SAFETY ENGINEERING OF ANTHROPOGENIC OBJECTS

THE ROLE OF FINANCIAL AUDIT IN ASSESSING COMPANY'S DEVELOPMENT ABILITY AND INCREASING INVESTORS' PROTECTION

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Abstract

The development of global economic dependencies contributed to the significant demand increase for financial information about companies. Only reliable and transparent financial statements are a useful source of information. To provide security and protection for the stakeholders, financial statements must be audited. In Poland the current thresholds obliging companies to audit financial statements are relatively high. Therefore, the vast majority of enterprises do not audit their financial statements. If financial audit is of such a high rank, why does the vast majority of small and medium enterprises do not audit their financial statements? This article attempts to answer that question and prove that the audit norms, lack of knowledge of the report's substance, and consequently - lack of conviction about its usefulness in making accurate and effective decisions in the company, is resulting in marginal interest among entrepreneurs to use the auditors' services.

Key words: financial audit, financial statement, audit report, letter to the board, the security of commerce

INTRODUCTION

The development of global economic dependencies contributed to the significant increase of the demand for economic and financial information about companies. Financial statements are the source of basic information in this field. Experience has proven that only reliable, transparent and understandable reports are useful. Regardless of the fact in which country the economic entity conducts business activity, its financial statement has to be clear to everybody. Presentation method of particular positions, indicated directions of allocation of economic resources or management effects shall enable concerned parties to evaluate entity's financial situation. Credibility of presented data depends on the essential qualitative features of the statement and use of the appropriate accounting standards. In order to meet these requirements, obligatory analysis and evaluation of economic entities' financial statements by auditors were introduced. In accordance with art. 83 of the Act on Statutory Auditors (25) the purpose of auditing financial statements is to express by the auditor a written opinion on whether the financial statements reliably and clearly present the property and financial situation as well whether the financial result of the audited entity is in accordance with the applicable regulations of the Accounting Act (AA) (24) and the adopted rules (policy) of accounting. Therefore, the auditor in his audit report has to verify if the statement as a whole and accounting books as a basis for its preparation are not distorting information which is essential and crucial for the reader, i.e. if they are compliant with the accepted accounting policy, complete, clear and without any infringements. Whereas with regard to the International Standard on Auditing 200 (26), the objective of this study is to increase the degree of confidence for intended group of financial statements users, but also an action to enhance credibility for both: financial as well as non-financial information. The reliability of the information contained in the annual financial statements is crucial for the accurate and effective decisions taken by the current and potential shareholders, creditors, trade creditors, etc.

Since financial audit has such a high rank, than why the vast majority of the SMEs sector is not voluntary subjecting their financial statements to it? Perhaps it also relates to the fact that the norms of categorization for audit are not as strict as in most of the member states of the European Union. Lack of knowledge concerning substantial content, especially of the audit report, and as a consequence – considering it as useless in terms of company management – results in the fact that not many entrepreneurs are interested in services rendered by auditors within this area. Companies also do not value information provided by auditors in letters sent to the board. Meanwhile, such recommendations can be a good source of information not only concerning current company's situation but can also serve as a solid foundation for developing future added value.

FINANCIAL STATEMENTS AS THE BASIC FOR THE PREPARATION OF AN AUDIT REPORT BY A STATUATORY AUDITOR

Financial statements are the essential source of data for evaluating company's financial situation. They constantly grow in significance especially for the investors and creditors conducting businesses on the international market. Financial statements enable for initial verification of the company's liquidity and debt. Also the efficiency in using assets, profitability and future condition of the company can be evaluated. In this case, a knowledge concerning financial analysis is useful which is often considered as the integral part of the accountancy used in order to interpret data provided in accountancy (8). It should be highlighted that accountancy is not a precise discipline. In many cases there is a possibility of various interpretations of particular instances. Therefore, specific rules are observed which should be respected. The most important is a concept of company's true and fair view for an accurate reflection of company's economic condition (assets, capitals, financial result) (2) in its financial reporting. Auditor's task is to acknowledge such a state of affairs.

The following elements constitute a complete financial statement, both consolidated and individual, made in accordance with International Financial Reporting Standards (IFRS): financial report (balance sheet), profit and loss statement, cash flow statement, statement concerning changes in capital equity and additional information. According to the Accounting Act financial statement consists of a balance sheet, profit and loss statement, additional information including introduction to the financial statement and supplementary information and explanations [(24).] Financial statement of the entities defined in article 65 of the AA which, by virtue of law, is subject to annual evaluation, additionally includes a list of changes in capital equity (fund) [(24)].

Balance sheet is the company's basic financial statement defining, in qualitative approach, a state of assets and financing sources for a particular day. In a synthetic form it reflects the results of economic decisions and events which have occurred from the day of its preparation. It reflects company's financial situation (13). Its level of liquidity can be established easily due to the logical order of balance sheet positions indicating the method of engagement of assets depending on functions served in company's business activity. At the same time, classification of financing sources enables to define a scale of financial risk associated with company's business and efficiency of using foreign and own capitals (3). Profit and loss statement serves as a supplement for the balance sheet. It is a second most important financial document of the company. As the name suggests, it indicates a financial result – the most significant measure of results for an entity conducting business activity. Financial result of the entity is reflected by the efficiency of activities within various functioning areas of the entity. The higher financial result achieved by the entity, the higher profitability of its business, what in consequence leads to an increased value of the business entity. However, financial information included in the balance sheet and profit and loss statement are insufficient for the evaluation of company's position and they have to be supplemented with information resulting from a cash flow statement. Cash flow statement reflects earnings and expenditures of financial means during company's business activity period (9). "The youngest" financial statement required by the Polish balance law is the statement of changes in equity. It was introduced by the Accountancy Act in 2002 following International Accounting Standards (ISA) (14). Additional information is a mandatory element of the financial statement of all business unit. According to IFRS 1 and the Accounting Act, additional information shall include significant data and explanations necessary for the financial statement to be accurate and to clearly reflect the material and financial situation of the entity and its financial result.

Apart from the elements listed in the financial statement, many units also present results of the financial analysis including description and explanation of main indicators of the financial results achieved by the entity, its financial situation and the most important areas of uncertainty related to the entity.

Regulations concerning an appropriate presentation of financial statements drawn up by business entities are subject to constant changes which have to fulfil its users' demand in the form of reliability of obtained information (12). In order to increase the comparability of financial statements on a level of the European Union and reinforce public confidence in financial statements, a new Directive of The European Parliament and Council 2014/56/EU of 16 April 2014 on statutory audits of annual accounts and consolidated accounts was introduced. In order for the Polish legislation concerning accountancy and evaluation of financial statements to meet European Union's requirements, the Polish Accountancy Act was amended and the act on independent auditors and their authorities, audit companies and public supervision was changed. The main goal of audit reformation is reinforcement of independence and objectivity of auditors and entities entitled to evaluate financial statements, improvement of statutory evaluations and enhancement of public supervision over the auditors. Changes of obligations concerning evaluation reports were a priority for authorities defining regulations concerning audit reformation. Both regulations of the EU ordinance implemented in Poland and new, amended International Evaluation Standards (EIS) gave the evaluation report a new form [(16)].

The EU regulation introduced a prerequisite for entity of the largest public interest, consisting in disclosure of the minimum amount of significant information concerning environmental, employment and social issues and disclosure of, e.g. description of a policy conducted within a particular scope, its results and risk management in non-financial issues in entity's activity report. New regulations are to provide greater transparency, higher significance and integrity of reports including reports concerning non-financial information. Areas raising doubts and controversies have to be made more precise. Processes of globalization and regional integration, increasing levels of business risk and as a result growing competition, as well as the development of capital markets, are the main factors considerably influencing demand for information (both financial and non-financial data) of readers of financial statements. So let us analyse entities which audit their financial statements.

ENTITIES OBLIGED TO AUDIT THE ANNUAL FINANCIAL STATEMENT

Evaluation of a financial statement by the auditor shall meet various significant goals such as increase the confidence in data presented by the companies and enhance comparability of data between particular companies. However, not all statements are subject to mandatory evaluation and therefore, not all companies are obliged to work with an auditor. The Polish Accounting Act defines entities which must have their annual financial statements evaluated by the auditor. Pursuant to art. 64 of the act, the following elements are subject to evaluation [(24)]:

1) annual consolidated financial statements of the capital groups,
2) annual financial statements of the following entities which continue their business:
   a) banks, insurance and reinsurance companies;
   b) entities acting according to the regulations concerning securities trading and investment funds i.e. all entities whose securities were released for trading on public markets and investment funds;
   c) entities acting in accordance with regulations concerning organization and functioning of pension funds;
   d) joint stock companies excluding companies included in the organization on balance sheet date;
   e) other entities which in the previous financial year for which the financial statements were drawn up, met at least two from the following conditions:

– average annual employment with respect to full-time employments equalled a minimum of 50 persons,
– sum of balance sheet assets on the end of a financial year was equal to at least 2 500 000 EUR in Polish currency,
– net revenues from sales of goods and products and financial operations for the financial year was equal to at least 5 000 000 EUR in Polish currency.

Moreover, statements of merging companies and new companies drawn up for the financial year in which the merger was executed and annual financial statements of entities drawn up in accordance with the International Financial Reporting Standards are obliged to have their statements evaluated. These entities, regardless of the organizational and legal form or scale of the business, must audit their statements.

Practice shows that in spite of a relatively high record of entities whose financial statements are subject to audit, the vast majority of companies on the market do not evaluate their statements. To some extent, it results from a rather high thresholds obliging companies to evaluate their financial statements. The exceptions are joint stock companies which regardless of the value of income, revenues and employment, have to assign an auditor. In partnership companies where the owners do not make use of a privilege of the limited liability, demand for evaluating statements is less noticeable due to the fact that creditors can vindicate claims by violating debtor's personal assets. Whereas, in limited liability companies, evaluation of financial statements is considered as a protection of shareholders or creditors, i.e. protection of business trading. This rule has its reflection in legal regulations of other countries of the EU. In Great Britain there is no minimum capital amount imposing the right to register the limited liability company. Currently there are over 0,5 million limited liability companies there. In comparison, in Poland (in 2016) there are 478 891 commercial partnerships including 401 392 limited liability companies, 11 588 joint-stock companies, 36 104 general partnerships, 23 187 limited partnerships and 4 424 limited joint-stock partnerships [(21).] Therefore, a limited liability company is a dominant organizational and legal form of a partnership. Limited liability is a considerable incentive for entrepreneurs who want to engage in business activity without bearing much risk. Therefore, these entities should be subject to more restrictive requirements concerning the evaluation of financial statements in order to protect creditors and other groups against company's insolvency. Net income threshold obliging companies to evaluate financial statements, e.g. in Great Britain is established on a level of approximately 1 550 000 EUR and 5 000 000 EUR in the Polish Accounting Act. The threshold established in Great Britain is much lower and therefore a small number of business entities is relieved from the obligation of evaluating their financial statements. In Denmark, Finland, Norway and Sweden where limited liability companies also constitute a high percentage of enterprises, all limited liability companies are legally obliged to evaluate their financial statements. Similar solution within this area was introduced in Germany. Obligation of evaluating financial statement depends on a size of the company, whereas large companies to which are included limited companies, must evaluate their financial statements regardless of their income and balance sheet total. The evaluation of financial statements increases their credibility and therefore, applicability for its users. Benefits for particular groups of users should be carefully balanced and costs should be proportionally higher, the smaller is the managing entity. It is encouraging that joint-stock companies, they must have their financial statements evaluated by auditors regardless of the quantitative criteria. This situation did not change even under the influence of the latest amendment of the Accounting Act of 2014 which introduced a micro-entity phrase. After fulfilment of specific quantitative criteria, joint-stock company can accept the regime of a micro-entity. In spite of the possibility of using various reporting simplifications, it cannot resign from evaluating its financial statement. In Poland, this problem applies especially to limited liability companies. In such companies, the amount of minimum share capital is gradually decreased and it does not trigger any changes towards obligatory protection of interests of creditors of these companies. Evaluation of the financial statement executed by the auditor makes data included in the statements more credible not only for the external recipients and owners but it also enriches knowledge and experience of the company's management board.

Auditor's independence, objectivity, competency and wide knowledge concerning various legal areas and experience, influence integrity of opinions expressed in the entity's financial statement. Determination of duties and rules of responsibility both in legal and internal regulations of the auditors' self-government is relevant for maintaining high quality of validation services. Therefore it can be stated that making company's financial statement more credible is included in the basic purpose of financial reporting. It is a result of a demand for the real and reliable information concerning a given entity. The statutory auditor carrying out his duties is obliged to comply with the principles set out in the code of ethics understood as "the content of rules and obligations required of representatives of a given profession, which are arranged in a logically ordered set of guidelines forming the code of conduct" (10). The International Code of Ethics for Professional Accountants (including International Standards of Independence) applicable in Poland in 2020 was introduced on the basis of a resolution of the National Council of Statutory Auditors. In addition, it is worth mentioning that the rights to practice a profession in various areas of the economy are issued by authorized bodies. For example, in Poland, "building qualifications are granted by the Chambers of Professional Self-government in certain specialties" (1), and analogously, the decision to enter in the register of statutory auditors persons who have met the requirements set out in the Act on statutory auditors and their self-government, giving them the right to practice the profession of financial auditor is taken by the National Board of Statutory Auditors.

Questionnaires conducted on entities entitled to evaluate financial statements show a considerable contribution of auditors to presenting a credible economic image of companies. They also show how the audit influences improvement of the organization and functioning of accountancy, internal survey and protection of company's assets. Undoubtedly it has a considerable influence on increasing safety of the financial turnover. Moreover, questionnaires conducted on respondents who use financial statements, have indicated a significant influence of the audit not only on a credibility of the financial statement but also that the auditor's opinion and report enable a deep analysis of the financial statement when making economic decisions (4). Content of the auditor's audit report reflect both material and financial condition, as well as the financial result of the entity with the emphasis on phenomena which, in comparison with previous reporting periods, negatively influence the situation and impede continuation of entity's business. Along with using a set of indicators which are properly balanced and replenished with other analytical tools and detailed interpretation, they provide information necessary to evaluate company's business results and its financial condition. The role of the auditor in the financial audit procedure is presented in (7).

Many companies can execute their own internal audits. However it is necessary to have the ability to properly select indicators and understand what does these indicators mean. A negative tendency should not always be treated pessimistically without proper recognition of the particular situation and making detailed analysis. The appropriate interpretation of the achieved results is possible only due to wide knowledge and experience in handling financial information. Evaluation of financial statements by auditors is becoming the most important element of the modern system of control and supervision over accountancy, and the judgment of an independent auditor has a social and opinion-forming character increasing a credibility of the financial data.

The assessment of the current state of financial audit in Poland, specifying the challenges and barriers to its development presents (6).

AUDIT REPORT

Data included in the audit report comes from the evaluation evidence collected by the auditor during the evaluation. Pursuant to provisions of art. 83 section 1 of Act on statutory auditors, the report shall include at minimum:

1. Identification data of the entity whose financial statement was evaluated;
2. Information concerning their financial statement for the previous year;
3. Data identifying the authorized entity and the key auditor executing entity's financial statement evaluation on behalf of this entity;
4. Opinions containing:
   - declaration that there were no limitations of the scope of evaluation (if such existed), whereas the manager of a company has issued all the statements, explanations and information required by the auditor or has refused to issue such documents;
   - presentation of the key, entity-specific values and absolute amounts as well as indicators characterizing its financial result, material and financial situation with the indication of these factors which have a considerably negative influence on the results and situation of the entity, and especially considerably threaten continuation of its business within the range of not significantly narrower scope;
   - evaluation, in all aspects of correctness of the used accounting system significant for the financial statement;
   - information concerning some important positions of the financial statement which, according to the auditor, require assignment. This also applies to issues being a cause for expressing opinion other than within reservations. These can be concerning information: a structure of tangible assets by item or the ownership structure, level of depreciation and changes within this range, relations of purchase prices of securities up to their higher market value and relation of signatures updating to the amount due; reserves for obligations and potential obligations due to granted warranties, securities, etc.

- information concerning a result of the evaluation of completeness and correctness of introduction to the financial statement, additional information and explanations, report from entity's business;
- information concerning significant violations of law influencing the financial statement and also entity's statute or agreement found during the evaluation;
- name, register number and signature of the key auditor.

The audit report are results of the evaluation of financial statement. When analysing their content, it is clear that the knowledge included is important for the board, managers and shareholders, investors and creditors. Commencement of cooperation with a particular entity, making decisions concerning development directions, investing in stocks of a particular company or maintaining previous capital shall be preceded by the analysis of credible financial statements and evaluation of entity's financial situation. Credibility of data included in financial statements is acknowledged by the auditor due to the evaluation process. Moreover, the informative value of provided content grows because the auditor verifies data necessary for the economic and financial analysis and interprets the obtained results. However, the audit consists not only of verification of correctness and credibility of the account books which constitute a basis for drawing up financial statements or a broad financial analysis. The audit also includes identification and analysis of business risks related to business conducted by the evaluated entity. These information is often included in the letter to the board by the auditor.

OPINION

In accordance with collected audited data, the auditor draws up a written opinion in Polish forming part of the audit report. The opinion should fairly, completely, reliably and clearly represent results of the evaluation of a financial statement. The demand of auditor's fairness in drawing opinion is necessary to sustain an objective reflection of the actual condition of a company considering all available information accessible to the auditor. During formulation of the content included in the opinion (and report), the auditor is obliged to maintain confidentiality and not to reveal entity's commercial secrets. However, the overall mark expressed in the opinion does not constitute a simple reflection of opinions concerning results of evaluations of the particular issues, but it consists of assigning various levels of importance by the auditor to particular arrangements. Such levels shall consider their influence on reliability and clarity of the whole financial statement and its accuracy, i.e. compliance with required accounting rules (policy).

Opinion concerning the evaluated financial statement can be expressed as an opinion without/with reservations or as a negative opinion. Expression of the opinion can also be refused. Expressed reservations, expressed negative opinions or opinion expression refusals have to be justified and should include an indication of a cause of such position. In each of these cases, one should indicate a range and determine in numbers, as far as it is possible, a level of influence of the questioned phenomenon on the financial statement. Regardless of a type of the expressed opinion, it must consider a possible threat to the continuation of company's business activity. It also relates to the case in which such threats were discussed by the entity in the report concerning entity's activity and entered into the financial statement.

An opinion without disclaimers is expressed by the auditor in case when the financial statement and accounting books constituting a base for its preparation meet the conditions envisaged by the law and possibly influence the financial statement and/or accounts by violations of law, statute or the agreement and not removed infringements are insignificant.
The opinion with amendments is expressed in case when the entity has a limited scope of evaluation as a result of the independent circumstances restricting the auditor to use evaluation procedures which he considers necessary, or there are other circumstances making it impossible to obtain a sufficient level of certainty concerning credibility of the important positions of the evaluated financial statement, but these restrictions apply only to particular positions and do not negatively influence the credibility of the general image transmitted via financial statements.

Whereas irregularities in a financial statement, inconsistencies in comparison with the actual state or gaps, disturb the overall financial image of the entity's situation to such an extent, that this statement may even misinform the reader, the auditor expresses an adverse opinion. The auditor can also refuse to express the opinion in case there are reasons which will make it impossible to use evaluation procedures considered by the auditor as necessary. As a result, he will not obtain sufficient and appropriate evaluation evidence. Refusing to express an opinion is not equivalent to the negative opinion. In case of a refusal, the auditor is not able to evaluate the statement – uncertainty is too high. In case of a negative opinion, the auditor disposes the sufficient and appropriate evidence permitting to declare that distortions of the financial statement are too high to consider the statement as compliant with the actual state [(18).]

The most important feature of such prepared auditor's opinion is its fairness. The auditor cannot be led by his benefits and is obliged to provide real, neutral information. He cannot undergo persuasion nor influence of the third parties. This rule is enforced with art. 57 of the Act on statutory auditors (15). A opinion. is the integral part of the audit report. Expressing a negative opinion does not release the auditor from a responsibility of drawing up the report. The auditor does not prepare the report only in a situation of opinion expressing refusal.

THE LETTER TO THE BOARD

The audit report constitute a basic set of statements formulated by the auditor as a result of the evaluation. The evaluated entity is obliged to make this report available to all the members of the board and to a body accepting financial statements, and – in case it is a legal entity – also to the tax office [(24). I]n practice, the auditor can also send a letter to the board which is a supplement for the audit report. It is a set of recommendations developed during the external control in the company. It relates to methods of organization of the entity and its processes. It is often drawn up in case of discovering a weakness in separated parts of the entity, e.g. filing system irregularities, weaknesses of the entity's internal control and also of the entity's economy as a whole. Letter to the board is confidential in most cases. By presenting a particular issue, the auditor describes the essence of the case separately along with the indication of causes and results for the evaluated entity. He also separately describes recommendations adapted to entity's conditions and possibilities and also benefits or threats related to the execution of the order. These proposals are based on good practices and are voluntary. Therefore, letters to the board are an additional value to the obligatory audit. The analysis of 100 letters to the board executed by Deloitte consultancy company after auditing the largest Polish companies shows that, for example, 70% of the companies suffer from improper evaluation of assets and liabilities and incorrect execution of the informative duties in financial reports. In 72% of the companies, expenses for purchasing intangible assets (included in tax deductible expenses) are not always documented properly (22). It is related to a risk of tax authorities questioning validity of counting unsubstantiated expenses for purchasing intangible assets as tax deductible expenses.

The analysis of letters to the boards also shows that there are problems related to settling and filing transactions based on transfer prices or settling international purchase and sale transactions. The analysis shows that in 63% of the companies documentation is not kept up to date, neither it is updated nor profitability level of transaction prior to its conclusion is analysed. Conditions used in transactions concluded by the company with related entities shall comply with market rules. Therefore, companies should prepare the appropriate documentation concerning transactions with related entities for particular financial years. It should be also supplemented by comparative analyses purposed for confirmation and verification of marketability of conditions used in settlements with related entities (23).

In summary it can be stated that the letter to the board contains a list of issues pointed out by the auditor during the evaluation, which significance does not constitute any threat for the correctness of the financial statement. The auditor describes a nature of shortcomings, which areas they apply to and gives advice on how to improve the areas within which these shortcomings were discovered. Such an improvement can increase company's efficiency. Most often, proposals concern changes within company's environment (e.g. indication of tools and mechanisms enhancing the efficient management within the organization), proper information flow, identification of risk areas, accounting policy (especially in case of frequent changes in legal regulations), proper evaluation of assets and liabilities of the company or competencies of the staff. Managers have a choice. They can initiate plans and programs immediately and implement actions proposed by the auditor as a reaction to a particular risk or can decide to accept the risk with a full awareness of its consequences.

AREAS OF RISK CONCERNING SIGNIFICANT DISTORTION

Based on collected information, the auditor gains knowledge concerning entity's business. This constitutes a foundation for risk analysis. The first party interested in these information shall be the board of the company, and then investors or creditors. Attention should be paid especially to situations related to the current functioning of the entity where such situations can cause significant risks including manipulations. These are, e.g. (27): business conducted within economically unstable areas, business exposed to market changes, business governed by rules concerning high level of complexity, threat to business continuation and liquidity, including loss of significant recipients, difficulties in access to the capital and loans, changes within the industry in which the entity conducts its business, changes of supply channels, production or offering new products or services, or transferring into new areas of economy, business development on the new areas, changes such as large mergers, reorganizations or other untypical events, making the use of the off-balance-sheet asset, entities for special purposes and other types of complex forms of financing, internal control weaknesses, especially these which are not spotted by the management team, significant untypical or occasional transactions and operations related to considerable income on the end of the period, sales of new products or services, setting up new business, conducting business within a region with unstable economic situation, business related to the unstable market, e.g. financial instruments trading, etc. Always in case of the aforementioned situations, the company needs the auditor who is identified as kind of a "company doctor" who enters into the company and does not say that the patient is ill and deserves medicine, but he indicates a cause of the illness and gives various alternative methods of treatment [(19).] Instrumental treatment of the financial audit, not utilizing its potential for marketing, not valuing the experience nor role, results in negative consequences.

The accountancy itself is the most original information system demanding high level of professionalism related to people's businesses. It has this unique ability that subsequently informs about the past and the future of the economic entity which is functioning due to human's initiative and economic skills. It is also used by the enormous group of stakeholders whose influence – in every time perspective – is significant for the future of this world. Accountant and auditor professions should be developing in order to meet the market requirements and to act in social interest (5). Apart from the fact that the auditors evaluate financial statements, they have a broad competencies and experience, what generates enormous potential in terms of consultancy. By executing various audits in companies they gain knowledge concerning functioning of these economic entities in various market conditions. They can help companies e.g. in adaptation to new regulations, evaluation of risk of threat to continuation of the business or verification of internal control functioning. They can also guarantee safety to companies within various areas of business. Auditor's engagement in identification of such phenomena has a significant meaning in relation to globalisation and growing competition. However, in order to turn such help and support into reality, both parties shall be open towards communication and shall not consider auditing as an unpleasant and expensive statutory duty. From the research presented in the literature on the subject, it appears that two thirds of companies obliged to execute the internal evaluation of the financial statements expect only a positive opinion from the auditor. Every fifth company asks for consultancy when they face problems with taxes, and every third needs consultancy concerning keeping the books [(17).]

These results are confirmed by the internal research using direct surveys. The method used, consisted of the individual conversation between a surveyor and respondent. The research tool was a list of 5 base questions, used by the researcher to structure the discussion. Interviews were conducted with 80 individuals representing the board and managers of entities not subject to mandatory audit of financial statements (62 persons represented the board of management staff of entities which are not obliged to evaluate their financial statements and

18 persons whose statements were subject to obligatory evaluation pursuant to the Accounting Act). Questions are listed in table 1:

Table 1. List of questions asked during the interview

No.	Question
1.	Is the evaluation of financial audit in your company executed only as a result of fulfilment of the statutory duty or for other reasons?
2.	What are your expectations towards the auditor?
3.	Do you know the substantial content of the audit report?
4.	Did you receive recommendations after the audit in a form of a letter to the board?
5.	According to you, what are the main reasons for not executing evaluations of the financial audits by companies which are not statutorily obliged to do so?

Source: Own elaboration.

The summary of all the obtained answers shows that the awareness of the role and potential of the auditor among entrepreneurs is unsatisfactory. They do not make use of all possibilities generated by audit report executed by the auditors. The majority of entrepreneurs treats the audit only as a fulfilment of statutory duty. From among 62 surveyed companies not obliged to evaluate their financial statements, only 19 made use of the auditor's services. In most cases, causes were: personal changes (in the board, department of finance), execution of expensive investment, contractors' requirements, including foreign, related to finalizing cooperation agreements. On the other hand, among the entities obliged to evaluate financial statements, only 4 out of 18 expected solutions improving their business, i.e. clear consultancy from the auditor. Boards of the other entities were only interested in obtaining a positive opinion. The alarming fact is that in case of entities which are not obliged to evaluate their financial statements, audit is not considered by the management board as a tool for supporting their management. Managers do not see any possibilities of using the financial audit for company development. Substantial content of the audit report was familiar to 10% of persons representing entities which are not subject to obligatory evaluation. Not many persons have even heard about letters to the board. Whereas persons representing companies obliged to evaluate their financial statements knew about the substantial content of the audit report and about letters to the board. Question that caused the most problems was: What are your expectations towards the auditor? The most common answers were: obtaining positive opinion (70%), tax optimization (20%), other (10%) solutions concerning the law (especially during regulation changes) in complex international transactions, checking whether solutions used by the companies have any features of aggressive accountancy and rarely – indication of the main risk areas. The obtained results are not satisfactory as the audit is not only a tool for supporting management but also a tool for protecting investors, contractors, creditors and employees. Answers obtained from interviews indicated that approximately 40% of the entities are willing to evaluate their financial statements but do not make such decision due to a high cost of the evaluation which exceeds possible benefits. International scandals and numerous bankruptcies clearly indicate that information presented in a form of financial statement is not always reliable and true. Often there are situations where entities themselves mislead the users. The auditor has to have a wide knowledge about the company and the economy. Basing on this knowledge he can, and should, make the independent and objective evaluation of credibility, reliability and financial condition of the entity. He should take care of transparency and clarity of the economic trade and also of a proper flow of information generated by economic entities in order to enable all users to draw appropriate conclusions and make appropriate decisions (11).

Analyzing the financial audit market in Poland, one can point to the "barriers limiting its development, which may include:

- underestimation of the importance of the role of financial audit by managers and employees of the enterprise,
- focusing on future tasks and not recognizing current threats affecting the continued operation of the entity,
- the use of faulty management procedures hindering financial audit,
- resistance and reluctance of managers to make changes,
- impact of the economic factor (audit costs) on the selection of the auditor" (6).

Summarizing the aforementioned considerations, the following conclusions arise:

1. The norms of categorization for obligatory audit of financial statements imposed by Polish legislators are rather inflated in relation to other European entities. In most countries the requirements applied for financial statements' auditing are much stricter, especially related to limited liability companies in order to protect creditors and other groups that could be affected by the insolvency of the company.
2. The vast majority of companies, which is not subjected to obligatory audit of financial statements does not apply voluntary auditing of reports due to the lack of content and substantial knowledge in the audit report. This knowledge affects the quality of management systems, business processes and efficiency of the business entity.
3. Executives' lack of conviction about the usefulness of auditing in order to meet the information needs of investors, creditors, contractors, improving internal controls, identifying risks and supporting management systems determines lack of interest of managers / owners, deciding on the necessity for auditing financial statements.
4. Companies do not appreciate the information provided by the auditors in the letters to the board. (Sometimes they are not aware of their existence especially actors from the SME sector). Meanwhile, the recommendations contained in the letters can be a source of information not only about the current situation of the company, but also provide a solid foundation to build lasting value for the future.
5. In the nowadays economic conditions, small and medium entrepreneurs rarely decide to use audit. In cases where they decide to do it, it is very limited. Main reasons that justify such situations are cost constrains, as well as the lack of habit to use this type of service. Meanwhile, in case of foreign entities engaged in transactions on the Polish market, financial audit is an inherent feature of any investment.
6. During his work, the auditor shall not only analyse processes related to accountancy and reporting, but also recommend necessary changes to the board by mutually finding and optimizing efficient solutions.

CONLUSION

Financial audit should be reliable enough both for the management and the market to serve as a base in making accurate, efficient and effective investment decisions. Business entities aware of the necessity of audit appreciate audit report and conclusions resulting from its content. Its practical informative capacity enables appropriately early detection of risks in functioning of the entities, better conditions of conducting business, reinforcement of trust within entity's environment and influence on development of company's financial policy.

The quality of the audit is also very important. The more professional, risk-oriented and ensuring the reliability of information the audit is the greater the interest in a business entity. This in turn will of course translate into increased turnover of enterprises, job creation, new investment and business opportunities, and thus the perception of Polish market as a safe and attractive place to invest.

To sum up, we should not give up on audits. Even in the smaller entities which do not fall under obligatory auditing criteria. Information from audit report or a letter to the board to are important guides for the addressees. They indicate forecasts and tendencies, opportunities and possibilities of development of goals set by the entity.

In Poland, not all entities keeping books are obliged to audit their financial statements, especially limited liability companies. Legal negligence of the duty concerning the evaluation of financial statements of small and medium limited liability companies can lead to disinformation of the external recipients and growth of dishonesty in conducting businesses. Statutory obligation of evaluating financial statements seems to be the most effective and efficient method of providing credible information for particular groups of recipients what increases safety of the economic trade. Last but not least, the norms of categorization for auditing financial statements within the firms in the European Union should be unified.

In Poland we should take initiatives related to education concerning benefits (especially for small and medium companies) from evaluating financial statements.

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[27] ISA 315 Recognition and evaluation of risk related do a significant distortion due to gaining knowledge about the entity and its environment, appendix 2.

[28] Appendix 1.1 to the Resolution no. 2783/52/2015 of The National Chamber of Statutory Auditors of 10 February 2015. National Standard on Auditing 200 in the wording of The International Standard on Auditing 200 (IAASB).