited entity.

3. Comparison of the scope of EU and national regulation

EU and national regulation differ in their scope, while at the same time remaining in close functional relation to each other. As a directly applicable secondary legislation, Regulation (EU) No. 537/2014 establishes uniform and binding substantive legal standards for the independence of the statutory auditor auditing public interest entities. In particular, the Regulation sets out a mechanism for limiting the fee for permitted non-audit services by introducing a rigid limit of 70% of the average fee paid for the statutory audit in the last three financial years and by providing an enumerative indication of the cases of permitted derogations from this rule, as well as a catalogue of prohibited services.

The national law, including the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, does not establish different or competing substantive standards on the statutory auditor independence, but has a complementary and implementing function to the EU regulation. The scope of national standardisation focuses on three main areas.

Firstly, the national law regulates the organisation of the public oversight system, including the identification of the authorities competent to supervise the performance of auditing activities and compliance with Regulation 537/2014. These provisions establish an institutional framework for monitoring the practical application of EU independence standards.

Secondly, the national law sets out the professional and ethical obligations of statutory auditors and audit firms, including those related to independence and impartiality. These standards have a functional relationship with the EU regulation, as they pursue the same protective objectives without interfering with the content of the substantive restrictions directly laid down in the Regulation.

Thirdly, the Act provides mechanisms for the enforcement of EU law, in particular by:

- defining the competences of the oversight authorities,
- regulating the documentation and control obligations,
- establishing a regime of liability for breaches of Regulation 537/2014.

This division of roles between the Union and national law corresponds to the principle of the effectiveness of European Union law and the construction of the Regulation as a secondary act of law, which is directly applicable and does not require transposition into national law. The national law does not replace or modify the norms of the Regulation, but creates the institutional and procedural conditions necessary for their actual and effective application in the national legal order.

4. Rules for calculating the limit of fees for non-audit services – legal regulation and positions of the Ministry of Finance

The rules for calculating the fee limit for non-audit services are set out in Article 4(2) of Regulation (EU) No 537/2014 of the European Parliament and of the Council. The provision stipulates that When the statutory auditor or the audit firm provides to the audited entity, its parent undertaking or its controlled undertakings, for a period of three or more consecutive financial years, non-audit services other than those referred to in Article 5(1) of the Regulation, the total fees for such services shall be limited to no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit.

As indicated in the position paper of the Ministry of Finance of 29 December 2020, the determination of the average fee for the statutory audit should take into account the fee payable for the statutory audit of a public interest entity, its parent undertaking and its controlled undertakings, regardless of whether these undertakings have the PIE status and regardless of the place of their registered office. Indeed, Regulation 537/2014 does not impose any territorial or subject restrictions in this respect.

In the same position paper, the Ministry of Finance clarified that only the services provided by the audit firm to the audited PIE, its parent undertaking and its controlled undertakings should be taken into account when determining the fee for non-audit services. The limit referred to in Article 4(2) of the Regulation does not include services provided by other audit firms belonging to the same network, and each audit firm is required to calculate the limit separately with respect to its own contractual relationships.

It follows from both the wording of the Regulation and the position paper of the Ministry of Finance of 29 December 2020 that the limit of 70% of the average fee paid for the statutory audit in the last three financial years excludes non-audit services the provision of which is required by European Union or national law. The fee for such services does not affect the calculation of the limit, even though they fall within the category of non-audit services.

The scope of this exclusion was further clarified in the position paper of the Ministry of Finance of 11 October 2023, which indicated that the “neutral” nature for the purposes of the limit can only attributed to the services which audit firms are required to provide directly under law and not in keeping with the entity’s decisions, investors’ expectations or market practice. It is therefore not permissible to automatically consider all services falling within the catalogue of Article 136 of the Act on statutory auditors as services excluded from the limit.

The above position was further developed and elaborated in a letter from the Ministry of Finance dated 5 December 2024, which clearly indicated that only those activities that are necessary for the performance of a legal obligation can be considered as “neutral” services for the purposes of the limit in Article 4 of Regulation 537/2014. In particular, the Ministry of Finance confirmed that the work performed by the audit firm on behalf of the group auditor, related to the audit of the consolidation packages of the group entities, can be neutral insofar as it is necessary for the mandatory audit of the consolidated financial statements.

At the same time, the Ministry of Finance made a clear distinction between such activities and services of a voluntary nature in its position paper of 5 December 2024. It pointed out that interim reviews of consolidated financial statements can only be considered neutral if the obligation to carry them out arises from the national law of the Member State concerned. Otherwise, these services are not excluded from the limit.

An similar approach was applied by the Ministry of Finance to services relating to information contained in prospectuses and other offering documents. The position paper of 5 December 2024 indicated that these services can only be neutral if the audit firm’s obligation to provide them arises directly from EU or national law. If, on the other hand, their provision is the result of an individual’s decision or market expectations, there are no grounds for excluding them from the limit.

When calculating the average fee for the statutory audit – pursuant to Article 2(1) of the Act on statutory auditors – only the fee for activities that constitute the statutory audit within the meaning of the Act is to be taken into account. The position papers of the Ministry of Finance consistently confirmed that fees for services that do not fall within this definition, including voluntary reviews or audits not required by law, should not be included in the calculation of the average audit fee.

In all the aforementioned position papers, the Ministry of Finance also emphasised that the assessment of the qualification of individual services for the purposes of the limit of 70% of the average fee paid for the statutory audit in the last three financial years should be made in each case taking into account the specific factual situation and the relevant provisions of EU and national law, and the explanations presented do not have the character of a universally binding interpretation.

5. Exception to the fee limit

5.1 Exception to the fee limit in Regulation 537/2014: a review by the audit committee and interpretation of objective grounds

In Article 4(3) of the Regulation, the EU legislator introduces a specific regulation relating to the excessive concentration of fees from a single public interest entity, while at the same time establishing a strictly regulated exception to the standard mechanisms for the protection of statutory auditor independence.

According to the provision, When the total fees received from a public-interest entity exceed 15% of the of the total fees received the statutory auditor or the audit firm in each of the last three consecutive financial years, a special regulatory situation arises requiring additional action. In such a case, the statutory auditor, the audit firm or, where applicable, the group auditor, shall disclose that fact to the audit committee and discuss with the audit committee the threats to their independence and the safeguards applied to mitigate those threats.

At this stage, the rule provides for an enhanced role for the audit committee which shall consider whether the audit engagement should be subject to an engagement quality control review by another statutory auditor or audit firm prior to the issuance of the audit report. This mechanism does not remove restrictions on independence, but tightens them by introducing an additional level of scrutiny.

Of key normative importance, however, is the remaining part of the rule, which establishes an explicitly limited exception. Namely, where the fees continue to exceed the threshold of 15% of the total fees received by such a statutory auditor or audit firm in each of the last three consecutive financial years, the decision as to whether to continue with statutory audits is transferred to the audit committee. The audit committee shall decide on the basis of objective grounds whether the statutory auditor, the audit firm or the group auditor may continue to carry out the statutory audit for an additional period.

At the same time, the rule unambiguously stipulates that this period is exceptional and time-limited, as it cannot in any case exceed two years. Thus, the rule does not establish a permanent derogation from the principles of independence, but only allows for a temporary derogation of an exceptional nature, subject to the decision of the audit committee and subject to additional procedural conditions.

Consequently, the rule in question must be interpreted as a strictly regulated exception to the permissible level of economic dependence of the auditor on the public interest entity, which does not abolish the applicable limits but temporarily mitigates their effects only within the limits expressly set by EU law.

The phrase “on the basis of objective grounds”, as used in Regulation (EU) No 537/2014 in the context of the audit committee’s decision to allow the continuation of statutory audits despite the threshold of 15% of total fees being exceeded, should be interpreted as a clause limiting the audit committee’s decision-making discretion and not as a blanket term.

Firstly, a linguistic analysis shows that the EU legislator used the concept of “objective grounds” in opposition to considerations of a subjective nature, such as management preference, organisational convenience or the economic relationship between the entity and the audit firm. This means that the audit committee’s decision cannot be based on an arbitrary assessment, but must be rooted in externally verifiable factors.

Secondly, a systemic interpretation leads to the conclusion that “objective grounds” must be considered in close conjunction with the Regulation’s primary objective of protecting the statutory auditor’s independence. Since the rule allows the continuation of the audit only for a limited period of time and subject to prior disclosure of threats to independence and the application of safeguards, the “objective grounds” must refer to such circumstances that do not nullify the effectiveness of these safeguards.

Thirdly, the normative significance of the term concerned is revealed in its time-limiting function of the exception. The rule clearly indicates that the audit can only be continued for an additional period not exceeding two years, which prejudices the exceptional and transitional nature of the audit committee’s decision. Consequently, the “objective grounds” must not be of a permanent or structural nature, but must relate to circumstances of a temporary nature that justify a deviation from the standard rotation rule or a change of the statutory auditor.

Fourthly, in the light of the principle of the effectiveness of European Union law, this term must be interpreted in a way that does not lead to the circumvention of the established threshold of 15 % of the total fees received by the statutory auditor or the audit firm in each of the last three consecutive financial years, nor to perpetuate the statutory auditor’s economic dependence on the public interest entity. This means that the “objective grounds” must be independent of the will of the parties to the audit relationship and must not be based solely on the economic interest of the statutory auditor or the entity.

As a result, it must be assumed that the term “objective grounds” acts as a narrowing clause in the regulation, the purpose of which is to allow the audit committee to take decisions of an exceptional nature, while preserving the overriding regulatory objective of protecting the independence of the statutory audit. Such a decision should be verifiable, reasoned and time-limited in nature, and its basis

must be based on circumstances that can be assessed from the perspective of external public oversight.

5.2 Exceptional exemption from the statutory auditor's fee limit in Polish law – analysis of Article 137 of the Act on statutory auditors in the context of Regulation 537/2014

The Polish legislator, implementing in the national legal order the provisions of Regulation (EU) No. 537/2014, included in Article 137 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight the mechanism of an exceptional exemption from the limit of fees received by the audit firm for non-audit services provided to a public interest entity (PIE), its parent undertaking or its controlled undertakings. This solution was permitted by the EU regulator, which provided for this institution as an exception to the fee cap rule.

Under Article 137 of the Act:

- the competent authority, i.e. the public oversight authority (the Polish Agency for Audit Oversight), may, at the request of the audit firm, exempt it from the obligation to apply the fee limit under Article 4(2) of Regulation No. 537/2014 for permitted services. The wording of the Polish rule makes it clear that this is a time-limited exemption and is given an exceptional character;
- the period of exemption cannot exceed two financial years, which underlines the temporary nature of the exception established in EU law and implemented in national law.

When considering requests for exemption, the authority shall only take into account the grounds enumerated in Article 137 of the Act, i.e.

- 1) threats to the independence of the audit firm;
- 2) additional safeguards applied by the audit firm to mitigate these risks;
- 3) important interests of the audit firm or of the audited public interest entity.

A discussion of each of these three premises will follow below.

Ad 1) Threats to the audit firm's independence that arise from possible economic or other influence with the entity of the audited PIE. This rationale is intended to ensure that, even if the exception is applied, the fundamental objectives of the EU regulations on the statutory auditor's independence are still taken into account.

With regard to the issue of independence, it should be pointed out that it needs to be considered from the point of view of meeting the independence requirements as well as the presence of a threat. As it is accepted in the doctrine, the presence of a threat does not automatically imply a lack of independence and therefore, in the event of a threat, the audit firm should take appropriate safeguards. Conversely,

failure to meet the independence requirements leads to a lack of independence or, if the failure to meet a particular independence condition occurred in the course of the audit, to a loss of independence. The key independence requirements are regulated in Articles 69-73 of the Act.

Particularly noteworthy is Article 69(6) of the Act, which regulates the obligation not to conduct an audit in the cases expressly referred to in this rule. The provision represents implementation of Article 22(1) of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ J L 2006, No. 157, p. 87, as amended), hereinafter referred to as "Directive 2006/43/EC". According to the said Union regulation, Member States are required to ensure that a statutory auditor or an audit firm shall not carry out a statutory audit if there is any risk of review of self-review, self-interest, advocacy, familiarity or intimidation, whether caused by a financial, personal, business or other relationship, between the statutory auditor, the audit firm or its network or any natural person who is likely to influence the outcome of the statutory audit and the audited entity, employment or otherwise between the statutory auditor, audit firm, its network or any natural person who is in a position to influence the outcome of the statutory audit and the audited entity, as a result of which an objective, reasonable and informed third party, taking into account the safeguards applied, would conclude that the statutory auditor's or audit firm's independence is compromised. If the statutory auditor's or audit firm's independence is affected by threats, such as self-review, self-interest, advocacy, familiarity or trust or intimidation, the auditor or the audit firm must apply safeguards to mitigate those threats. If the significance of the threats compared to the safeguards applied is such that his, her or its independence is compromised, the statutory auditor or audit firm shall not carry out the statutory audit. Member States shall in addition ensure that, where statutory audits of public-interest entities are concerned and where appropriate to safeguard the statutory auditor's or audit firm's independence, a statutory auditor or an audit firm shall not carry out a statutory audit in cases of self-review or self-interest. An analysis of Article 69(6) of the Act in conjunction with Section 120.6 A3 of the International Code of Ethics for Professional Accountants (including the International Independence Standards), attached as Annex 1 to Resolution No. 3431/52a/2019 of the National Council of Statutory Auditors of 25 March 2019 on the Rules of Professional Ethics for Statutory Auditors (as amended), leads to the conclusion that the prohibition of an audit applies to situations where:

- 1) there is a risk of self-review (i.e. the risk that the statutory auditor will misjudge the results of a previously made judgement, or of an activity performed by the statutory auditor or another person in the audit firm on whom the statutory auditor will rely in forming a judgement in the performance of the current activity);

- 2) there is a threat of self-interest (i.e. a threat that the audit firm will benefit from the audited entity other than the audit fee);
- 3) there is a risk of advocacy of the audited entity (i.e. a risk that other services or activities other than the audit will be provided or undertaken that would seek to promote the interests of the audited entity);
- 4) there is a threat of familiarity (i.e. the threat that, because of a long or close association with the client or the organisation employing them, the auditor will be too sympathetic to their interests or will also condone their actions);
- 5) there is a threat of intimidation (i.e. a threat that the statutory auditor will be prevented from acting objectively due to real or perceived pressure, including attempts to exert undue influence on the statutory auditor);

where

- 6) the above situations are caused by a financial, personal, business, employment or other relationship between the audited entity and the key auditor, the audit firm, a member of a network to which the audit firm belongs or an individual who may influence the outcome of the audit;

as a result of which

- 7) an objective, reasonable and informed third party would conclude that the key auditor's or audit firm's independence is compromised, despite safeguards in place to eliminate or reduce the risk to an acceptable level.

This issue was also addressed by the Court of Justice of the European Union, which in Point 42 of its judgement of 24 March 2021 in case C-950/19 in proceedings brought by A., indicated that “the requirement of independence has not only an internal aspect, in so far as it seeks to guarantee to the audited entity the credibility of the audit carried out by the statutory auditor responsible for that audit, but also an external aspect, in so far as it seeks to protect the confidence of third parties, such as creditors and investors, in the credibility of that audit. This external aspect is all the more important as this trust is crucial to ensure that the value of shareholders' shares is protected and thus to ensure the proper functioning of the markets as a whole for investors. Statutory audits should therefore not only be reliable, but also perceived as such by third parties”.

Ad 2) Additional safeguards applied by the audit firm to mitigate these risks. In accordance with law, the assessment of these safeguards is of factual-legal nature and aims to determine whether the measures taken minimise the risk of a breach of independence despite the application of the exemption.

Ad 3) The important interest of the audit firm or the audited entity. This premise is explicitly mentioned in the Act as an element to be taken into account by the authority when assessing an application for exemption. With reference to the aforementioned premise, it would be reasonable to consider that the “important interest” must be seen as extraordinary circumstances or fortuitous events and not as a normal consequence of the conduct of the economic operator's business

activity, in accordance with the scope of that activity. The existence of an important interest of the audit firm or the audited public interest entity cannot be determined by the subjective beliefs of the subjects, and the assessment of this premise should be made according to objectivised criteria. Not every difficulty may justify the application of the exemption, but only those that which, in the specific circumstances, would involve a threat to the material interest of the audit firm or the audited entity of interest.

The above catalogue is closed, which means that the authority has no power to consider additional or abstract criteria when deciding whether to apply an exception to the limit. Its task is limited to the assessment of the grounds indicated explicitly in Article 137 of the Act.

In addition, the Ministry of Finance, in its previously cited position paper of 29 December 2020, confirmed that the provisions on the limits of fees for non-audit services are clearly intended to limit the statutory auditor's financial dependence on the entity, and that the exception is intended as an exceptional solution and hermetically regulated in both the EU Regulation and the Act on statutory auditors. In response to a question on the limits, the Ministry points out that the provisions of the Regulation and the Act set rigid limits and conditions for their application.

It follows from the above that the rationale set out in Article 137 of the Act is closely linked to the regulatory objectives of Article 4(3) of Regulation No. 537/2014, i.e. to protect the statutory auditor's independence and to limit the impact of excessive fees from a single entity. Under both EU and national law, the exception is temporary and conditional, subject to an assessment of the risks to independence and the establishment of adequate safeguards.

6. Exceptions to the limits of fees received by the statutory auditor – comparison of the roles of audit committees and the Agency

The protection of the statutory auditor's independence in public interest entities (PIEs) is implemented, inter alia, through the limits on non-audit fees. Regulation (EU) No 537/2014 of the European Parliament and of the Council introduces a limit of 70% of the statutory auditor's fees for statutory audits, as well as a limit of 15% of the statutory auditor's total fees for additional services. However, the rules provide for exceptions to these limits, which can be applied by both the public oversight body and the audit committee operating within the audited entity.

The mechanism for the application of the exemption provided for in the Act on statutory auditors allows the audit firm to be exempted by the public oversight authority, upon the former's request, from applying the limit under Article 4(2) of Regulation 537/2014. This exemption relates to permitted services provided to the PIE, its parent undertaking or its controlled undertakings, and may be granted for a period of maximum two financial years. In granting it, the public oversight authority takes into account three considerations:

- 1) potential threats to the statutory auditor's independence arising from economic dependence on the entity,
 - 2) additional safeguards applied by the audit firm to mitigate these risks
- and
- 3) the important interest of the audit firm or the audited entity.

The decision of the public oversight authority is formal, issued through administrative act and becomes binding on the audit firm, thus ensuring its enforceability under public oversight.

In the case of the audit committee, the rules provided for in Article 4(3) of Regulation 537/2014 apply when the statutory auditor's total fees received from the PIE exceed 15% of the total fees received in the last three consecutive financial years. In such a situation, the auditor shall disclose this fact to the audit committee, discuss the potential threats to independence with the committee and outline the safeguards in place. The committee shall assess whether the conduct of the audit should be subjected to additional quality review by another auditor or audit firm before the report is issued. Where the fee continues to exceed the established threshold of 15%, the committee shall decide on the basis of objective grounds whether the statutory auditor or the audit firm may continue to carry out the statutory audit for an additional period which shall not exceed two years. This decision is operational and relates to a specific audit engagement and is intended to ensure the auditor's independence in the context of the engagement, without interfering with formal public oversight mechanisms.

When analysing the two mechanisms, one can note similarities as well as differences. Both solutions are designed to protect the statutory auditor's independence and mitigate the risks arising from economic dependence on the audited entity, and are temporarily limited to a maximum of two years. In both cases, an analysis of the threats to the statutory auditor's independence and the safeguards in place plays a key role. In the case of a public oversight body, the decision has the force of law, and takes into account the important interest of the audit firm or the audited entity, and the assessment concerns the total remuneration for all audits and services provided by the audit firm to the PIE and related entities. The decision of the audit committee, on the other hand, is internal, based on "objective grounds" and concerns a specific audit engagement and the statutory auditor's remuneration in relation to that entity. The limit applied by the committee is lower (15% of the total fees) and applies to situations where the threshold has been exceeded in the last three financial years, not to the total fee of the audit firm in the context of all services provided to the PIE.

In summary, the two mechanisms – the formal, supervisory mechanism of the public oversight body and the operational, internal mechanism of the audit committee – function in a complementary way to reduce the risk of a breach of auditor independence in the relationship with the audited entity of the PIE.

7. Sanctions for breaching the fee limit – the EU/national mechanism

Regulation (EU) No. 537/2014 does not independently establish a system of sanctions for breaches of its provisions, including Article 4(2). The obligation to provide effective supervisory and sanctioning measures, on the other hand, derives from Directive 2006/43/EC, as amended by Directive 2014/56/EU, which obliges Member States to establish a system of effective, proportionate and dissuasive administrative sanctions for statutory auditors and audit firms in the event of a breach of the provisions of the Directive and, within the scope of its application, Regulation 537/2014.

In the Polish legal order, the implementation of this obligation is carried out through the Act on statutory auditors, which establishes a national system of public oversight and administrative liability of audit firms. The Act provides for imposing administrative sanctions in the event of a breach of the provisions of European Union law governing the performance of statutory audits of public interest entities, including a breach of Article 4(2) of Regulation 537/2014.

Consequently, it should be emphasised that the substantive obligation to comply with the 70% fee limit derives directly from the EU Regulation, while the sanctioning and enforcement instruments have their origin in national law implementing the obligations under Directive 2006/43/EC.

A comparative legal analysis leads to the conclusion that the regulation of the limit for fees for non-audit services vis-à-vis public interest entities has been shaped in a multi-level model. EU law establishes a uniform substantive standard limiting the auditor's economic dependence, while national law ensures its effectiveness through ethical standards, institutional oversight and administrative accountability mechanisms.

Structured in this way, the system reinforces the independence of statutory auditors and confidence in the financial statements of public-interest entities, while pursuing the objectives of protecting the public interest at both European Union and Member State level.

Conclusions

An analysis of EU and national regulations on limits for statutory auditor fees and exceptions to these limits allows some key conclusions to be drawn. Firstly, both Regulation (EU) No. 537/2014 of the European Parliament and of the Council and the Polish Act on statutory auditors, audit firms and public oversight introduce strict mechanisms to protect the statutory auditor's independence by limiting the fees received for non-audit provided to public interest entities (PIEs), their parent undertakings and their controlled undertakings. These regulations explicitly aim to reduce the risk of the statutory auditor becoming overly economically dependent on one entity, which could compromise his or her impartiality and objectivity.

Secondly, both EU and national law provide for exceptional mechanisms – temporary derogations from the fee limits – which are strictly regulated. Regulation 537/2014 establishes an obligation for the audit committee to assess a situation in which the remuneration from one PIE exceeds 15% of the statutory auditor's total fees in three consecutive years, while requiring disclosure of threats to independence and the taking of adequate safeguards. The Polish legislator, implementing these rules in Article 137 of the Act on statutory auditors, specified the prerequisites determining the granting of exemption by the oversight authority, closing the catalogue of criteria to threats to independence, safeguards applied and important interest of the statutory auditor or the audited entity. In both EU and national law, this exception is temporary – it may not exceed two years – which clearly underlines its exceptional and temporary nature.

Thirdly, such terms as “objective grounds” and “threats to independence” play an important role in the said regulations, limiting the discretion of the audit committee or the oversight authority and requiring decisions to be verifiable, justified and consistent with the overriding objective of protecting the statutory auditor's independence. The term “objectivity” ensures that the exceptions cannot be based solely on subjective economic or organisational considerations, but must have a basis in circumstances that can be assessed from an external oversight perspective.

Finally, both the systemic interpretation and the practical interpretation of the Ministry of Finance confirm that the exceptional mechanisms only introduce a temporary and conditional derogation from the standard fee limits. Both limits and exceptions are closely linked to the principles of independence and their application requires compliance with certain procedures, transparency and the establishment of effective safeguards. Thus, EU and national regulations create a coherent system to protect the statutory auditor's independence, where exceptions are allowed only within the strict limits of the law, with the overriding objective of protecting the quality and objectivity of the statutory audit.

In summary, both the institution of the audit committee in Regulation 537/2014 and the public oversight body in the Polish Act on Statutory Auditors pursue the same regulatory objective: to allow a limited, temporary derogation from the fee limits while maintaining the highest standards of the statutory auditor's independence. An analysis of the provisions shows that the exceptions are clearly regulated, limited in time, subordinated to verification procedures and safeguards, ensuring compliance with both the spirit and the letter of EU and national law.

References

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The nature of administrative liability of the audit firm and disciplinary liability of the statutory auditor in selected case law of the common and administrative courts

DANIEL STASZEWSKI

Introduction

The formal origins of the profession of the statutory auditor in Poland date back to the Regulation of the President of the Republic of Poland of 22 March 1928 on the Law on Joint Stock Companies (Journal of Laws of 1928, No. 39, item 383)¹.

The disciplinary liability of the statutory auditor was introduced into the legal order by the provisions of the Act of 19 October 1991 on auditing and publishing financial statements and on statutory auditors and their self-government (Journal of Laws of 1991, No. 111, item 480) for conduct contrary to the principles of law, rules of the profession and professional ethics of the statutory auditor. The Act of 13 October 1994 on statutory auditors and their self-government (Journal of Laws of 1994, No. 121, item 592) introduced further changes regarding disciplinary proceedings. The entry into force of new legislation in 2017 had brought a key change in the form of clarification of the liability for conduct contrary to the provisions of law. The existing Article 31(1) of the Act of 7 May 2009 on statutory auditors and their self-government, entities authorised to audit financial statements, and on public oversight (Journal of Laws of 2009, No. 77, item 649), hereinafter referred to as “the 2009 Act”.

In accordance with the rules in currently force, i.e. Article 139(1) of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight (Journal of Laws of 2017, item 1891), hereinafter referred to as “u.b.r.”, a statutory auditor shall be subject to disciplinary liability, should he/she committ a disciplinary offence. Furthermore, Paragraph 2 of the aforementioned rule defines a disciplinary offence as:

¹ See E. Pogodzińska-Mizdrak *Zawód biegłego rewidenta – rys historyczny*, *Zaszyty Naukowe* nr 702 Akademii Ekonomicznej w Krakowie, 2006 pp. 83-92 and Wielgórska-Leszczyńska, J., & Zakrzewska, J. B. (2025). *Zawód biegłego rewidenta w Polsce i uzyskiwanie uprawnień w ocenie kandydatów*. *Studia I Prace Kolegium Zarządzania I Finansów*, (206), 9–40.

1. behaviour contrary to the rules regarding:
 - practice of the profession,
 - principles of professional ethics,
 - independence,
 - national professional standards,
- and
2. a breach of the rules regarding exercise of the obligations relating to:
 - membership in the professional self-government of statutory auditors,
 - practice of a business activity in the form of an audit firm as referred to in Article 46 u.b.r., including as a partner in a civil partnership, general partnership, partnership or limited partnership,
 - performance of duties in the management or supervisory bodies of audit firms.

It is assumed that disciplinary liability is a type of criminal liability *sensu largo*, adapted to the needs of a specific professional corporation which has developed its own professional and ethical standards that distinguish it from other groups². The disciplinary liability of the statutory auditor is culpability-based liability for an unlawful act with a social harmfulness greater than negligible.

Despite pre-existing regulations in European law, it was not until Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L 157, 9.6.2006, pp. 87-107, as amended) that the rules on the operation and liability of audit firms were laid down. In national law, the administrative liability of “entities’ authorised to audit financial statements” (“audit firms” from 21 June 2017) was introduced by the provisions of the 2009 Act.

An audit firm is subject to administrative liability for breaches specified in Articles 55(5), 61(9) and 182(1) u.b.r. or in Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ L 158, 27.5.2014, pp. 77-112, as amended), hereinafter referred to as “Regulation (EU) 537/2014”. Administrative liability is not based on the criterion of the perpetrator’s culpability, but on the fact that a legal duty has been breached. The said liability is based on objectivised measures of conduct, and holding an entity liable does not depend on the imputability of culpability, but on the mere fact that the entity’s action or omission is subject to a negative normative qualification,

² M. Wierzbowski, A. Krysiak, M. Olewiński, J. Żelazek, Rozdział IV *Odpowiedzialność dyscyplinarna biegłego rewidenta* [in:] M. Wierzbowski, A. Krysiak, M. Olewiński, J. Żelazek, *Odpowiedzialność biegłego rewidenta*, Warszawa 2017 after K. Dudka, *Zasady i zakres odpowiedniego stosowania przepisów Kodeksu postępowania karnego w sprawach odpowiedzialności dyscyplinarnej notariuszy. Zasady ponoszenia kosztów postępowania dyscyplinarnego notariuszy na tle regulacji dotyczących innych zawodów prawniczych*, Warszawa 2015, p. 5 (https://www.iws.org.pl/pliki/files/IWS_Dudka%20K._Odp.%20dyscyplinarna%20notariuszy.pdf, access: 28 March 2017).

fulfilling the elements described in, inter alia, Article 182(1) u.b.r.³ This means that an audit firm accepts administrative liability for breaching the law on the basis of strict liability rather than culpability, regardless of the key statutory auditor's liability or the audit firm's civil liability vis-à-vis the audited entity.

It can be read from the explanatory memorandum of the draft u.b.r. that the regulations in the sphere of administrative law were to define the entities on which administrative sanctions could be imposed, the catalogue of breaches resulting in administrative liability and the catalogue of administrative sanctions. The legislator's intention was not only to specify the breaches and the entities liable for them, but also the entities on which administrative sanctions could be imposed. The administrative liability of the audit firm provided for in the provisions of u.b.r. was directed towards exercising the repressive and preventive functions in connection with the administrative sanctions imposed.

As can be seen from the above review, not only have the rules of access to the statutory auditor profession changed over several decades, but so have the liability of persons who practise it and entities within which it is practised. The evolution of liability rules and the extension of the scope of public oversight of statutory auditors, their self-government and audit firms may have raised questions about the nature of the liability incurred and the possibility of combining the audit firm's criminal-administrative liability⁴ with the quasi-criminal liability, i.e. the disciplinary liability of the statutory auditor. All the more so because, unlike other professions of public trust, administrative liability has been extended to entities that are not natural persons (audit firms). Although the selected case law also relates to breaches committed under the previous state of law, i.e. under the regime of the 2009 Act, the theses contained in the reasoning of the judgements and rulings presented herein remains valid under the current u.b.r.

Administrative liability – selected rulings of the Supreme Administrative Court

Administrative liability is objective in nature, which does not imply automatism in actions of the authority and does not exempt it from the obligation to correctly, i.e. in accordance with the principle of objective truth, establish the facts of the case,

³ M. J. Zieliński [in:] *Ustawa o biegłych rewidentach, firmach audytorskich oraz nadzorze publicznym. Commentary*, ed. K. Ślebzak, M. Ślebzak, Warszawa 2018, art. 182.

⁴ The judgement of the Constitutional Tribunal of 20 June 2017 (case P 124/15) - "In relation to the system of sanctions taking the form of pecuniary sanctions, sanction charges, increased charges and other similar punishments of a financial nature imposed ex post and, as a rule, without the possibility of waiving their enforcement, the term **"administrative and criminal law"** is sometimes used (D. Szumila-Kulczycka, op. cit., p. 29; L. Wilk, op. cit., p.160)."

make a comprehensive assessment of those facts⁵ and impose a proportionate sanction. To this end, the legislator set out the directives for the assessment of the sanction which included, inter alia, verification of the breaches committed so far which could be subject to an administrative sanction under a decision of the Polish Agency for Audit Oversight or the National Council of Statutory Auditors. In this context when determining the sanction imposed on the audit firm, emerged also the question of taking into account the disciplinary record of the auditor who performed the contested audit on behalf of the audit firm. **This doubt was resolved and thoroughly described in the reasoning of the judgement of the Supreme Administrative Court of 11 October 2022 (court file no. II GSK 857/19) and the reasoning of the judgement of the Voivodeship Administrative Court in Warsaw of 5 December 2018 that preceded it (court file no. VI SA/Wa 1477/18).**

The above case concerned breaches committed under the regime of the 2009 Act. The National Council of Statutory Auditors imposed a pecuniary sanction of PLN 60,000 on a company, as a sanction for the irregularities found during the audit conducted by the National Oversight Commission with regard to the internal quality control system, remuneration charged for audit, and irregularities with regard to the auditing activities performed, including compliance with applicable auditing standards and independence requirements.

In its appeal, the company requested that the decision of the National Council of Statutory Auditors be either revoked in its entirety or revoked and the case be referred back to the first instance authority for reconsideration, alleging, inter alia, misinterpretation and misapplication of the provisions regarding the development and effective implementation of an internal quality control system and remuneration for auditing activities through the imposition of a pecuniary sanction despite the lack of grounds for doing so.

The Audit Oversight Commission, acting as a body of appeal, decided to annul the aforementioned resolution of the National Council of Statutory Auditors in its entirety and imposed a pecuniary sanction of PLN 56,018 on the company. The company appealed against this decision to the Voivodeship Administrative Court in Warsaw, requesting that the complaint be upheld and the decision (i.e. the resolution of the Audit Oversight Commission) be annulled. The Voivodeship Administrative Court in Warsaw dismissed the company's complaint on the grounds that the nature of the shortcomings found by the inspectors of the National Oversight Commission, in particular consisting of incorrect documentation of the audits performed, led to the conclusion that the purpose of the internal quality control system at the audit firm (authorised to audit financial statements) had not been fulfilled. The company filed a cassation appeal against the judgement, requesting that the contested judgement be annulled in its entirety and that the case be referred back to the court of first instance.

⁵ Judgement of the Supreme Administrative Court of 11 September 2019, II GSK 784/18, LEX no. 3167830.

The Supreme Administrative Court found that the argumentation that was contained in the grounds of the cassation appeal was insufficient to challenge the legality of the judgement. In the opinion of the Supreme Administrative Court, “the reasoning of the cassation appeal was limited to a general polemic against the assessment of the facts, not supported by any specific grounds or legal arguments”, which was considered insufficient to challenge the legality of the judgement of the Voivodeship Administrative Court in Warsaw. In particular, the Court did not recognise the plea raised in the reasoning of the cassation appeal challenging the severity of the violations found and the failure to discipline (by the disciplinary ombudsman) the person responsible for the breaches found in this case.

In the opinion of the Supreme Administrative Court, which was also aptly argued by the Audit Oversight Commission in its position on the compliant’s arguments, the specific nature of administrative liability must be emphasised: “... in this case we are dealing with a pecuniary sanction for a breach of a public law obligation by the cassation complaint, and therefore with an administrative sanction. This is a separate type of liability, not based on culpability, but on an objective basis. The grounds for this liability and its prerequisites are different from the disciplinary liability to which individual statutory auditors are subject, as the Court rightly pointed out in the appealed judgement”. The Voivodeship Administrative Court in Warsaw, explained in its reasoning that “these are therefore independent proceedings in which the conduct of other entities is assessed and on a different basis, albeit having its origin in the present case in the findings of a single review proceeding”.

This position was confirmed by the judgement of the Supreme Administrative Court of 9 February 2023 (court file no. II GSK 1413/19). That case also concerned breaches committed under the regime of the 2009 Act and conducted in accordance with the u.b.r. on the basis of the rules hitherto in force, which resulted in the imposition of a pecuniary sanction of PLN 12,300 by the National Council of Statutory Auditors for the types and scope of irregularities found during an audit of the National Oversight Commission. The irregularities concerning the audit actions performed indicated that the company’s internal quality control system was not functioning properly. The party appealed against the aforementioned resolution in its entirety, challenging that it had been issued without any legal or factual basis, and requested that the resolution be annulled and the the proceedings on the imposition of the pecuniary sanction be discontinued. On considering the appeal, the Audit Oversight Commission upheld the contested resolution in its entirety. Furthermore, in its justification, it explained that the legislator, in a transitional provision (Article 265 of u.b.r.), indicated that entities authorised to audit financial statements on the basis of the provisions hitherto in force (the 2009 Act) had become audit firms and that the irregularities in the functioning of the party, as an entity authorised to audit financial statements, found in the course of the review, as well as their nature and extent, justified the application of the sanction. In the opinion of the Audit Oversight Commission, there was no

circumstance of the company having been previously punished for the same conduct for a criminal offence, a fiscal offence, a misdemeanour or a fiscal misdemeanour. In addition, no repeated breaches or irregularities of the same type were found that would affect the amount of the sanction.

The Audit Oversight Commission, referring to the Party's allegation, pointed out that the discontinuation of the disciplinary investigation against the statutory auditors did not mean that the irregularities found in the course of the review of the company had not existed. Consequently, it held that the question of discontinuing two disciplinary proceedings against one of the auditors and not doing so against the other had not affected the outcome of the case.

The company appealed against this decision to the Voivodeship Administrative Court in Warsaw, requesting that the complaint be upheld and the decision be annulled. Both the Voivodeship Administrative Court in Warsaw⁶ and the Supreme Administrative Court dismissed the Party's appeals. In the opinion of the Supreme Administrative Court, both the Voivodeship Administrative Court and the Audit Oversight Commission rightly assumed that the arguments of the cassation complaint, repeated on numerous occasions in the course of the administrative and administrative court proceedings, about the lack of legitimacy of conducting administrative proceedings and imposing a pecuniary sanction on it as an audit firm in the situation of discontinuation of disciplinary proceedings in the cases regarding one auditor, and the continuation of the proceedings (and therefore lack of a resolution) in relation to the other auditor, had no justified grounds.

In the above judgement, the Supreme Administrative Court also addressed the issue of the possibility of admitting as evidence in administrative proceedings rulings and documents from disciplinary proceedings, indicating that "taking additional evidence-gathering measures from rulings and documents that arose in proceedings before the Disciplinary Ombudsman would not affect the content of the decision and would lead to an unjustified prolongation of the proceedings". The circumstances of a particular case may therefore indicate that it is reasonable to dispense with such evidence if the relevant facts have been clarified.

Another ruling, which at the same time demonstrates the formation of a uniform line of jurisprudence regarding the nature of the audit firm's liability, is the judgement of the Supreme Administrative Court of 29 March 2023 (court file no. II GSK 1085/19), in the reasoning of which the court addressed the issue of the effect of the statute of limitations for disciplinary breaches on administrative liability.

⁶ Judgement of the Voivodeship Administrative Court in Warsaw of 4 July 2019, VI SA/Wa 457/19.

In the case in question, the National Council of Statutory Auditors ruled to impose a pecuniary sanction of PLN 1,000 on the complaint for breaches committed under the regime of the 2009 Act identified in the course of a review carried out by the inspectors of the National Oversight Commission. The appeal body (the Audit Oversight Commission) annulled the contested resolution in its entirety and referred the case back to the body of first instance for reconsideration.

The National Council of Statutory Auditors, ruling again, imposed a pecuniary sanction of PLN 1,900 on the complaint. The Audit Oversight Commission again annulled the contested resolution of the National Council of Statutory Auditors in its entirety due to the breach of the limit on the amount of the pecuniary sanction specified in Article 27(1)(3)(a) of the 2009 Act and imposed a sanction in the new amount of PLN 1,731. The appeal by the party contesting the Audit Oversight Commission's resolution for breach of the aforementioned rule was dismissed by the Voivodeship Administrative Court in Warsaw⁷.

Considering the cassation appeal against the said judgement, the Supreme Administrative Court annulled the contested judgement in its entirety and annulled the contested decision. When assessing the allegations raised by the Party in the cassation appeal, the Court found as unjustified the cassation allegation consisting in the failure to apply the rule (Article 35(4) of the 2009 Act) in the administrative proceedings, which stipulated that the punishability of a disciplinary offence ceases if 5 years have elapsed since it was committed.

Emphasising the distinctiveness of the proceedings, the Supreme Administrative Court stated that "(...) both types of proceedings are independent mechanisms for drawing legal consequences in relation to an entity that is granted a special status by law, most often the status of a person of public trust". The Supreme Administrative Court also noted that the proceedings (administrative and disciplinary) take place under different legal regimes, and for this reason they cannot be combined in the manner set out in the cassation allegation which indicates that an administrative breach is time-barred when a disciplinary offence is time-barred.

An exception limiting disciplinary liability and, at the same time, its transfer to the administrative law regime is the situation of a statutory auditor who runs a single person business. Pursuant to Article 140 u.b.r., disciplinary proceedings shall not be initiated, and initiated proceedings shall be discontinued, in respect of an act for which a statutory auditor entered on the list referred to in Article 46(1) u.b.r. (i.e. a business activity carried on by the statutory auditor on their own behalf and for their own account) may face the administrative sanction referred to in Article 183(1) u.b.r.

⁷ Judgement of the Voivodeship Administrative Court in Warsaw of 16 April 2019 (file no. VI SA/Wa 1878/18).

As pointed out by M. J. Zieliński “(...) this provision indeed establishes a negative procedural prerequisite in the disciplinary proceedings of statutory auditors that is additional to the grounds provided for in the Code of Criminal Procedure (see Article 17 of the Code of Criminal Procedure). (...) As it transpires from the explanatory memorandum of the draft law under comment, the purpose of the regulation in question is to avoid double punishment of statutory auditors who are simultaneously registered on the list of audit firms”⁸.

Disciplinary liability against the background of selected rulings of common courts

1) Liability of a person who has been removed from the register of statutory auditors for a disciplinary offence committed when practising the profession.

This issue was considered by the National Disciplinary Court in disciplinary proceedings for failure to comply with the mandatory obligation of continuing professional development against a person **removed from the register of statutory auditors**.

The National Disciplinary Court found that the defendant had failed to fulfil his mandatory obligation of professional development and ruled to impose the sanction of the notice. In his appeal against this ruling, the defendant alleged errors in the factual findings, i.e. the failure to take into account the statement on resignation from the membership in the profession and a breach of procedural rules. **In the reasoning of its judgement of 25 May 2022 (court file no. II AKa 40/21)**, the Court of Appeal in Gdańsk, while not sharing all the allegations, nevertheless pointed to the existence of an absolute ground for appeal specified in Article 439 § 1(9) of the Code of Criminal Procedure in conjunction with Article 17 § 1(11) of the Code of Criminal Procedure, in conjunction with Article 171(1) u.b.r. The Court of Appeal thus did not share the position of the National Disciplinary Court, indicating that “if a person (...) is therefore no longer a statutory auditor as a result of being removed from the register of statutory auditors, they cannot be subject of disciplinary liability”.

As the basis for its reasoning, the Court of Appeal took the catalogue of sanctions listed in Article 159(1) u.b.r. adapted to persons with the status of a statutory auditor. With regard to the first sanction in this catalogue, i.e. the sanction of the notice, the imposition of which requires the imposition of an obligation to cease irregular conduct and to refrain from such conduct in the future, the Court of Appeal explained that “it is impossible to consider that someone who is no longer a statutory auditor, and therefore no longer performs the duties associated with

⁸ M. J. Zieliński [in:] *Ustawa o biegłych rewidentach, firmach audytorskich oraz nadzorze publicznym. Commentary*, ed. K. Ślebzak, M. Ślebzak, Warszawa 2018, art. 140.

that profession, could cease specific [irregular - D.S.] conduct. At the same time, it cannot be assumed that a reasonable legislator would have wished to exclude the possibility of imposing the mildest sanction, i.e. the sanction of the notice provided for in Article 159(1)(1), on persons who have lost their status of a statutory auditor while allowing only the possibility of imposing a more severe sanction, i.e. a pecuniary sanction. It is also worth noting that the sanctions in Points 3 to 7 [prohibition sanctions: Article 159(1) u.b.r. – D.S.] would have no relevance to persons who have ceased to practise as statutory auditors as a result of being removed from the register”. As part of systemic interpretation, the Court of Appeal noted that regulations similar to those concerning the possibility for retired judges or bailiffs to be held liable in the event of resignation from duties were not included in u.b.r.

2) Disciplinary liability for a disciplinary offence of a greater degree than negligible corporate harmfulness.

Criminal liability can be incurred for an act that is socially harmful to a degree greater than negligible, and under disciplinary liability for an act that is corporately harmful. In assessing the degree of harmfulness, the subjective and objective elements are taken into account. As noted by **the Supreme Court in its decision of 5 June 2024 (court file no. II KK 378/23)**, an act with a negligible degree of social harmfulness, as opposed to a minor case, does not constitute a crime. “It is only when the borderline of negligibility is exceeded that the social harmfulness of a criminal act can be assessed, in the context of certain circumstances characterising the object and subject of the act, constitutive of its being considered a minor case. The assessment indicating that a given act may be qualified as a minor case is therefore determined only by those circumstances which affect the assessment of the degree of social harmfulness of the act. This precludes an act whose social harmfulness is negligible from being considered a minor case whose degree of social harmfulness must be greater than negligible, and vice versa. An act whose degree of social harmfulness is greater than negligible precludes the possibility of concurrent recognition that its social harmfulness is negligible”, reads the decision of the Supreme Court.

On the other hand, in disciplinary proceedings against a statutory auditor, “a negligible degree of social harmfulness of the act excludes the possibility of initiating disciplinary proceedings, and if it is established in the course of the proceedings that the degree of social harmfulness of the act is negligible, the proceedings should be discontinued”⁹. It should be added that corporate harmfulness is defined in case law “as (...) social harmfulness within the meaning of the premises of criminal law, assessed in the light of the harm to the professional community concerned. Corporate harmfulness is the effect that results from the conduct of a given entity in a manner contrary to the accepted model duty of behaviour for the corporation

⁹ M. Wierzbowski, A. Krysiak, M. Olewiński, J. Żelazek, 2.6. *Spoleczna szkodliwość czynu* [in:] M. Wierzbowski, A. Krysiak, M. Olewiński, J. Żelazek, *Odpowiedzialność biegłego rewidenta*, Warszawa 2017.

to which that entity belongs”¹⁰. The degree of harmfulness of a disciplinary offence is determined by, inter alia, subjective factors concerning the perpetrator, as well as by factors of an objective nature, i.e. the extent of the harm, the manner and circumstances in which the act was committed, and the type and significance of the rules of professional conduct breached. According to disciplinary jurisprudence¹¹ in cases of involuntary lack of prudence, relevant are: the type of prudential rules breached violated and the degree to which they have been breached, i.e. the circumstances of an objective nature¹².

In the reasoning of the judgement of 8 February 2022 (court file no. II AKa 176/21), the Court of Appeal in Warsaw pointed out that “no one can be found guilty of a disciplinary offence if the act that a person is alleged to have committed is characterised by negligible corporate harmfulness”. The subject of the disciplinary proceedings concerning a key statutory auditor initiated by the National Disciplinary Ombudsman was the breaches concerning the audit of consolidated financial statements identified during a review by the National Oversight Commission. The National Disciplinary Court discontinued the disciplinary proceedings pursuant to Article 171 u.b.r. and Article 17 § 1(3) of the Code of Criminal Procedure (negligible corporate harmfulness of the act), while finding the defendant guilty of the alleged act.

An appeal was lodged by the defendant’s defence counsel, alleging an infringement of procedural rules that could have affected the content of the ruling in terms of an internal contradiction in the judgement consisting in finding the defendant guilty of the alleged act and, at the same time, discontinuing the proceedings due to the negligible social harmfulness of the act. The Court of Appeal amended the contested ruling by eliminating the term “culpability” from the text of the judgement, because “no one can be found guilty of a disciplinary offence if the act allegedly committed by the person concerned is characterised by negligible corporate harmfulness”. The remaining part of the ruling of the National Disciplinary Court was upheld (discontinuation).

In the view of the Court of Appeal, one had to agree with the position of the court of first instance (the National Disciplinary Court), from which it followed that the failure to indicate in which items of the financial statements information relating to the content of the explanatory note was disclosed, could not make it impossible to find such content in the statements. The reasoning stated that “the obligation to include relevant references is of a purely technical nature and does not affect the assessment of the fairness of the audit carried out. It therefore has no negative

¹⁰ Decision of the SC of 8 December 2017, II DSI 31/18, LEX No. 2642152, judgement of the SC of 20 July 2011, SNO 31/11, LEX No. 1288859; judgement of the SC of 25 October 2016, SNO 42/16, LEX No. 2149216.

¹¹ Judgement of the SC of 15 February 2019, SDI 30/14, LEX No. 1554338.

¹² Indeed, social harmfulness extending beyond a give law corporation, and thus relating directly or indirectly to the society as a whole, can only be assessed when the defendant in the disciplinary proceedings is accused of committing a tort which is also a criminal act.

consequences from the perspective of the purpose of the financial statement analysis. It should also be noted that such behaviour was unintentional and that the defendant admitted his mistake, which will help to eliminate such shortcomings in the future. Taking into account the quantifiers of social harmfulness from Article 115 § 2 of the Criminal Code¹³, one should share the position regarding the insignificant corporate harmfulness of the defendant's conduct, and thus on the legitimacy of the decision on the discontinuation of the disciplinary proceedings against him".

3) Attribution of culpability in disciplinary offence committed by a statutory auditor.

Proceeding to a consideration of how a disciplinary offence may be committed, it should first be noted that criminal doctrine and jurisprudence have defined the conditions for the attribution of culpability at the time of the offence. These are:

- the perpetrator's capacity for culpability as determined by age (Article 10 § 1 and 2 of the Criminal Code) and sanity (Article 31 of the Criminal Code),
- the possibility of recognising the unlawfulness of the act (Article 30 of the Criminal Code) and the absence of an excusable error as to a circumstance excluding unlawfulness or culpability (Article 29 of the Criminal Code),
- the requirement of lawful conduct in the context of Article 26 § 2 of the Criminal Code,

and furthermore

- the intentionality or unintentionality of the perpetrator's act.¹⁴

Against this background, a change in the case law of the Court of Appeal in Wrocław deserves to be presented.

In its rulings of 5 June 2024 (court file no. II AKa 404/23) and 26 September 2024 (court file no. II AKa 270/24), the Court of Appeal in Wrocław held that in order for a disciplinary tort to be attributable under u.b.r. the act must be intentional.

In the first of the aforementioned cases, the Regional Court in Wrocław, in its ruling of 19 September 2023 (court file no. III K 145/22) found the defendant guilty of a disciplinary offence under u.b.r. and imposed a pecuniary sanction. The key auditor's infringements included, inter alia, deficiencies in the audit documentation as regards audit planning and deficiencies in the collection of audit evidence and documentation of compliance and assurance procedures as regards significant items of the financial statements. In the appeal, the defendant's defence counsel alleged errors in the factual findings, breach of procedural rules affecting the ruling, and breach of substantive law. In its appeal, the Polish Agency for Audit Oversight alleged an error in the factual findings adopted as the basis of the contested ruling

¹³ The author's commentary - the Act of 6 June 1997 on the Criminal Code (Journal of 2025, item 383 as amended).

¹⁴ W. Kozieliwicz, *Rozdział VI Podstawowe instytucje dyscyplinarnego prawa materialnego [in:] Odpowiedzialność dyscyplinarna sędziów, prokuratorów, adwokatów, radców prawnych i notariuszy*, Warszawa 2023.

which had an impact on its content as regards deviation from the obligation to publicise and the gross disproportionality of the disciplinary sanction. In its ruling of 5 June 2024 (court file no. II AKa 404/23), the Court of Appeal in Wrocław amended the contested ruling, acquitting the defendant and holding that a disciplinary offence by a statutory auditor may only be committed through wilful misconduct.

In the second of the aforementioned cases, the Regional Court in Wrocław, in a ruling of 24 May 2024 (court file no. III K 353/23), found the defendant guilty of a disciplinary offence under Article 31(1) of the 2009 Act and imposed a pecuniary sanction. The key auditor's breaches included, among others, failing to collect sufficient and appropriate audit evidence during the audit. An appeal against the ruling was lodged by the defendant's defence counsel, alleging a breach of substantive law and, alternatively, a breach of procedural rules, errors in the factual findings and a breach of substantive law. The Court of Appeal in Wrocław ruled on 26 September 2024 (court file no. II AKa 270/24) amended the contested ruling, acquitting the defendant and raising in its reasoning the same arguments as those indicated in the ruling of 5 June 2024 (court file no. II AKa 404/23).

Meanwhile, in a ruling of 21 July 2025 (court file no. II AKa 462/24) issued after considering the appeal of the Defendant's defence counsel against the conviction by the Regional Court in Wrocław. **The Court of Appeal in Wrocław** did not share the view expressed by the aforementioned Regional Court in its earlier rulings that a statutory auditor could commit a disciplinary tort only intentionally.

In this case, the Regional Court in Wrocław, in its ruling of 18 October 2024 (court file no. III K 350/22), found the defendant guilty of a disciplinary offence. An appeal against this ruling was lodged by the defendant's defence counsel, who alleged errors in the factual findings, a breach of procedural rules affecting the ruling and a breach of substantive law. The allegations included, inter alia, procedural shortcomings of the review by the Polish Agency for Audit Oversight, as well as the Regional Court's lack of competence in accounting when assessing the auditors' (inspectors') opinions and statements, and its partial acceptance of the auditors' statements contained in the prepared opinion. The Court of Appeal in Wrocław changed the pecuniary sanction to the sanction of the notice, but contrary to the existing case law, it found that a disciplinary offence could also be committed unintentionally.

The Court of Appeal explained that a disciplinary offence could be committed by a statutory auditor both intentionally and unintentionally. In view of a number of case law and doctrinal views on various public trust professions cited by the Regional Court and the prosecutor (the Polish Agency for Audit Oversight), the Court of Appeal saw no need to refer the legal question to the Supreme Court in connection with the application by the Polish Agency for Audit Oversight. The view that a disciplinary offence under u.b.r. can only be committed intentionally was

found by the Court of Appeal to be isolated and not supported by other rulings or the views of the doctrine.

According to the Court of Appeal, “undoubtedly, the content of the cited rulings and the presented doctrinal positions make it possible to assume that also the disciplinary offences referred to in u.b.r. can be committed not only intentionally, but also unintentionally. (...) Since the Act on statutory auditors does not directly specify this, it must be assumed that it provides for the disciplinary liability of statutory auditors for both intentional and unintentional misconduct. (...) Clearly, among the reprehensible behaviour that can happen to statutory auditors, there is also behaviour which is characterised by unintentionality and which should not be outside the regime of disciplinary responsibility (...)”.

The Court of Appeal further elaborated on the view, noting that there was no objective indication that the acts of statutory auditors subject to disciplinary liability could relate only to behaviour of an intentional nature: “then a whole range of reprehensible behaviour of an unintentional nature, which after all should also be subject to disciplinary responsibility, would remain outside the criminal sanction”.

In the context of the aforementioned judgement it should be noted that, just as in the case of disciplinary offences of judges (see judgement of the Supreme Court of 26 April 2017, SNO 6/17, LEX No. 2288135), medical doctors or other persons practising other professions of public trust, when it comes to the disciplinary liability of statutory auditors, u.b.r. does not distinguish between the form of fault by which a statutory auditor may commit a disciplinary offence. This means that it is possible to commit a disciplinary offence also through unintentional fault. It may also be recalled after W.Kozielewicz that the Supreme Court - the Disciplinary Court in its judgement of 4 September 2003, SNO 51/03, OSNSD 2003/2, item 54, stated that from the subjective side, any type of fault, including unintentional fault, is sufficient to attribute a disciplinary offence to a judge.¹⁵ In its judgement of 28 May 2008, the Supreme Court (SNO 32/08, LEX No. 1288860) emphasised that “a disciplinary offence may, in fact, also be committed unintentionally, as a result of a breach of obligations arising from the official pragmatics, the oath taken or the principles of professional ethics of judges, which prescribe the conscientious performance of duties”.

The cited case law also confirms the view of the doctrine which assumes that a disciplinary offence by a statutory auditor can be committed intentionally as well as unintentionally: “the intentional or unintentional manner of conduct will indeed be relevant in assessing the degree of social harmfulness of the act. The fulfilment of the condition of culpability must be examined at the very end of the analysis of whether a disciplinary offence has been committed, i.e. after it has been

¹⁵ W. Kozielewicz, *Rozdział VI Podstawowe instytucje dyscyplinarnego prawa materialnego* [in:] *Odpowiedzialność dyscyplinarna sędziów, prokuratorów, adwokatów, radców prawnych i notariuszy*, Warszawa 2023.

established that the act in question fulfils the elements of such an offence (e.g. that it is contrary to national professional standards or the principle of independence) and after it has been established that the degree of social harmfulness of such an act is greater than negligible”¹⁶.

4) The nature of breaches committed in a disciplinary offence misconduct by a statutory auditor.

The statutory auditor’s liability is also affected by an assessment of the nature of the breaches. Criminal law distinguishes between substantive offences (those whose statutory elements include the occurrence of a specific effect) and formal offences (those whose elements do not include an effect and are committed when the perpetrator behaves as described in the Act). In the course of disciplinary proceedings, there may have been doubts as to whether the statutory auditor’s breach of the rules set out in the professional standards requires the demonstration of an effect and, if so, what form that effect takes in order to qualify the irregular action as a disciplinary offence. This issue was the subject of one of the recent judgements. In the reasoning for **a ruling decision of the Court of Appeal in Łódź of 13 October 2025 (court file no. II AKa 234/25)**, the Court clearly indicated that disciplinary offences of the statutory auditor are formal in nature.

In the case in question, the Regional Court in Płock, in its ruling of 12 March 2025 (court file no. II K 5/24), taking into account the opinion of the court expert appointed in the case, found the key statutory auditor guilty of a disciplinary offence and imposed a pecuniary sanction, and further ordered that the first name, surname and number from the register of statutory auditors be made public and stated that the audit reports did not meet the requirements of Article 83(3)(a) in conjunction with Article 84 u.b.r. The breaches included, inter alia, deficiencies in the audit documentation, and lack of sufficient and appropriate evidence of certain procedures. The judgement was appealed by the defendant’s defence counsel alleging violation of substantive law, procedural rules, error in the factual findings and gross disproportionality of the punishment and repressive measure. The Court of Appeal upheld the contested decision.

The Court of Appeal noted that the defence’s principal line of argument was that the breaches of the regulations governing the conduct of the statutory auditor, as identified by the court expert, were of a purely formal nature and did not have the effect of rendering the opinion on the audited report unfair. In the Court’s view, the defence counsel overlooked that, like criminal offences, disciplinary torts can be formal and from abstract exposure, and provided the following reasoning: “the definition of a disciplinary offence under u.b.r. (...) indicates that the offence in question is of a formal nature and from an abstract exposure. Its elements do not

¹⁶ M. Wierzbowski, A. Krysiak, M. Olewiński, J. Żelazek, 2.5. *Odpowiedzialność na zasadzie winy* [in:] M. Wierzbowski, A. Krysiak, M. Olewiński, J. Żelazek, *Odpowiedzialność biegłego rewidenta*, Warszawa 2017.

include the effect and the bringing in of immediate danger. **The tort was committed at the minute the accused breached the rules of professional conduct”.**

The Court of Appeal also pointed out that social corporate harmfulness in the case of formal offence from abstract exposure can also result in a breach of the good in their course, “as long as the state of threat can turn into a breach, so there is the danger”. It can therefore be assumed that failure to comply with the mandatory rules when carrying out an audit creates, in itself, a threat to the good that is the security of economic transactions, through the loss of public trust in the quality of the audit work carried out by the statutory auditor and, consequently, may lead to a loss of confidence in the reliability of the verification of the financial data of economic entities.

The Court of Appeal also highlighted the special legal circumstances of the statutory auditor profession as a profession of public trust: “it is specifically regulated in terms of how the services are provided. The standards of professional conduct are mandatory for all members of the corporation. The defendant’s breach of the regulations requiring the statutory auditor to comply with certain acts is particularly deserving of punishment, given the area the auditor was auditing”.

Conclusions

The profession of the statutory auditor is the only profession of public trust that is so specifically regulated in terms of how the services must be provided. Audit firms are the only entities operating in the area of public trust professions on which law imposed requirements regarding their operation and organisation. The consequence of these regulations is the administrative (criminal-administrative) liability of audit firms and the disciplinary (quasi-criminal) liability of statutory auditors. The application of the principles of liability in both legal regimes requires taking into account the acquis of the science of administrative law (objective liability) and criminal law, disciplinary liability on the basis of both intentional and unintentional guilt, a degree of corporate harm higher than negligible, for disciplinary offences that are in the nature of formal violations, irrespective of whether they have actually produced effects.

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Administrative sanctions imposed on audit firms by The Polish Agency for Audit Oversight – selected legal issues

KATARZYNA MELGIEŚ

The subject-matter of this study is complex. On the one hand, it constitutes an attempt to describe the functions of administrative sanctions imposed by The Polish Agency for Audit Oversight (hereinafter: the Agency) in the process of sanctioning administrative offences pursuant to the provisions of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight¹. On the other hand, it analyses the key principles relevant to the imposition of administrative sanctions in the context of their objectives.

In view of the breadth of the issue referred to in the title, the considerations set out in this study are confined to sanctions imposed under Article 182 of the Act (u.b.r.) and focus primarily on the functions of administrative sanctions imposed on audit firms, together with an indication of the principles binding the authority in the course of that process.

The reason for addressing this topic is the wish to present the experience developed by the Agency over more than five years of operation, as well as by its predecessor – the Audit Oversight Commission². In certain areas, the legal perspective arising from that practice and adopted in the Agency’s decisions has been confirmed in the case law of the administrative courts (this issue is discussed in the article by Daniel Staszewski, “Charakter odpowiedzialności administracyjnej firmy audytorskiej i dyscyplinarnej biegłego rewidenta w wybranym orzecznictwie sądów powszechnych i administracyjnych” [“The nature of administrative liability of the audit firm and disciplinary liability of the statutory auditor in selected case law of the common and administrative courts”], published in this issue of *Rocznik Audytu i Rachunkowości* [The Yearbook of Auditing and Accounting] – ed.). This issue is

¹ Journal of Laws of 2025, item 189; hereinafter referred to as: the Act on Statutory Auditors or the u.b.r.

² The Polish Agency for Audit Oversight has operated within the Polish legal order since 1 January 2020. It was established pursuant to Article 12 of the Act of 19 July 2019 amending the Act on Statutory Auditors, Audit Firms and Public Oversight and certain other acts (Journal of Laws of 2019, item 1571); that provision simultaneously abolished the Audit Oversight Commission (KNA) – PANA’s predecessor. PANA was established as a new public oversight authority, as a consequence of transforming the existing public oversight body – the said KNA (a collegial body administered by the Ministry of Finance) – into a separate institution – a legal person forming part of the public finance sector. Pursuant to Article 27 of the aforementioned Act, in administrative proceedings and proceedings before the administrative courts which had been initiated and not concluded before 1 January 2020, and in which the KNA was, or could have been, a party, the Agency assumed the rights and obligations of that party.

of material importance, in particular in order to secure procedural guarantees for parties participating in proceedings conducted in connection with established infringements, and to ensure the transparency of the Agency's activities in performing this aspect of the public oversight function exercised over audit firms.

1. The Agency's public oversight tasks from the perspective of EU law

The provisions of the Act on Statutory Auditors, Audit Firms and Public Oversight governing the principles of public oversight of audit firms reflect the implementation of European Union law³ regulating the segment of the market related to the provision of statutory audit services. This legislative framework pursues, inter alia, the improvement and harmonisation of the quality of annual financial statements and consolidated financial statements within the EU, the facilitation of cooperation with a view to reinforcing confidence in such audits, and the elimination of improper corporate conduct. They also constitute an element of the guarantee of increased stability and trust in commercial dealings.

Directive 2014/56/EU lays down the core rules applicable to all audit firms and statutory auditors. It is aimed at strengthening investors' confidence in the accuracy and reliability of financial statements by improving the quality of statutory audits performed within the EU⁴. The domestic regulatory framework adopted in the u.b.r. were also intended to incorporate into the national legal order, inter alia, measures designed to reinforce public oversight by expanding its powers to impose sanctions and sanctions, including by tightening them⁵. Directive 2014/56/EU indicates that competent authorities should have the power to impose administrative pecuniary sanctions that are genuinely dissuasive⁶, while not excluding other types of sanctions having the same effect. The Directive further refers⁷ to the need to implement administrative sanctions in line with the Commission Communication of 8 December 2010, "Reinforcing sanctioning regimes in the financial services sector"⁸. That Communication addresses a system of broadly conceived

³ The Act implements, in particular, the provisions of Directive 2006/43/EC of the European Parliament and of the Council of 16 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L 157, 9 June 2006, p. 87, as amended) (hereinafter: Directive 2006/43/EC). The adoption of the regulatory framework contained in the Act on Statutory Auditors, Audit Firms and Public Oversight (u.b.r.) was, however, primarily intended to transpose into the national legal order the provisions of the new EU audit framework, comprising Directive 2014/56/EU amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (OJ L 158, 27 May 2014, p. 196) (hereinafter: Directive 2014/56/EU), and Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities (OJ L 158, 27 May 2014, p. 77, together with the Corrigendum in OJ L 170, 11 June 2014, p. 66) (hereinafter: Regulation (EU) No 537/2014) – for which the Act also provides the national legal framework necessary for its application.

⁴ Recital 31 of Directive.

⁵ See Uzasadnienie projektu ustawy o biegłych rewidentach, firmach audytorskich oraz nadzorze publicznym [Explanatory memorandum to the draft Act on Statutory Auditors, Audit Firms and Public Oversight] (Sejm paper No 1092, 8th term of the Sejm).

⁶ See Recital 15 of Directive 2014/56/EU: Competent authorities should be able to impose administrative pecuniary sanctions that have a real deterrent effect, for instance in an amount of up to one million euros or higher in the case of natural persons and up to a certain percentage of total annual turnover in the preceding financial year in the case of legal persons or other entities. That goal is better achieved by relating the pecuniary sanction to the financial situation of the person committing the breach.

⁷ See Recital 15 of Directive 2014/56/EU.

⁸ Commission Communication of 8 December 2010, *Reinforcing sanctioning regimes in the financial services sector*, <https://eur-lex.europa.eu/legal-content/PL/TXT/HTML/?uri=CELEX:52010DC0716>, accessed: 10.02.2026, hereinafter: European Commission Communication.

administrative sanctions and treats them as a material component of the public oversight framework. Such an approach constitutes, in effect, a response to the 2008 financial crisis and the audit weaknesses revealed at that time, the consequences of which justify the introduction of prudential rules in financial institutions, in order to ensure the safety, stability and integrity of financial markets⁹. Effective sanctions are an essential component of any regulatory system and a key element of the supervisory system, which should ensure the soundness and stability of financial markets and, consequently, the protection of consumers and investors. Accordingly, in order to ensure strict compliance with the law, sanctions must be effective, proportionate and dissuasive. In line with the Communication: “Sanctions can be considered effective when they are capable of ensuring compliance with EU law, proportionate when they adequately reflect the gravity of the violation and do not go beyond what is necessary for the objectives pursued, and dissuasive when they are sufficiently serious to deter the authors of violations from repeating the same offence, and other potential offenders from committing such violations”¹⁰. The legally protected interest here is the public interest in the credibility of financial information. The fundamental – indeed systemic – protected value is the truthfulness, reliability and clarity of financial information on which economic decisions are based, whether by individual and institutional investors, creditors, or other market participants. The solutions adopted in Directive 2006/43/EC also serve to build and maintain confidence in capital markets.

The statutory provisions referred to above, which confer on the Agency powers in the field of public oversight of audit firms, reflect the implementation of Article 32 of Directive 2006/43/EC. Those powers are linked to statutory obligations of a public-law (administrative-law) nature imposed on audit firms. In conjunction with the control and sanctioning mechanisms, this design is intended to enable a prompt and effective response to identified irregularities, with a view to maintaining compliance with the law. In this manner, the Agency, as a national public authority, has been vested, within the framework of institutional autonomy, with legal capacity to act in connection with the transposition of EU norms into the domestic legal order. At the same time, EU secondary legislation in the relevant field has been operationalised by designating the Agency as the competent authority, in particular, for the imposition of sanctions for infringements both of provisions transposing, *inter alia*, Directive 2006/43/EC and of provisions not subject to transposition – including, in particular, Regulation (EU) No 537/2014. The form of the Agency’s action in the exercise of the supervisory functions indicated above consists in individual administrative acts, through which the Agency applies, *inter alia*, domestic provisions enacted to implement EU law. In doing so, the Agency participates in the broadly conceived process of applying EU law.

⁹ See Uzasadnienie projektu ustawy o biegłych rewidentach, firmach audytorskich oraz nadzorze publicznym [Explanatory memorandum to the draft Act on Statutory Auditors, Audit Firms and Public Oversight] (Sejm paper No 1092, 8th term of the Sejm).

¹⁰ *European Commission Communication*, section 2.1.1, Sanctioning regimes in the financial sector.

A consequence of the foregoing is the obligation to ensure the full effectiveness of EU law¹¹ in the process of its application. In particular, this is served by the duty to interpret national law in conformity with EU law. This duty is expressed, inter alia, in the requirement that national law be interpreted “in the light of the wording and purpose” of EU rules and, moreover, that such conforming interpretation be pursued “as far as possible”¹². Equally importantly, even within the scope of the so-called procedural autonomy afforded to Member States, the requirement to ensure the effectiveness of EU norms must be taken into account¹³.

¹¹ M. Niedźwiedź, *Stosowanie prawa unijnego w krajowym porządku prawnym* [Application of EU law in the domestic legal order], in: R. Hauser, Z. Niewiadomski, A. Wróbel (eds), *Europeizacja prawa administracyjnego. System Prawa Administracyjnego. Tom 3* [Europeanisation of administrative law. System of Administrative Law. Volume 3], 2014, pp. 167–175.

¹² See A. Soltys, *Rozdział 4. Treść obowiązku wykładni zgodnej* Chapter 4. The content of the duty of consistent interpretation] [in:] *Obowiązek wykładni prawa krajowego zgodnie z prawem unijnym jako instrument zapewniania efektywności prawa Unii Europejskiej* [The duty to interpret national law in conformity with EU law as an instrument for ensuring the effectiveness of EU law], Warsaw 2015.

¹³ Nina Półtorak, *Efektywność prawa Unii Europejskiej a polska procedura administracyjna i sądowoadministracyjna* [The effectiveness of EU law and Polish administrative and administrative court procedure], *Zeszyty Naukowe Sądownictwa Administracyjnego* 3 (54)/2014, p. 39; N. Półtorak, *Ochrona uprawnień* [Protection of rights], pp. 437–438.

2. The Agency's tasks relating to ex post public oversight from the perspective of Polish law

The Polish Agency for Audit Oversight, a State legal entity, was established, pursuant to Article 88(1)(2) u.b.r., as the competent authority for the exercise of public oversight, inter alia, over audit firms¹⁴ – entities whose business activities consist in financial audit¹⁵ activities carried out by statutory auditors. The primary objective of financial audit is to ensure the accuracy of financial data so as to effectively reduce economic and investment risk¹⁶ and, thereby, to increase users' confidence in financial statements¹⁷. Accordingly, the fundamental functions of financial audit are the control, informational and attestation (authenticating) functions¹⁸.

The supervisory tasks entrusted to the Agency encompass, in particular, functions relating to ex post public oversight exercised over audit firms. Supervision is a legal concept that is not defined by statute. It is generally assumed that supervision exercised by public administration bodies (administrative supervision) consists in the performance, vis-à-vis supervised entities, of functions involving the possibility of exerting a binding influence upon those entities. In practice, this means placing them under observation by comparing their conduct against a specified benchmark and evaluating it – this is carried out in the course of inspection. The essence of supervision, manifested in the possibility of influencing supervised entities, is linked to the ability to draw consequences through the application of supervisory measures enabling authoritative and unilateral intervention vis-à-vis the supervised entity. Such intervention is undertaken in order to ensure that the activities of supervised entities comply with the law. The scope and instruments of supervisory intervention are, however, determined by law¹⁹.

¹⁴ In a limited scope, oversight is also exercised over the activities of audit firms approved in an EU Member State other than the Republic of Poland and entered on the list pursuant to Article 58 u.b.r., as well as over the activities of audit entities from a third country entered on the list pursuant to Article 205(1) u.b.r.

¹⁵ Financial audit activities, within the meaning of Article 2(7) u.b.r., constitute a concept relating to assurance services reserved to the statutory auditor. They include audits, assurance of sustainability reporting, reviews of financial statements, and other assurance services defined by law. The purpose of assurance services is to provide a high or moderate level of assurance in respect of matters covering, in particular, financial and non-financial information, systems and processes, as well as aspects of behaviour or attitudes of specified entities, on the basis of evidence obtained in the course of performing appropriate procedures. Such evidence forms the basis for an evaluation – made in accordance with the adopted criteria – of the matters that are the subject of those services, presented in the assurance report (Article 2(5) u.b.r.).

¹⁶ M. Kutera, *Rola audytu finansowego w zapewnieniu wiarygodności sprawozdań finansowych* [The role of financial audit in ensuring the credibility of financial statements], in: *Kryzysy gospodarcze a wiarygodność sprawozdań finansowych* [Economic crises and the credibility of financial statements], ed. M. Kutera, S. T. Surdykowska, Warsaw 2009, p. 190.

¹⁷ See §3 Krajowy Standard Badania 200 w brzmieniu Międzynarodowego Standardu Badania 200 Ogólne Cele Niezależnego Biegłego Rewidenta oraz przeprowadzanie badania zgodnie z Międzynarodowymi Standardami Badania [National Auditing Standard 200 as worded in International Standard on Auditing 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing], Appendix No 1.1 to Resolution No 3430/52a/2019 of the National Council of Statutory Auditors of 21 March 2019.

¹⁸ Z. Fedak, *Metody i techniki rewizji sprawozdań finansowych* [Methods and techniques for the audit of financial statements], Warsaw 1998, p. 41.

¹⁹ J. Jagielski, *Kontrola administracji publicznej* [Control (inspection) of public administration], Warsaw 2018, p. 45.

The Agency's public oversight tasks should be situated within the boundaries of administrative supervision. They include, in particular, the conduct of administrative proceedings in respect of the administrative offences listed in Article 182(1) u.b.r., which constitute breaches of obligations imposed on audit firms²⁰ or other conduct inconsistent with the Act. The actions undertaken by the Agency in the public interest are intended to ensure the highest quality and reliability of financial information, thereby ensuring the protection of stakeholders and the security of commercial dealings. It should be emphasised that audit firms occupy a distinctive position among entities active in commercial dealings, since only they are authorised to provide financial audit services²¹ on a professional basis – services reserved for statutory auditors²². Entities performing tasks in this area play a particular role, as they exert a direct influence on the level of public trust in the fundamental mechanisms of the market economy²³; for that reason, their activity is of considerable significance for the public interest. As has been emphasised in the case law of the administrative courts: “financial statements of economic entities are the primary source of economic information in the contemporary world. Accordingly, an audit of financial statements carried out in accordance with the applicable legal provisions and regulations positively affects the security of commercial dealings, which specialist literature regards as a legally protected interest. An audit is intended to guarantee that the accounting “product” delivered in the form of financial statements is sound. On the basis of verified and confirmed information presented in the financial statements, investors may take decisions involving lower risk, and thus more certain and more efficient.”²⁴

Following the EU legislature, the domestic legislature imposes on audit firms a range of obligations aimed at ensuring appropriate protection of the public interest in connection with the services they provide. These include obligations concerning the manner in which the internal organisation of an audit firm is structured so as to guarantee the appropriate quality and reliability of audits – comprising, *inter alia*, a quality management system (Article 50(1) u.b.r.) and statutory rules governing the conduct of audits and the provision of other services to the audited entity (Chapter VI u.b.r.) – as well as other public-law obligations, including reporting and publication obligations, set out both in the u.b.r. and in Regulation (EU) No 537/2014, for non-compliance with which audit firms incur liability. The catalogue set out in Article 182(1) u.b.r. specifies the types of administrative offences for which an audit firm bears administrative-law liability. In such cases, the supervisory authority is obliged to take procedural steps aimed at triggering liability for infringements of the Act or of Regulation (EU) No 537/2014.

²⁰ (Article 90(1)(7) u.b.r.).

²¹ (Article 47(1) u.b.r.).

²² (Article 2(7) u.b.r.).

²³ M. Kutera, *op. cit.*, p. 190.

²⁴ Judgment of the Voivodeship Administrative Court in Warsaw of 2 June 2023, file No VI SA/Wa 2886/23 (final).

A consequence of identifying infringements is their sanctioning through the imposition of the sanctions listed in Article 182(3) u.b.r. The Agency therefore adjudicates on the manner in which audit firms bear legal liability for the administrative offences committed, by virtue of the powers conferred upon it to apply instruments of authoritative public-law action, namely administrative sanctions²⁵. In essence, these instruments are geared towards ensuring the proper functioning of supervised entities, restoring a state of compliance with the law and eliminating the adverse consequences of a breach of law, where this is possible. It should be underlined that, for norms of administrative law protecting legally relevant interests (grounded in and given specific expression by the public interest) to be effective, they must provide for the imposition of sanctions enabling the authority to bring about “the state required by the legal provision”²⁶. This constitutes a material and necessary element of the effective exercise of public oversight.

²⁵ For the purposes of this study, the terms “administrative sanction” and “administrative sanction” are used interchangeably – see M. Zimmermann, *Prawo administracyjne* [Administrative law], Warsaw 2020, p. 90.

²⁶ M. Zimmermann, in: M. Jaroszyński, M. Zimmermann, W. Brzeziński, *Polskie prawo administracyjne* [Polish administrative law], p. 400. A similar position is presented by the Constitutional Tribunal, which, in the reasoning of its judgment of 18 April 2000, file No K 23/99 (OTK ZU No 3/2000, item 89), states that “where provisions impose obligations on natural or legal persons, there should also be a provision specifying the consequence of non-fulfilment of that obligation. The absence of an appropriate sanction causes the provision to become a dead letter, and non-compliance with the obligation to become widespread”.

3. Functions of administrative sanctions imposed by the Agency

As has already been indicated, the consequence of establishing that an audit firm has infringed obligations arising under the Act on Statutory Auditors, Audit Firms and Public Oversight or Regulation (EU) No 537/2014 is that such infringements are sanctioned in the process of imposing a sanction included in the catalogue set out in Article 182(3) u.b.r. The concept of ‘sanctions’ used by the legislature in the provision cited above should be equated with the concept of an administrative sanction²⁷ to which administrative-law scholarship refers.

It should be emphasised that neither the concept of a sanction, nor – as a rule – that of an administrative sanction has a statutory definition (save for the administrative pecuniary sanction²⁸). Without discounting the numerous positions advanced in the doctrine of administrative law²⁹, this study refers to the approach proposed by M. Wincenciak³⁰, under which an administrative sanction is understood as adverse (detrimental) consequences, imposed – by way of an act of application of the law – by public administration authorities, arising from an administrative-law relationship, upon subjects of law who do not comply with obligations arising from legal norms or acts applying the law³¹. Those consequences take the form of adverse pecuniary or personal effects specified in a particular legal norm³². An administrative sanction imposed for the breach of norms of administrative law stems directly from the provisions of administrative law and serves to give effect to those norms by shaping obligations, orders, prohibitions and other hardships³³, the purpose of which is to protect interests afforded legal protection. The concept of an administrative sanction is used with respect to various instruments which may, in particular, take the form of an administrative pecuniary sanction or a sanction consisting in the restriction or withdrawal of a public-law authorisation. As already signalled, an administrative pecuniary sanction, within the meaning of Article 189b of the Code of Administrative Procedure, is a pecuniary sanction specified by statute, imposed by a public administration authority by way of a decision, following a breach of law

²⁷ The terms are treated interchangeably, inter alia, by M. Zimmermann, *Prawo administracyjne* [Administrative law], Warsaw 2020, p. 90.

²⁸ As set out in Article 189b of the Act of 14 June 1960 – Code of Administrative Procedure (consolidated text: Journal of Laws 2025, item 1691).

²⁹ See more broadly H. Nowicki, *Rodzaje sankcji administracyjnych* [Types of administrative sanctions], in: R. Hauser, Z. Niewiadomski, A. Wróbel (eds), *Prawo administracyjne materialne. System Prawa Administracyjnego. Tom 7* [Substantive administrative law. System of Administrative Law. Vol. 7], 2nd edn, 2017, p. 668.

³⁰ M. Wincenciak, *Sankcje w prawie administracyjnym* [Sanctions in administrative law].

³¹ M. Wincenciak, *Sankcje w prawie administracyjnym* [Sanctions in administrative law], p. 73; see also H. Nowicki, *Rodzaje sankcji administracyjnych* [Types of administrative sanctions], in: R. Hauser, Z. Niewiadomski, A. Wróbel (eds), *Prawo administracyjne materialne. System Prawa Administracyjnego. Tom 7* [Substantive administrative law. System of Administrative Law. Vol. 7], 2nd edn, 2017, p. 668.

³² J. Filipek, *Sankcja prawna* [Legal sanction], *Państwo i Prawo* 1963, No 12, p. 873.

³³ H. Nowicki, *Rodzaje sankcji administracyjnych* [Types of administrative sanctions], in: R. Hauser, Z. Niewiadomski, A. Wróbel (eds), *Prawo administracyjne materialne. System Prawa Administracyjnego. Tom 7* [Substantive administrative law. System of Administrative Law. Vol. 7], 2nd edn, 2017, p. 671.

consisting in a failure to fulfil an obligation or a breach of a prohibition incumbent on a natural person, a legal person, or an organisational unit lacking legal personality.

Given that the purpose of an administrative sanction is, as a rule, to ensure the effectiveness of the norm whose breach is sanctioned, the issue of the function of an administrative sanction must be regarded as complex. Administrative-law scholarship indicates that, from that perspective, it is a complex instrument capable of performing a range of functions, including in particular a repressive, disciplining, preventive, coercive, compensatory, restorative or stabilising function³⁴. Another view, however, states unequivocally that administrative sanctions are primarily assigned preventive and restorative aims, although the possibility of their performing a repressive function is not denied³⁵. In view of the complex nature of these legal instruments, and of the fields in which they are applied, it appears crucial for the assessment of the function of an administrative sanction to observe that the considerations set out above are purely theoretical, since no legal regulation specifies the possibility of attributing specific functions to particular administrative sanctions³⁶. Accordingly, in order to specify the aims and functions that an administrative sanction imposed for particular administrative offences is to fulfil, it is necessary to refer to the objective of introducing the relevant regulatory framework employing the construct of an administrative sanction, so as to ascertain not only the aims which that legal construct is intended to help achieve, but also to articulate them within a coherent conception that takes into account both the needs of the public interest and the systemic possibilities, having regard to the principle of a democratic state governed by the rule of law and to the obligation to balance the public and private interests³⁷.

The sources of law constituting the entire system of public oversight within which sanctions imposed by the Agency are situated derive from various legislative sources – both domestic and EU. Consequently, the decoding of the aims to be achieved through the use of the construct of an administrative sanction must be subordinated to the obligation to ensure the full effectiveness of EU law in the process of applying the law. This is served, as already noted above, by interpreting domestic law consistently with EU law.

An analysis of the adopted regulations governing the sanctioning of infringements of the Act and the Regulation yields a model of the system of public oversight over

³⁴ M. Zimmermann, *Alfabet prawa administracyjnego* [The alphabet of administrative law], Warsaw 2022, p. 224. . Similarly, M. Wincenciak, *Sankcje w prawie...* [Sanctions in administrative law...], identifies – without ranking – the repressive, restorative-preventive and redistributive functions, p. 258.

³⁵ I. Niżnik-Dobosz, *Aksjologia sankcji...* [Axiology of sanctions...], p. 136; see also A. Jaworowicz-Rudolf, *Funkcje sankcji administracyjnej i odpowiedzialności administracyjnej w ochronie środowiska* [Functions of the administrative sanction and administrative liability in environmental protection], Warsaw 2012, p. 223; M. Wincenciak, *Sankcje w prawie administracyjnym i procedura ich wymierzania* [Sanctions in administrative law and the procedure for their imposition], Warsaw 2008, p. 100.

³⁶ R. Suwaj, *Zasady nakładania administracyjnych kar pieniężnych* [Principles for imposing administrative pecuniary sanctions], Warsaw 2021, p. 51.

³⁷ *Ibid.*

audit firms in which sanctions primarily perform repressive³⁸ and preventive functions. Those functions should be pursued on the assumption that the sanctions are effective, proportionate and dissuasive. It should be clarified that the repressive function of administrative sanctions manifests itself in punishing breaches of law, and repression itself constitutes a detriment for a specific offence irrespective of the consequences produced by that offence (regardless of whether the offence is a result offence or a formal offence (one of mere conduct)), even where the effects of the infringement have been fully remedied³⁹. A sanction conceived in this manner, resting on the principle of objective (strict) liability, has the character of retribution for disobedience to the law⁴⁰. The repressive function is restrictive in nature and is also aimed at a deliberate dissuasive effect, which enables its preventive function to be realised. This is evidenced in particular by the functions of sanctions indicated in the Commission Communication referred to above, which emphasises, in particular, the dissuasive effect achieved, inter alia, by requiring that a pecuniary sanction be significantly higher than the benefits which an entity engaging in unlawful conduct may expect as a consequence of the infringement⁴¹. The document also notes that, if sanctions are not sufficiently severe, there is a risk that they will not achieve an adequate dissuasive effect, since the expected benefits of unlawful behaviour may more than offset the actual risk.

³⁸ This brings those sanctions closer to criminal sanctions; however, their systemic position requires that they be treated autonomously as an institution proper to administrative law – see H. Nowicki, *Rodzaje sankcji administracyjnych* [Types of administrative sanctions], in: R. Hauser, Z. Niewiadomski, A. Wróbel (eds), *Prawo administracyjne materialne. System Prawa Administracyjnego. Tom 7* [Substantive administrative law. System of Administrative Law. Vol. 7], 2nd edn, 2017, p. 671. It should be noted that the Constitutional Tribunal has repeatedly assessed the nature of particular administrative sanctions. Thus, in the reasoning of its judgment of 29 April 1998 (file No K 17/97, OTK ZU No 3/1998, item 30), it held that administrative sanctions are a specific form of legal liability consisting in the application of pecuniary sanctions that do not constitute a criminal fine. Administrative pecuniary sanctions – as the Constitutional Tribunal stated in the reasoning of its decision of 1 March 1994 in case file No U 7/93, OTK 1994, Part I, item 5 – are, in essence, measures intended to mobilise entities to perform their obligations towards the State in a timely and proper manner.

³⁹ Wincenciak, p. 259.

⁴⁰ Ibid.

⁴¹ *Commission Communication*, section 3.1.1, Divergences and weaknesses in national sanctioning regimes.

4. Basic principles governing the imposition of administrative sanctions by the Agency

The administrative liability borne by audit firms, manifested in the sanctioning of the administrative offences listed in Article 182(1) u.b.r., is not premised on fault; rather, it takes the form of objective⁴² and act-based liability, in which the administrative sanction imposed is a consequence of the existence of an unlawful state of affairs itself. Proceedings for the imposition of an administrative sanction shall not be instituted if eight years have elapsed since the date of the infringement of the provisions of u.b.r. or of Regulation (EU) No 537/2014⁴³. An administrative sanction may not be imposed if ten years have elapsed since the date of the infringement of the provisions of that Act and of that Regulation⁴⁴.

The catalogue of sanctions available to the Agency comprises an admonition, a pecuniary sanction, temporary prohibitions (adjudicated for a period of one to three years) relating to: the performance of statutory audits or the assurance of sustainability reporting; the carrying out of financial audit activities or the provision of services covered by professional standards of practice; and removal from the list of audit firms. A pecuniary sanction imposed on an audit firm may not exceed 10 per cent of the net revenues from the sale of services rendered as part of the activity referred to in Article 47(1) and (2), achieved by the audit firm in the preceding financial year, that is, the year preceding the issuance of the decision. Where, however, the audit firm did not achieve revenues from the listed sources in the preceding financial year, the amount of the sanction is determined by reference to the last financial year in which the firm achieved revenues from those sources.

In this manner, the domestic legislature gives effect to the recommendation set out in the Commission Communication referred to above, according to which each Member State should establish a core set of administrative sanctions. Those sanctions should be of such a nature as to enable the competent authorities to impose sanctions that are optimal in terms of effectiveness, proportionality and dissuasiveness. Sanctions undoubtedly constitute a hardship for the entities concerned, of varying severity as regards the extent of interference with legally protected interests, above all with the audit firm's freedom of economic activity. The u.b.r. does not link particular types of sanctions to specific categories of administrative offences. Nor have those sanctions been ranked by reference to their severity.

The supervisory authority has been vested with competence to apply, vis-à-vis supervised entities, administrative sanctions of a varied nature, both non-pecuniary and pecuniary, as measures serving the exercise of ex post oversight. They are used

⁴² Judgment of the Voivodeship Administrative Court in Warsaw of 14 October 2020, file No VI SA/Wa 1170/20; judgment of the Voivodeship Administrative Court in Warsaw of 7 March 2024, file No VI SA/Wa 2691/23; judgment of the Voivodeship Administrative Court in Warsaw of 12 April 2024, file No VI SA/Wa 6029/23.

⁴³ Article 183(7) u.b.r.

⁴⁴ Article 183(8) u.b.r.

to remove discrepancies between the actual and the desired state and, as should be emphasised in particular in relation to a pecuniary sanction and its amount, to exert a preventive effect, both individually and generally, on the conduct of supervised entities. A sanction of this kind is intended to motivate law-compliant conduct and to counteract undesirable behaviour; at the same time, it is linked to a repressive function, in that such sanctions are also to constitute an adequate hardship for an act consisting in an unlawful action or in an unlawful omission to perform a required act, which results in a breach of norms of administrative law and is subject to an administrative sanction⁴⁵.

There is no doubt that an admonition is the most lenient sanction⁴⁶, whereas the most onerous is removal from the list of audit firms, which definitively prevents the undertaking from exercising freedom of economic activity in this area⁴⁷. Pecuniary sanctions are also of particular importance due to their proximity to a criminal-law fine. As a means of securing compliance with norms of public law, they have been the subject of a series of judgments of the Constitutional Tribunal⁴⁸, which has treated this category of sanctions in an approving manner.

The legislature leaves the Agency, as the supervisory authority in matters concerning the imposition of sanctions, a considerable degree of administrative leeway. This is consistent with the approach presented by the European Commission and enables the supervisory authority, on the basis of administrative discretion, to choose both the type and the amount of the sanction⁴⁹. That approach presupposes the need to impose sanctions that are optimal in terms of effectiveness, proportionality and dissuasiveness. For the oversight system, of which supervisory measures constitute an essential component, to be effective, and the significance of that axiomatic assumption should be particularly emphasised, it must assume the possibility of an effective response by the supervisory authority to a breach of the law in a manner adapted to the circumstances, so as to achieve, in an effective manner, the proportionate and dissuasive character of the sanctions imposed.

The model adopted here, as a qualified form of administrative discretion⁵⁰, is the so-called selective discretion, whereby the legislature allows the authority to choose

⁴⁵ The same view, regarding sanctions imposed by the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego, KNF), was expressed by the Supreme Administrative Court. see judgment of the Supreme Administrative Court of 20 September 2019, file No II GSK 2392/17, LEX No 2727189.

⁴⁶ M. J. Zieliński, in: *Act on Statutory Auditors, Audit Firms and Public Oversight. Commentary*, ed. K. Ślebzak, M. Ślebzak, Warsaw 2018, Article 183; see also judgment of the Voivodeship Administrative Court in Warsaw of 16 July 2024, file No VI SA/Wa 1091/24.

⁴⁷ M. J. Zieliński, in: *Act on Statutory Auditors, Audit Firms and Public Oversight. Commentary*, ed. K. Ślebzak, M. Ślebzak, Warsaw 2018, Article 183.

⁴⁸ Judgments of the Constitutional Tribunal: of 15 January 2007, case P 19/06, OTK-A 2007/1, item 2; of 5 May 2009, case P 64/07, OTK-A 2009/5, item 64.

⁴⁹ M. J. Zieliński, in: *Act on Statutory Auditors, Audit Firms and Public Oversight. Commentary*, ed. K. Ślebzak, M. Ślebzak, Warsaw 2018, Article 183.

⁵⁰ M. Zimmermann, *Uznanie administracyjne* [Administrative discretion], *Alfabet* [Alphabet], p. 272; and M. Jędrzejczak, *Dyskrecjonalność podczas stosowania norm prawnych przez organy administracji publicznej*

between several specific solutions, requiring a defined and concrete choice to be stated in the content of the individual act⁵¹. In making that choice, the authority in principle seeks to optimise the achievement of the intended objectives within the scope of the oversight entrusted to it over the market of audit firms. In this way, the legislature renders the authority's action more flexible and efficient. The possibility of imposing effective sanctions relates to the practical dimension of the proper functioning of the audit-firm⁵² market and makes it possible to achieve the intended objectives, namely compliance with the law by its addressees.

When imposing administrative sanctions, the Agency, acting within the normative leeway resulting from administrative discretion, must be guided by the fundamental principles normatively grounded in this area. Of particular importance are the principle of proportionality and the principle of determining the type and amount of the sanction imposed on an audit firm in accordance with the guidelines set out in Article 183(6) u.b.r.

As a general principle of EU law, the principle of proportionality performs a protective function, safeguarding individuals against measures adopted by Member States⁵³, and it also delineates the limits of the discretionary power of EU bodies and institutions when they issue authoritative decisions vis-à-vis individuals⁵⁴. It is of material importance because, as a universal tool for resolving conflicts between opposing values and rights, it constitutes a guarantee of their observance⁵⁵. It also permeates the domestic legal order by virtue of Article 31(3) of the Constitution of the Republic of Poland⁵⁶. The construction of the principle of proportionality has been confirmed in the case law of the Constitutional Tribunal⁵⁷, although it is not applied uniformly in all instances⁵⁸. In essence, it is based on three criteria: suitability, necessity and proportionality *stricto sensu*. Suitability is understood as the ability to achieve the intended objective by means of the measure applied. Necessity requires that the measure applied be limited to what is indispensable for achieving the objective of the given legal regulation. Proportionality *stricto sensu*, in turn, means the requirement that the objective of the action not be disproportionate in

[Discretion in the application of legal norms by public administration authorities], in: *Władza dyskrecyjna organów administracji publicznej* [Discretionary power of public administration authorities], 2021.

⁵¹ M. Zimmermann, *Uznanie administracyjne* [Administrative discretion], op. cit.

⁵² *Commission Communication*, section 4.2. Key Issues for the approximation.

⁵³ A. Wróbel (ed.), *Stosowanie prawa Unii...* [The application of EU law...], p. 203.

⁵⁴ A. Fraćkowiak-Adamska, *Zasada proporcjonalności jako gwarancja swobód rynku wewnętrznego Wspólnoty Europejskiej* [The principle of proportionality as a guarantee of the freedoms of the European Community internal market], Warsaw 2009, pp. 71–80.

⁵⁵ *Ibid.*, p. 65.

⁵⁶ Constitution of the Republic of Poland of 2 April 1997 (Journal of Laws No 78, item 483, as amended).

⁵⁷ A. Fraćkowiak-Adamska, *Zasada proporcjonalności...* [The principle of proportionality...], p. 61; judgment of the Constitutional Tribunal of 26 March 2002, case SK 2/01, OTK-A 2002, No 2, item 15.

⁵⁸ A. Fraćkowiak-Adamska, *Zasada proporcjonalności...* [The principle of proportionality...], p.60.

relation to the burden caused by the measure used to achieve it⁵⁹. This understanding of proportionality has served to develop a proportionality test, which the Agency, as the authority applying the law, employs in the process of imposing administrative sanctions. The principle also translates into the statutory framework for conducting proceedings concerning the imposition of administrative sanctions in light of the general principles of administrative proceedings⁶⁰, having regard both to the direction stemming from Article 7 of the Code of Administrative Procedure (k.p.a.) and to Article 8 k.p.a.⁶¹.

The case law of the ordinary courts has already indicated that taking account of the principle of proportionality (Article 31(1) of the Constitution of the Republic of Poland) in the imposition of administrative sanctions requires that the sanction be proportionate to the nature and harmfulness of the specific practice, as well as to the effects it has produced⁶². The principle of proportionality is also relevant in another respect: it justifies only those sanctions whose degree of onerousness is necessary to attain the intended objective. The sanction should moreover be individualised so as to properly fulfil its repressive and preventive functions⁶³. In determining the sanction, further relevant considerations include the harmfulness of the alleged conduct, the adequacy of the sanction in relation to the degree of threat to the public-law interest, the financial capacity of the addressee of the decision, the economic potential of the responsible person, and the financial benefits obtained by that person as a result of the practice⁶⁴. Also material are the character of the breach, the nature of the protected interest infringed, and the significance of the practice for the functioning of the market mechanism; and, within the repressive and preventive functions, the need for the sanction to be economically perceptible relative to the scope (scale) of the undertaking's activity and the profitability of that activity⁶⁵.

The factors determining the effectiveness, proportionality and dissuasive character of the sanctions imposed by the Agency, as the body exercising oversight over audit firms, are also addressed in Article 30b of Directive 2006/43/EC, which constitutes, in a sense, a transposition of the provisions of the European Commission Communication⁶⁶

⁵⁹ L. Staniszevska, *Materiałne i proceduralne zasady stosowane przy wymierzaniu administracyjnych kar pieniężnych* [Substantive and procedural principles applicable to the imposition of administrative pecuniary sanctions], in: M. Błachucki (ed.), *Administracyjne kary pieniężne w demokratycznym państwie prawnym* [Administrative pecuniary sanctions in a democratic state governed by the rule of law], Warsaw 2015, p. 35.

⁶⁰ M. Wincenciak, *Sankcje...* [Sanctions...], p. 97.

⁶¹ See R. Suwaj, p. 89 ff.

⁶² Judgment of the Supreme Court of 19 September 2009, file No III SK 5/09.

⁶³ Judgment of the Supreme Court of 27 June 2000, file No I CKN 793/98.

⁶⁴ Judgment of the Supreme Court of 6 December 2007, file No III SK 16/07.

⁶⁵ See, e.g., judgment of the Supreme Court of 4 March 2014, file No III SK 34/13.

⁶⁶ See *European Commission Communication* section 4.2 "Key Issues for the approximation"; In the Commission's view, in addition to the seriousness of the violation which is already foreseen in almost all national legislations, the factors to be taken into account should include at least:

- the financial benefits for the author of the infringement derived from the violation (if calculable), in order to better reflect the impact of the violation and discourage further violations;
- the financial strength of the author of the violation, as indicated by elements such as the annual turnover of a financial institution or the annual income of a person responsible for the violation, which would help in ensuring that sanctions are sufficiently dissuasive even for large financial institutions.

and requires that, in determining the type and level of administrative sanctions, the competent authorities take into account all relevant circumstances bearing on the optimisation of the proportionality and dissuasive character of the sanction⁶⁷. This is intended, in particular, to enable oversight authorities to tailor the type and amount of the sanction imposed to the nature and effects of the breach, as well as to the personal situation of the offender.

The attainment of these objectives is supported by the statutory criteria set out, in the Act on Statutory Auditors, for determining the type and level of the sanction imposed on an audit firm⁶⁸, which the Agency is required to consider *ex officio*. These criteria, listed in an open catalogue⁶⁹, include the following circumstances: the gravity of the breach and its duration; the degree of responsibility of the person concerned; the financial situation, expressed in particular by the level of annual revenues or income; the amounts of profits gained or losses avoided, insofar as they can be determined; the level of cooperation with the Agency; and any previous breaches.

They are also referred to as guidelines governing the choice and determination of administrative sanctions⁷⁰, guidelines which are understood in general legal theory⁷¹ as instruments for narrowing the authority's decision-making leeway, since they lay down mandatory factors to be taken into account both when selecting an administrative sanction and when calibrating its extent. They reflect a systemic application of the principle of proportionality. All the factors listed may influence, either positively or negatively, the level of the administrative sanction or its type. It should be noted here that, although a pecuniary sanction constitutes one of the sanctions available to the authority in order to respond appropriately to identified breaches of the law, as regards the guidelines governing the assessment of a pecuniary sanction the authority,

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- the cooperative behaviour of the author of the violation, which can contribute to encourage infringers to cooperate and in so doing increase the investigatory capacity of the authorities and therefore effectiveness of sanctions;
 - the duration of the violation.

⁶⁷ Pursuant to Article 30b, when laying down rules pursuant to Article 30, Member States shall require that, when determining the type and level of administrative sanctions and measures, the competent authorities are to take into account all relevant circumstances, including where appropriate:

- a) the gravity and the duration of the breach;
- b) the degree of responsibility of the responsible person;
- c) the financial strength of the responsible person, for example as indicated by the total turnover of the responsible undertaking or the annual income of the responsible person, if that person is a natural person;
- d) the amounts of the profits gained or losses avoided by the responsible person, in so far as they can be determined;
- e) the level of cooperation of the responsible person with the competent authority;
- f) previous breaches by the responsible legal or natural person.

Additional factors may be taken into account by competent authorities, where such factors are specified in national law.

⁶⁸ Article 183(3) u.b.r.

⁶⁹ This is evidenced by the phrase "in particular" used in the provision cited, which, applying a functional and systemic interpretation of the provision, indicates the possibility of seeking, on a supplementary basis, additional criteria for determining the level of an administrative sanction (see judgment of the Supreme Administrative Court of 3 December 2020, file No II GSK 775/20, LEX No 3109491).

⁷⁰ M. J. Zieliński, in: *Act on Statutory Auditors, Audit Firms and Public Oversight*. Commentary, ed. K. Ślęzak, M. Ślęzak, Warsaw 2018, Article 183.

⁷¹ J. Wróblewski, *Sądowe stosowanie prawa* [Judicial application of law], Warsaw 1972, p. 222.

in principle, confines itself to the guidance provided in Article 183(6) u.b.r. This follows primarily from Article 189a § 2(1) of the Code of Administrative Procedure, pursuant to which, where separate provisions regulate the criteria for determining an administrative pecuniary sanction, the provisions of that section do not apply in that respect, as well as from the requirement to preserve coherence across the public oversight system as a whole.

In designing the aforementioned legal instrument laying down the guidelines for determining the sanction, the legislature, following the EU legislator, sought to secure the proportionality of the sanction applied, as well as to ensure the effectiveness of its dissuasive character. Accordingly, these guidelines enable the authority to set the sanction at a level commensurate with the objectives it is intended to achieve, and they constitute criteria for selecting the legal consequences of the established facts within the framework of the authority's decision-making leeway⁷². This instrument also serves to mitigate the adverse consequences of a restrictive and automated application of provisions governing the competence basis for the imposition of administrative sanctions, by individualising the act-based liability in question.

These circumstances therefore constitute legally relevant factual determinants which should be established in accordance with the standards set by the principle of objective truth, as reflected in the statement of reasons for the administrative decision. The guidelines for determining the sanction apply to all types of administrative sanctions listed in Article 182(3) u.b.r. Consequently, all such guidelines, in relation to the established breaches, should be considered (assessed) by the Authority and should find expression in the content of the decision imposing the sanction pursuant to Article 183(6) u.b.r. In practice, this entails an obligation on the Agency to specify in detail the influence (positive or negative) of each criterion on the choice of the type and amount of the pecuniary sanction imposed⁷³. There is, moreover, no legal norm providing the Authority with a basis for waiving the examination of all formal criteria in relation to sanctions other than pecuniary sanctions.⁷⁴ As has rightly been emphasised in the case law, an administrative sanction imposed under the provisions of the Act on Statutory Auditors, Audit Firms and Public Oversight constitutes, in a given case, the outcome both of the established breaches and of the assessment of the significance of the criteria set out in Article 183(6) u.b.r. Only once all applicable legal requirements have been fulfilled is it possible to determine the type and level (amount) of the sanction⁷⁵.

⁷² See, on the function of the guidelines for determining an administrative pecuniary sanction, J. Wegner, in: Z. Kmieciak, M. Wojtuń, J. Wegner, *Kodeks postępowania administracyjnego. Komentarz* [Code of Administrative Procedure. Commentary], Warsaw 2023, commentary on Article 189d.

⁷³ Cf. judgment of the Voivodeship Administrative Court in Warsaw of 10 September 2025, file No VI SA/Wa 593/25.

⁷⁴ Cf. judgment of the Voivodeship Administrative Court in Warsaw of 23 July 2025, file No VI SA/Wa 637/25.

⁷⁵ *Ibid.*

Conclusion

The approach presented in this article highlights the conditions and factors determining the imposition of administrative sanctions on audit firms, viewed through the lens of the Agency's function of public oversight over those entities. The sanction-imposition process is complex. Although, as a rule, sanctions serve to ensure compliance with substantive-law norms (and thus the effectiveness of the adopted legal solutions), the process preceding the selection of the type of sanction and its magnitude is multi-faceted.

On the one hand, these sanctions are the outcome of legal instruments applied objectively in order to protect values grounded in the public interest, and they are linked to the identified risks associated with the provision of services by audit firms. On the other hand, bearing in mind the fundamental requirements to carry out the proportionality test and to apply the guidelines governing the choice and determination of the type and level of the sanction, the rules binding the authority in this respect serve to protect the individual interests of supervised entities against an excessively intensive and unjustified interference by the Agency in their activities within the legally protected sphere.

As a public oversight authority, the Agency must always be guided by the paramount objective of ensuring that audit firms' activities meet the legally prescribed standards in their systemic context. Chief among these is the attainment of the primary objective of financial audit, being the subject-matter of those entities' activity, namely, increasing users' confidence in financial statements by ensuring the accuracy of financial data so as to effectively reduce economic and investment risk.

Fair Value in the Financial Reporting of Investment Funds in Poland – Dilemmas and Challenges

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Introduction

This article presents the primary challenges associated with fair value measurement in investment funds in Poland, as well as the methods employed in accounting practice, with particular emphasis on international standards and industry best practices. Key conclusions regarding fair value measurement processes in investment funds are presented based on a literature review and case studies from inspections conducted by the Polish Agency for Audit Oversight.

Fair value measurement constitutes one of the key aspects of the financial reporting of investment funds. In accordance with international accounting standards, fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IASB, 2022). The accuracy and reliability of this process are of critical importance for the transparency of financial information, influencing investor decisions and the stability of the financial market.

The fair value measurement process is particularly significant for investment funds managing diverse asset portfolios with varying levels of liquidity and risk. In practice, this necessitates the application of advanced valuation techniques that incorporate both market data and valuation models (Hońko, 2012; Stępień, 2010). The measurement of liquid assets, such as equities or bonds, relies primarily on market data, which provides current and objective information regarding their value. However, in the case of less liquid or non-market assets, such as real estate, derivatives, or holdings in private companies, the process requires the application

of more complex valuation models, such as Discounted Cash Flow (DCF) methods or market-based comparable methods (Lev, 2016).

In the measurement process, investment funds often face challenges related to the lack of complete and reliable data, which affects the precision of estimates. In such instances, it is necessary to adopt assumptions based on expert judgement and statistical models that enable the estimation of asset values. Situations involving sudden market shocks, such as global pandemics, armed conflicts, or financial crises, are exceptionally difficult, as they significantly impact data availability and the stability of valuation models (Pęksyk et al., 2023).

The role of fair value in financial reporting gains particular significance in the context of international regulations, such as:

1. International Financial Reporting Standards (IFRS) – Specifically IFRS 13, which defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements, introducing a fair value hierarchy (three levels of inputs) used to determine fair value;
2. UCITS Directive (Undertakings for Collective Investment in Transferable Securities) – This EU regulation, aimed at harmonising the operation of investment funds in Europe, requires that fund assets be valued reliably and transparently, and mandates the use of methods consistent with fair value for non-market assets (e.g., real estate, long-term capital investments);
3. MiFID II (Markets in Financial Instruments Directive II) – Introduces standards regarding transparency and reliability in the valuation of financial instruments, imposing an obligation on fund managers to disclose details regarding asset valuation methods and associated risks;
4. AIFMD (Alternative Investment Fund Managers Directive) – Regulates the management of alternative investment funds in Europe (e.g., hedge funds, real estate funds), mandating the use of independent valuation processes to determine the value of fund assets in accordance with the fair value principle;
5. IVS (International Valuation Standards) – Standards developed by the International Valuation Standards Council (IVSC), defining principles for the valuation of financial assets, real estate, derivatives, and other assets in the context of fair value and other bases of value;
6. SEC and FASB Regulations – US guidelines regarding fair value measurement (ASC 820 - US GAAP), which are substantially aligned with IFRS 13 (Deloitte, 2026); investment funds operating in the USA must comply with

valuation standards developed by the Financial Accounting Standards Board (FASB) and regulations of the Securities and Exchange Commission (SEC);

7. Global Investment Performance Standards (GIPS) – International standards developed by the CFA Institute, setting out principles for asset valuation in investment funds, particularly in the context of presenting investment performance, containing guidelines on the application of fair value and comparative standards in valuation.

In the context of the international regulations cited above, it can be stated that market regulators require funds to apply appropriate valuation procedures that minimise the risk of erroneous estimates and manipulation of asset values (Barth, 1994; Damodaran, 2012; Romano 1998; Zyla, 2020).

1. Research Methodology

The objective of this study is to evaluate the activities and procedures applied in the fair value measurement process within the financial reporting of investment funds in Poland. The research approach adopted in this article was based on a multi-dimensional analysis of literature, regulations, accounting standards, and inspection documentation from the Polish Agency for Audit Oversight (PANA) regarding practices applied in the fair value measurement process of investment funds in Poland. The research was conducted in the following stages:

Stage 1 – Analysis of inspection, regulatory, and reporting documentation (Flick, 2022). This stage involved a detailed review of PANA inspection documentation. The analysis included, inter alia:

- 1) audit documentation files regarding investment fund financial statements,
- 2) guidelines and recommendations regarding fair value measurement,
- 3) methodological documentation and accounting standards applied in investment funds.

Stage 2 – Identification of problems and dilemmas (Kuckartz, 2014). The second stage involved the systematic identification of documented difficulties and ambiguities related to fair value measurement practices in the financial reporting and audit of investment fund financial statements. Discrepancies in the applied approaches were analysed, as well as compliance with national and international regulations (including National Auditing Standards [KSB] and International Financial Reporting Standards [IFRS]).

Stage 3 – Expert interviews (Mezmir, 2020). The document analysis was supplemented by interviews with experts and PANA inspectors involved in the inspection of investment fund financial statement audits. The interviews aimed to deepen knowledge regarding the valuation methods applied within these funds, practical challenges, and applied practices.

Stage 4 – Comparative analysis (Yin, 2018). In this stage, the approaches applied in Poland were compared with international practices in the area of fair value measurement. The comparison concerned differences in standards, procedures, and regulatory interpretation.

2. Research Results

As a result of the applied research methodology, five groups of problems related to fair value measurement in the process of auditing investment fund financial statements were selected. Each of the individual problems and dilemmas is described below.

2.1 Basis for Fair Value Measurement in Investment Fund Reporting

In the case of measuring the fair value of investment fund assets, the result obtained should be identical regardless of whether the valuation documentation refers to the Accounting Act, IFRS or IAS, or specific regulations (decrees) concerning accounting principles and the valuation of financial instruments. The study revealed that audit documentation often cited received indicative bids for investment fund assets, or even executed buy/sell transactions in fund assets, as a justification for dispensing with the preparation of a fair value measurement report.

Interviews indicate that some statutory auditors (SAs) are reluctant to use handbooks or guides based on best practices for fair value measurement in the IFRS/IAS environment (IFRS Foundation, 2013) or US GAAP (American Institute of Certified Public Accountants, 2019) during the estimate verification process. It is worth noting that the International Private Equity and Venture Capital Valuation Board (2022) emphasised that the aforementioned publications are consistent with both IFRS/IAS and US GAAP regarding fair value measurement. Given that fair value was one of the first jointly developed topics within the IFRS/IAS and US GAAP convergence project (Deloitte, n.d.), the observed “reluctance” of SAs to use well-developed, practical materials may generate risks regarding the quality of the performed financial statement audits. The impact of fair value measurement practice, especially regarding unquoted instruments, has been raised since the beginning of work on the current standards. Carroll et al. (2003), comparing fair value measurement with historical cost accounting in relation to closed-end investment funds, concluded that the effectiveness of the former method would depend not so much on the availability of market data for all instruments (which cannot be guaranteed), but on the comprehensive implementation of recommended practices.

Particular attention is required regarding the issue of data mismatch in models in terms of currency and the selection of comparable companies for the valuation model. Agarwal et al., in the publication “Private company valuations by mutual funds” (2023), point to the role of the quality of available information about the valued entity and the resulting differences in the estimated values. Funds with a larger share in the first financing round of a given entity rely more on the private information available to them in their subsequent valuations. Funds basing their valuation more on selected market data treated as a comparative sample may arrive at different valuation results. The effects of this are visible at the level of

Cumulative Abnormal Returns (CAR). Funds with greater access to private information update their valuations more frequently, which results in no abnormal increase or decrease in the estimated value of a given portfolio being observed in subsequent financing rounds. The situation is different for funds relying on comparative data, where an abrupt change in portfolio value can be observed. Therefore, the role of the quality of comparative data and assumptions adopted for the valuation model should be emphasised. The selection of comparable companies, their sectoral comparability, size, and market position is significant. In the valuations analysed during the inspections, the selection of this population indicated a number of difficulties. Sectoral identity as determined by statistical classification codes did not always correspond to sectoral identity as reflected in primary revenue sources. Thus, the scale of operations of entities adopted for comparison, or the value of debt securities issued by them, often exceeded the values observed in the valued entities by significant multiples. The application of comparable valuation methods to value relatively small limited liability companies operating in Poland based on data originating from “giants” of the US or Asian markets is not necessarily an appropriate approach.

Another aspect concerns financial instruments. For the Polish market, there is a lack of empirical and theoretical research concentrating on the impact of the mismatch of issuer characteristics originating from different markets on the valuation of their instruments, especially debt instruments. Research available for other markets indicates that significant differences in credit spreads may occur within the same investment grade of a given instrument, measured by its rating, depending on the issuer’s country. For example, Berg (2022), analysing the causes of the difference in credit spread between high-yield bonds originating from the Eurozone and bonds issued in Nordic countries, concluded that only 50 per cent of the variance in valuation could be directly attributed to the results of the structural model (in this case, the Merton model). The other half of the variance stemmed from the mismatch of compared issues and market conditions. For our analysis, a very important conclusion emerges from this: basing the valuation of bonds on credit spreads of instruments adopted as comparable but originating from other markets may be subject to significant uncertainty regarding the correctness of the results thus obtained.

2.2 Fair Value and Entity Liquidation Value

Financial statements are usually prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Therefore, it is assumed that the entity has neither the intention nor the need to enter into liquidation or to cease operations. If such an intention or need exists, the financial statements may be prepared on a different basis. However, in the case of investment funds, which are obliged to report at fair value, it appears that the only reasonable solution in the event of the cessation of business activity is to write

down assets to their fair value less costs of disposal (Grant Thornton International Ltd., 2017). In such a scenario, the entity measures its assets to reflect the amount of cash or other consideration it expects to receive from the settlement or disposal of those assets in carrying out its liquidation plan. It should be noted, however, that in some cases, fair value may not differ from the amount the entity expects to realise (KPMG, 2025).

The fundamental dilemma in the aspect discussed above is the question: is it possible to speak of estimating fair value at all in a situation involving an investment fund's liquidation value? The problematic issue here is the condition regarding an "orderly transaction" between market participants, as opposed to a "forced transaction". It could be argued that liquidation value is, in principle, not fair value; however, if liquidation is the only possible and, moreover, rational economic scenario for an investment fund, then the valuation context changes, not merely the purpose of the valuation itself.

A key example of the dilemma in the case described above is delineating the boundary between an "orderly" sale and a "forced" sale of fund assets. If the fund is able to identify that a market exists, that it is possible to dispose of the assets in an orderly manner over a period of time, and that there is no pressure for an immediate sale, it can then be assumed that the value received will be fair value. If, however, the assets are illiquid, an immediate sale is necessary, and there is no alternative, then the fund's liquidation value does not satisfy the definition of fair value.

2.3 Price of Recent Investment

In 2018, the Price of Recent Investment (PORI) concept was removed from the list of valuation techniques under the Market Approach set out in the IPEV Guidelines (IPEV, 2018, p. 67) – techniques considered to guarantee fair value measurement. This change was driven by the observation that PORI was being misinterpreted (and at times misapplied) for the purpose of recognising fair value, subsequently leading to the abandonment of fair value determination at subsequent measurement dates. The price of a recent investment or transaction serves as an appropriate starting point; however, consideration must be given to facts and circumstances occurring between the PORI date and the measurement date, including any potential changes in the financial condition of the investee. The passage of time between the transaction date and the measurement date reduces the relevance and reliability of the recent transaction regarding the measurement of the instrument's fair value at the measurement date. According to best practices, the equity value of an entity derived from the most recent transaction in the investee's instruments serves to calibrate inputs used in other valuation techniques. It considers recent transactions to derive information regarding control benefits and the return expected by investors, taking into account the illiquidity of the given

position. At each measurement date, the valuer should assess whether changes or events subsequent to the relevant (recent) transaction imply a change in the fair value of the investment. The price of a recent transaction (recent investment) should not be considered a standalone valuation technique. Such a position is found in the principal bodies of best practice guidelines.

2.4 The Adjusted Net Asset Method and Fair Value

When applying the adjusted net asset method, valuers sometimes use different standards of value for individual components of both assets and liabilities, while expecting the output to represent the fair value of the equity of the entity being valued. This is possible, but only where the valuer's specific role is to demonstrate that, for example, a property appraisal report incorporated into the adjusted net asset method valuation, one that establishes the market value of the real estate, also satisfies the requirements applicable to fair value estimates, i.e. that the outcomes are equivalent. Our review of the inspection documentation did not identify any such case. Nor did it reveal adjusted net asset method valuation reports that included a reassessment of both recognised and unrecognised liabilities. Valuers also often assume that recognised and unrecognised liabilities presented in the statement of financial position are already stated at fair value – an assumption that, in many instances, is not corroborated by the audit documentation. It is worth noting that the adjusted net asset method derives the fair value of an investee's equity instruments by reference to the fair values of its assets and liabilities, whether recognised or unrecognised (IFRS Foundation, 2013). The adjusted net asset method is used relatively frequently in investment funds because it more faithfully reflects the structure of a fund's portfolio: the fund is not a conventional operating enterprise, and its purpose is to hold, dispose of, and acquire assets. A fundamental issue when using the adjusted net asset method in investment funds to estimate fair value is the potential emergence of "cascading" risk: for instance, if real estate is measured using subjective assumptions and equity interests in companies are measured using Level 3 inputs, an error in a single measurement can propagate into the fund's overall net asset value. In this area, the decisive factors include, among others, assumptions embedded in the real estate valuation, the discount for lack of liquidity, and the timeliness of comparable data.

Given IFRS 13, which, in substance, does not impose the adjusted net asset method for measuring statement-of-financial-position items in investment funds, attention must remain on a market participant perspective, observable market data, the exit price notion, and the asset's highest and best use. This raises a practical dilemma: does the adjusted net asset method in fact capture an exit price, or does it merely reflect an "internal" valuation of the investment fund's portfolio?

2.5 Active markets and the fair value measurement of investments in participation units in collective investment undertakings, or investment certificates of investment funds

Difficulties may arise where an entity that has acquired participation units in collective investment undertakings, or investment certificates of investment funds, is required to measure those instruments at fair value but no active market exists for them. This challenge also affects statutory auditors, who must assess the appropriateness of the fair value measurement of such instruments in circumstances where valuations of the underlying assets, used to compute the net asset value per participation unit or investment certificate, are unavailable or only accessible to a limited extent.

Polish accounting standards

Where the financial instruments referred to in the preceding paragraph are recognised in the statement of financial position of an entity preparing financial statements under Polish accounting standards, the Regulation of the Minister of Finance of 17 November 2024 on the recognition and measurement methods, and the disclosure and presentation, of financial instruments (Journal of Laws 2024, item 1750) applies (hereinafter: the “IF Regulation”). In accordance with § 4 of the IF Regulation, the classification of such instruments as financial assets classified as held for trading triggers the requirement to measure them, under § 13, at reliably estimated fair value. Pursuant to § 14(1) of the IF Regulation, a reliably estimated fair value is deemed to be:

- 1) a market price from an active market for identical financial instruments (Level 1 of the fair value hierarchy). Where more than one active market exists for financial instruments, the entity identifies the most advantageous market in which it would, under normal conditions, enter into a transaction to sell the asset or transfer the liability, and applies the price from that market;
- 2) a value obtained using a valuation model in which significant inputs are observable, either directly or indirectly (Level 2 of the fair value hierarchy) – where the price referred to in point 1 is unavailable;
- 3) a fair value determined using a valuation model based on unobservable inputs (Level 3 of the fair value hierarchy) – where the price or value referred to in points 1 and 2 is unavailable.

Under § 14(3) of the IF Regulation, for investments in participation units in collective investment undertakings, or investment certificates of investment funds, where no active market exists, the fair value of the investment is deemed to be the most recent net asset value per participation unit or investment certificate published

by the collective investment undertaking or investment fund, provided that no more than 31 days have elapsed since its publication.

However, particular attention should be paid to § 14(4), which provides that where valuation is suspended, or a valuation publication required under applicable law is not made, where **restrictions or suspensions apply to the redemption of participation units in collective investment undertakings or to the repurchase of investment certificates of investment funds at the price referred to in § 14(3), or where it is not possible to determine fair value in accordance with § 14(1)–(3), the fair value of investments in such participation units or investment certificates must be estimated at the reporting date (or another date at which the fair value of the investment is determined) using a model-based valuation. When applying a valuation model, the composition of the investment fund's asset portfolio and its liabilities, as well as potential impairment, must be taken into account.**

Investors that carry participation units in collective investment undertakings, or investment certificates of investment funds, in their accounting records often treat as fair value the valuation published for a given date by the entity responsible for managing the pooled assets and valuing them (e.g. an investment fund management company).

The mere publication of an investment fund's net asset value by the investment fund management company managing that fund does not, in itself, determine that the conditions for recognising that valuation as fair value are satisfied. In particular, it is necessary to assess whether restrictions or suspensions apply to the redemption (odkup) of participation units in collective investment undertakings or the repurchase (wykup) of investment certificates of investment funds at the published price. This requires an analysis of the investment fund's constitutional documents, as well as the terms imposed on investors upon redemption/repurchase, for example:

- how the redemption/repurchase date is defined;
- whether the redemption/repurchase date is segmented and set at a relatively remote point in time (e.g. 180 days) from the date on which a redemption/repurchase request is submitted;
- whether the redemption/repurchase price equals the price published as at the date of the redemption/repurchase request (or a price close to that date); separating and deferring the repurchase/redemption date from the valuation date means that the unit-holder/investor does not know the price at which redemption/repurchase will occur;
- whether redemptions/repurchases are processed in a prescribed sequence of requests;
- whether redemption/repurchase may be effected in instalments;
- whether a material reduction in redemption/repurchase is possible and probable (e.g. based on historical requests), for instance in the case of less liquid assets.

The presence of any of the above illustrative circumstances, or a combination thereof, appears to constitute a limitation that may require the fair value of the investment to be determined using a model in accordance with § 14(4) of the IF Regulation.

Specific accounting rules for investment funds

Where the acquirer of participation units in collective investment undertakings or investment certificates of investment funds is itself an investment fund, measurement of its assets is governed by the Regulation of the Minister of Finance of 24 December 2007 on specific accounting rules for investment funds (Journal of Laws 2007 No. 249, item 1859, as amended) (hereinafter: the “FI Regulation”). Pursuant to § 23(2) of the FI Regulation, as a general rule the fund’s assets and liabilities are measured at a reliably estimated fair value. Under § 24(1), a reliably estimated fair value of an investment item is deemed to be:

- 1) a price from an active market (Level 1 of the fair value hierarchy);
- 2) where the price referred to in point 1 is unavailable, a price obtained using a valuation model in which all significant inputs are observable either directly or indirectly (Level 2 of the fair value hierarchy);
- 3) where the price referred to in points 1 and 2 is unavailable, a fair value determined using a valuation model based on unobservable inputs (Level 3 of the fair value hierarchy).

Treating as the fair value of an investment the most recent net asset value per participation unit or investment certificate published by an investment fund management company is tantamount to assuming that the price is derived from an active market (Level 1 of the fair value hierarchy). Under § 2(19) of the FI Regulation, an active market is a market in which transactions in a given asset or liability occur with sufficient frequency and volume to provide ongoing information about prices for that asset or liability; this includes exchange markets, dealer markets, brokered markets, and principal-to-principal markets that exhibit such frequency and volume. Statutory auditors auditing the financial statements of investment funds should ensure that an active market exists for participation units or investment certificates (as investment assets) if they intend to base their conclusions as to the appropriateness of fair value measurement solely on valuations published by the investment fund management company.

International Financial Reporting Standards (IFRS)

In accordance with paragraph 72 of IFRS 13 (Fair Value Measurement), a fair value hierarchy is established to enhance consistency and comparability in fair value measurements and related disclosures by classifying, across three levels (see paragraphs 76–90), the inputs to valuation techniques used to measure fair value. The hierarchy assigns the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

For financial instruments measured at fair value, such as participation units or investment certificates, an analysis of IFRS 13 suggests that treating the net asset value figure published by an investment fund management company (hereinafter: TFI) as a fair value valuation technique is, in substance, an approach that is reserved for Level 1 classification within the fair value hierarchy. Pursuant to paragraph 76 of IFRS 13, Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Accordingly, accepting TFI-published prices (from the perspective of the fund's investments) as fair values requires both assuming and demonstrating that the market mechanism established by the TFI constitutes an active market; that is, a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Assessing market activity necessarily entails verifying:

- whether subscription transactions and the redemption of participation units / repurchase of investment certificates occur at all (and, if so, at what volumes and whether around the reporting date);
- whether a secondary market exists (i.e., transactions in which the TFI is not a counterparty) – whether price levels are observable and whether they differ from the published valuation;
- whether material issues arise in relation to restrictions on the redemption of participation units or the repurchase of investment certificates.

If it is concluded that no active market exists for the published NAV-based valuation, it becomes necessary to demonstrate that the published valuation has been prepared in accordance with IFRS 13 principles in order for it to be regarded as a fair value measurement (for example, whether a market participant perspective has been applied in the assumptions used to assess risk).

Conclusions

The study's findings indicate that, notwithstanding an extensive body of domestic and international regulation, fair value estimation in investment funds remains, to a substantial extent, reliant on subjective assumptions and professional judgement. Subjectivity is not inherently problematic, provided it is properly justified, documented and grounded in a market participant perspective. In practice, however, it is precisely in these areas that material deficiencies most frequently arise.

In particular, persistent issues were observed in valuation processes and their verification, including:

- misalignment of valuation model inputs, including in respect of currency, reference market, and the time horizon of comparable data;
- inappropriate selection of comparable companies, insufficiently reflecting differences in scale, risk profile, financing structure, and the actual sources of revenue generation;
- overreliance on the adjusted net asset method as a substitute for measuring the fair value of equity, without demonstrating alignment of the relevant bases of value across individual assets and liabilities;
- improper or inconsistent specification of entity-specific risk, in particular in valuations driven by unobservable inputs (Level 3 of the fair value hierarchy);
- constrained application of statutory auditors' professional judgement, manifested in excessive reliance on the formal correctness of valuation documentation rather than a substantive economic assessment of key assumptions and their consistency with a market participant perspective;
- a default presumption that NAV valuations published by TFIs represent fair value in circumstances where no active market exists for the relevant financial instrument.

A further important conclusion is that market practice continues to exhibit a tendency to simplify fair value measurement by resorting to proxies that fail to meet the definitional criteria of fair value, such as the price of a recent transaction (PORI) or the mechanical adoption of NAV published by a TFI as if it were a price from an active market. Such an approach may result in unwarranted classification of measurements as Level 1, despite the absence of evidence supporting the existence of an active market within the meaning of IFRS 13 and domestic accounting regulations.

Moreover, the analysis of the relationship between fair value and an investment fund's liquidation value indicates that, in extreme situations, such as cessation of operations or severe liquidity constraints, the valuation context changes fundamentally. In such cases, the distinction between an orderly sale and a forced sale becomes pivotal. The lack of unambiguous operational criteria for drawing

this boundary in investment fund practice creates additional risks of financial information distortion and undermines the comparability of financial statements.

A limitation of this study is its reliance on inspection documentation relating to a selected subset of the investment fund population and a specified time horizon. Nevertheless, the issues identified appear systemic and may provide a foundation for further empirical research, particularly on how fair value measurement quality affects investor decision-making and the stability of the investment fund market under heightened market uncertainty.

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The Scope and Extent of the Use of Artificial Intelligence Tools in the Work of Statutory Auditors – An Empirical Analysis

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Introduction

The advancing digitisation of economic processes and the dynamic development of information technologies significantly impact the functioning of accounting and financial auditing. In recent years, solutions based on Artificial Intelligence (AI)¹ – including machine learning, big data analytics, and the automation of analytical and decision-making processes – have gained particular importance. These technologies are increasingly applied in financial auditing and reporting, supporting the analysis of data populations, anomaly detection, and audit risk assessment, leading to a gradual transformation of the traditional work model of the statutory auditor².

Discussions on the use of artificial intelligence in auditing also form part of a broader debate concerning the relationship between humans and technology, as well as the impact of AI on expert work and professions of public trust. As A. Przegalińska points out, artificial intelligence should not be perceived solely as a tool replacing humans, but as a system collaborating with human judgment and competencies,

¹ The term “artificial intelligence” was coined by John McCarthy in 1956 at the Dartmouth conference. Andreas Kaplan and Michael Haenlein define artificial intelligence as “a system’s ability to correctly interpret external data, to learn from such data, and to use those learnings to achieve specific goals and tasks through flexible adaptation”. Artificial intelligence has two primary meanings: hypothetical intelligence realised in a technical rather than natural process, and as the name of a technology and field of scientific research in computer science and cognitive science, drawing also on achievements in psychology, neurology, mathematics, and philosophy. Source: Margaret Ann Boden: “Sztuczna inteligencja” [Artificial Intelligence]. University of Łódź Publishing House, 2020, p. 30; Andreas Kaplan, Michael Haenlein, “Siri, Siri, in my hand: Who’s the fairest in the land? On the interpretations, illustrations, and implications of artificial intelligence”, *Business Horizont*, Elsevier, Vol. 62, Issue 1, January- February 2019, pp. 15-25.

² Appelbaum, D., Kogan, A., Vasarhelyi, M. A. “Big data and analytics in the modern audit engagement: Research needs”. *Auditing: A Journal of Practice & Theory*, 36(4), 2017, s. 2–5; Kokina, J., Davenport, T. H. “The emergence of artificial intelligence: How automation is changing auditing”, *Journal of Emerging Technologies in Accounting*, 14(1), 2017, pp. 116–118; D. Szostek, P. Kasprowski, J. Kozak, A. Kapczyński, R. Prabucki, “Wyzwania i zagrożenia z zakresu cyberbezpieczeństwa podczas projektowania lub wykorzystywania AI” [Challenges and threats in the field of cybersecurity when designing or using AI], *CyberPolicy* NASK 2023.

redefining the nature of cognitive and decision-making work³. It should be noted that a key challenge associated with AI development is the responsible design of human-algorithm relationships, where technology supports analytical processes but does not absolve humans of responsibility for decisions made⁴.

This perspective is of particular importance in the statutory auditor profession, where professional judgment, ethics, and professional responsibility constitute the foundation of the financial statement audit process. It is noteworthy that the use of AI tools significantly contributes to increasing audit efficiency and quality, as well as expanding the scope of analyses conducted by statutory auditors⁵. At the same time, risks associated with the limited transparency of algorithms, the potential for systemic errors, and the necessity of maintaining human oversight over key audit decisions must be emphasized⁶.

In the context of financial auditing, the application of artificial intelligence may lead not so much to the elimination of the statutory auditor's role, but rather to its transformation, that is, a shift from performing routine procedures towards interpreting analysis results, risk assessment, and the critical verification of recommendations generated by algorithms. The future of working with AI therefore requires the development of new competencies, including an understanding of the principles of algorithmic systems, their limitations, as well as potential cognitive biases⁷. This reflects the growing importance of information technologies in the audit process. However, their practical application remains constrained by organisational, financial, and competency barriers⁸.

The significance of the issue of using artificial intelligence in the work of statutory auditors stems not only from potential technological benefits but also from its impact on the future of the profession and the model of performing audit procedures. Questions arise regarding the scope of the statutory auditor's liability for results generated by algorithms, the compliance of the tools used with International Standards on Auditing, and the degree of preparedness of the professional environment to work with advanced analytical systems.

³ Przegalińska, A. *Istoty wirtualne. Jak fenomenologia zmieniała sztuczną inteligencję* [Virtual Beings. How Phenomenology Changed Artificial Intelligence], Universitas, Kraków 2016, pp. 243–246.

⁴ Kai-Fu Lee, *AI superpowers, hina, USA Silicon Valley, and the New World Order*, Polish translation: *Inteligencja sztuczna, rewolucja prawdziwa, Chiny, USA i przyszłość świata*, Media Rodzina, 2019, pp. 233–266.

⁵ Issa, H., Sun, T., Vasarhelyi, M. A. "Research ideas for artificial intelligence in auditing", *Journal of Emerging Technologies in Accounting*, 13(2), 2016, pp. 3–6; Sutton, S. G., Holt, M., Arnold, V., "Artificial intelligence research in accounting", *International Journal of Accounting Information Systems*, 2016, pp. 64–66.

⁶ Brynjolfsson, E., McAfee, A. *Machine, Platform, Crowd: Harnessing Our Digital Future*, New York: W.W. Norton & Company, 2017, pp. 89–94.

⁷ Roger Penrose, Emanuele Severino, Fabio Scardigli, Ines Testoni, Giuseppe Vitiello, Giacomo Mauro D'Ariano, Federico Faggin, *Artificial Intelligence Versus Natural Intelligence*, Springer, 2022, pp. 107-145.

⁸ S. Menon: How Can AI Drive Audits? ISACA, 2021, p.22, source: https://www.isaca.org/-/media/files/isacadp/project/isaca/articles/journal/2021/volume-4/how-can-ai-drive-audits_joa_eng_0721.pdf accessed on 15.12.2025.

The objective of this article is to assess the degree and scope of the utilisation of artificial intelligence tools in the work of statutory auditors in Poland, and to identify the perceived benefits and barriers associated with their application in audit practice. This objective is pursued through an empirical study conducted among statutory auditors. The article formulates the following research questions:

- 1) To what extent are artificial intelligence tools utilised in their own professional work?
- 2) At which stages of professional work do AI tools find the most frequent application?
- 3) What threats associated with the use of AI are most frequently identified?

The publication consists of three parts. Following the introduction, the theoretical aspects of using artificial intelligence in financial auditing are presented. Subsequently, the determinants and barriers to the application of AI in the work of statutory auditors are discussed. The next part contains a description of the empirical study methodology, followed by the presentation and discussion of its results. The article concludes with a presentation of the study findings, as well as conclusions and recommendations for audit practice and further research.

1. Artificial Intelligence in Financial Auditing

1.1 Concept and Classification of AI Tools Used in Auditing

The concept of artificial intelligence is defined multidimensionally, depending on the technological and functional context. It is most commonly accepted that Artificial Intelligence (AI) denotes a set of IT methods and tools enabling computer systems to perform tasks previously requiring human cognitive capabilities, such as learning, reasoning, pattern recognition, or data-driven decision-making⁹. In the context of financial auditing, AI does not constitute an autonomous decision-making entity but rather serves as a tool supporting the audit process through advanced data analytics and the automation of selected audit procedures¹⁰. AI tools used in auditing primarily include solutions based on machine learning, Big Data Audit Analytics, and data mining techniques¹¹. These technologies enable the analysis of full financial data populations instead of traditional sampling, which potentially increases the effectiveness of identifying irregularities and risks of material misstatement of the financial statements. AI tools used in auditing are most frequently classified according to their area of application. The basic categories include:

- 1) financial data analysis tools,
- 2) anomaly and fraud detection systems,
- 3) solutions for the automation of audit procedures¹².

Analytical tools utilizing machine learning algorithms enable the identification of unusual relationships, trends, and deviations in accounting data, supporting risk

⁹ Issa, H., Sun, T., Vasarhelyi, M. A., "Research ideas for artificial intelligence in auditing: The Formalization of Audit and Workforce Supplementation", *Journal of Emerging Technologies in Accounting*, 13(2), 2016, pp. 2–4; Margaret Ann Boden: "Sztuczna inteligencja" [Artificial Intelligence]. University of Łódź Publishing House, 2020, p. 30; Andreas Kaplan, Michael Haenlein, "Siri, Siri, in my hand: Who's the fairest in the land? On the interpretations, illustrations, and implications of artificial intelligence", *Business Horizons, Elsevier*, Vol. 62, Issue 1, January- February 2019, pp. 15-25.

¹⁰ A. Karmańska, „ Artificial Intelligence in Audit”, *Research Papers of Wrocław University of Economics and Business*, 2022, vol. 66, no. 4, pp. 87-88.

¹¹ D. Szostek, P. Kasprowski, J. Kozak, A. Kapczyński, R. Prabucki. *Wyzwania i zagrożenia z zakresu cyberbezpieczeństwa podczas projektowania lub wykorzystywania AI* [Challenges and threats in the field of cybersecurity when designing or using AI], CyberPolicy NASK 2023, pp. 22-33; Theophanis C. Stratopoulos, Victor Xiaoqi Wang, "Artificial intelligence and accounting research: a framework and agenda", *International Journal of Accounting Information Systems, Elsevier*, December 2025, Volume 56. source: <https://www.sciencedirect.com/science/article/pii/S1467089525000363> accessed on 12.12.2025.

¹² EY, "Audit innovation", source: https://www.ey.com/en_pl/services/audit/innovation accessed on 30.09.2025; Deloitte, *Cognitive technologies: The real opportunities for business*, 2015, source: <https://www.deloitte.com/us/en/insights/topics/emerging-technologies/cognitive-technologies-business-applications.html> accessed on 30.09.2025; Kokina J. and Davenport T.H., "The emergence of artificial intelligence: How automation is changing auditing", *Journal of Emerging Technologies in Accounting*, 14(1), 2017, 115-123, source: <https://doi.org/10.2308/jeta-51730>; Zang A. (Chanyuan), "Intelligent process automation in audit", *SSRN Electronic Journal*, 2019, source: <https://doi.org/10.2139/ssrn.3448091>.

assessment and audit planning¹³. Anomaly and fraud detection systems constitute one of the most developed forms of AI application in auditing. These algorithms learn typical transactional patterns and subsequently identify outliers that may indicate errors or fraudulent activities¹⁴. In turn, the automation of audit procedures includes, inter alia, tests of controls, data reconciliation, analysis of source documents, and the preliminary assessment of internal control. The use of AI tools in audit practice remains varied and still limited, focusing mainly on data analysis and the automation of repetitive tasks¹⁵.

1.2 The Role of Artificial Intelligence in the Financial Statement Audit Process

The application of artificial intelligence tools in financial auditing may cover a broader range of stages in the financial statement audit process. AI is used primarily at the stages of audit planning, risk assessment, performance of audit procedures, and, to a limited extent, at the stage of forming conclusions¹⁶.

At the audit planning stage, AI tools support the analysis of large sets of the client's financial and operational data, enabling the identification of areas with a higher risk of material misstatement. The use of machine learning algorithms allows for more precise data segmentation and earlier detection of unusual trends and relationships, which facilitates better targeting of further audit procedures¹⁷. It should be emphasised that analytical technologies enable auditors to move away from an approach based solely on experience and intuition in favour of analysing full data populations¹⁸.

¹³ Appelbaum, D., Kogan, A., Vasarhelyi, M. A. (2017), "Big Data and Analytics in the Modern Audit Engagement: Research Needs", *Auditing: A Journal of Practice & Theory*, Volume 36, Issue 4, 2017, pp. 1-27.

¹⁴ A. Wygodny, "Sztuczna inteligencja w audycie i zarządzaniu ryzykiem, nowe możliwości poszerzania wiedzy" [Artificial Intelligence in Audit and Risk Management: New Opportunities for Knowledge Expansion], *Kontrola i Audyt*, pp. 47-52, source: DOI: 10.53122/ISSN.0452-5027/2024.1.36.

¹⁵ M. Gajdziński, "AI w audycie to nowe możliwości. Przekładamy innowacje na korzyści dla klientów i pracowników" [AI in Audit Means New Possibilities. Translating Innovation into Benefits for Clients and Employees], source: <https://kpmg.com/pl/pl/wiedza/transformacja-biznesowa/ai-w-audycie-otwiera-nowe-mozliwosci-przekladamy-innowacje-na-realne-korzysci-dla-klientow.html> accessed on 10.12.2025.

¹⁶ Issa, H., Sun, T., Vasarhelyi, M. A., "Research ideas for artificial intelligence in auditing: The Formalization of Audit and Workforce Supplementation", *Journal of Emerging Technologies in Accounting*, 13(2), 2016, pp. 6-9; Appelbaum, D., Kogan, A., Vasarhelyi, M. A. (2017), "Big Data and Analytics in the Modern Audit Engagement: Research Needs", *Auditing: A Journal of Practice & Theory*, Volume 36, Issue 4, 2017, pp. 8-11.

¹⁷ M. Gajdziński, "AI w audycie to nowe możliwości. Przekładamy innowacje na korzyści dla klientów i pracowników" [AI in Audit Means New Possibilities. Translating Innovation into Benefits for Clients and Employees], source: <https://kpmg.com/pl/pl/wiedza/transformacja-biznesowa/ai-w-audycie-otwiera-nowe-mozliwosci-przekladamy-innowacje-na-realne-korzysci-dla-klientow.html> accessed on 10.12.2025; Deloitte [2019], AI leaders in financial services, <https://www2.deloitte.com/us/en/insights/industry/financial-services/artificial-intelligence-ai-financial-services-frontrunners.html> (accessed on: 13.12.2025); W. Goleński, M. Będziaszek, M. Fotla, "Duże zbiory danych, AI i otwarte źródła informacji" [Big Data, AI, and Open Information Sources], *Kontrola i Audyt*, pp. 149-154, source: DOI: 10.53122/ISSN.0452-5027/2025.1.10.

¹⁸ Mary Kay K. Copeland. "The Impact of Technology on the Audit Profession", *American Accounting Association, Annual Conference, 2020*, source: DOI:10.13140/RG.2.2.12368.12805; Julie Bell Lindsay, "Innovating to Meet Tomorrow's Challenges", source: https://www.theqaq.org/AuditEffect?gad_source=1&gad_campaignid=23446951426&gbraid=0AAAAACdl-LQ-uxGYwKVi2H2x0bvs8Tjdv&gclid=CjwKCAiAjojLBhAlEiwAc-jhrDgbaiyqydXXVZz_h80hbXMs0zphZ8fWfc05tVRLNZHRasODbAJqhhoCShYQAvD_BwE accessed on 10.12.2025.

The widest application of artificial intelligence is observed at the stage of performing audit procedures. AI tools are used for automatic transaction testing, reconciling accounting records, analysing source documents, and detecting anomalies that may indicate errors or fraud¹⁹.

It is noteworthy that the application of AI in audit procedures contributes to increased audit efficiency, measured by reduced audit completion time and a reduction in human effort required for repetitive tasks. In turn, the automation of data analysis enables auditors to focus on tasks requiring professional judgment, such as interpreting results, evaluating internal control, or communicating with the entity's management²⁰.

The impact of AI on audit quality is assessed from two perspectives. On the one hand, the analysis of full data populations and advanced anomaly detection techniques increase the likelihood of identifying material misstatements²¹. On the other hand, the risk of over-reliance on algorithm-generated results and the limited transparency of certain AI models may hinder the assessment of their compliance with auditing standards requirements.

Statutory auditors perceive artificial intelligence primarily as a supporting tool, rather than a replacement for the auditor's professional judgment. It is worth emphasising that the positive impact of technology on audit quality depends on user competencies and the degree of integration of AI tools with audit methodology. In this context, the role of artificial intelligence in the financial statement audit process consists not only of increasing operational efficiency but also of the gradual transformation of how audit work is performed²².

¹⁹ G. Wiśniewska, "Wpływ sztucznej inteligencji na pracę audytorów: czy biegły rewident może zostać zastąpiony przez sztuczną inteligencję?" [The Impact of Artificial Intelligence on Auditors' Work: Can the Statutory Auditor Be Replaced by Artificial Intelligence?], *Cracow University of Economics*, 2024, pp. 99-112.

²⁰ Appelbaum, D., Kogan, A., Vasarhelyi, M. A. (2017), "Big Data and Analytics in the Modern Audit Engagement: Research Needs", *Auditing: A Journal of Practice & Theory*, Volume 36, Issue 4, 2017, pp. 12-14; Kokina, J., & Davenport, T. H., "The Emergence of Artificial Intelligence: How Automation Is Changing Auditing", *Journal of Emerging Technologies in Accounting*, 14, 115-122, source: <https://doi.org/10.2308/jeta-51730> accessed on 15.12.2025.

²¹ Steve G. Sutton, Matthew Holt, Vicky Arnold, "The reports of my death are greatly exaggerated", *International Journal of Accounting Information Systems*, Elsevier, Volume 22, September 2016, pp. 60-73.

²² O. Frederik, "Digital Transformation in Auditing: Harnessing Technology for More Efficient and Effective Audits", *Journal of Business Practice, Economics, and Finance*, vol. 2, issue 1, 2024, p. 51.

2. Determinants of Artificial Intelligence Usage in the Work of Statutory Auditors

2.1 Factors Favouring AI Utilisation

The extent of artificial intelligence tool utilisation in financial auditing is determined by a range of individual and organisational factors. Key determinants favouring AI usage include the digital competencies of statutory auditors, the availability of appropriate technological tools, and organisational support from audit firms and the institutional environment²³. A positive attitude towards technology and basic knowledge of data analysis and algorithm functioning significantly increase auditors' propensity to use AI-based tools, whereas a lack of understanding of AI system mechanisms leads to mistrust of algorithm-generated results and limits their practical application²⁴. At the same time, it should be noted that digital competencies can be both a factor favouring AI usage and a barrier; insufficient digital preparedness limits the possibility of fully exploiting the potential of information technologies in auditing.

The second significant factor favouring AI usage is the availability of appropriate technological tools. Access to advanced analytical systems integrating financial and non-financial data and enabling the analysis of full data populations²⁵. However, these tools are more frequently implemented in large audit firms possessing appropriate financial and technological resources²⁶.

Another significant factor favouring AI usage is organisational support, including a digitisation strategy, training, and an organisational culture conducive to innovation. AI implementation in auditing is most effective in organisations that treat digital technologies as an element of long-term development, rather than merely a tool for cost optimisation²⁷.

²³ Issa, H., Sun, T., Vasarhelyi, M. A., "Research ideas for artificial intelligence in auditing: The Formalization of Audit and Workforce Supplementation", *Journal of Emerging Technologies in Accounting*, 13(2), 2016, pp. 10-12; O. Frederik, "Digital Transformation in Auditing: Harnessing Technology for More Efficient and Effective Audits", *Journal of Business Practice, Economics, and Finance*, vol. 2, issue 1, 2024, pp. 47-49.

²⁴ Eilifsen, A., Knechel, W. R., & Wallage, P., "Data analytics and auditing: Where are we and where should we be going?", *Auditing: A Journal of Practice & Theory*, 2020, 39(1), pp. 1-24; Ghobadian, A., Speller, S., & Jones, M., "Digital transformation and the future of work: A bibliometric analysis and research agenda", *Technological Forecasting and Social Change*, 2021, pp. 167, 120730.

²⁵ Appelbaum, D., Kogan, A., Vasarhelyi, M. A. (2017), "Big Data and Analytics in the Modern Audit Engagement: Research Needs", *Auditing: A Journal of Practice & Theory*, Volume 36, Issue 4, 2017, pp. 9-11.

²⁶ KPMG. (2020). *Embracing the digital transformation of audit*. Source: <https://advisory.kpmg.us/articles/2020/embracing-the-digital-transformation-of-audit.html> accessed on 09.10.2025.

²⁷ Issa, H., Sun, T., Vasarhelyi, M. A., "Research ideas for artificial intelligence in auditing: The Formalization of Audit and Workforce Supplementation", *Journal of Emerging Technologies in Accounting*, 13(2), 2016, pp. 11-13.

2.2 Barriers and Limitations

Despite the growing interest in the application of artificial intelligence in financial auditing, the scope of its practical utilisation remains limited. Key implementation barriers include high technology implementation costs, the risk of algorithmic errors, and ethical and regulatory issues related to the professional liability of statutory auditors. The costs of implementing AI tools encompass both capital expenditures associated with purchasing or developing advanced analytical systems, as well as the costs of training, integration with existing IT infrastructure, and system maintenance.

The second significant barrier, as mentioned in the previous part of the publication, involves risks associated with algorithmic errors and the limited transparency of AI models. Algorithms learning from historical data may replicate existing errors, biases, or inadequate patterns, which can lead to incorrect audit conclusions²⁸. It should be noted that the inability to fully explain the functioning of certain models, especially those based on deep learning, constitutes a challenge from the perspective of compliance with International Standards on Auditing²⁹. The risk of algorithmic errors is of particular importance in the context of the statutory auditor's professional liability. In accordance with applicable standards, the auditor bears responsibility for the audit conclusions, regardless of the degree of use of technological tools; consequently, the fear of over-reliance on algorithm-generated results limits auditors' propensity to apply AI in key audit areas.

Other barriers also concern ethical and regulatory issues. There is a lack of clear guidelines regarding the use of AI in financial auditing, particularly concerning algorithm transparency, data protection, and the documentation of procedures based on automated systems³⁰. Statutory auditors must pay attention to interpretive uncertainty regarding the compliance of using advanced analytical tools with national regulations and professional ethics standards. Ethical and regulatory barriers are particularly important in professions of public trust, where maintaining independence, objectivity, and professional judgment is of key significance. Consequently, the effective implementation of artificial intelligence in auditing requires not only technological development but also the adjustment of regulatory frameworks and the building of competencies enabling critical and responsible collaboration with algorithmic systems.

²⁸ Steve G. Sutton, Matthew Holt, Vicky Arnold, "The reports of my death are greatly exaggerated", *International Journal of Accounting Information Systems*, Elsevier, Volume 22, September 2016, pp. 71-73.

²⁹ Michelle Cardwell, Nadine Kater, Zaakirah Mohamed, and Bruce Vivian, "Embracing the AI Frontier: Rethinking Auditor Skills and Education", source: <https://www.ifac.org/knowledge-gateway/discussion/embracing-ai-frontier-rethinking-auditor-skills-and-education> accessed on 30.11.2025.

³⁰ Michelle Cardwell, Nadine Kater, Zaakirah Mohamed, and Bruce Vivian, "Embracing the AI Frontier: The Transformative Impact of AI on Audit Firms & Methodologies", IFAC, August 2025, source: <https://www.ifac.org/knowledge-gateway/discussion/embracing-ai-frontier-transformative-impact-ai-audit-firms-methodologies> accessed on 31.10.2025.

3. The Use of AI Tools by Statutory Auditors in Poland

Existing research covering the topic of artificial intelligence utilisation by statutory auditors has focused on describing the tools used during the performance of financial audit procedures, analysing their impact on the financial statement audit process, and analysing legal provisions and literature regarding isolated, anecdotal information on the scope of application of these tools by statutory auditors in Poland. The questionnaire survey for the purposes of this publication was conducted between 25 February 2025 and 31 May 2025. The obtained empirical material allowed for the collection of valuable information from respondents, including the degree of artificial intelligence utilisation in the work of statutory auditors and the impact of AI on work efficiency.

Aiming to limit the possibility of errors during the study while also increasing the validity of results, the research was designed in such a way that the obtained empirical data would allow for answering the research questions posed in this paper. In its first stage, entities having direct access to the respondents were identified³¹, which allowed for obtaining empirical data by maintaining the representativeness of key characteristics related to the research objectives in the sample and enabling the comparison of data obtained from respondents selected for the study. The sampling methods did not negatively affect the quality of the research or the utility of the collected empirical data, and the entire study was conducted in accordance with the ethical principles applicable to social research³². Participation was voluntary, and all responses were treated anonymously.

Active survey links were made available by the Regional Branch of the Polish Chamber of Statutory Auditors in Warsaw. The questionnaire was made available to respondents via the Internet (CAWI method). The person participating in the study filled out the survey independently³³, while the computer system responsible for handling the study verified the technical correctness of the provided answers and saved them for later analysis.

Given the time, financial, and organisational constraints, a sample-based study design was adopted, meaning that the observation covered respondents including a selected part of the statutory auditor population. The consequence of this decision was the necessity to determine the minimum sample size and select a method for representative sampling³⁴. In the case of the statutory auditor population, the population

³¹ E. Babbie, *The Practice of Social Research...*, op. cit., p. 165.

³² E. Babbie, *The Practice of Social Research...*, op. cit., pp. 79-94.

³³ M. Andralojć, "Zalety i ograniczenia ankiety internetowej jako metody zbierania materiały badawczego w dziedzinie ZZL" [Advantages and limitations of the internet survey as a method of collecting research material in the field of HRM], "Zarządzanie zasobami ludzkimi" Bimonthly, 2006, no. 5/2006, pp. 110-112.

³⁴ S. Nowak, *Metodologia badań Społecznych* [Methodology of Social Research], PWN Scientific Publishers, Warsaw 2012, pp. 298-303.

size was known and amounted to 4,854 individuals as of 31 December 2024³⁵; therefore, the minimum sample size was established at 67 completed questionnaires, assuming an estimated population proportion of 50%, a significance level of 10%, and a margin of error of 10%.

The responses to each survey question obtained from the respondents were collated and summarised using an Excel spreadsheet. Subsequently, using methods of descriptive and mathematical statistics, induction, and inference, an analysis of the obtained empirical material was performed, which allowed for finding answers to the research questions. To assess whether the relationships between the obtained results were not accidental, statistical significance (p) was applied³⁶. This signifies the risk of erroneously stating a relationship that does not actually exist. In this paper, a statistical significance level (p) of 5% was adopted as the acceptable probability of stating a relationship that does not actually occur³⁷.

At the beginning of each questionnaire, as required by the principles of research design, a request was placed to the respondent to complete it³⁸. The purpose of the study was presented therein, and the anonymity of the surveys was assured. The initial survey questions related to the socio-demographic characteristics of the respondents³⁹. Subsequently, questions directly addressing the research questions contained in this paper were included. Table 1 presents a summary of the number of persons who opened the survey link, as well as the number of completed and uncompleted surveys in the study.

Table 1. Summary of questionnaires used for analysis

Group Name	Minimum Sample Size	Number of Survey Link Visits	Number of Uncompleted Surveys	Number of Completed Surveys	Completion Rate
Statutory Auditors	74	213	139	74	34.7%

Source: authors' own elaboration based on survey data.

³⁵ 2024 Sprawozdanie z monitorowania rynku usług świadczonych przez biegłych rewidentów i firmy audytorskie oraz działalności komitetów audytu [2024 Report on the Monitoring of the Market for Services Provided by Statutory Auditors and Audit Firms and the Activities of Audit Committees], Polish Audit Supervision Agency (PANA), p. 14, source: <https://pana.gov.pl/wp-content/uploads/2025/05/sprawozdanie-z-monitorowania-ryнку-usług-swiadczonech-przez-biegłych-rewidentów-i-firmy-audytorskie-oraz-działalności-komitetów-audytu-za-2024-rok.pdf> accessed on 01.12.2025.

³⁶ J. Krasodomska, "Rachunkowość społeczna – perspektywa światowa i krajowa" [Social Accounting – Global and National Perspective], *Research Papers of Wrocław University of Economics*, no. 329, 2014, p. 191.

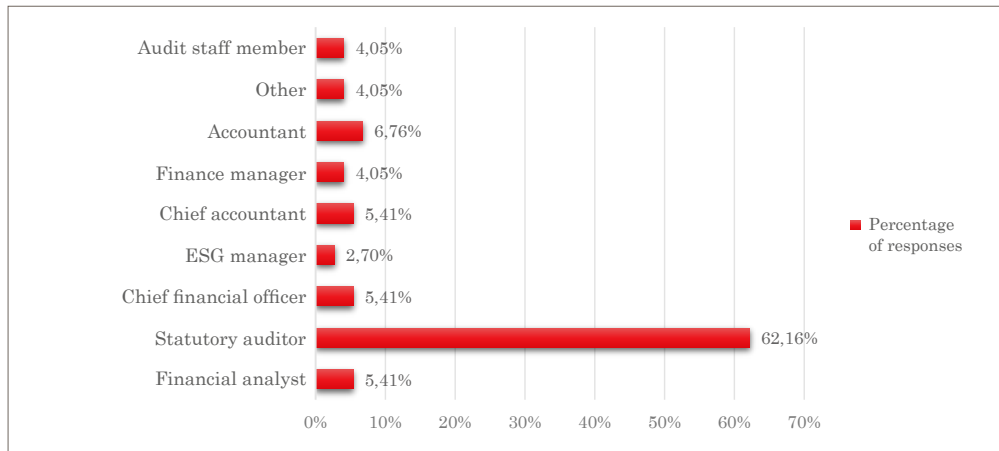
³⁷ B. Pułaska-Turyna, *Statystyka dla...* [Statistics for Economists], op. cit., pp. 242-243; M. Rószkiewicz, *Metody ilościowe w badaniach marketingowych* [Quantitative Methods in Marketing Research], PWN Scientific Publishers, 2012, pp. 290-300.

³⁸ J.W. Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* [Polish transl.: Projektowanie badań naukowych. Metody jakościowe, ilościowe i mieszane], Jagiellonian University Press, Kraków 2009, p. 166; D.A. Dilmann, *Mail and telephone: the total design method*, New York John Wiley, 1978 r.

³⁹ E. Babbie, *The Practice of Social Research...*, op. cit., p. 277, p. 281.

Among the respondents, 82.4% were women and 17.6% were men. 90.5% of respondents declared that they are statutory auditors, while 9.5% stated that they are not statutory auditors. The collected information regarding the profession practiced by the study participants allowed for the verification of the possibilities of using AI tools in professional work, as presented in Figure 1.

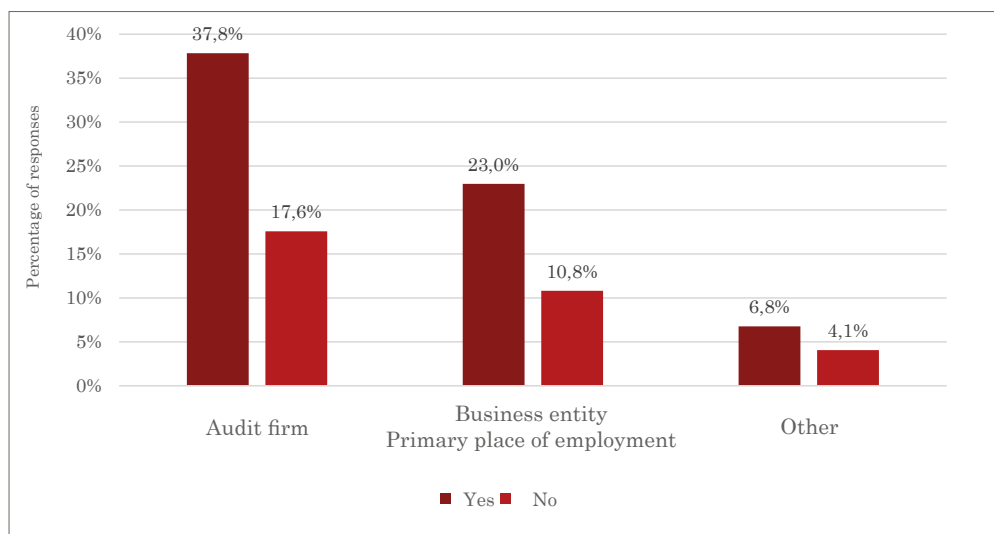
Chart 1. Profession practiced



Source: authors' own elaboration based on survey data.

The most numerous group of respondents consisted of individuals actively practicing the profession of statutory auditor (62.16%). Among other professions, the most frequent respondents were accountants (6.76%), followed by financial directors and financial analysts (5.41%). The chi-square goodness-of-fit test indicates a statistically significant variation in the distribution of respondents by profession ($\chi^2 = 196.00$; $df = 8$; $p < 0.001$). The distribution of professions deviates significantly from a uniform distribution, with a clear dominance of statutory auditors, who constituted over 60% of the sample.

Respondents were asked to provide information on whether they had ever used artificial intelligence tools in their work. The structure and distribution of responses regarding the use of artificial intelligence tools by the survey participants are illustrated in Figure 2.

Chart 2. Use of artificial intelligence tools

Source: authors' own elaboration based on survey data.

37.8% of respondents employed in audit firms declared using artificial intelligence tools at work, which may indicate greater engagement or access to the analysed solutions in this environment. A similar, though weaker, trend occurs among respondents employed in business entities, where study participants declaring the use of artificial intelligence tools constitute 23.0%, while non-users constitute 10.8%. The results of the chi-square test of independence did not demonstrate a statistically significant relationship between the respondents' main place of work and the answer provided ($\chi^2 = 0.106$; $df = 2$; $p = 0.949$). This means that the structure of "Yes" and "No" answers was similar regardless of the type of organisation in which the respondents performed their professional work. In order to obtain information on the respondents' familiarity with AI tools, the study participants were asked to self-assess their level of knowledge. The obtained information is presented in Table 2.

Table 2. Self-assessment of AI tool knowledge by respondents

Profession practiced	Very high (%)	High (%)	Medium (%)	Low (%)	No knowledge (%)
Financial Analyst	0.0	0.0	5.3	0.0	0.0
Statutory Auditor	4.1	8.1	14.8	28.4	6.8
Financial Director (CFO)	0.0	1.4	1.4	2.6	0.0
ESG Director	0.0	0.0	0.0	2.7	0.0
Chief Accountant	0.0	0.0	4.1	1.4	0.0
Other	0.0	2.7	1.3	4.1	0.0
Head of Finance Department	0.0	0.0	1.4	2.6	0.0
Accountant	0.0	0.0	4.1	2.7	0.0
Grand Total	4.1	12.2	32.4	44.5	6.8

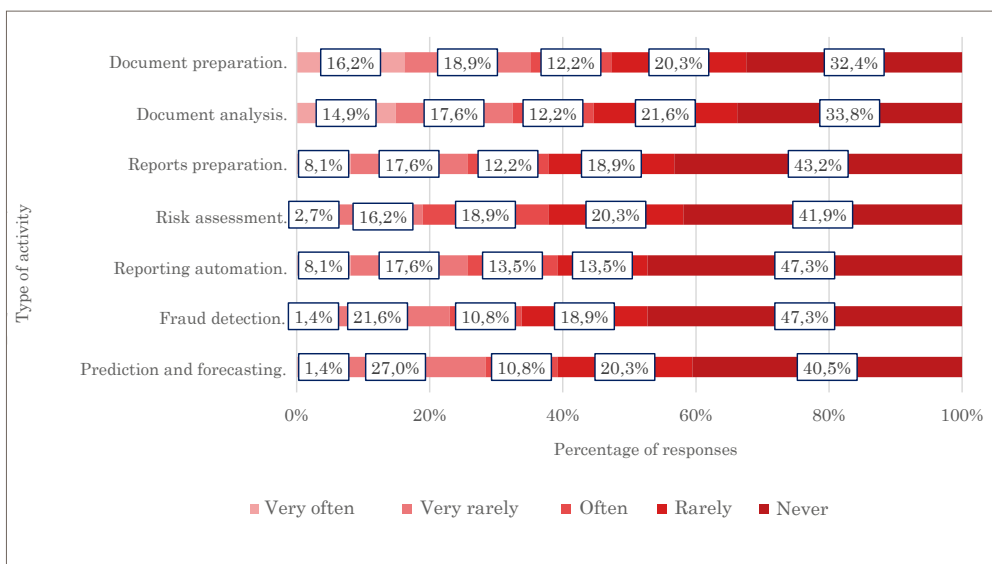
Source: authors' own elaboration based on survey data.

The data presented in Table 2 indicate that the declared level of knowledge of artificial intelligence tools among respondents is generally low. Low ratings (44.5%) and medium ratings (32.4%) dominate the entire sample, while only 16.3% of those surveyed declare a high or very high level of AI knowledge. At the same time, 6.8% of respondents indicate a total lack of knowledge of this type of tool. The greatest variation in responses is observed in the statutory auditor group, where all levels of competence self-assessment occur – from very high to no knowledge. Despite this, indications of low and medium levels of AI knowledge also prevail in this group. In the remaining professional groups, only medium and low ratings dominate, and the absence of declarations of very high competence may evidence the limited use of advanced AI tools outside the audit environment.

The chi-square test of independence revealed no statistically significant relationship between the profession practiced and the assessment of the level of knowledge of artificial intelligence tools ($\chi^2 = 25.02$; $df = 28$; $p = 0.627$). The results indicate that a low and medium level of declared AI competence is a common phenomenon regardless of the respondents' professional affiliation.

Respondents were asked to provide information on which activities and processes they use AI tools for. The structure and distribution of responses regarding the use of artificial intelligence tools by the survey participants are illustrated in Figure 3.

Chart 3. AI Utilisation in Work



Source: authors' own elaboration based on survey data.

The data indicate that the declared frequency of utilisation of the analysed solutions is generally low across all analysed areas. The highest percentage of “not at all” responses occurs in most of the analysed areas and varies from 32% to over 4%, which suggests that a significant portion of respondents does not apply the discussed solutions in their professional work at all. Responses indicating “very rarely” also remain at a relatively high level, i.e., from 16.2% to 27.0%, which may indicate that even if the tools are used, such use is incidental.

Responses “often” and “very often” appear much less frequently and are strongly differentiated between individual areas. The highest values in the “very often” category indicate that only a small group of respondents utilises the analysed solutions in a regular and systematic manner. This may evidence the existence of a narrow group of advanced users, alongside a lack of widespread technology adoption.

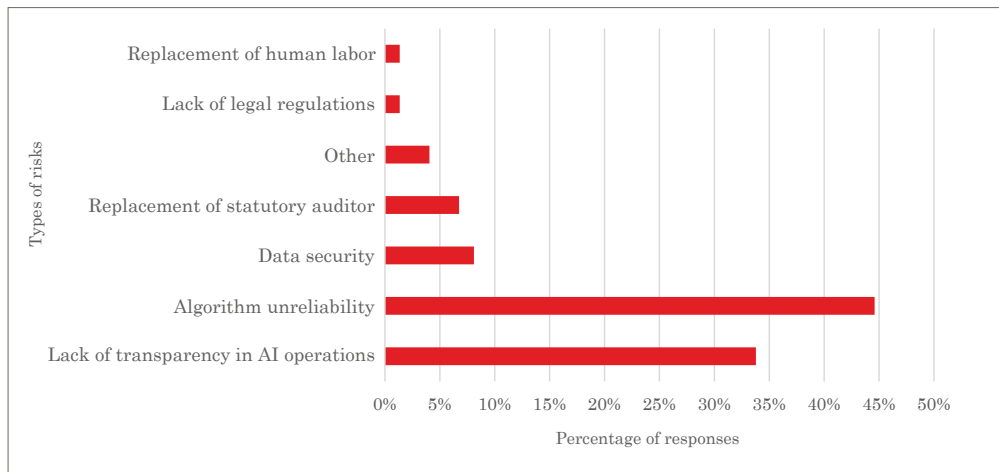
The results confirm that the utilisation of the analysed tools is at an early stage of development, and their application is selective and limited in nature. Such a response structure may result from competence, organisational, or technological barriers previously identified in the literature. Consequently, the observed low

frequencies of utilisation may constitute a significant limitation to fully leveraging the potential of modern solutions in audit practice.

Although “rarely” and “not at all” responses dominate in general terms, the chi-square test results indicate that the intensity of using the analysed solutions is significantly differentiated between the studied areas. In some areas, a relatively higher share of “often” and “very often” responses is observed, while in others, there is an almost total absence of regular utilisation. The results confirm that the use of the analysed tools is not homogeneous and is selective in nature, which may reflect functional differences between areas of audit work and a varied level of technological maturity.

In order to obtain information on the greatest risks resulting from the use of artificial intelligence tools, respondents were asked to indicate what they believe to be the greatest threats. The structure and distribution of responses regarding the use of artificial intelligence tools by the survey participants are illustrated in Figure 4.

Chart 4. Risks arising from the use of AI



Source: authors' own elaboration based on survey data.

The greatest concerns related to the use of artificial intelligence in professional work focus primarily on the technical and cognitive aspects of AI system functioning. The most frequently indicated concern is the fallibility of algorithms, declared by 44.6% of respondents. This result suggests that users fear errors generated by AI systems and their potential impact on the quality of decisions made, which is of particular significance in professions requiring a high level of professional judgment and responsibility.

Almost 34% of those surveyed pointed to the lack of transparency in AI operations. This concern relates to the limited ability to understand the decision-making mechanisms of algorithms, which may hinder their verification, the documentation of procedures, and the justification of professional conclusions. In the context of statutory auditors' work, the lack of algorithm transparency constitutes a significant challenge from the perspective of compliance with applicable auditing standards.

Only slightly over 8% of the study participants have concerns related to data security when using AI tools, which may suggest that respondents perceive technological risks more through the prism of the quality and reliability of results than cybersecurity threats. Concerns regarding the replacement of statutory auditors' work by artificial intelligence were indicated by only 6.8% of those surveyed, which may indicate that the fear of total automation of the profession is not a dominant problem in the sample. The chi-square test reveals a statistically significant difference in the frequency of responses concerning individual risks related to the use of artificial intelligence at work ($\chi^2 = 94.95$; $df = 6$; $p < 0.001$), which confirms that respondents attribute significance to selected risk categories.

4. Conclusions and Recommendations

4.1 Key Findings from the Study

The empirical study assessed the extent to which statutory auditors utilise artificial intelligence tools in their professional work. The results indicate that despite the growing availability of AI-based solutions, the level of their practical utilisation in financial auditing remains relatively low and varied. The dominant form of respondents' contact with AI tools is sporadic or incidental use. In the majority of analysed areas, "rarely" and "not at all" responses prevailed, which may suggest that artificial intelligence does not yet constitute an integral element of financial statement audit methodology. At the same time, only a small group of respondents declared frequent or very frequent use of the analysed tools, which may evidence the existence of a narrow group of advanced users.

The study results indicate that the declared level of knowledge of AI tools is generally low or medium, regardless of the profession practiced. The lack of statistically significant relationships between the profession and the self-assessment of AI competence suggests that insufficient preparation for working with advanced tools is common in the professional environment related to accounting and auditing. Simultaneously, the greatest variation in responses was observed in the statutory auditor group, indicating an uneven level of new technology adaptation within the same profession.

Based on the obtained results, it can also be concluded that the respondents' level of preparation for working with artificial intelligence tools remains insufficient in the context of the advancing digitalisation of financial auditing; this may constitute a barrier to the wider use of these technologies in practice and limit the scope of practical utilisation of the analysed tools.

A significant conclusion drawn from the study provides confirmation of these trends. The results indicate that key challenges related to the use of AI in professional work focus on trust in algorithms and their transparency, rather than on a direct threat to employment, thereby confirming that the digital transformation of audit is gradual and selective in nature.

4.2 Recommendations for Statutory Auditors and Audit Firms

The study findings support the following practical recommendations. Of key significance is the systematic development of statutory auditors' digital competencies, covering not only the operation of specific tools but also an understanding of the principles of algorithm functioning, their limitations, and the risks associated with their application. These competencies should become an integral and key element of continuing professional education.

Audit firms should treat the implementation of AI tools as an element of a long-term development strategy, not merely as a tool for increasing operational efficiency. This includes both investments in appropriate technological infrastructure and the creation of procedures ensuring the compliance of AI utilisation with applicable auditing standards and principles of professional ethics. A significant role should be played by professional and supervisory institutions, which, through guidelines, recommendations, and educational activities, can support the safe and responsible use of artificial intelligence in auditing. Clear regulatory frameworks may limit interpretive uncertainty and increase auditors' trust in new technologies.

4.3 Directions for Future Research

The presented results indicate the need for continued research on the utilisation of artificial intelligence in financial auditing and reporting. In particular, it seems justified to conduct in-depth qualitative studies allowing for a better understanding of statutory auditors' attitudes towards AI and the mechanisms of decision-making regarding its practical application.

Another direction of research could be comparative analyses covering different countries or segments of the audit market, which would allow for the identification of institutional factors influencing the pace of AI adoption. It is also worth considering studies enabling the assessment of changes in the level of AI tool utilisation over time, or exploring the impact of artificial intelligence utilisation on audit quality, including the statutory auditor's professional judgment and the relationship between technology and professional liability. These studies may constitute a basis for the further development of standards and best practices in the field of the digital transformation of financial auditing.

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Use of large language models (LLMs) in auditing as a tool to reduce information asymmetry and fraud risk in the shareholder-management relationship

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Astract

Aim: The purpose of the paper is to explore the use of Large Language Models (LLMs) in audit testing and to assess their potential in reducing information asymmetry and fraud risk in the relationship between the audit firm (engaged by the audited company's shareholders) and the management responsible for the preparation of the audited financial statements. The paper verifies the research hypotheses regarding the impact of generative artificial intelligence (Gen AI) on the accuracy and efficiency of financial irregularity detection as compared to traditional methods.

Methodology / Research approach: The paper employs triangulation of research methods: an analysis of the literature, the conceptualization of the problem based on the theory of agency and the concept of agency costs, and a simulation-type empirical study. The study consisted of eight actual audit tests on a sample of 167 items (contracts, invoices, entries from accounting systems, and other financial documents) sourced from a case study involving an international capital group. Fivelanguage models widely recognized as key to the development of LLM technology were used in the analysis: ChatGPT, Gemini, Microsoft Copilot, Llama and Claude (Benaich, 2024; Maslej at al, 2025). A two-stage research procedure was employed: an initial phase using basic prompts and an optimisation phase using advanced prompt engineering, with a detailed comparative analysis of the results.

Results and recommendations: The results of the study indicate that "crude" LLMs in the initial phase show varying degrees of efficiency (between 74 and 96 per cent), however, their use carries a significant risk of hallucinations (the generation of content that is grammatically and logically correct but inconsistent with the facts)



and interpretation errors when analysing complex legal clauses. Hallucinations in this context differ from classic type I and type II errors that occur in auditing: LLMs can generate false content that may have the appearance of correctness, although this does not necessarily equate to a misidentification of irregularities or an oversight in a statistical sense. However, after applying prompt optimisation and refining the context, the models' efficiency increased significantly, with the Gemini model achieving 100 per cent correctness in the test sample. This technology allows for a rapid analysis of 100 per cent of the population of unstructured data, which is conducive to detecting potential irregularities that are not visible through traditional sampling.

Research limitations / implications: The study was carried out on anonymised data from a single capital group operating in the household appliances sector, which may limit the universality of the conclusions for specific sectors (e.g. finance). The main limitations of the technology include the file size limits, data confidentiality issues and the risk of overconfidence in the results generated by AI.

Originality / value: The paper fills a research gap in the practical application of GenAI in specific audit procedures on real data. It presents empirical evidence of the effectiveness of prompt engineering in eliminating language model errors in auditing, contributing to the discussion on the future of the statutory auditor profession.

Keywords: Large Language Models (LLMs), audit, information asymmetry, fraud risk, generative artificial intelligence (GenAI), theory of agency.

Introduction

The present-day financial and capital services market is characterised by increasingly complex relationships between stakeholders and a dynamic increase in the amount of data generated by business entities. In a data-driven economy, the shareholder and investor confidence in company management boards is based on the integrity and reliability of the presented financial statements. The data-driven economy is an extension of the concept of the knowledge-based economy, in which not only knowledge and intellectual capital become key resources, but also data as a fundamental factor in value creation (OECD, 1996; European Commission, 2020). However, the naturally occurring asymmetry of information between a company, which has full knowledge of its condition, and external stakeholders creates structural conditions for the occurrence of erroneous allocation decisions and financial fraud.

One systemic mechanism to reduce this asymmetry and make the data more reliable is an independent financial audit. Nevertheless, traditional audit methods, based largely on manual review of documentation and inference based on limited test samples, are becoming increasingly ineffective and inefficient in the era of Big Data. They are time-consuming, prone to human error (fatigue, omission) and subjectivity of judgement. In addition, market pressure to deliver the audit quickly and reduce its costs may result in a reduction in the quality of assurance services, which has an adverse effect on the ability to detect accounting fraud (Knechel et al., 2013).

Recent years have seen rapid development of generative artificial intelligence (GenAI) and, in particular, Large Language Models (LLMs). Trained on very large text datasets, these models have the ability to process natural language, understand context, analyse sentiment and draw logical conclusions. In terms of auditing, LLMs can revolutionise the analysis of unstructured data – contracts, invoices, memos from management board meetings and email correspondence – which make up a significant portion of audit evidence and the analysis of which has until recently been difficult to automate.

Based on empirical studies simulating the work of an auditor, this paper attempts to answer the question of whether GenAI can become an effective tool to support statutory auditors, enhancing the precision and expanding the scope of audits and ultimately reducing information asymmetry between management and shareholders.

1. Theoretical basis of the research: Theory of agency and the risk of fraud

The theory of agency, the foundations of which were laid by, among others, Jensen and Meckling, describes a relationship in which one party (the principal) entrusts another (the agent) with a task, delegating some of its decision-making powers to that party. There is a specific three-way configuration of this relationship in the audit market. The shareholders (the principal) entrust capital to the management (the agent), engaging an audit firm to verify the latter's actions (Jensen & Meckling, 1976).

A key problem with this structure is that the audit firm does not work directly with the shareholders, but with the company's management, which creates a conflict of interest and the risk of disadvantaging investors in order to retain the client (Schaefer, 2023). This leads to agency costs, which include oversight costs (e.g. the auditor's fee), bonding costs (reputation building) and residual costs arising from the divergence of interests. (Watts et al., 1986).

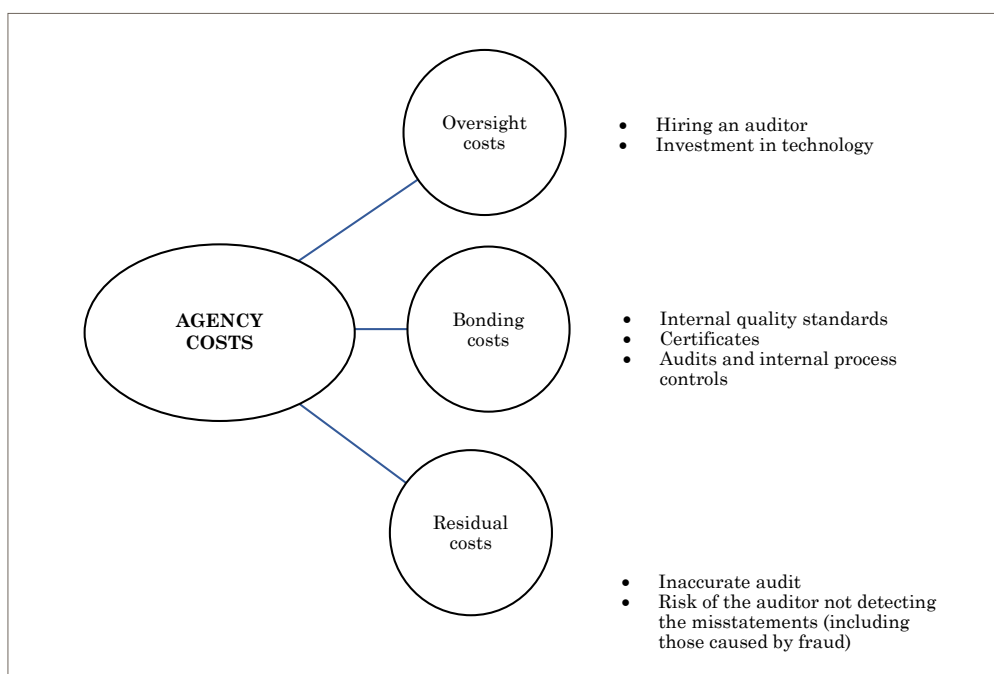


Fig. 1. The structure of agency cost in the relationship between shareholder and the audit firm

Source: Own study based on: Jensen. 1976, Damodaran. 2010, Solomon. 2020).

Within the theory of agency there are two main issues affecting audit quality:

1. Adverse selection: a situation where the auditors do not have full knowledge of the documents provided by the audited entity, which reduces the quality of the verification (Jensen & Meckling. 1976, Eisenhardt K.M. 1989).
2. Moral hazard: the phenomenon of an auditor putting their own interests above those of shareholders, e.g. by not disclosing detected irregularities in order to retain the contract (Jensen & Meckling. 1976, Eisenhardt K.M. 1989).

Despite the existence of legal regulations and ethical standards, the audit market is characterised by systemic sources of conflicts of interest. The most important of these include:

- financial dependence on the company's management (the auditor is paid by the entity whose accounts they are auditing),
- provision of advisory services in parallel with the audit,
- pressure from the management board to accept aggressive accounting practices,

and

- “familiarity threat”, i.e. an overly close relationship with the client.

(International Ethics Standards Board for Accountants. 2018, DeAngelo, 1981, Frankel, Johnson, & Nelson, 2002).

Economic history provides evidence of the negative materialisation of these risks. The collapse of Enron and the audit firm Arthur Andersen highlighted the problem of lack of independence caused by the provision of advisory services and the concealment of creative accounting. Similar mechanisms were at work in the case of WorldCom and Germany's Wirecard, where auditors ignored signs of financial manipulations for years. In Poland, one example is the GetBack case where the effectiveness of the auditor's actions in verifying the company's financial statements was called into question (McLean & Elkind, 2003, Coates, 2007, Pulliam & Solomon, 2002, McCrum & Jones, 2020, Business Insider Polska, 2020).

The primary objective of an audit is to provide an independent opinion on the financial statements in order to give credibility to the data and reduce the information gap between the management and shareholders. The quality of audit is meant to be ensured by such mechanisms as independent verification, professional scepticism and compliance with standards (Watts, 1977).

However, traditional auditing has significant limitations that prevent complete eradication of the risk of overlooking misstatements and the risk of fraud. The main limitations include:

- the test nature of audits (less than 100 per cent of transactions are verified);

- delay of information in relation to economic events;
- limited assurance;
- subjectivity of the auditor's assessments;
- inherent risk of failure to detect fraud.

Furthermore, the phenomenon of moral hazard can lead to shareholders' overconfidence in the auditor's opinion, which paradoxically lulls them into a false sense of security (Dopierała, 2012, DeFond, 2010).

The transparency of an audit is a key value for investors, allowing them to estimate risk more accurately and to enforce management accountability. In the face of the challenges of traditional testing methods, there is a growing demand for the implementation of modern tools such as artificial intelligence.

An analysis of the literature and historical cases of fraud indicates that traditional audit methods in the context of the theory of agency are sometimes unreliable and vulnerable to the human factor and business pressures. There is therefore an urgent need to implement solutions that automate the document analysis process and increase the independence of auditing. In response to these challenges, research hypotheses were formulated regarding the impact of generative artificial intelligence (Gen AI) on the accuracy and efficiency of financial irregularity detection as compared to traditional methods.

2. Characteristics and potential of Large Language Models (LLMs)

The dynamic development of the artificial intelligence technology, in particular Large Language Models (LLMs), is revolutionising working methods in data-driven sectors, including financial auditing. Unlike traditional analytical methods, which focus mainly on structured (numerical) data, LLMs offer the ability to efficiently process large sets of unstructured data, such as contracts, correspondence or narrative reports. This section takes a closer look at the characteristics of this technology and its application detecting anomalies and reducing information asymmetry (Becker et al., 2024).

Large Language Models are sophisticated neural network-based systems trained on large text datasets and capable of generating and analysing natural language at a human-like level. They are underpinned by the deep learning architecture developed by Google (the Transformer architecture) and the ability to recognise context through the attention mechanism – both mechanisms were presented by Vaswani et al. in 2017 in the publication “Attention is all you need”. The attention mechanism allows the model to identify relationships between words in a sentence even in complex passages of text, enabling a deep understanding of context, linguistic nuances and cause-and-effect relationships (Vaswani et al., 2017).

The LLM learning process takes place in two stages:

1. the pre-training phase, in which the model acquires general linguistic knowledge by learning from huge text data sets;
2. the fine-tuning phase, which adapts the model to specific tasks (Raffel et al., 2020).

An important feature of modern models is the ability to perform what is referred to as few-shot learning, i.e. to perform new tasks based on just a few examples contained in a prompt, which significantly lowers the barriers to implementing this technology in specific audit procedures (Brown et al., 2020). Despite its impressive capabilities, the technology carries the risk of so-called hallucinations, i.e. generation of content that is grammatically and logically correct, but factually wrong (Ji et al., 2023). This requires auditors to maintain a critical approach and verify the results generated by AI (Mökander and Floridi, 2023).

From an audit perspective, the ability to analyse textual data (often in several languages) in unstructured form, such as contracts, email correspondence, event reports or minutes and memos from meetings, is extremely important. Up to now, analytical systems have mainly been able to help analyse numerical data, disregarding textual data as a rule. LLMs extend these capabilities and can therefore

contribute to increasing the accuracy of audits (Becker et al., 2024). In addition to analysing financial data, modern auditing largely requires the analysis of a growing number of text documents. With their ability to analyse sentiment (a skill that involves understanding the intent and tone of speech), LLMs can automate and seal the process in areas that previously required labour-intensive manual verification.

Key functionalities that support auditing in qualitative analysis include:

1. Extraction of information – automatic extraction of key data (dates, amounts, penalty clauses, signatures) from documents of varying structure, such as invoices or contracts. Studies indicate that LLMs can process multilingual documentation much faster and with higher precision than human teams (Dennis, 2024).
2. Classification of documents – assigning source documents to appropriate audit categories, which improves the organisation of audit evidence (Becker et al., 2024).
3. Analysis of sentiment – assessing the tone of speech in internal correspondence or management memos. Detecting negative emotionality, uncertainty or pressure in communication can be a red flag that indicates the risk of fraud or business continuity problems (Srivastava et al., 2023).
4. Prompt engineering – the ability to create special instructions (prompts) for specific audit tests, e.g. verification of the compliance of invoices with purchase orders, thus providing for standardisation of procedures (Mökander et al., 2023).

The use of these tools makes it possible to progress from random testing (sampling) to an analysis of the full population of documents, which directly reduces the risk of overlooking material misstatements.

One of the most important applications of LLMs in auditing is the identification of anomalies, understood not only as numerical distortions, but above all as semantic and narrative inconsistencies. Traditional analytical methods often overlook this aspect. Language models are able to detect subtle signals indicative of manipulation, such as:

- contradictions between the financial data and the narrative part of the annual report (known as narrative fraud);
- sudden changes of style or tone in management reports;
- unusual clauses in contracts or lack of standard legal safeguards;
- occurrence of keywords suggesting concealment of information, e.g. “unidentified”, “classified” (Crawford, 2020).

The study by Rahaman et al. (2024) demonstrates that LLMs can identify inconsistencies in corporate narratives with greater accuracy and faster than analysts who use traditional methods. The table below compares the effectiveness of different methods in detecting anomalies.

Table 1. Comparison of the effectiveness of financial anomaly detection

Detection method	Type of anomaly	Estimated effectiveness ¹	Notes
manual review	contradictory statements	low – depending on the person	time-consuming, subjective
traditional tools ²	key phrases	medium	limited to simple patterns
LLMs	change in tone, inconsistency in narrative	high (70-90 %)	requires human supervision

Source: Prepared based on: Becker et al. 2024, Mökander et al. 2023).

It is worth noting that the detection of anomalies and fraud will be most effective when combined with traditional auditing methods. Combining these two approaches can lead to a comprehensive and accurate depiction of potential anomalies.

In summary, integration of Large Language Models into the statutory auditor's workshop provides an opportunity to significantly improve the quality of attestation services. The ability to quickly analyse context and detect anomalies in unstructured data fills the gaps left by traditional methods. However, verification of this thesis requires empirical evidence.

¹ Estimates based on the literature: Becker et al. 2024, Mökander et al. 2023.

² Traditional data analysis tools for searching and filtering text fragments and pattern matching such as excel, IDEA.

3. The agency model in the shareholder-management relationship: an empirical examination

To verify the potential of LLMs in audit practice, a simulation audit was designed and conducted on real data. The data used in the empirical study for this paper was obtained from a company operating in the household appliances sector. In 2024, the company went through an acquisition process and became part of a larger corporation. Today, the company operates in more than 100 countries, has 18 production sites, including 11 in Europe, and is one of the leaders in the European household appliances supply market. The company has an extensive organisational structure in EMEA (Europe, Middle East and Africa), including numerous local units that are responsible for sales, logistics, marketing, customer service and equipment maintenance. The company's operations are characterised by a complex organisational structure and extensive business, financial and accounting processes which generate enormous volumes of financial as well as non-financial data each year. As it meets the criteria set out in the Accounting Act regarding the size of the company as measured by the level of employment and revenues generated, the company is subject to mandatory annual audits of its financial statements.

Cooperation with an audit firm includes an annual audit of the company's financial statements and cyclical audit tests carried out in various countries, as part of compliance with SOX regulations (Sarbanes-Oxley Act 2002). To begin with, it is worth emphasising that all documents used in the audit tests have been fully anonymised, thus not revealing the company's sensitive financial information and counterparty data that served as the source for the empirical examination. The data for the audit tests was selected from an archive of audits conducted in the EMEA region. Within this region, each country is represented by a separate unit, ensuring the diversity of the test population. The dataset has been prepared for research purposes only, respecting the principles of information security and confidentiality.

In order to obtain a comprehensive assessment of the capabilities of Large Language Models, test documentation was selected for the test sample in such a way that it covered the company's key business areas and included typical audit verification procedures. At the same time, the sample was intentionally differentiated to include a variety of data both in terms of form and content. Documents from eight different audit tests from four different financial audits and four SOX audits were analysed; they differed from one another in terms of:

- type and thematic scope – the sample tested contains a variety of documentation in the form of contracts, invoices, HR data, internal policies;
- source language of documents – the selected sample contains documentation in four different languages;
- country of origin – the documentation selected for the sample comes from five different countries;

- type of audit – the documentation obtained comes from SOX audits, financial audits, compliance audits and anti-corruption audits;
- data format – the sample is also diversified in terms of the type of documents and includes PDFs, emails, invoices, forms, contracts, screenshots from the accounting system and tabular summaries.

The aim of this intentionally diverse sample is to explore how LLMs cope with different audit tasks, languages and document types. To ensure that the sample is representative and the results can be generalised, each audit test was selected from a separate audit, conducted in an EMEA country, with the exception of one containing the audit of two countries at the same time (two tests were selected here, each covering a different country). Such a methodology allows for taking into account the cultural, regulatory and operational differences encountered in each country. The empirical study includes audit tests which are characterised in detail in Table 2.

Table 2. Characteristics of the audit tests selected for the study

Test number and range	Audited area and year	Documentation languages	Type of documents/ data	Purpose of the test
Test 1 - verification of a sample of contracts	2023 EMEA - Germany and Italy: direct-to-consumer sales	English, Italian	sales contracts, legal clauses	verification whether the contract was concluded and valid during the period under examination
Test 2 - verification of a sample of transport documents	2021 EMEA - UK-based sales unit	English	waybills, delivery notes, delivery dates	correctness of revenue recognition
Test 3 - verification of a sample of cost invoices	SOX 2023 - EMEA: RTP inventory control (Inv5) at the Shared Services Centre in Łódź	English	invoices from suppliers, descriptions of services or goods, amounts, dates	verifies whether a bidding process has been carried out for each invoice above EUR 10,000 or whether a valid supplier contract exists
Test 4 - verification of a sample of correction invoices	2023 EMEA - Germany and Italy: direct-to-consumer sales	English, German	correction notes, original invoices, reasons for correction	analysis of the reasons for and correctness of the corrections issued, identification of potential irregularities in the accounts

Test number and range	Audited area and year	Documentation languages	Type of documents/ data	Purpose of the test
Test 5 - verification of financial acceptances according to the acceptance procedure	2023 EMEA – a trading partner incentive scheme	English	system data, acceptance workflow, acceptance matrix, payment amounts, acceptance and posting dates	assessment of the conformity of the payment acceptance process with the applicable procedure, verification of the authorisations of the accepting officers
Test 6 - verification of a sample of changes to credit limits and customer payment terms	SOX 2023 – EMEA: review of the settlement of OTC receivables (AR4) in Italy	English, Italian	requests for limit or deadline changes, approvals, customer data	assessment of the relevance and appropriateness of changes to credit limits and payment terms, assessment of compliance with the company's credit policy
Test 7 - verification of a sample of new client creation	SOX 2023 – EMEA: review of the settlement of OTC receivables (AR1) in Italy	English, Italian	customer creation forms, registration documents, CRM system data	assessment of the completeness and correctness of the process of creating a new client profile, verification of the required documents and information
Test 8 - verification of a sample of employee wage changes	2023 EMEA – anti-corruption and bribery audit	German, French	employment contracts, annexes, documents evidencing wage changes, change effective dates	assessment of the correct documentation and implementation of changes in employee wages, assessment of compliance with contracts and internal regulations

Source: Prepared by the authors based on collected empirical data.

The choice of the above tests was dictated by the desire to represent key audit areas, with the focus on the most time-consuming tasks (long contracts, screenshots) and exclusion of large spreadsheets, which current GenAI models cannot cope with. The sample was deliberately selected to test documents related to both sales and company costs. Five Large Language Models (paid versions), representing leading AI technology providers, were used for the comparative analysis included in the empirical study:

- GPT Chat from OpenAI – based on the GPT-4 architecture, one of the pioneering LLMs, characterised by high capacity for understanding and processing

natural language. The model offers answers to complex questions, interpretation of documents and search for logical anomalies.

- Gemini from Google – known for its high quality linguistic and interpretive analysis, it copes well with interpreting and analysing information contained in text, images and code.
- Microsoft Copilot – a tool that is tightly integrated into the Microsoft environment and uses GPT chat elements in its architecture. It offers advanced analysis of text and data, also from Word documents.
- Claude from Anthropic – a model designed with data security in mind, known for its ability to hold long and complex conversations and generate coherent texts.
- Llama from Meta is a model used for comparative analyses in also less common languages. Due to the fact that Meta has not yet made the Llama model available on the Polish market, the Abacus AI platform was used in the tests.

Such a diverse set of tests and tools made it possible to reliably assess the potential for using Large Language Models in audit tests. Owing to the variety of formats, languages, data types and countries of origin of the documentation, the analysis carried out for this paper provides a solid basis for drawing conclusions as well as the possibility of generalising the results. Its conclusions help to better understand the potential and limitations of the GenAI technology in the financial audit sector and provide practical guidance on the effective use of AI tools in the future.

The empirical examination was conducted in two phases:

1. The preliminary phase: the models were given basic prompts describing the purpose and steps of the test, without any additional contextual explanations;
2. The optimisation phase (prompt engineering): based on the errors from phase one, improved prompts were developed with precise interpretative instructions, and tests were run again.

The results generated by AI (pass/fail status with reasoning) were compared with those traditionally obtained by the audit team, taking the latter as the ground truth.

4. Test results – The preliminary phase: analysis of errors and limitations

In the first testing phase, the models were confronted with a “raw” audit task. The results of this phase revealed both the great potential of the technology and the significant risks associated with its indiscriminate use.

Table 3. A summary of the results of the audit test analysis

Model	Assigned tests	Rejected tests ³	Executed tests	Correct answers	Ratio of correct answers to all tests assigned (per cent)	Ratio of correct answers to tests executed (per cent)
Chat GPT	167	10	157	123	74	78
Gemini	167	-	167	161	96	96
Microsoft Copilot	167	6	161	153	92	95
Llama	167	40	127	124	74	98
Claude	167	10	157	153	92	97

Source: Prepared by the authors based on the collected empirical data.

The preliminary analysis showed significant differences in the effectiveness and technical capabilities of the different models. A summary of the results for all 167 samples is as follows:

- Gemini – this model demonstrated the highest technical and substantive performance. It processed 100 per cent of the samples assigned (167/167) and gave the correct answers in 161 cases, a success rate of 96 per cent. It did not reject any file due to format or size.
- Microsoft Copilot – it achieved a high substantive efficiency (92 per cent), correctly solving 153 samples. However, it encountered technical barriers – it rejected 6 samples in test one due to exceeding the file size limit (1 MB), which is a significant limitation in audit practice as the files used are usually larger in size.
- Claude - similarly to Copilot, it achieved 92 per cent substantive efficiency (153 correct answers), but rejected 10 samples due to technical reasons.

³ The number of samples rejected on technical grounds.

- Llama - this model encountered the greatest difficulties in analysing .xls files, rejecting a total of 40 samples. However, for text documents in .pdf format, which it was able to process, its efficiency was impressive – 98 per cent.
- Chat GPT - it received the lowest overall score with 74 per cent correctness (123 correct answers). This model most often made substantive and interpretation errors.

An analysis of the causes of errors in the preliminary phase led to the identification of key weaknesses of “raw” LLMs in audit applications. The most problematic test was test one (verification of contracts), which required legal analysis. Key weaknesses include:

1. The problem with interpretation of contractual clauses

In test one, the models had a problem with interpreting automatic contract renewal clauses.

- Gemini found the test negative in three cases, arguing that there was no evidence that the contract had not been terminated, even though the contract itself contained an automatic renewal clause. This is an example of excessive caution which generates false alarms (false positives in the context of error detection).
- Chat GPT made errors in five cases. In sample no. 24, the model considered the contract to be valid (“score passed”), even though it did not cover the entire period under examination. The model hallucinated, deeming partial period coverage sufficient, which is a fundamental audit error.
- Claude also made errors in assessing the validity of contracts in three cases which provided for their automatic renewal.

2. The problem of alternative evidence:

In test two (regarding transport documents), the task was to confirm delivery. Some of the documents did not have the client’s signature (which could be considered an error), but the auditors had alternative evidence in the form of a screenshot from the client’s logistics system.

In the preliminary phase, the models often ignored such alternative evidence, rigidly adhering to the “signature on the document” prompt, which resulted in an erroneous “failed” assessment for correct transactions.

3. The risk of false positives (type I error):

The most dangerous phenomenon observed at the preliminary phase was that the models considered defective samples to be correct. In the entire test sample, Chat GPT considered 19 incorrect samples as correct. In auditing, this means the risk

of not detecting a material misstatement (risk of omission), which is much more dangerous than a false alarm requiring additional verification.

The above analysis of the test results leads to the conclusion that the use of LLMs in auditing requires human supervision and validation of the results, and that the models cannot fully replace the professional judgement of an experienced auditor. Another testing phase, i.e. optimisation, was also necessary.

5. The optimisation phase and final results – the role of prompt engineering

Based on the error analysis from phase one, the second part of the empirical examination was carried out using prompt engineering techniques. A set of clarified instructions was developed to eliminate ambiguities and impose audit logic on the models.

Table 4. A summary of the wording for optimisation of audit prompts

No.	Cause	Proposed optimisation
1	Each tool indicated different samples as negative.	Explain the reasoning for negative results.
2	For contracts with automatic renewal, Chat GPT and Claude found that there is no certainty whether the contract has not been terminated before.	For contracts with automatic renewal, recognise the contracts as valid.
3	Chat GPT and Llama found that a renewed contract fell within the period under examination, where in fact it did not cover the entire period.	The contract must cover the entire period under examination.
4	Chat GPT and Llama recognised the supplier's signature as the client's signature.	The client's signature can be found in the document under item 24.
5	Gemini did not recognise a confirmation from the client's internal system as sufficient evidence.	If there is a confirmation from the client's internal system and it contains a delivery number and date that match the data in the company's documents, recognise it as correct.
6	Copilot did not recognise a sales adjustment based on SAP screenshots as sufficient evidence.	If there is a confirmation of a sales adjustment in a screenshot from SAP that relates to the same or the following month, recognise it as correct.
7	In the case of a sample that related to court proceedings, Chat GPT, Gemini and Llama recognised the test as a fail.	For court costs, consider the test as not applicable (N/A).

Source: Prepared by the authors based on the results of LLM tests.

The use of optimised prompts brought a sharp improvement in performance, particularly in tests that previously caused difficulties.

Table 5. A summary of the results of the audit test analysis after prompt optimisation⁴

Model	Assigned tests	Rejected tests ⁵	Executed tests	Correct answers	Ratio of correct answers to all tests assigned (per cent)	Ratio of correct answers to tests executed (per cent)
Chat GPT	167	10	157	127	76	81
Gemini	167	-	167	167	100	100
Microsoft Copilot	167	6	161	160	96	99
Llama	167	40	127	127	76	100
Claude	167	10	157	157	94	100

Source: Prepared by the authors based on the collected empirical data

Below is how each model coped during the optimisation phase:

- Gemini – full effectiveness. After optimisation, the Gemini model achieved 100 per cent efficiency. It correctly verified all 167 samples in all eight tests. All errors of interpretation regarding contracts and alternative evidence were eliminated. This model showed the greatest flexibility in adapting to new prompts.
- Claude and Llama - these models also achieved 100 per cent correctness in the samples which they were technically able to process (157 and 127 samples respectively). Prompt engineering effectively eliminated their previous substantive errors.
- Microsoft Copilot - it achieved 99 per cent efficiency (160/161 samples), making only one error. However, it still struggled with the file size limitation.
- Chat GPT - despite improvements, this model still showed some problems. Its efficiency increased from 74 to 89 per cent (in test one), but across all the tests it still made errors, showing a tendency to hallucinate when dealing with very complex legal documents.

⁴ The summary is based on all tests from 1 to 8.

⁵ The number of samples rejected on technical grounds.

The simulations show that LLMs can be a valuable tool in supporting auditors, especially in analysing text documents. However, their effectiveness depends on the quality and formulation of the prompt.

In summary to the analysis, it is also worth noting that the recognition by the LLMs of an incorrect sample as correct posed a risk of error being overlooked by the auditor analysing the test results. This situation is summarised in Table 6.

Table 6. A summary of the reliability of verification by LLMs

Model	Assigned tests	Recognition of an incorrect sample as correct	Reliability of verification (per cent)
Chat GPT	167	19	89
Gemini	167	-	100
Microsoft Copilot	167	1	99
Llama	167	1	99
Claude	167	2	99

Source: Prepared by the authors based on LLM test results.

6. Debate: Opportunities and challenges for the profession

The results of the empirical study lead to important conclusions about the future of auditing in the context of the use of artificial intelligence. Opportunities and challenges can be assigned to three categories.

1. Reduction of information asymmetry.

The Gemini model's ability to flawlessly analyse 167 documents in a time that is incomparably shorter than human work (an analysis by language models takes a few minutes, a similar analysis by an auditor takes a few hours or even days) shows that a potential shift in the audit paradigm is on the horizon. Rather than examining a sample of 5-10 per cent of documents, auditors equipped with an LLM will be able to verify 100 per cent of transactions. This dramatically reduces the scope for management boards (agents) to conceal fraud and provides shareholders (principals) with much more certain information about the state of the company.

2. Detection of quality anomalies.

The examination confirmed that LLMs are particularly effective at detecting anomalies in textual data (e.g. missing GDPR clauses, changes to contract templates) which are difficult to capture with mass manual review, especially in the context of limited human capacity to maintain attention.

3. Implementation challenges.

I. Dependence on the prompt quality. The examination found that the quality of AI performance is a direct corollary of prompting quality. The auditor must become an expert in communicating with the model ("a prompt engineer") by precisely defining the audit criteria.

II. Risk of hallucinations. The case of Chat GPT, which "made up" the correctness of contracts, shows that AI cannot operate without supervision. Human verification of results and human participation in the process is necessary (the human-in-the-loop concept), particularly in more complex cases that may raise doubts.

III. Technical and legal issues. File size limitations (Copilot) and problems with analysing .xls format (Llama) show that the current tools still require developing or integrating into special audit systems. Furthermore, sending confidential client data to public models raises questions about data security and compliance with GDPR and Article 54 of Regulation (EU) 2016/679 of the European Parliament and of the Council.

Conclusions

The implementation of Large Language Models into the auditor's toolkit seems an inevitable direction the profession is heading in. This technology, as shown on the example of Gemini, has already reached a level of maturity to support human performance and even surpass it in some areas (mass document analysis).

LLMs offer a real opportunity to reduce the expectation gap and information asymmetry in the market. They allow the centre of gravity of the auditor's work to shift from labour-intensive, manual document verification to analysing risks, assessing management judgements and interpreting the results provided by AI systems. However, a prerequisite for success is the conscious implementation of these tools, taking into account the need to optimise prompts and maintain critical supervision of their performance.

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Varia



Will Artificial Intelligence Replace the Statutory Auditor?

ARTUR HELMAN

Introduction: A New Audit Paradigm

Audits of financial statements are increasingly conducted in environments where the tools utilized contain components of Artificial Intelligence (AI). These tools are not necessarily complex generative models, but often systems for invoice classification, credit scoring algorithms, or modules analysing large volumes of journal entries in accounting records.

Changes in the financial reporting process do not affect the scope of the statutory auditor's formal responsibilities – the entity's financial statements are still subject to a mandatory audit, and the independent auditor's report requires the signature of the person assuming responsibility for its performance. What is changing, however, is the manner in which data constituting audit evidence is created, processed, and utilized.

The true shift lies not in the simple replacement of man by machine, but in a profound transformation of the scope and efficiency of verification procedures used in the audit. The traditional model, focused on retrospective, fragmentary verification of selected transactions, gave way some time ago to an approach where the ability to assess and verify systems processing financial data – in near real-time – becomes key. The specialist increasingly assumes the role of a designer of audit procedures, an evaluator of the results produced by analytical tools, and a professional bridging accounting and reporting knowledge with an understanding of the capabilities and limitations of technology.

Polish and international industry publications consistently emphasize that the role of artificial intelligence in auditing is supportive, not substitutive¹. AI does not assume professional scepticism, professional judgment, or responsibility for the type of opinion issued; rather, it enhances capabilities in data analysis, audit

¹ Arches Sp. z o.o. (2025). *Sztuczna inteligencja (AI) w audycie - wsparcie pracy biegłego rewidenta* [Artificial intelligence (AI) in audit – support for the statutory auditor's work]. <https://arches.pl/sztuczna-inteligencja-ai-w-audycie-wsparcie-pracy-bieglego-rewidenta/>.

Defacto Sp. z o.o. (2024). *AI nie zmienia zasad audytu, AI zmienia obszary ryzyka* [AI does not change audit principles, AI changes risk areas] <https://dfe.org.pl/ai-nie-zmienia-zasad-audytu-ai-zmienia-obszary-ryzyka>.

CAQ (2024). *Auditing in the Age of Generative AI*.

planning, or the verification of evidence. It is increasingly posited that artificial intelligence does not alter the key assumptions of the audit but influences areas of risk. The standards remain largely the same; however, their application takes place in a different context, where sources of risk now include information processing algorithms and the data on which they are trained.

Against this backdrop, the question “Will AI replace the statutory auditor?” proves to be an oversimplification. A more adequate question becomes: how are AI systems changing specific tasks performed by the auditor – from planning, through risk assessment and substantive procedures, to final documentation – and what new competencies are necessary to maintain the ability to formulate a reliable opinion?

The aim of this article is to answer this question – both from the perspective of professional standards (such as National Standards on Auditing [KSB] or the Code of Ethics) and the growing importance of IT controls in the audit.

1. The Increased Role of IT Systems Verification

Despite technological advancements and the potential to apply them to the analysis of large data sets, individual transactions are and will continue to be verified by statutory auditors. Due to the increased scope of automated mechanisms in accounting, the statutory auditor must, at the stage of audit planning and risk identification, gain a broader and better understanding of procedures within IT tools. This is addressed in KSB 315 (Revised)², which states that the statutory auditor must identify IT applications and other aspects of the IT environment that are subject to risks arising from the use of IT. The auditor's task becomes not only to check the output but also to verify the correctness of the mechanism generating that result, including the adequacy of input data and IT processes.

In the traditional model, the objective was to detect material misstatements in the ledgers through audit sampling and the assessment of accounting estimates. In an AI-supported model, the importance of answering the following questions grows:

- how the algorithm identifies anomalies and potential errors,
- what training data was used,
- whether unconscious bias or systemic errors have been encoded in the model,
- what mechanisms for human oversight of the algorithm's operation have been provided.

The profession of the statutory auditor is ceasing to be identified with the manual reperformance of records and is increasingly associated with the role of verifying whether the systems applied – including tools utilising AI – operate as intended, in an ethical, transparent, and controllable manner. The subject of attestation shifts from the single transaction to the entire financial information processing chain.

As a consequence of technological changes, new competency requirements for the statutory auditor are taking shape. The auditor must:

- understand business processes and accounting models where IT systems and algorithms are utilized,
- be able to identify critical points where data is processed by IT systems,
- evaluate the adequacy of internal controls (IT General Controls [ITGC]) safeguarding against errors and fraud,
- verify the manner of documenting and monitoring the operation of IT systems so that results can be used as reliable audit evidence.

² PIBR – Krajowe Standardy Badania [National Standards on Auditing], including: Krajowy Standard Badania 315 (zmieniony w 2022 r.) [National Standard on Auditing 315 (Revised in 2022)] https://www.pibr.org.pl/assets/meta/6437,2272.%20Za%C5%82%C4%85cznik%201_KSB%20315%20Z%202022.pdf.

Unlike an IT specialist, the statutory auditor is not responsible for designing technical architecture, but for assessing whether its functioning allows for the preparation of financial statements that are free from material misstatement whether due to fraud or error. AI analytical tools take over tasks of processing large volumes of data, leaving humans with areas requiring professional judgment, interpretation, and understanding of the business context.

2. Transformation of Audit Procedures in Light of AI Technology

The introduction of artificial intelligence into audit practice does not abolish existing professional standards but affects the manner of their implementation. Below, selected audit procedures are discussed where the application of AI is of particular importance.

2.1 Planning and Risk Identification

KSB 315 (Revised) requires the auditor to obtain an understanding of the entity, its environment, and its system of internal control, and subsequently to identify and assess the risks of material misstatement of the financial statements. Traditionally, this process relies on:

- inquiries of management and of others within the entity,
- analytical procedures,
- observation and inspection.

Although still relevant, these methods face limitations in an environment where entities generate millions of records annually and intensively automate processes. Data analytics tools can support this process by:

- identifying unusual combinations of accounts, users, and timestamps,
- detecting transactions that deviate from historical patterns of behaviour,
- indicating areas with an elevated risk of fraud or error.

The result is a risk map supported by a more objective analysis of transactional data, although the final assessment remains within the auditor's competence. The auditor's task becomes assessing whether:

- the assumptions of the analytical model are justified,
- the input data is complete and accurate,
- the system's operation process is appropriately controlled and documented.

In this sense, AI does not replace the risk assessment stage but changes the way risks are identified and prioritised. It should be emphasized that AI tools can be particularly useful in assessing the risk of fraud related to management override of controls.

2.2 Greater Efficiency and Precision of Sampling

KSB 330 requires designing audit procedures responsive to assessed risks, while KSB 530, among others, defines the principles of audit sampling. In the classical approach, the auditor typically relies on a sample – because testing the entire population is, in most cases, unjustified on one hand and unrealistic to perform on the other.

Thanks to AI, full databases can be analysed faster and more effectively against predefined criteria, such as:

- unusual account combinations,
- journal entries posted outside standard business hours,
- operations performed by privileged users,
- transactions that are exceptional relative to the entity's history.

The result is a classification of the population – the majority of records are classified as consistent with the typical pattern, while a portion is flagged as anomalies requiring further analysis. Audit sampling does not disappear but changes its character. The auditor focuses on a sample built from higher-risk transactions indicated by the system, rather than testing randomly selected items from the entire population. This approach increases the probability of detecting material misstatements with less workload on verifying routine operations.

However, the condition for success is the reliability of the analytical system itself. Hence the growing importance of testing IT General Controls and assessing:

- whether the system processes a complete and accurate population of data,
- whether the classification rules applied are adequate for the purpose,
- whether there are controls detecting and correcting potential errors in the system's operation.

2.3 Accounting Estimates

KSB 540 (Revised) requires the auditor to critically evaluate accounting estimates, the selection and application of the method of estimation, significant assumptions, and data used by management in making the accounting estimate. Areas such as allowances for credit losses, measurement of financial instruments, or impairment tests are increasingly based on models, including those utilising Machine Learning.

In such an environment, checking the adequacy of the model's premises and its sensitivity to changes in input data becomes key. AI can significantly support the verification of procedures where the auditor:

- evaluates the clarity and transparency of the model used by management,
- verifies whether the input data is accurate,
- tests the correctness of the computational logic and model parameters,
- analyses whether the model accounts for all relevant risk factors.

This approach shifts the auditor's role from a reviewer of estimates to an active participant in the verification process – not in the sense of technically designing the model, but in assessing its adequacy, transparency, and resilience to manipulation.

2.4 Analysis of Unstructured Data (KSB 500)

KSB 500 establishes requirements regarding the sufficiency and appropriateness of audit evidence. In practice, a significant portion of evidential matter is unstructured: lease agreements, meeting minutes, correspondence with counterparties, documentation in PDF, Word, and Excel formats, and email correspondence. Their traditional analysis required time-consuming reading and manual searching for key information – dates, amounts, special conditions, covenant clauses, or restrictions on contract termination.

Natural Language Processing (NLP) techniques and selected analytical tools enable partial automation of this process. NLP systems can support the analyst, for example, in identifying and extracting information from large document sets, such as:

- key parameters (start and end dates, liability amounts, rent rates, interest rates),
- non-standard clauses (early termination conditions, guarantees, collateral, assignment restrictions),
- deviations from standard contract templates used by the entity.

As a result, the auditor receives structured datasets: lists of contracts with key parameters, a schedule of clauses deviating from the standard, and highlighted fragments requiring further analysis. Their role primarily becomes:

- verifying the correctness of the interpretation made by the system (e.g., whether a clause was correctly identified as a financial covenant),
- assessing the significance of identified risks in the context of the financial statements,
- substantive analysis of non-standard provisions, the interpretation of which requires professional judgment regarding accounting and legal matters.

NLP does not, therefore, replace the auditor but limits the most tedious part of document review, enabling a focus on assessing content relevant to accounting recognition. From a quality control perspective, audit procedures should define to what extent NLP results can be directly used as evidence, and where additional verification is necessary.

3. Managing “Black Box” Risk in Audit Practice

The “black box” risk in artificial intelligence models refers to the lack of transparency regarding the internal decision-making mechanisms of advanced algorithms, particularly deep neural networks. The result generated by such systems does not allow for a full reconstruction of the reasoning path by a human. This poses a significant challenge in auditing, where the verifiability of the basis for decisions, such as the identification of high-risk transactions, is required.

The classical approach to obtaining audit assurance assumes that the auditor builds a conviction about the reliability of the financial statements through a sequence of understandable and executable procedures. The source of the expected level of assurance has primarily been tangible evidence, such as: observation of physical inventory counting, external confirmations, analysis of contracts, or verification of transactions in the ledgers against source documents.

In the context of black box risk, advanced AI models introduce the problem of limited operational transparency – the algorithm generates a result based on a large number of parameters and complex dependencies, while the full decision path is often difficult for a human to reproduce; in other words, there is a lack of an audit trail. The auditor may receive information that a given transaction has been classified as unusual or high-risk without directly understanding all the steps leading to such a conclusion.

This creates a discrepancy between:

- the requirement under KSB 200 to obtain reasonable assurance regarding the absence of material misstatement,

and

- limited information explaining the operating mechanisms of certain AI models, especially those of the deep neural network type.

Practice indicates that auditors show greater reserve regarding basing key conclusions on the results of models with limited transparency unless they receive additional explanations regarding the system’s logic.

In response to the problem of limited transparency, which is key to the occurrence of black box risk, approaches collectively known as Explainable AI (XAI) [4][6] are being developed. These aim to provide information helpful in understanding which data features influenced a specific classification or prediction. Examples of tools include feature importance analysis and quantitative measures of the contribution of individual variables to the obtained result.

From the statutory auditor’s point of view, it is crucial that model results intended to be used as audit evidence are not only reliable but also sufficiently understandable

to assess their adequacy and potential bias. Models without explanation mechanisms may be used more as auxiliary tools for identifying areas requiring further analysis rather than as the sole source of evidence for key audit conclusions.

In practice, this means that the internal policies of audit firms should define requirements regarding the documentation of model operations, the scope of validation testing, and available result explanation mechanisms before AI tools are incorporated into standard audit procedures.

4. Classification of AI Systems in the Context of Financial Audit

Regulation (EU) 2024/1689, the so-called AI Act, introduces a classification of artificial intelligence systems, categorizing a range of applications in the financial sector as high-risk AI systems. This includes, among others, systems used for automatic credit scoring, creditworthiness evaluation models, and solutions used for risk assessment in relation to clients³.

For audit firm employees, it is important to distinguish between:

- AI systems used by the audited entity (which may be subject to the AI Act and must be evaluated within the system of internal control),
- AI tools used by the auditors themselves (where the assessment of compliance with the AI Act depends on whether they are made available to clients or used internally).

An AI-based audit tool may be considered subject to the requirements of the AI Act if it is deployed to clients or used in decision-making processes that may have implications for the financial statements. From the audited entity's perspective, ensuring that the AI systems used comply with the AI Act requirements is crucial, as violations may result in administrative fines and reputational risk. In the context of financial reporting, this may, for example, imply the necessity to consider the recognition of provisions, or disclosures regarding significant litigation or regulatory risks associated with the use of AI.

The statutory auditor, when evaluating the system of internal control and risks of material misstatement, among other things, should consider the compliance of the client's key systems with regulations, including the AI Act, to the extent that it affects the reliability of data and potential misstatements in the financial statements. Thus, the auditor's role gradually expands from assessing traditional accounting processes to assessing whether technological processes – including AI systems used in reporting and risk management – have been designed and are used in compliance with legal requirements.

³ Deloitte Luxembourg (2024). European Artificial Intelligence Act adopted by Parliament. <https://www.deloitte.com/lu/en/Industries/investment-management/perspectives/european-artificial-intelligence-act-adopted-parliament.html>.

5. New Competency Profile and the Future of the Profession

The introduction of AI into auditing requires a fundamental enhancement of competencies within the profession. The statutory auditor of the future combines the role of an accounting and reporting specialist with that of a data analyst, requiring competencies in:

- **data literacy** – the ability to work with large datasets, their selection and interpretation, covering an understanding of data structures, sources, formats, and making decisions based on evidence rather than intuition,
- **model statistics** – understanding the assumptions of predictive models, their limitations, and validation methods,
- **prompt engineering** – precisely formulating queries to generative models to obtain repeatable, documented results, applying techniques such as zero-shot learning, few-shot learning, and chain-of-thought prompting,
- **cybersecurity fundamentals** – awareness of threats related to training data, algorithm integrity, and IT system security.

In the face of technological transformation, traditional proficiency in accounting and financial reporting regulations, as well as in National Standards on Auditing (KSB), remains the foundation; however, it is complemented by the ability to assess whether data used to prepare the financial statements has not been distorted during processing by algorithms. As indicated by the International Auditing and Assurance Standards Board (IAASB)⁴, in the AI era, the use of technology to support the comprehensive audit process by the statutory auditor is becoming a strategic direction.

⁴ IAASB (2022). Digital Technology Market Scan: Artificial Intelligence Primer. <https://www.iaasb.org/news-events/2022-03/iaasb-digital-technology-market-scan-artificial-intelligence-primer>.

6. Conclusions and Summary

The analysis of technological, methodological, and regulatory changes leads to a clear answer to the question posed in the title: artificial intelligence will not replace the statutory auditor in the near future, but it will significantly influence the scope of their work.

Artificial intelligence can take over repetitive and computationally intensive tasks (table below):

Traditional Audit	AI-Supported Audit
Sampling-based inference	Analysis of 100% of the population using advanced algorithms
Manual verification/comprehensive reading of individual contracts and documents	NLP (Natural Language Processing) technologies supporting the identification of relevant data
Verification of estimates: sampling, assessment of model assumptions and data	Challenger models and validation of predictive model assumptions
Review of individual documents	Automatic processing and analysis of the entire documentation.

At the same time, the statutory auditor can preserve and strengthen unique competencies.

Current Competence	Role in the AI Era
Professional judgment	Assessment of the adequacy of algorithm results and their interpretation
Professional scepticism	Control of automation bias and assumptions underlying AI systems
Understanding of the business context	Interpretation of anomalies in a broader operational and strategic context

Human-machine synergy creates a new quality of audit. A statutory auditor who consciously and critically utilizes AI will be more competitive than an auditor ignoring technology or relying entirely on existing tools. In an era where financial statements are created as a result of the operation of advanced IT systems, the ability to evaluate these systems (and not exclusively the data used in them) is the foundation of public trust in the auditor's opinion.

The final word in the financial statement audit process always belongs to the human – not because machines are incapable of calculating or processing data, but because the opinion issued by the statutory auditor requires personal responsibility and professional scepticism. These values are the basis of public trust. AI is a powerful tool in the hands of the statutory auditor. It is crucial not only to learn how to use it fully but also to be able to critically assess its limitations simultaneously.

The statutory auditor of the future is not a competitor to artificial intelligence, but its intelligent user – a professional who understands the capabilities and limitations of technology, is able to assess the reliability of its results, and remains responsible for the final content of the opinion presented in the auditor's report.



Will AI help with sustainability?

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Is AI's impact on sustainability only positive? How can new technological solutions be used at the state and business levels? What opportunities and threats are posed by the technological progress?

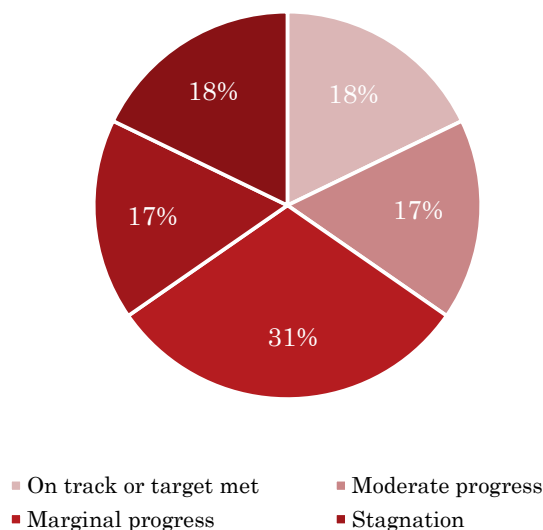
AI and the Sustainable Development Goals

Sustainability efforts across the world are based on the UN Sustainable Development Goals. These were adopted by the organisation's 193 member states in 2015 and included in the "2030 Agenda for Sustainable Development". There are 17 of these goals, with 169 more specific tasks assigned to them. The goals include, among others, combating poverty, hunger and inequality worldwide, improving quality of life and health, education, clean energy, gender equality, responsible consumption and production, climate change. The Sustainable Development Goals are the basis for international regulations covering both states and companies that aim to contribute to their implementation. These regulations include the EU Corporate Sustainability Reporting Directive (CSRD), which makes sustainability reporting mandatory for companies, and the global standards developed by the International Sustainability Standards Board (ISSB) in the form of IFRS S1 and IFRS S2.

The Sustainable Development Goals were planned to be achieved by 2030. However, five years before this deadline (2025), only 35 per cent of the tasks show adequate progress (18 per cent are on track and 17 per cent are making moderate progress). 48 per cent of the tasks show insufficient progress (31 per cent are making only marginal progress and 17 per cent are making no progress at all). As many as 18 per cent of the tasks show a regression from the 2015 level. Will artificial intelligence – used in nearly 400 sustainable development projects run by the UN system¹ – accelerate the achievement of these goals? The answer is not so obvious.

¹ International Telecommunication Union, *AI for Good. Impact Report*, 2024 p. viii.

Overall progress across targets based on 2015-2025
global aggregate data



Source: International Telecommunication Union, AI for Good. Impact Report, 2024

AI can assist in the fight against hunger (goal two) and responsible consumption and production (goal twelve) by, among other things, increasing agricultural productivity, helping to combat food waste and optimising the supply chain². Improved patient diagnosis and research processes for new medicines can help to reduce the cost of various treatments and make them more accessible, thereby improving health and prolonging people's lives (goal three)³. Artificial intelligence today appears to be an indispensable tool for improving innovation, industrial development and infrastructure (goal nine). All of these technological solutions are effective, but they are also costly – so there is a risk that rather than levelling the playing field and living standards across the world, they may only exacerbate inequalities. Thanks to the latest technologies, wealthy countries can grow even faster than before, leaving developing countries behind.

There are also paradoxical areas within the Sustainable Development Goals, where artificial intelligence can help on the one hand and do harm on the other. The use of technology to improve access to clean water (goal six) through better water management, agricultural improvements, resource monitoring in systems goes hand in hand with the use of water to cool servers and data centres⁴. The case is

² Ibid., p. 32.

³ Ibid., p. 33.

⁴ Ibid., p. 37.

similar with ensuring access to clean energy (goal seven) – AI can help optimise the use of renewable energy and allow for the development of its production, but also needs this energy itself to operate⁵. Another example of such a paradox is the use of AI to achieve economic growth and decent work (goal eight) – smart systems can assist in the development of workers and increase their productivity, while at the same time leading to the replacement of these or other workers by AI-based tools⁶.

Therefore, artificial intelligence has the potential to accelerate and support the achievement of the Sustainable Development Goals. However, it must be used with prudence and in an ethical manner, always keeping the bigger picture in mind – short-term benefits must not outweigh long-term negative impacts⁷, and gains in one area or social group must not be associated with losses in other areas. Whether AI will serve society also depends on synergies between the activities of administration, business and the third sector, as well as appropriate education and transparency.

AI and ESG. Business strategy implementation

Companies have been implementing various sustainability strategies and projects in their operations for a long time. Nowadays, not only because of international regulations making it mandatory to report this type of activity, but also because of customer expectations, this type of initiative has become a regular feature of many companies' operations. Artificial intelligence can be used both to conduct ESG projects and to fulfil sustainability reporting obligations. The development of smart systems in this matter is yet to come – currently the number of AI tools used in ESG is small and their capabilities are limited⁸.

Applying AI in the ESG area saves time, reduces costs and increases profits. It particularly serves to improve operational efficiency and build relationships with key stakeholders (e.g. investors)⁹. It can optimise business processes and, on the basis of the data collected, propose solutions that can help companies achieve the goals set out in their strategies¹⁰; it also assists management in making better decisions based on more qualitative data¹¹.

⁵ Ibid., p. 38.

⁶ Ibid., p. 39.

⁷ Ibid., p. 49.

⁸ Polskie Stowarzyszenie ESG, *Sztuczna inteligencja a ESG: Wyzwania przyszłości*, 2024, p.7.

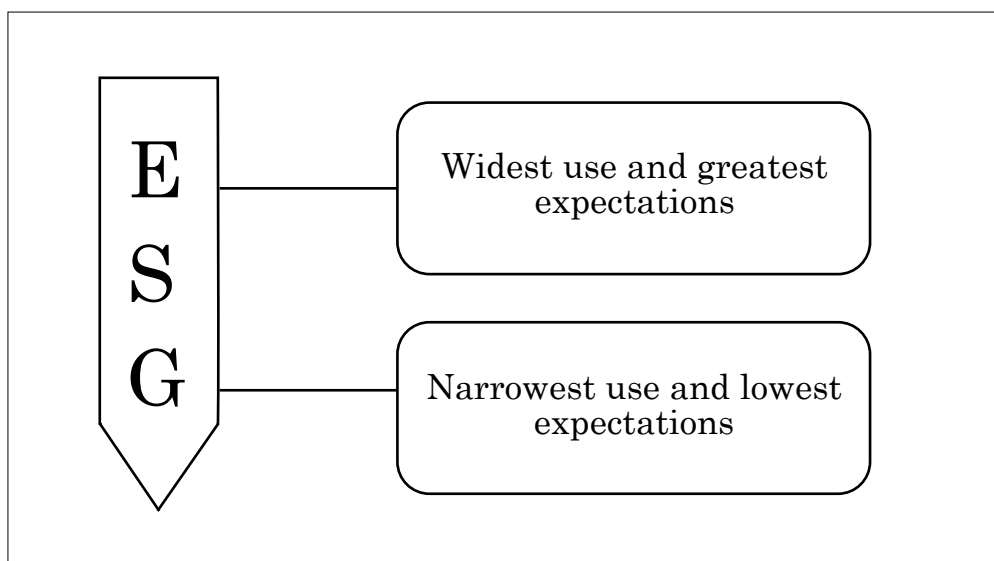
⁹ SAP Polska *Biznes napędzany cyfrowo – czy przez ludzi? AI, ESG i fundusze unijne z perspektywy polskich menadżerów*, 2024, p. 33.

¹⁰ Polskie Stowarzyszenie ESG..., p. 9.

¹¹ Yuping Xiao, Li Xiao, *The impact of artificial intelligence driven ESG performance on sustainable development of central state-owned enterprises listed companies*, Scientific reports, nature.com, p. 13.

The Polish ESG Association report “Artificial Intelligence and ESG: Challenges of the Future” (2024) allows one to conclude that the greatest hopes are raised by the use of AI in the area of the environment, while the least – in the area of governance. The attitude of companies can therefore be presented by the following diagram¹². Of course, the use of AI itself to achieve better ESG indicators looks different in different industries – e.g. in energy, it is most useful for optimising energy consumption and reducing carbon emissions (environment), and in financial institutions mainly for risk management and monitoring compliance issues (governance)¹³.

Use of AI in ESG among companies – expectations and forecasts



Source: Compiled by the author based on report by Polish ESG Association „Sztuczna inteligencja a ESG: Wyzwania przyszłości” (2024).

¹² Polskie Stowarzyszenie ESG..., pp. 7-14.

¹³ Yuping Xiao, Li Xiao..., p. 16..

In the area of the environment (E), AI is mainly used for energy management – forecasting consumption and optimising it for both economy and environmental impact, adapting production processes to the availability of green energy (measuring sun exposure and wind speed). The effects include rational resource management, reduced carbon emissions, achieving energy efficiency, reduced energy consumption, optimised water use¹⁴. The environmental benefits are therefore followed also by economic benefits. An example is Alaska Airlines’ use of algorithms to optimise air routes (AI analyses weather models, wind data, turbulence zones and air traffic to keep fuel consumption as low as possible)¹⁵. Artificial intelligence can also be used for implementing a circular economy within an organisation – algorithms can track products throughout their life cycle and facilitate their recycling and reuse¹⁶. Furthermore, they can significantly reduce waste – the US Walmart uses AI to analyse its sales data, so it is able to predict demand and optimise inventories¹⁷.

When it comes to social (S) issues in an organisation, AI can collect and analyse human capital data, e.g. in terms of gender quotas or staff turnover. Examples of projects include development path assistants for workers¹⁸ and smart worker health monitoring systems (not only in the area of so-called wellbeing, but also enabling e.g. the reduction of workplace injuries)¹⁹. AI can also provide knowledge and inspiration to HR project managers on valuable social projects of other companies and allow in the design of similar or completely new solutions.

AI is most difficult to apply in the area of governance (G) because here, unlike the environment and social areas (where numbers and data are key), the qualitative aspect prevails over the quantitative. Admittedly, artificial intelligence could help e.g. in establishing internal company regulations (in terms of compliance or anti-corruption policies), but these regulations could not necessarily be in line with the existing standards. A knowledgeable worker would have to review and check them anyway to reduce the risk of hallucinations²⁰. Here, it is worth citing the case of *Mata vs. Avianca, Inc.* in federal court in New York, where lawyers lodged a pleading based on rulings “made up” by ChatGPT and were sanctioned by the court for doing so. The pleading contained at least six non-existent cases with fictitious citations and excerpts of reasoning²¹. There were several more similar cases.

¹⁴ Ibid., p. 13.

¹⁵ SWPS Innowacje, *Digital Poland, Zarządzanie innowacją. Tech ethics w działaniach ESG*, 2024 p. 94.

¹⁶ Ibid., p. 76.

¹⁷ Ibid., p. 95.

¹⁸ Polskie Stowarzyszenie ESG..., p. 11.

¹⁹ Yuping Xiao, Li Xiao..., p. 13.

²⁰ Polskie Stowarzyszenie ESG..., p. 13.

²¹ Molly Bohannon, *Lawyer Used ChatGPT In Court–And Cited Fake Cases. A Judge Is Considering Sanctions*, 8 June 2023, forbes.com. <https://www.forbes.com/sites/mollybohannon/2023/06/08/lawyer-used-chatgpt-in-court-and-cited-fake-cases-a-judge-is-considering-sanctions/>.

However, AI-based models for risk forecasting and management can be introduced in the governance area and internal audit can be automated²².

AI and ESG. Reporting

83 per cent of managers declare that their companies have either already invested in AI or intend to do so in the near future²³, while in the area of ESG reporting, 71 per cent of companies have implemented or are implementing it²⁴. These companies declare that they are most willing to invest in such tools when they are flexible and customisable. The scalability of the tools and the possibility to customise them definitely facilitate the implementation of ESG in a company²⁵.

In ESG reporting, AI can help in two areas:

- a) in the data collection process related to a report;
- b) in the preparation of the report itself²⁶.

Smart tools can be used to significantly improve processes by collecting data from different sources, and detecting gaps, errors and anomalies in data sets²⁷. In ESG reporting, especially in large companies, data from different sources (both at the level of different departments of the organisation itself, its subsidiaries and suppliers) is often an issue. AI can be used for verifying this data and make it consistent – not only at the level of the required data points, but also in terms of its format²⁸.

Artificial intelligence is particularly helpful in supply chain monitoring – enabling real-time data tracking and automatic calculation of the carbon footprint at product level. The use of such tools also reduces the administrative burden placed on suppliers, many of whom may be small and medium-sized enterprises and who are required by large companies to provide the data required by the regulations – reporting can then take place with little involvement from the workers of the company concerned²⁹.

²² Yuping Xiao, Li Xiao..., p. 13.

²³ SAP Polska..., 2024, p. 10.

²⁴ Ibid., p. 35.

²⁵ SAP Polska..., p. 34.

²⁶ Polskie Stowarzyszenie ESG..., p. 8.

²⁷ Sacha Bazin, Mike Hayes, *How AI can transform sustainability reporting*, *World Economic Forum*, 26 August 2025, <https://www.weforum.org/stories/2025/09/harnessing-ai-for-sustainability-reporting-path-forward/>.

²⁸ EcoActive, *The AI Shift in ESG Reporting: 6 Trends Sustainability Teams Can't Ignore*, 15 July 2025, <https://ecoactivetech.com/ai-esg-reporting-trends-2025/>.

²⁹ Sacha Bazin, Mike Hayes, *op. cit.*

Individuals and entire teams can save a lot of time with AI tools. Once the data has been collected, AI tools can help to assess its relevance, which can be extremely helpful, as it is this aspect that often causes the greatest difficulty for those preparing reports. Smart systems can also “tailor-make” sustainability reports to meet specific regulatory requirements, standards and even be adapted to the needs of different audiences³⁰. AI is also useful in the benchmarking process – by scanning publicly available reports from other companies, it can identify relevant issues and how they are disclosed and structured, which can help align reports with industry standards and norms³¹.

Of course, with the benefits also come risks. As implementation scales up, automation can compound errors and data³², and the sheer quantity of data does not always automatically translate into better quality or greater reliability³³. AI assistants can draw conclusions based on inaccurate and incomplete data, hallucinate by filling in these gaps, and even misinterpret correct and already human-verified data (e.g. by using the wrong context). Artificial intelligence may also fail to distinguish between a company’s aspirational goals and the actions actually taken – instead of creating a report based on data, it may create a superior marketing product and thus greenwashing.

Therefore, the information provided by AI cannot be relied on uncritically, and proper human oversight and critical evaluation of this data is necessary here. This is particularly important in terms of the attestation of sustainability reports. Professionals preparing the reports should be able to justify the results and the process of obtaining them – it is not enough to enter the data into the AI as if it were a “black box” and extract the result. Attestation not only allows additional verification of the information contained in a report, but is also for this reason a tool for minimising the risk of misleading investors and other stakeholders³⁴, who can also use AI to summarise, analyse and evaluate reports.

Conclusion

The implementation of AI in sustainability activities at both the state and corporate level has a number of benefits, but also carries some risks. AI can serve to achieve the Sustainable Development Goals worldwide, strengthening innovation, efficiency and productivity, but it should also raise questions about ethics and

³⁰ Ibid.

³¹ Eco Active, *op. cit.*

³² Sacha Bazin, Mike Hayes, *op. cit.*

³³ Ibid.

³⁴ Ibid.

environmental consequences. New solutions do not exist in a vacuum – the human factor is extremely important, as it is responsibility always rests on human.

In ESG and sustainability reporting projects, the benefits of AI include time savings, automation of transforming data into reports, reduction of human error, improvement in data consistency and adaptation of reports to different requirements. However, the introduction of new technological solutions carries new risks in the area of cybersecurity and operational risk³⁵, hence it is crucial to adequately secure and protect data in all three dimensions of ESG reporting – not only sensitive personal data, but also company business data.

What might the (near) future hold? Artificial intelligence will not replace sustainability professionals, but those able to use it effectively and responsibly will have a distinct advantage. The key to success will be to combine the computing power of artificial intelligence with human judgement, transparency and the involvement of the right people and actors.

³⁵ SWPS Innowacje, p. 67.

ESG in practice: between idea and implementation

MARTA BIERNACKA-MIERNIK

JOANNA DARGIEWICZ-ROŻEK

The year 2025 is a time of confrontation for Polish companies between declarations regarding sustainable development and the practice of its implementation. After years of preparations, companies are, for the first time, fully feeling the effects of increasing reporting requirements, their costs and their impact on work organisation and competitiveness.

The data collected in the National ESG Report “Economy, Security, Future. Challenges of Sustainable Development”, developed by the Polish ESG Association, shows a complex picture of the adaptation of the ESG system in the country. On the one hand, there is a growing awareness of companies and the development of their competences, while on the other hand, there are voices in the public debate about the increasing administrative burden and the need to revise regulations.

The introduction of ESG reporting in the EU based on the CSRD, the ESRS standards, the EU Taxonomy and the Green Deal, aimed to create a coherent, transparent system for the flow of information on the environmental, social and corporate governance impacts of companies. ESG was intended to reduce greenwashing, data comparability and the integration of non-financial factors into management and investment processes. In practice, however, it has become – especially for small and medium-sized companies – a process requiring considerable financial, competence and organisational investments.

Real implementation challenges

Companies’ experience shows that the dynamic pace of legislative change and the high complexity of the requirements lead to over-formalisation of reporting. Instead of supporting strategic decisions, ESG often degenerates into a tedious process of filling in tables and indicators, detached from real transformative actions.

A large part of the cost is also borne by those not formally required to report, as smaller companies are required to report data to supply chain partners. As a result, many companies find ESG not so much a strategic choice as a condition for maintaining cooperation and access to capital. Estimates by the Warsaw Enterprise

Institute indicate that annual ESG costs for SMEs can reach PLN 1.4-2.6 billion, while indirect costs in supply chains can be as high as PLN 8 billion.

Excessive reporting complexity also undermines business flexibility, limiting the ability to respond quickly to market changes. Procedural requirements absorb a significant amount of resources, delaying investment and limiting companies' ability to innovate.

These problems have led to revision efforts at EU level – including the Omnibus package and the “Stop-the-clock” initiative, which aim to simplify requirements and introduce greater proportionality, particularly for the small and medium-sized enterprise (SME) sector.

ESG and economic competitiveness and security

The perspective of the leaders of Poland's largest companies indicates that properly implemented ESG can strengthen the resilience of the economy, including through the development of RES, increasing energy independence, improving the quality of information and developing technological infrastructure. In in-depth interviews conducted by the Polish ESG Association, board members of companies emphasised that environmental and social measures have a direct impact on the stability of economic systems and that data transparency has a direct impact on public safety.

At the same time, business representatives point to increasing bureaucratic pressures that limit the practical value of reports as management tools. In their view, ESG should be part of a long-term strategy rather than an administrative obligation. Only then can it realistically support operational efficiency, innovation and risk management.

The need for regulatory stability was also pointed out. For industries with multi-year investment horizons, such as construction, energy or ICT, frequent changes in interpretation and a lack of clear guidelines generate additional costs and make planning difficult. Companies expect a more systemic, sectoral and – above all – predictable approach.

Evolution in SMEs: the growing awareness, the declining momentum

A survey conducted by the Polish ESG Association in 2025 indicates a significant increase in ESG awareness among companies in the SME sector. The percentage

of businesses declaring good knowledge of the concept has tripled in relation to 2022, while the number of businesses unfamiliar with the topic has fallen to its lowest level ever measured. ESG is no longer a novelty, it is becoming a permanent feature of governance.

At the same time, the deployment dynamics is weakening. Increasingly, companies are taking action not for image purposes, but out of necessity – they want to meet the demands of counterparties and financial institutions. ESG is thus becoming a market requirement rather than a strategic choice.

SMEs are focusing on activities that bring quick and measurable benefits, especially in the area of energy efficiency and the use of renewable energy sources. There is less activity on more difficult and costly measures, such as full carbon footprint measurement or extensive management systems.

Enterprises see costs, both investment and operational costs, as the main barrier to implementing ESG. With greater availability of specialists, the role of competence barriers is diminishing, while the importance of legal uncertainty is increasing, making long-term planning and decision-making more difficult.

Many companies struggle with the lack of tools to translate general ESG assumptions into concrete procedures, as well as with the difficulty of interpreting the standards in the context of small-scale operations. This makes it difficult to build stable processes, even with a growing understanding of the importance of sustainability.

The structure of responsibility for ESG within companies is also changing. Although the percentage of companies with ESG departments is declining, the number of entities planning to establish them is increasing. This indicates a shift from incidental activities to a gradual institutionalisation of the processes.

Between idea and practice – systemic conclusions

Analysis of the data coming from the SME sector and the views of economic leaders leads to several key conclusions. Firstly, ESG is a sustainable element of market governance and shapes the competitiveness of companies in real terms. Secondly, the current form of reporting overburdens companies and needs to be corrected – both on a regulatory and practical level.

Restoring ESG reporting to its original sense, i.e. understanding and using sustainability reporting as a strategic tool to foster growth, innovation and resilience in the economy requires simplification of regulations, greater legal stability, proportionality of requirements and advisory and financial support, especially for SMEs.

The directional recommendations therefore focus on a number of key areas to restore ESG's strategic function. Simplification and harmonisation of regulations is needed so that the reporting requirements, particularly with respect to SMEs and entities operating within complex supply chains, are proportionate to their operational capacity. In parallel, the financial base for the transformation needs to be strengthened, including support instruments such as grants, discounts or investment funds to facilitate investments in decarbonisation and digitalisation.

Competence development, both among entrepreneurs and management, is also an important element. Educational programmes and the creation of tools to support reporting and monitoring processes are needed. Another direction of change should be the integration of ESG with innovation activities, including incentives for investment in low-carbon technologies, circular economy solutions and process automation. This is complemented by regulatory stability, which requires the construction of a long-term, predictable legal framework for climate and sustainability policy that enables companies to plan their actions over a multi-year horizon.

However, the effectiveness of the proposed measures depends on their complementarity. Combining the regulatory simplification, adequate financial support, competence development and a stable legal environment creates the conditions for ESG to act as a strategic tool rather than simply a reporting obligation.

The Role of the Statutory Auditor in Assessing Fraud Risk in the Revenue Cycle and Methods for its Detection

KACPER TOKARCZYK

Abstract of the master's thesis awarded first place and the Dr Zdzislaw Fedak Award in the PANA Competition for the best master's thesis in the field of audit. The thesis, entitled "The Statutory Auditor in the Financial Statement Audit Process, with Particular Emphasis on Fraud and Fraud Detection Methods", was written under the supervision of Agnieszka Mazurek-Czarnecka PhD and defended at the Krakow University of Economics.

Introduction

The financial statements of an enterprise constitute a fundamental source of information for investors. Their content is paramount, serving as the basis for stakeholder inference. Research findings confirm that financial results reported by companies significantly influence their share prices (Balina, Juszczak, 2017, p. 12). Consequently, there exists a temptation to present financial data in a more favourable light than reality dictates, particularly when pecuniary benefits are at stake. Dynamic economic shifts, artificial intelligence, and events classified as "black swans" render the mitigation of this phenomenon increasingly complex, thereby exacerbating the probability of fraud occurrence.

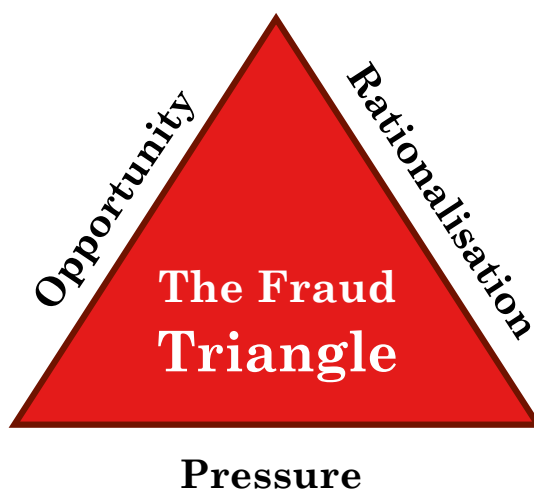
Contemporary fraud detection relies not merely on auditor intuition but on the deliberate application of data analytics and analytical procedures designed to support fraud detection within the revenue cycle. These encompass both conventional techniques, such as trend analysis and regression, and more advanced tools, including Benford's Law and the Beneish M-score model.

The financial information contained in this paper is not subject to trade secrecy. Certain data and case details have been intentionally modified to better exemplify the specific context of the case. This paper describes only fragments of the financial statement audit; all other procedures were performed in accordance with applicable requirements.

1. Revenue under Scrutiny – The Genesis of Fraud Risk

The revenue cycle has long been recognised as one of the areas most susceptible to fraud risk in financial statement audits. National Auditing Standards unequivocally indicate its critical nature. The significance of this area is further emphasised at both the national and European levels (PANA, 2023). Empirical research corroborates the validity of this approach. According to the Occupational Fraud 2024 report published by the ACFE, the sales function constitutes one of the primary sources of occupational fraud, with 12 per cent of analysed cases originating within sales departments (ACFE, 2024, p. 5).

A valuable instrument for analysing the genesis of fraud within the revenue cycle is Cressey's Fraud Triangle, which delineates three co-occurring factors conducive to fraud: pressure, opportunity, and rationalisation. Originating from research into organised crime, this concept remains one of the cornerstones of fraud risk analysis in accounting and auditing. The fraud triangle is presented in the figure below.



The Fraud Triangle

Source: Author's own elaboration based on Korupcja w Polsce [Corruption in Poland], retrieved from: <https://maciejwnuk.pl/korupcja-w-polsce-12-pandemicznych-impulsow/> (accessed 03.01.2025).

Pressure constitutes one of the fundamental factors conducive to fraud within the revenue cycle.

Deteriorating financial standing, capital market expectations, bonus schemes, and the necessity to comply with debt covenants cause management to experience a strong motivation to intervene in reported sales levels. As a pivotal component of the financial result, revenue becomes a natural locus for potential manipulation under such conditions.

In practice, numerous key financial and non-financial indicators are directly contingent upon sales levels. This pertains to revenue growth dynamics, profitability ratios, Debt-to-EBITDA ratios, and credit covenants. Consequently, the overstatement or accelerated recognition of revenue may lead to the simultaneous improvement of several parameters assessing the entity's condition. Pressure may manifest in highly specific forms: a sales director whose bonus depends on meeting targets may exert pressure to accelerate invoicing at the end of the reporting period, while the management board of a listed company may strive to "meet" forecasts to avert a sharp market reaction. Furthermore, this factor is particularly pronounced in indebted entities, where management faces intense pressure to comply with credit covenants.

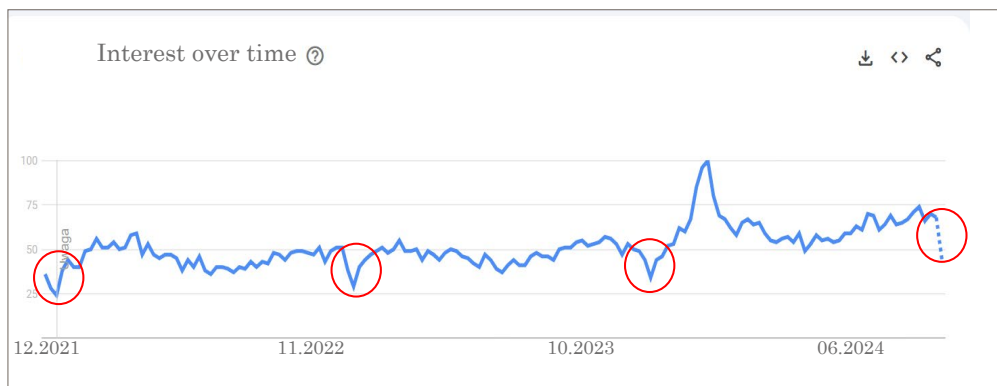
The second important element of the fraud mechanism is opportunity, which frequently stems from the complexity of revenue recognition rules. In practice, this is facilitated by factors such as long-term transactions, related party transactions, and transactions executed around the reporting period cut-off. The fraud itself may result from uncomplicated actions, such as issuing an invoice without actual delivery, recognising revenue prior to the transfer of control over goods, or fabricating warehouse documentation on the final day of the financial year. The simplicity of these activities renders the opportunity literally within reach. A distinct opportunity arises in organisations with undeveloped internal control systems; as research indicates, the internal control system and staff competence significantly influence the risk of fraud (IJEEM, Saputra, Suartana, 2025).

The final component of Cressey's Fraud Triangle is rationalisation, defined as the internal justification for unethical conduct. Cressey observed that perpetrators rarely perceive themselves as criminals, but rather as individuals temporarily borrowing funds or acting in the company's best interest. Within the revenue cycle, rationalisation may manifest as the conviction that the act is merely a timing difference and that sales will materialise in the subsequent period. Another line of reasoning involves acting on the belief that since "everyone does it", then "so can we".

Despite the passage of time, this theory remains relevant, and the revenue cycle exemplifies the premises of Cressey's triangle, combining pressure for results with the potential for manipulation. Analysing the revenue cycle through the prism of

pressure, opportunity, and rationalisation facilitates a deeper understanding of the motives and mechanisms leading to financial statement misstatements.

However, fraud risk is not uniformly distributed throughout the year. Although an analysis of search queries for the phrase “financial fraud” might suggest lower interest in this issue towards the year-end, the professional judgment and experience of the statutory auditor indicate a need for heightened vigilance precisely during this period. The figure below presents data regarding the search popularity of this phrase.



Search popularity of the query “financial fraud” on Google

Source: Author’s own elaboration based on Google Trends, retrieved from: <https://trends.google.com/trends/explore?-date=2021-12-15%202024-12-15&q=Financial%20Fraud&hl=pl>, (accessed: 11.11.2024).

Perpetrators of fraud typically do not analyse fraud mechanisms nor seek information regarding them; they simply commit the acts, which explains this inverse correlation.

2. From Figures to Insights – Trend Analysis and Data Dependencies Using Artificial Intelligence

2.1 Fundamentals of Trend Analysis and Regression Methods

Analytical procedures involve, inter alia, comparing actual data with expected values to identify unusual deviations that may indicate irregularities. The process of developing expectations itself can be time-consuming. In this regard, AI-driven tools assist the statutory auditor, and the combination of professional experience and the capabilities of these tools becomes paramount. Their application enhances operational efficiency by enabling the analysis of voluminous industry reports and the synthesis of key conclusions. The utilisation of artificial intelligence tools allows for the completion of 12 per cent more tasks, performed 25 per cent faster (Mollick, Rajendran, 2023, p. 4).

The basis for achieving good results when employing AI-based tools is precise communication with the system. Each query must encompass the context, the problem statement, the AI's persona, the user's position, and the desired output format (Rejzerewicz, 2025).

In the context of this article, the selection of analytical techniques is critical – within the revenue cycle, trend analysis and regression analysis are of primary importance. The former involves comparing financial data and expectations across multiple reporting periods to identify unjustified variations in revenue levels. Graphical representation constitutes the most transparent form of this analysis.

Regression analysis leverages the relationship between data, providing a higher level of analytical assurance. Its essence lies in constructing a model to estimate the expected level of revenue, followed by a comparison with actual data.

Significantly, the application of regression analysis does not require the statutory auditor to possess advanced knowledge of statistical formulae. The model may be constructed using an Excel spreadsheet, with the auditor's key task remaining the correct identification of variables strongly correlated with revenue.

The assessment of the regression model's quality in this tool is based on three metrics:

- R-squared – model goodness-of-fit. Values range from [0,1]; satisfactory measures are: 0.8–0.9 (good fit), 0.9–1.0 (very good fit);
- Standard Error – indicates the precision of the forecast; the lower the value, the more accurate the estimate. It is crucial that this measure remains below 10 per cent of the mean value of the dependent variable or 75 per cent of materiality (AICPA Audit Guide, 2017);

- t-statistic – allows for the assessment of variable significance; typically, the t-statistic should exceed 1.3 (Lachowski, 2019).

Constructing a model that ensures high levels for the three aforementioned metrics allows for high reliability of forecasted sales revenue. The subsequent step involves comparing this forecast with actual revenue and investigating material discrepancies.

2.2. Financial Data Revealing Irregularities – A Case Study of Company X

Entity X is a limited liability company operating in the industry of corrugated paper and paperboard packaging production (PKD code 17.21.Z). Revenue from the sale of finished goods constitutes approximately 96 per cent of the entity's total revenue. Financial reporting is conducted in accordance with Polish accounting regulations, and the entity is not subject to specific sector regulations. The financial statements for the years 2022 and 2023 were subject to a mandatory audit in accordance with the Accounting Act. The audit opinion for 2022 was unmodified.

At the audit planning stage for 2023, the Key Audit Partner (hereinafter "KAP") analysed expected trends and industry demand. Sector reports and expert analyses in PDF format were utilised for this analysis, alongside – to enhance audit efficiency – artificial intelligence (the paid version of ChatGPT). The utilisation of AI is presented in the table below.

Dialogue and Conclusions Derived from AI Utilisation

Prompt Submitted	ChatGPT Response – Report Synthesis
I am conducting an audit of the financial statements for the year 2023 for an entity manufacturing paper, paperboard, and packaging in Poland. What industry demand and sales revenue values should be anticipated for 2023? Utilise industry reports and analyses. Draw conclusions in a few sentences.	According to the CEPI report, in 2023 the paper and cardboard sector in Europe faced limited demand, production downtime, and high manufacturing costs, which translated into a significant decrease in the production and consumption of paper and cardboard. Decline in production and consumption - In 2023, paper and cardboard production in Europe decreased by 12.8% to around 74.3 million tons. - This decline affected all major market segments, including graphic paper (down 27.5%) and packaging paper and cardboard (down 12.2%).
Conclusion	
The Key Audit Partner (KAP) employed AI tools to analyse numerous industry reports to gain a deeper understanding of current market trends. The findings obtained were subsequently cross-referenced with the KAP's professional knowledge and experience. Ultimately, it was assumed that a decline in sales revenue should be expected in 2023, resulting from lower demand and curtailed production within the industry.	

Source: Author's own elaboration based on the paid version of ChatGPT.

The conclusions derived, supported by the KAP's professional experience, pointed to an anticipated decline in demand and a reduction in revenue for 2023. However, the analysis of the financial statements under audit revealed a divergent trend, specifically a revenue increase of approximately 10 per cent. This necessitated a modification of the audit plan and the application of additional analytical procedures, in accordance with KSB 240. The table below presents an excerpt from the audit plan for Entity X.

Excerpt from the Audit Plan for Entity X for 2023

Significant Risk Area	Risk Level (L/M/H)	Identified Risk	Fragment of the Audited Entity's Accounting Policy – Revenue Recognition	Materiality	Planned Analytical Procedures as a Response to Risk
Revenue from sales of finished goods	H – High	Risk associated with the manipulation of revenue from sales of finished goods due to fraud or error.	<i>Revenue from sales of finished goods is recognised in accordance with the Accounting Act, adhering to overriding accounting principles, including the matching principle and the accrual basis.</i>	Overall Materiality: PLN 1,400,000 Performance Materiality: PLN 910,000	Trend analysis/regression analysis utilising ChatGPT

Source: Author's own elaboration.

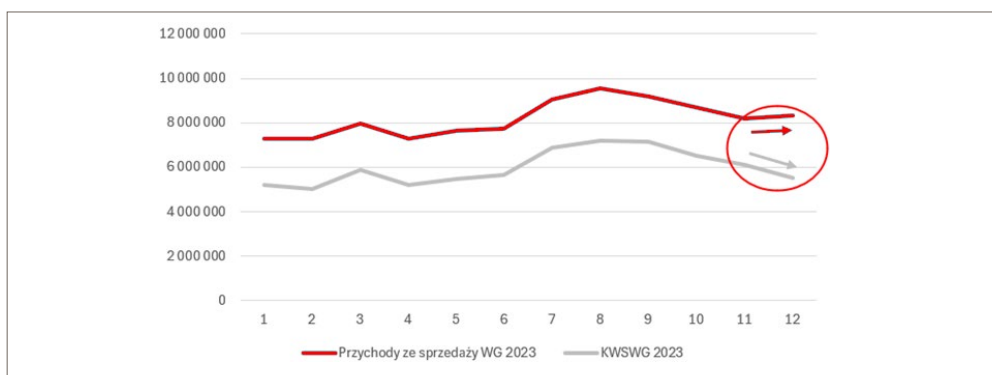
Subsequent procedures involved the analysis of the detailed ledger records for 2023 regarding revenue and cost accounts. The data were reconciled with the trial balance. The dataset was deemed complete and suitable for further analysis. In the next step, a monthly data summary was prepared to facilitate trend analysis and the construction of a regression model. Table 3 presents the aggregated monthly data for Entity X.

Monthly Values of Accounts 700 and 711 of Entity X

Specification	Value in PLN	
Month (2023)	700 – Revenue from sales of finished goods	711 – Cost of manufactured goods sold
January	7,281,186	5,215,252
February	7,275,579	5,037,214
March	7,965,662	5,897,288
April	7,276,248	5,208,529
May	7,655,277	5,469,701
June	7,756,941	5,639,095
July	9,041,581	6,859,324
August	9,553,316	7,207,734
September	9,168,824	7,137,841
October	8,699,700	6,497,758
November	8,193,872	6,105,272
December	8,317,402	5,515,708
Total	98,185,588	71,790,716

Source: Author's own elaboration.

The graphical trend analysis revealed an anomalous divergence in December 2023, characterised by a simultaneous increase in revenue and a decrease in the cost of manufactured goods sold. The figure below illustrates the graphical trend analysis.



Trend Analysis: Revenue from Sales of Finished Goods versus Cost of Manufactured Goods Sold

Source: Author's own elaboration.

Subsequently, a regression analysis was conducted using an Excel spreadsheet, designating revenue from sales of finished goods as the variable Y and the cost of manufactured goods sold as variable X. The model yielded a high R-squared coefficient (approximately 0.93), a low standard error of PLN 219,000, and a statistically significant t-statistic of 4.45, thereby validating it as a highly reliable analytical tool. Next, the predicted values generated by the model were compared with actual revenue figures, enabling the identification of deviations exceeding the standard error threshold. The table below presents this analysis.

Comparison of Predicted Revenue Values with Actual Data and Identification of Deviations

Observation (Month)	Predicted Revenue from Sales of Finished Goods 2023 (Model)	Actual Revenue from Sales of Finished Goods 2023	Residuals (Deviation)	Is the Absolute Value of the Deviation Greater than the Standard Error?
1	7,427,689	7,281,186	-146,503	NO
2	7,252,637	7,275,579	22,942	NO
3	8,098,290	7,965,662	-132,628	NO
4	7,421,079	7,276,248	-144,831	NO
5	7,677,872	7,655,277	-22,595	NO
6	7,844,426	7,756,941	-87,485	NO
7	9,044,197	9,041,581	-2,616	NO
8	9,386,766	9,553,316	166,550	NO
9	9,318,045	9,168,824	-149,221	NO
10	8,688,693	8,699,700	11,007	NO
11	8,302,787	8,193,872	-108,915	NO
12	7,723,108	8,317,402	594,294	YES

Source: Author's own elaboration.

The analysis revealed that December 2023 constituted the sole outlier observation, wherein the deviation between the predicted and actual values significantly exceeded the standard error.

The results of the analytical procedures performed served as the basis for the Key Audit Partner to extend the scope of the audit to include detailed substantive testing focused on the year-end. These procedures confirmed the occurrence of fraud involving revenue overstatement through the incorrect allocation of sales to the reporting period. The total value of the fraudulent misstatement amounted to over PLN 900,000. The statutory auditor issued an appropriate opinion in this regard.

3. Statistics Uncover Irregularities

3.1 Benford's Law as a Fraud Detection Tool

In the literature concerning financial fraud detection, particular emphasis is placed on statistical methods based on Benford's Law (Baryła, 2021, p. 8). Contrary to the intuitive assumption that every digit has an equal probability of occurring in the first position, this law indicates that lower digits appear significantly more frequently than higher ones (Czaja, 2024). The table below presents a comparison of the Benford distribution with the intuitive distribution. For instance, the digit '1' appears as the leading digit in approximately 30 per cent of observations, whereas '9' appears in less than 5 per cent. This empirical regularity constitutes the basis for identifying potential irregularities in large financial datasets.

Benford Distribution versus Intuitive Distribution

Leading Digit	Benford Distribution (%)	Intuitive Distribution
1	30.1	Probability equal for each digit – 11.1 per cent
2	17.6	
3	12.5	
4	9.7	
5	7.9	
6	6.7	
7	5.8	
8	5.1	
9	4.6	

Source: Source: Author's own elaboration based on materials from the Polish Chamber of Statutory Auditors.

Benford's Law does not allow for the identification of specific fraudulent transactions but enables the selection of groups of records that deviate significantly from the theoretical distribution. Such an approach enhances audit efficiency, as it allows for narrowing further procedures to the most suspicious data while simultaneously analysing the entire dataset without the necessity of sampling. The effectiveness of the analysis depends on several key issues. To utilise Benford's Law, it is necessary to first verify the characteristics of the dataset. The table below presents an example test for verifying the input dataset. The more characteristics a given set meets, the closer it approximates the Benford distribution, with the ideal state being the fulfilment of all criteria.

Example Test for Verifying the Dataset in the Context of Benford's Law

Conditions to be Met (Dataset Characteristics)	Met (Yes/No)
All data expressed in the same unit	
Absence of limits in the form of maximum/minimum thresholds (the exception is "zero" in the case of positive number sets)	
Numbers in the set do not represent identifiers (e.g., account numbers, invoice numbers)	
The dataset contains more smaller numbers than larger ones (e.g., the median value is no greater than half of the mean value)	
The dataset consists of multi-digit numbers	
The dataset is extensive (minimum number of observations is 100 – the more, the better)	

Source: Author's own elaboration based on M. Baryła, *Metody wykrywania oszustw finansowych na prawie Benforda* [Methods of Financial Fraud Detection Based on Benford's Law], Cracow University of Economics, 2021.

Following positive verification, the subsequent step involves selecting the type of Benford test. The most frequently employed include the first-digit test, the second-digit test, and the first-two-digits test (Baryła, 2021). In audit practice, the first-digit test typically constitutes the starting point. Its objective is to verify the hypothesis of whether the distribution of the first non-zero digit in the examined dataset corresponds to the Benford distribution.

The procedural steps for the first-digit test (in the case of sales revenue) comprise:

1. Extract records from the accounting ledger into an Excel spreadsheet.
2. Reconcile ledger records to the financial statements.
3. Execute the dataset characteristics test.
4. Select records (e.g., division into two sets: negative and positive).
5. Perform the Benford test (verification of the Benford distribution hypothesis).
6. Compare the analysed database with the hypothetical distribution.
7. Identify records beginning with a digit that does not comply with the Benford distribution.
8. Conduct a detailed analysis of records failing to meet the hypothesis.
9. Draw conclusions.
10. Perform further audit procedures.

The execution of the Benford test itself (step 5) is not a complex process. The simplest method for performing this test is using a spreadsheet (Excel). The table below presents a tabular variant comparing the hypothetical Benford distribution with the actual database.

Summary of Benford Test Calculations

Frequency distribution of the leading digit for the analysed database										Sum
Digit	1	2	3	4	5	6	7	8	9	
A. Frequency										
%										
Hypothetical frequency distribution according to Benford's Law										
Digit	1	2	3	4	5	6	7	8	9	
B. Frequency										
%										
Difference (A-B)										
Difference %										

Source: Author's own elaboration.

In the 'frequency' row, the software counts how many records begin with specific digits (from 1 to 9), while the '%' row calculates the percentage share of these records within the entire analysed population. Subsequently, the obtained results are compared with the theoretical Benford distribution. The accuracy and completeness of calculations are verified by comparing the total number of analysed records with the actual number of items in the dataset (post-adjustments). The table below presents the analysis completeness test. Table cells are automatically populated using Excel spreadsheet functions. Any differences that may arise result from records beginning with the digit '0'. Such items are excluded from the analysis.

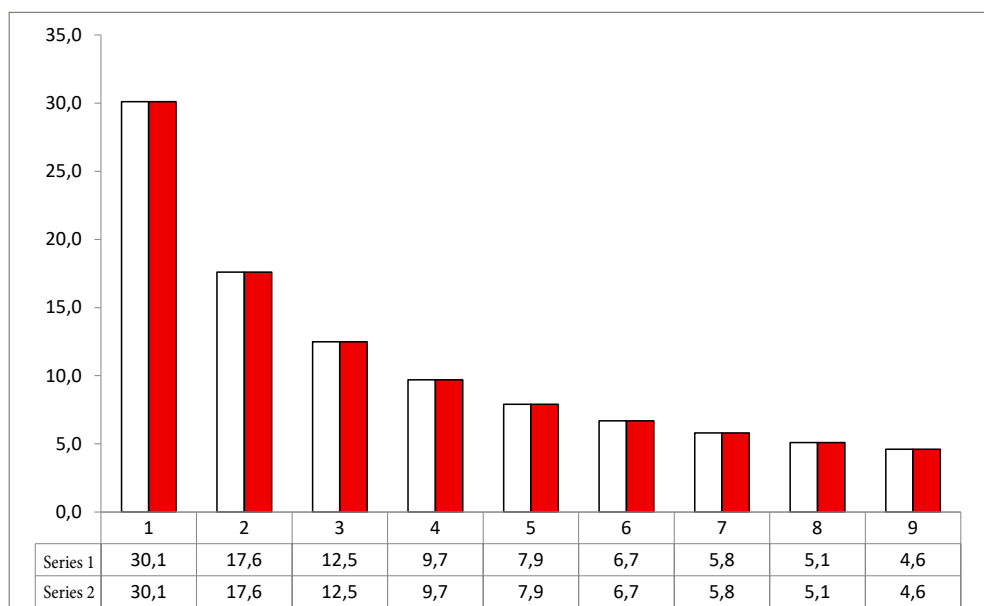
Verification of Benford Analysis Completeness

Actual number of records in the input file	Number of analysed records	Difference

Source: Author's own elaboration.

The final stage of the analysis involves the graphical presentation of the Benford test results, enabling a rapid and intuitive assessment of potential deviations. The figure below presents a comparison of the Benford distribution with the distribution of the analysed database.

Graphical comparison of the Benford distribution (white) with the actual database distribution (red)



Source: Author's own elaboration.

Literature emphasises that there are no rigid thresholds for deviations from the Benford distribution; therefore, the assessment of detected anomalies always depends on professional judgment. In practice, this involves isolating suspicious records and conducting further procedures.

3.2 Digits Speak – Application of Benford's Law in Company Y

Entity Y is a limited partnership operating in the construction aggregates production industry (PKD code 08.11.Z). Revenue from sales of finished goods constitutes almost the entirety of total revenue. Financial reporting is conducted in accordance with Polish regulations, and the entity is not subject to specific sector regulations. During the audit for the previous year, no irregularities were identified. Entity Y held shares in another entity classified as a related party, and there were no changes in accounting policy.

In the audit plan, the Key Audit Partner (KAP) assessed the risk of material misstatement due to fraud in the revenue area as high. Overall materiality was established at PLN 900,000, while performance materiality was set at PLN 585,000 (65 per cent). The KAP obtained the general ledger entries for account 701 – revenue from sales of finished goods in an Excel spreadsheet. The data were reconciled with the trial balance. The statutory auditor confirmed the completeness of the input dataset. The table below presents the format of the received database.

Format of the Database Received for Benford Analysis

A	B	C	D	E	F	G	H	
No.	Account	Date	Document Number	Item	Counterparty	Debit Value	Credit Value	
1	701	03.01.2023	XYZ	XYZ	XYZ	-	4,053	
2	701	03.01.2023	XYZ	XYZ	XYZ	-	8,967	
3	701	03.01.2023	XYZ	XYZ	XYZ	-	2,029	
[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]	
8817	701	31.12.2023	XYZ	XYZ	XYZ	-	50,211	
TOTAL								62,472,913

Source: Author's own elaboration.

Column A represents the number of records in 2023, corresponding to the number of sales invoices, while their value is recorded in Column H. The table below presents the suitability test performed. It confirmed the validity of applying Benford analysis to the received revenue database (all criteria were met). 47 negative records (adjustments) were identified, eliminated from the database, and designated for separate analysis. No further adjustments were required. The final database comprises 8,770 records.

Database Suitability Test for Benford Analysis

Conditions to be Met (Dataset Characteristics)	Met (Yes/No)
All data expressed in the same unit	YES – Uniform currency unit (PLN).
Absence of limits in the form of maximum/minimum thresholds (the exception is “zero” in the case of positive number sets)	YES – The sole limitation is zero for positive numbers (following elimination).
Numbers in the set do not represent identifiers (e.g., account numbers, invoice numbers)	YES – The figures represent sales revenue values.

Conditions to be Met (Dataset Characteristics)	Met (Yes/No)
The dataset contains more smaller numbers than larger ones (e.g., the median value is no greater than half of the mean value)	YES – The median of the dataset is 1,652.78, while half of the mean value is 3,560.53.
The dataset consists of multi-digit numbers	YES – The database range encompasses sales revenue records from 0.10 to approximately 600,000.
The dataset is extensive (minimum number of observations is 1000 – the more, the better)	YES – The dataset contains 8,817 elements (records) prior to adjustments.

Source: Author's own elaboration.

The Key Audit Partner (KAP) performed the first-digit test in accordance with Benford's Law, utilising Column H of Table 11 (sales value). The results of the analysis are presented in the table below. Out of 8,759 records, 2,965 commence with the digit '1', constituting 33.9 per cent of the database, whereas the Benford distribution posits 30.1 per cent.

Benford Test Results for the Analysed Database of Entity Y

Frequency distribution of the leading digit for the analysed database										Sum
Digit	1	2	3	4	5	6	7	8	9	
A. Frequency	2965	1380	955	760	607	473	397	510	712	8759
%	33.9%	15.8%	10.9%	8.7%	6.9%	5.4%	4.5%	5.8%	8.1%	100
Hypothetical frequency distribution according to Benford's Law										
Digit	1	2	3	4	5	6	7	8	9	
B. Frequency	2636	1542	1094	849	694	586	508	448	402	8759
%	30.1%	17.6%	12.5%	9.7%	7.9%	6.7%	5.8%	5.1%	4.6%	100
Difference (A-B)	329	-162	-139	-89	-87	-113	-111	62	310	
Difference (%)	3.8	-1.9	-1.6	-1.0	-1.0	-1.3	-1.3	0.7	3.6	

Source: Author's own elaboration.

Subsequently, the Key Audit Partner verified the completeness of the test by comparing the number of analysed records with the input database. The results are presented in the table below.

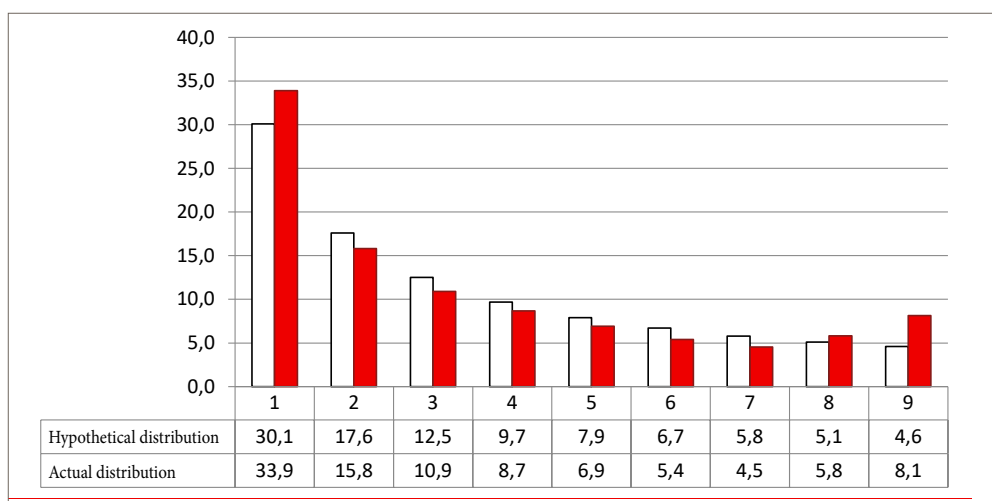
Verification of Benford Analysis Completeness for Entity Y

Actual number of records in the input file	Number of analysed records	Difference
8770	8759	11

Source: Author's own elaboration.

The difference of 11 items results from the occurrence of values beginning with the digit '0', which, according to the theory, are not subject to analysis. The Key Audit Partner confirmed the completeness of the procedure. The results are presented graphically in the figure below.

Graphical Results of the Benford Test for Entity Y



Source: Author's own elaboration.

Based on professional judgment, the KAP determined that deviations exceeding 2 per cent required further analysis. Records beginning with the digits '1' and '9' were selected for detailed inspection, while the remainder were deemed not to carry significant risk. These records were filtered based on Column H, i.e., sales value.

The analysis of items commencing with the digit '9' revealed no irregularities and was justified by the specific nature of the entity's operations (recurring sales of full truckloads of aggregate). The KAP verified the auditee's price list and multiplied the rates by quantity. In the case of records beginning with the digit '1', the majority of transactions also raised no objections; however, recurring sales amounts involving a related party were identified, which raised the KAP's concerns. Examples of questionable transactions are presented in the table below.

Example of Questionable Records Identified Using Conditional Formatting in an Excel Spreadsheet

A	B	C	D	E	F	G	H
No.	Account	Date	Document Number	Item	Counterparty	Debit Value	Credit Value
51	701	05.01.2023	XYZ	XYZ	XYZ – related party	-	11,321
54	701	05.01.2023	XYZ	XYZ	XYZ – related party	-	1,880
188	701	13.01.2023	XYZ	XYZ	XYZ – related party	-	11,321
189	701	13.01.2023	XYZ	XYZ	XYZ – related party	-	11,321
221	701	16.01.2023	XYZ	XYZ	XYZ – related party	-	11,700
1789	701	09.03.2023	XYZ	XYZ	XYZ – related party	-	131,970
1790	701	09.03.2023	XYZ	XYZ	XYZ – related party	-	131,970
3651	701	15.03.2023	XYZ	XYZ	XYZ – related party	-	1,990

Source: Author's own elaboration.

A number of questionable sales records involving a related party were identified and subjected to substantive procedures, including, inter alia, the verification of contracts and the obtaining of external confirmations. As a result of the procedures performed, the KAP identified irregularities consisting of 14 duplicate invoices and the application of an incorrect price list. The total value of irregularities in this area amounted to PLN 550,000. The KAP communicated these findings to the entity's management. The method based on Benford's Law effectively analysed highly aggregated data, thereby enhancing audit efficiency.

4. Fraud Detection Using the M-score

4.1 Characteristics of the Beneish Model

The Beneish Model stands as one of the most prominent mathematical methods for detecting financial statement fraud. It facilitates the determination of whether financial data has been manipulated or is susceptible to manipulation in the near future (Lachowski, 2019). Based on research, specific indicators were identified and specified, and assigned appropriate weights. The objective of this method is to ascertain whether the calculated values of individual components, as well as the global M-score, classify an entity as a “manipulator” or a “non-manipulator” (Kumalasari, Puspaningsih, 2023). The model’s effectiveness is contingent upon data quality; however, studies indicate its high diagnostic accuracy in identifying both manipulators and non-manipulating entities (Golec, 2019, p. 8). It is noteworthy that the model’s components incorporate the revenue cycle, the impact of which is delineated in the table below.

The Revenue Cycle in the Beneish Model

No.	Areas of Earnings Manipulation	Examples of Actions
1.	Premature revenue recognition	Recognising total revenue when performance obligations to the customer have not been satisfied, or recognising revenue despite the lack of transfer of significant risks to the customer
2.	Revenue overstatement	Manipulation of assumptions and accounting estimates

Source: Author’s own elaboration based on A. Golec, Ocena skuteczności modelu Beneisha w wykrywaniu manipulacji w sprawozdaniach finansowych [Evaluation of the Effectiveness of the Beneish Model in Detecting Financial Statement Manipulation], University of Gdańsk, Gdańsk 2019.

The literature distinguishes two variants of the Beneish Model, differing in the scope of indices employed: the 5-variable M-score and the 8-variable M-score (Lesiak, 2024, p. 3). For the purposes of this paper, the variant comprising eight indices was subjected to detailed analysis. The characteristics of the applied indices are presented in the table below.

Formulae of the Indices Comprising the 8-Index Model

Name	Formula	Justification
DSRI – Days Receivable Index	$\frac{\text{Receivables}_t / \text{Revenue}_t}{\text{Receivables}_{t-1} / \text{Revenue}_{t-1}}$	Potential for revenue overstatement
GMI – Gross Margin Index	$\frac{(\text{Revenue}_{t-1} - \text{COGS}_{t-1}) / \text{Revenue}_{t-1}}{(\text{Revenue}_t - \text{COGS}_t) / \text{Revenue}_t}$	Negative signal regarding future prospects
AQI – Asset Quality Index	$\frac{[1 - (\text{CA}_t + \text{PPE}_t - \text{Securities}_t)] / \text{Total assets}_t}{[1 - (\text{CA}_{t-1} + \text{PPE}_{t-1} + \text{Securities}_{t-1})] / \text{Total assets}_{t-1}}$	Potential for deferring costs to future periods by capitalising them on the balance sheet
SGI – Sales Growth Index	$\frac{\text{Revenue}_t}{\text{Revenue}_{t-1}}$	Pressure to sustain growth rates
DEPI – Depreciation Index	$\frac{\text{Depreciation}_{t-1} / \text{PPE}_{t-1} + \text{Depreciation}_{t-1}}{\text{Depreciation}_t / \text{PPE}_t + \text{Depreciation}_t}$	Practices aimed at inflating earnings
SGAI – SG&A Expense Index	$\frac{\text{SG\&A}_t / \text{Revenue}_t}{\text{SG\&A}_{t-1} / \text{Revenue}_{t-1}}$	Loss of control over administrative costs or excessive sales support activity
TATA – Total Accruals to Total Assets	$\frac{\text{WDK}_t - \text{PON}_t}{\text{Assets}_t}$	Significant discrepancies between net income and actual cash flows may suggest earnings management
LVGI – Leverage Growth Index	$\frac{(\text{Curr. Liabilities}_t + \text{LT Debt}_t) / \text{Total Assets}_t}{(\text{Curr. Liabilities}_{t-1} + \text{LT Debt}_{t-1}) / \text{Total Assets}_{t-1}}$	Presence of debt covenants that may incentivize manipulation

PPE – Property, Plant and Equipment
 COGS – Cost of Goods Sold
 CA – Current Assets
 Securities – Long-term Investments
 SG&A – Selling, General and Administrative Expenses
 Curr. Liabilities – Current Liabilities
 LT Debt – Long-term debt
 Income from Cont. Ops – Income from Continuing Operations
 CFO – Net Cash Flow from Operations

Source: Author's own elaboration based on A. Golec, Ocena skuteczności modelu Beneisha w wykrywaniu manipulacji w sprawozdaniach finansowych, University of Gdańsk, Gdańsk 2019.

The final equation used to determine the 8-variable M-score, taking into account the weights of individual indices (Anh, Linh, 2016, p. 6), is:

$$M\text{-score } 8 = -4,84 + 0,92 DSRI + 0,528 GMI + 0,404 AQI + 0,892 SGI + 0,115 DEPI \\ - 0,172 SGAI + 4,679 TATA - 0,327 LVGI$$

The interpretation of results involves comparing the obtained values against the model's threshold parameters. Inferences may be drawn in two ways: on the basis of the aggregate M-score value, or through the analysis of its individual components. In the present case, the updated M-score threshold of -1.78 was applied, whereby a value exceeding this threshold classifies an entity as a data manipulator, while a lower value classifies it as a non-manipulator (Beneish, Lee, Nichols, 2012, p. 11). The literature establishes an interpretive framework for each individual index, the threshold values of which are presented in the table below.

Threshold Values of Indicators in the Beneish Model

Index	Manipulator	Non-Manipulator
DSRI	1.412	1.030
GMI	1.159	1.017
AQI	1.228	1.031
SGI	1.581	1.133
DEPI	1.072	1.007
SGAI	1.107	1.085
TATA	0.049	0.015
LVGI	1.124	1.033

Source: Author's own elaboration based on Accuracy of the Beneish Model as Applied to Polish Enterprises Known to Manipulate Financial Reports, retrieved from: https://www.wir.ue.wroc.pl/docstore/download/@UEWRde51994cd20648608e7af8e62368406f/Wiszniowski_Accuracy_Of_The_Beneish_Model.pdf, (accessed: 22.12.2024).

Exceeding the threshold value assigned to the “non-manipulator” category signals an elevated risk of manipulation and indicates the need for closer examination. Beneish’s research suggests that mean values above 1.08 warrant further scrutiny, although this principle is not universal and does not apply to all indices – for SGI the threshold is 1.133, and for TATA it is 0.015 (Dalecka, 2015, p. 6).

The procedural steps for fraud detection using the M-score method are as follows:

1. Obtain input data and verify their completeness and comparability.
2. Calculate the indices using Excel spreadsheet functions in accordance with the formulae presented herein.
3. Conduct both aggregate and individual comparisons.
4. Draw conclusions.
5. Determine whether additional audit procedures are warranted.

The effectiveness of the Beneish Model is contingent upon ensuring the comparability of historical data. The resulting M-score should be treated exclusively as an indicator of the probability of manipulation, rather than as conclusive evidence of its presence or absence.

4.2 When the Numbers Don’t Add Up – The M-score Model in Practice

Entity Z is a joint-stock company operating in the small electronics sector, conducting both manufacturing activities (75 per cent of revenue) and trading activities (25 per cent). Financial reporting is conducted in accordance with Polish regulations, with no changes in accounting policy. The financial statements for the years 2022–2023 were subject to a mandatory audit. The audit for 2022 was concluded with an unmodified opinion.

In the audit plan, the Key Audit Partner (KAP) assessed the risk of material misstatement in the revenue area as high, established performance materiality at PLN 195,000, and planned the execution of the 8-variable M-score analysis. In the course of implementing the audit plan, financial data for the years 2022–2023 were obtained and subjected to verification of completeness and accuracy, including the reconciliation of comparative data, account mapping, and preliminary inspection of records. No material irregularities were identified, which enabled the M-score analysis to be performed. The KAP calculated the eight indices required to determine the M-score parameter using Excel spreadsheet functions. The results of the calculations are presented in the table below.

Results of Calculations of the M-score 8 Components

Index	Calculation Result
DSRI	1.365
GMI	0.866
AQI	1.001
SGI	1.191
DEPI	0.963
SGAI	1.028
TATA	-0.022
LVGI	0.951

Source: Author's own elaboration.

The KAP verified the above results against the threshold values of the indices in accordance with the relevant literature. The thresholds for classifying a marker as a “manipulator” were established as follows:

- for DSRI, GMI, AQI, DEPI, SGAI, LVGI – 1.08,
- for SGI – 1.133,
- for TATA – 0.015.

Exceeding these values results in classification as a manipulator. The comparison of results against threshold values is presented in the table below.

Comparison of Beneish Marker Calculation Results Against Threshold Values

Index	Calculation Result	Manipulator/ Non-Manipulator
DSRI	1.365	Manipulator
GMI	0.866	Non-Manipulator
AQI	1.001	Non-Manipulator
SGI	1.191	Manipulator
DEPI	0.963	Non-Manipulator
SGAI	1.028	Non-Manipulator
TATA	-0.022	Non-Manipulator
LVGI	0.951	Non-Manipulator

Source: Author's own elaboration.

In the subsequent step, the primary parameter was calculated on the basis of the eight component indices.

$$M - \text{score}_8 = -4,84 + 0,92 * 1,365 + 0,528 * 0,866 + 0,404 * 1,001 + 0,892 * 1,191 + 0,115 * 0,963 - 0,172 * 1,028 + 4,679 * (-0,022) - 0,327 * 0,951 = -2,14$$

The KAP obtained an M-score 8 value of -2.14, which, in accordance with the adopted thresholds, indicates the absence of manipulation. Guided by professional scepticism, the KAP selected markers DSRI and SGI for further verification, as their values deviated from the reference levels. Since the financial statements for 2022 had been audited with an unmodified opinion, detailed analysis was limited to the 2023 data, with particular attention to the fact that both indices are based primarily on the relationship between revenue and receivables. The KAP performed detailed substantive tests in the aforementioned areas, including the obtaining of external confirmations in accordance with KSB 505. As a result, irregularities were identified in sales invoices, and the total value of the fraud in this area amounted to approximately PLN 415,000.

5. Challenges Facing Statutory Auditors

National Auditing Standards impose on the statutory auditor an obligation of ongoing alertness regarding fraud risk at all stages of the audit. This does not, however, imply the a priori attribution of dishonest intent to the audited entity. The key challenge remains maintaining the balance between professional scepticism and the role of the audit as an instrument supporting reliable financial reporting.

Progressive digitalisation, whilst bringing numerous benefits in terms of operational efficiency and service accessibility, simultaneously gives rise to new threats.

Concurrently, the risk of financial fraud also increases, with its scale and complexity growing in parallel with the development of modern technological solutions (Gratkowska, 2024). This necessitates the continuous development of statutory auditors' competencies and the advancement of modern analytical tools.

A significant barrier in this area remains the cost of implementing AI-based solutions. The largest audit firms already employ advanced tools (Gajdziński, 2024), whereas smaller entities – which employ the majority of statutory auditors in Poland (PANA, 2024, p. 32) – frequently lack the requisite financial resources. In this context, collaboration and integration between the PIBR and PANA professional bodies acquires particular significance, enabling economies of scale and broader access to modern technologies. Broad enquiries should be directed to external providers of highly specialised machine learning and AI services, with the resulting costs subsequently apportioned among participating statutory auditors. Access to advanced technology-based tools will render the audit market more secure. The financial sector in Poland ranks among the industries with the greatest potential to benefit from the implementation of AI-based solutions (PSI, Warsaw, 2020) – the time to seize this opportunity has come.

According to the fraud report, in the Eastern European region only 6 per cent of frauds are identified by external auditors (ACFE, 2024, p. 84). This figure gives little cause for optimism; a failure to develop technological competencies and the abandonment of efforts to advance new fraud detection tools may lead to a further diminution of audit effectiveness in protecting stakeholders.

Conclusion

The statutory auditor must demonstrate not only substantive competencies but also astuteness and the capacity to conduct a detailed analysis of the signs of fraud risk. For this reason, professional judgment and scepticism should be subject to continuous development – not merely within the framework of mandatory continuing professional education, but equally as a reflection of the profession’s high ambitions and aspirations. The rich history of the statutory audit profession attests to its enduring and timeless character. Dynamic economic changes keep this profession in a state of continuous evolution. Artificial intelligence and machine learning represent merely illustrative examples of the opportunities and threats they present.

The examples presented in this paper demonstrate that analytical methods constitute an effective instrument for responding to fraud risk. Their application not only enhances the quality of financial statement audits but also enables more efficient working practices, allowing for the verification of large datasets within a relatively short timeframe.

The research findings confirm the hypothesis advanced in this paper: that the statutory auditor plays a pivotal role in protecting enterprises and their stakeholders, and that analytical procedures effectively support fraud detection, significantly reducing the likelihood of fraud materialising.

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Perception of the statutory auditor's role in society

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Abstract of the master's thesis awarded second place in the PANA Competition for the best master's thesis in the field of audit. The thesis, entitled "Perception of the statutory auditor's role in society" was written under the supervision of Associate Professor Bartłomiej Nita, PhD, DsC and defended at the Wrocław University of Economics and Business.

Introduction

The profession of the statutory auditor belongs to the group of professions of public trust and plays an important role in an economic system that is based on the reliability of financial information. This means that the work of statutory auditors is vital to the functioning of the economy. In the realities of the modern market economy, characterised by high dynamics of change and the complexity of economic processes, financial information forms the decision-making basis for many stakeholder groups. Investors, lenders, public authorities, business partners and employees base their decisions on the data contained in financial statements, expecting them to be fair, comparable and factually correct. In this context, the role of the statutory auditor as an independent professional whose task is to give an opinion on the fairness of the financial statements becomes particularly important.

The role of the statutory auditor is to independently review the financial statements of business entities and to confirm that they give a true and fair view of the assets, financial position and results of operations. Financial audit is not just about checking the correctness of accounting records, but covers a much broader range of activities, such as risk analysis, assessment of the applied accounting principles or verification of the functioning of the internal control system. Despite the vital importance of the profession, public knowledge of the statutory auditor's responsibilities and the nature of auditing remains limited. The profession is often confused with the work of an accountant or inspector, which affects the way it is perceived and insufficiently recognised in society.

Purpose and methodology

The purpose of this MA thesis was to investigate how the role of the statutory auditor is perceived in society and to identify differences in opinions and judgements between audit professionals and persons from outside the profession. The author conducted a survey in two groups: statutory auditor candidates and non-professionals. The study focused on the perception of the statutory auditor's role in society, with particular reference to the level of knowledge about the profession, its image, prestige and public trust, as well as the significance of increasing digitalisation. In the case of statutory auditor candidates, the questions also focused on their motivation for take up the profession.

The theoretical part of the thesis is devoted to a discussion of the nature of financial auditing and the statutory auditor's place in the economy. In this thesis, the author has presented the definition and scope of the statutory auditor's responsibilities, the history and development of the profession, its importance in ensuring the safety of business transactions, and the legal regulations regarding the profession. Financial audit has been framed as a process aiming to enhance the reliability of financial information, requiring the statutory auditor to have professional judgement, expertise and professional experience. In the process of auditing financial statements, it is important to identify areas of specific risks, plan audit procedures properly and be able to interpret the evidence obtained. The theoretical part also describes the scope of auditing financial statements and the role of the statutory auditor in providing an independent opinion on their fairness and compliance with applicable accounting principles.

In the theoretical part, the author also discussed the history of the formation of the statutory auditor profession and the development of financial auditing as a response to the needs of the market economy. The author pointed out that the emergence of auditing was linked to the separation of ownership and management functions in companies and the need to protect the interests of the owners of capital, and that the development of capital companies and financial markets entailed an increased need for an independent assessment of the financial position of companies. The author presented the development of the profession across Europe and the United States, as well as the process of shaping financial auditing in Poland. The author specifically addressed the issues of professional ethics and statutory auditor independence – a prerequisite for a proper audit. The author discussed the basic principles of professional ethics, such values as integrity, objectivity, importance of professional competence, due diligence and professional confidentiality. Attention was also brought to the legal and disciplinary liability of statutory auditors and the consequences of a non-reliable audit that can affect not only individual entities but also influence the financial market as a whole.

The theoretical part includes also an analysis of the impact of digitalisation on the profession of the statutory auditor – the development of information technologies, the automation of accounting processes and the use of advanced analytical tools are changing the way financial audits are carried out, increasing the efficiency of audit procedures and reducing routine activities. Digitisation requires statutory auditors to continuously improve their competencies and adapt to new working conditions.

The empirical part of the thesis was devoted to analysing the perception of the statutory auditor's role in society based on the results of a survey. The survey was comparative in nature and was conducted in two groups: statutory auditor candidates and non-professionals. The aim of the survey was to identify differences in how the two groups perceive the profession and to analyse selected aspects of those perceptions, such as the level of knowledge about the profession, its image, prestige, public trust and the significance of technological change. The hypotheses adopted by the author assumed that persons from outside the profession had limited knowledge of the role of the statutory auditor whereas statutory auditor candidates perceived the profession to be more prestigious and demanding. The author also anticipated that statutory auditor candidates had more trust in the profession and that they see digitalisation as an opportunity, while the public was concerned about threats to the independence of the profession. These assumptions were aimed at verifying differences in how the profession is perceived and to draw conclusions about activities needed to educate about and promote the profession.

Sampling

The selection of the sample made it possible to identify differences in how the profession is perceived in terms of, among others, the level of knowledge, education and professional experience. In analysing the results, the author paid special attention to comparing the distribution of responses in the two groups of respondents, which made it possible to capture both similarities and clear differences in how individual aspects of the statutory auditor profession are assessed. A total of 110 respondents (55 statutory auditor candidates and 55 non-professionals) took part in the survey.

The respondents varied in terms of sex, age, level of education, place of residence and occupational status. The statutory auditor candidates were predominantly aged between approximately 18 and 34 years with a university degree (it often happens that young people who are just beginning their professional careers enter the path of becoming a statutory auditor; they must have university education). The group of respondents from outside the financial audit profession was more diverse in terms of age, level of education level and professional experience. The respondents represented different age groups and different levels of education,

which was reflected in the varied responses given in the subsequent part of the survey. The greater diversity of this group made it possible to capture a broader societal perspective on the perception of the statutory auditor profession. Despite the aforementioned differences between the groups, the sampling provided for meeting the assumptions regarding their diversity and comparability.

Conclusions

One of the key areas of the survey was the public's level of knowledge regarding the statutory auditor profession (for those not involved in the profession) and the motivations to take up the profession by the statutory auditor candidates. The results of the survey showed differences between the respondent groups. In the group of respondents from outside the profession, knowledge of the statutory auditor profession was limited and responses often indicated an incomplete or fragmentary understanding of the statutory auditor's role. Only around 33 per cent of non-professional respondents were able to correctly identify the statutory auditor's core function, i.e. auditing financial statements, with the majority rating their knowledge as average or non-existent. When asked about their motivations, the statutory auditor candidates most often mentioned the prestige of the profession, the prospect of high salaries and job stability as the main factors behind their decision to take up this career path. The majority of the candidates also rated career opportunities in the profession as either very good or good, with the auditing profession not being the first career choice for a significant portion of the respondents. Despite differences in the perception of the statutory auditor profession in the survey groups, and differences in the level of knowledge of the the profession, the two groups shared the source of their knowledge about the profession. Both groups draw their knowledge mainly from school and from friends. In addition, the statutory auditor candidates mentioned also internships and placements in audit firms, whereas the non-professionals pointed to media and work.

Another issue analysed was the image and prestige of the statutory auditor profession. The results of the survey showed that the statutory auditor candidates perceived the profession as highly prestigious, requiring expertise and responsibility and having an impact on enhancing corporate transparency. In this group, the statutory auditor profession was associated with integrity and professionalism. Opinions were more varied among the respondents from outside the industry. Some respondents rated the prestige of the profession as high, but a significant portion found it difficult to make a clear assessment, which may be due to limited knowledge of the actual scope of the auditor's work. The survey showed that the statutory auditor candidates held a higher view of not only the prestige of the profession, but also of its place in the hierarchy of other professions, income potential and social importance. The statutory auditor candidates also demonstrated broader knowledge of the consequences of an unreliable audit. They are able to point to specific companies that have experienced such situations and

can provide details of their cases. In contrast, non-professionals limited themselves to general effects without describing specific cases. The differences between the responses provided by the two groups are evident both in terms of their quantity (the statutory auditor candidates were more likely to answer open-ended questions) and the detail of the information provided.

Public trust in statutory auditors was also examined. Most of the statutory auditor candidates declared a high level of trust in audit results and in the integrity of the auditors' work. In the group of persons from outside financial auditing, respondents were more likely to indicate moderate levels of trust or provided mixed opinions, which may be related to the limited knowledge of the scope of the statutory auditor's work declared by this group in other parts of the survey. The statutory auditor candidates were more likely to select "definitely yes" and "rather yes", whereas those not in the profession were more likely to provide neutral or undecided responses. Comparing the answers given by the surveyed groups, one can see that the statutory auditor candidates had a more positive view of the independence, reliability and impact of the auditor's work on the financial integrity of audited entities than those not associated with the profession. The differences indicated may be due to the candidates' deeper understanding of the profession with a more detailed knowledge of its role in society and the responsibility associated with it.

Another area of analysis included the impact of increasing digitalisation on the perception of the statutory auditor profession. The survey revealed differences in how digitalisation of auditing is perceived by non-professionals and statutory auditor candidates. Respondents from outside the industry expressed concerns about automation and the potential reduction of the human role in the process of auditing financial statements. The candidates were far more optimistic about the impact of digitalisation on statutory auditors' effectiveness, pointing out that digital tools can support the audit process and facilitate certain audit activities. The differences in responses may be due to the different level of the respondents' knowledge regarding the area concerned. The persons from outside the profession were more likely to declare low or moderate knowledge of the technologies used in auditing and referred to digitalisation in general terms. On the other hand, the statutory auditor candidates referred to specific digital tools and demonstrated more detailed knowledge of their applications in the auditor's work, indicating how a specific tool could facilitate the auditor's work. These results suggest that perceptions of digitalisation in the statutory auditor's work are closely linked to the level of knowledge of the profession.

Summary

The results confirmed the research hypotheses, showing significant differences in the level of knowledge, trust and assessment of the prestige of the statutory auditor profession between the survey groups. The results point to the need to increase the public knowledge of the profession, e.g. through educational activities addressed

to a wide audience, such as seminars, workshops and information campaigns that highlight the statutory auditor's role in the economy, the professional responsibility and the positive impact on the transparency and financial integrity of companies. It is also worth highlighting the use of the media, including the internet, to spread awareness of the statutory auditor's everyday work.

The impact of creative accounting on the reliability of financial statements in the context of audit opinions by statutory auditors

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Abstract of the master's thesis that won third place in the PANA Competition for the best master's thesis in the field of audit. The thesis, entitled "The impact of creative accounting on the reliability of financial statements in the context of audit opinions issued by statutory auditors", was prepared under the supervision of Dr Joanna Hartenberger-Liszek and defended at the University of Gdańsk.

Introduction

While financial information is the basis for assessing the situation of companies, the use of creative accounting practices leads to deliberate modelling of this assessment which, on top of that, takes place the limits of regulatory discretion. External audit remains a key mechanism for checking the fairness of financial statements, even though it does not always reveal advanced forms of manipulation. In this thesis, the author analysed the relationship between these phenomena and its relevance to the quality of financial information and risk assessment, and pointed out possible directions for improving the practice and theory of financial auditing.

Purpose and scope of the research

The purpose of this thesis was to investigate the impact of creative accounting on the reliability of financial statements. The author specifically addressed the role and responsibility of the statutory auditor in identifying and mitigating the risk of misstatement of corporate financial data. The thesis examined the extent to which deliberate manipulation undermines the fairness of published reports and the effectiveness of audit mechanisms in detecting and correcting such misstatements. The following three research hypotheses were formulated in the thesis:

1. The use of creative accounting techniques significantly distorts the picture of a company's financial position, which limits the transparency and usefulness of the data presented in financial reports.

2. There is a correlation between the use of creative accounting and the content of the statutory auditor's opinion, which points to the role of the audit as an instrument to reveal or neutralise the effects of such practices.
3. The scale and nature of the impact of creative accounting on the reliability of financial statements may vary depending on the sector in which the company operates.

The research also included an analysis of such internal factors as the effectiveness of internal controls and the corporate governance structure, whose inadequacies often accompany a decline in the quality of financial reporting.

Research methodology

This MA thesis consists of a theoretical and empirical parts. The theoretical part covers the first three chapters and is based on a deductive approach (from a general description of how a company operates to matters related to the quality of financial information). The starting point in this part of the thesis is to look at a company as a participant in economic life whose everyday decisions and actions are reflected in financial data, i.e. economic events. The theoretical part addresses the role of accounting as a tool that organises the said data and transforms it into financial statements, and the role of external auditing, which verifies the reliability of the information presented and allows the audience to assess its quality.

In the empirical part of the thesis, i.e. Chapter 4, the author used the so-called mixed approach. As part of the quantitative analysis, the author calculated selected financial indicators of the companies under investigation (e.g. profitability, liquidity and debt ratios) and tracked changes in their listed share prices, which gave grounds to assess how the market responded to successive events and information. The qualitative analysis included case studies of GetBack and PBG which were based on diverse sources such as financial statements, interim reports, statutory auditors' opinions and reports, official corporate communications, regulatory documents and media studies. The selection of cases was deliberate and was carried out according to the adopted methodological criteria.

GetBack S.A. represented the financial sector and specialised in debt trading, while PBG S.A. operates as a large construction group. Both entities were included in the thesis because of the scale and sophistication of the identified creative accounting practices, their significant consequences for stakeholders and the fact that their actions met with a response from regulatory authorities and attracted public interest. These cases are vivid examples of the impact of aggressive accounting operations on a company's financial picture and thus provide adequate material for

comparative analysis within this thesis. The author adapted the temporal scope of the analysis to the specifics of each company. In the case of PBG S.A., the author included the years 2011-2023, which enabled capturing both the period preceding the bankruptcy and the subsequent stages of restructuring activities. For GetBack S.A., on the other hand, the author carried out a detailed analysis of the years 2016-2018, which was the key period for the development of the financial affair, and also extended the investigation to include selected events concerning the continuation of its business under the name Capitea S.A. (2019-2023). In addition, the author used available public data up to 2025 to set the observed phenomena in a broader context and to assess their long-term consequences.

Results of the analysis

The results of the analysis showed that the use of creative accounting led to significant distortions in the presentation of the financial position of the companies under investigation. The disclosed discrepancies between the reported figures and the adjusted values concerned primarily the profitability and debt ratios which, after taking into account the adjustments, deviated from the originally reported results. The observed deviations confirmed that manipulations within the permitted regulatory limits significantly reduced the transparency of the statements and made it difficult for audiences to accurately assess the true condition of the entity. For example, key measures of profitability and debt levels changed significantly when the financial statements were “cleaned” of the effects of these creative operations, confirming hypothesis one regarding the negative impact of such practices on the transparency of data presented in financial reports.

Analysis of the audit documentation also revealed a clear link between the use of creative accounting and the position taken by the statutory auditors in their opinions. The author identified also significant limitations of external audit as a tool for effective disclosure and neutralisation of the effects of reporting manipulations. It can be concluded that there is a relationship between the scale of creative accounting techniques used and the content of the statutory auditors’ opinions, which supports hypothesis two.

Initially, financial statements containing irregularities were assessed by the auditors through formulation of an opinion with explanations, while in cases of significant doubts as to the reliability of the data, a decision was taken not to issue an opinion. However, this type of action only occurred at an advanced stage of the reporting problems when the extent of the distortion was already significant and could affect stakeholder decisions. Thus, external audit had a signalling function post factum, without being an effective mechanism to prevent manipulative accounting practices beforehand.

GetBack's 2016 financial statements received an unqualified opinion, which, as subsequent findings showed, did not reflect the entity's true financial position. In 2017, the auditor declined to issue an opinion due to persistent irregularities in the valuation of debt portfolios and revenue recognition. The report contained detailed comments indicating significant concerns regarding the reliability of the financial data. In 2018, the auditor declined to issue the opinion again, confirming the continuing problems with the correct presentation of the results and balance sheet. A clear change in the auditor's position only occurred in response to the deepening reporting distortions.

In the case of this company, the use of creative accounting was incremental, as reflected in the auditors' progressively tougher stance. At first, opinions with explanations were formulated, but as the financial difficulties deepened and more irregularities came to light, the auditors' responses became stronger. Each time between 2018 and 2023, the auditor declined to issue an opinion on the grounds that there were significant doubts about the reliability of the reported data and that sufficient audit evidence could not be obtained. Such a position was based on the magnitude of the irregularities found and was a clear signal that the information contained in the statements could not be considered reliable.

Conclusions

As the investigation shows, external audit has an important corrective and signalling function (as by formulating reservations or refusing to issue an opinion it alerts stakeholders to the unreliability of the financial statements), but its effectiveness is limited by a number of factors. These include information asymmetry between the management and the auditor (the auditor always relies on information provided by the audited company and may not have access to the full picture), business entanglements (client-auditor relations that may create conflicts of interest or pressure to soften the judgement) and insufficient professional scepticism on the part of statutory auditors.

One of the interesting insights from the comparison between GetBack and PBG is that the respective industries in which the companies operated did not differentiate the methods and effects of creative accounting. Despite the different sectors and business models of the two companies, the manipulative techniques used and their impact on the credibility of the financial statements showed striking similarities. This means that hypothesis three has not been confirmed and the results show that the phenomenon is rather of universal nature. In the debt collection company as well as the construction company, creative accounting approaches resulted in, among other things, the overestimation of assets, concealment of some liabilities

and premature recognition of revenues, which ultimately led to a similar reduction in the transparency of the financial statements.

The investigation confirmed that creative accounting is a systemic phenomenon that threatens the transparency and integrity of financial reporting. In an environment where sophisticated manipulation techniques are used, even experienced auditors find it difficult to detect and stop such actions quickly. In both cases analysed, the audit institution only acted *ex post*. In other words, the auditors' warnings came after the fact, when there had already been a serious erosion of confidence in the data presented in the financial statements. This means that institutional capacities of audit are limited and need to be strengthened.

In summary, the limitations of financial auditing require two parallel actions, i.e. strengthening the audit standards and strengthening the enforcement of oversight. Strengthening the audit standards should enhance the ability to identify misstatements in areas that are key to building a picture of a company's condition, namely assets, incomes and liabilities. Strengthening the oversight should, in turn, increase the effectiveness of enforcement so that the standards do not remain a mere postulate, but a real requirement of practice. The common denominator of the recommendations is a shift in emphasis from a final response to a response taken as early as possible. If the erosion of transparency is a process, then the systemic response must also be process-based, i.e. be more accurate, more consistent and more effectively enforceable. The informational effects of creative accounting can thus be mitigated before the distorted picture is perpetuated in public circulation.



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