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The Role of Audit in Detecting Accounting Fraud: The Perspective of Poland

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Abstract:

Purpose: *The objective of this article is to analyze how can auditors' actions impact the reliability and credibility of financial statements. As well an analysis of the role of auditing in detecting financial frauds.*
Design/Methodology/Approach: *This article formulates the following research problem: How do auditors' actions help detect financial fraud? Have financial market regulators learned from financial scandals to which auditors contributed? Corresponding to this research problem the research hypothesis was formulated: Changing requirements relating to both the audit process and audit firms have a positive impact on the quality of financial information and may contribute to improving the protection of investors and other users of financial information. The study employs an analysis of existing scientific literature, norms, and standards related to auditing and accounting field. The analyzed sources include books and scientific articles aimed at understanding the theoretical foundations of auditing and accounting , as well as identifying best practices and challenges in this field.*
Findings: *Modern corporations are large organizations with highly complex processes. The increasing role of auditing has a positive impact on these organizations by enhancing their ability to detect fraud and abuse. However, it should be noted that creating an effective internal audit system is a complex, time-consuming, and costly process. The services of the most recognized statutory auditors are also expensive, and not all organizations are able or willing to incur these costs. Many organizations would find it difficult to implement these audit processes if they were not required by legal regulations and financial market standards.*
Practical Implications: *The study's findings can provide company management with crucial information regarding audits and the applicable audit regulations. However, to further assess the impact of auditing on finance and accounting, additional analyses and studies are necessary.*
Originality/Value: *The article presents an approach to the importance of auditing, the tools used, selected auditing techniques, and the legal regulations introduced after the 2008 crisis, with particular consideration of the Polish perspective.*

Keywords: *Accounting, auditing, accounting and auditing. government policy and regulation.*

JEL codes: *M41, M42, M48.*

Paper type: *Research Article.*

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1. Introduction

In this research paper, is discussed how internal and external auditing can help detect and mitigate financial fraud. One of the biggest threats to the safety of the business organizations is financial fraud. It may impact not only separated organization but also financial markets as a whole system.

Frauds often include the abuse of accounting concepts, transaction fabrication, and record scrutiny of accounting records. Additionally, frauds have a disastrous impact on the workers, the company's stockholders, and the economy as a whole.

Using various techniques to detecting fraud is a very important process to avoid timely financial statements irregularities and to stop potential scandals by various manipulators involved in this process (Sahiti, 2015).

Financial fraud includes, among other things: identity theft, insider trading, conducting Ponzi schemes, money laundering, bribery and corruption.

Ponzi (2021) scheme is an investment fraud that pays existing investors with funds collected from new investors. But in many Ponzi schemes, the fraudsters do not invest the money. Instead, they use it to pay those who invested earlier and may keep some for themselves (SEC.2021, Ponzi).

Since accounting is a science carried out by humans, mistakes can be made without noticing it. Unfortunately, there are also intentional actions in finance and accounting that fall within the definition of financial fraud.

Audit is a valuable instrument for stopping financial frauds and errors, combining financial accounting technics, legal and fiscal procedures. In order to reduce the risk of fraudulent activities, in business organizations were introduced internal audit systems, as well as the obligation to audit financial statements by certified auditors.

2. Literature Review

Auditing has changed over the course of time and it will constantly keep evolving. In order to understand the problem, first we need to answer the question how auditing evolved and where auditing is headed? Through research papers by various authors and research done independently author tried to figure out how changing role of auditing is helping business organizations and investors. It is also important to understand the basic concepts of financial or accounting fraud and manipulation.

The tasks of auditing and accounting is to provide information enabling assessment of the ability of companies to generate future financial surpluses and revenue for investors (Bojanczyk, 2017).

The recent decades have witnessed a surge in the large corporate scandals and accounting frauds that have detrimentally shaken both the private and public sectors. These accounting frauds have had a negative financial and reputational impact on the financial sector, particularly the organizations involved (Tutino and Merlo, 2019).

According to Gowthorpe and Amat (2005), accounting manipulations include both macro-manipulations, relating to actions at the level of economic policy and regulation, and micro-manipulations, which concern actions at the enterprise level (Gowthorpe and Amat 2005).

Voinea and Dimitriu (2014) define accounting manipulation as activities aimed at manipulating the behavior of users of financial information, including investors and lenders, by distorting financial data. Feng, Ge, Luo and Shevlin (2011) describe accounting manipulation as activities in which chief financial officers (CFOs) engage under pressure to achieve financial results and for personal gains.

In business, there are usually two broad types of fraud: those committed by employees to conceal actual theft or bribery, and those perpetrated by management, executives, and owners. Frauds committed by management entail manipulated financial statements by overstating or understating reports. Fraud committed by management, executives, and owners causes the largest average loss.

Financial statement fraud is the least common, at just 5%, but the costliest, with a median loss of $766,000. Therefore, these frauds are particularly important to society and stakeholders (ACFE 2024´Tummler and Quick, 2025).

The auditors responsibility for fraud detection is described in the standard ISA 240 — "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," issued by International Auditing and Assurance Standards Board (IAASB).

Under ISA 240, auditors are required to maintain professional skepticism; identify and assess risks of material misstatement due to fraud, both at the financial-statement level and the assertion level; evaluate the design and implementation of relevant internal controls; tailor audit procedures (nature, timing and extent) in response to assessed risks; respond to the risk of management override of controls; obtain written representations from management; communicate suspected fraud to management and those charged with governance; and document their risk assessment, procedures, and conclusions. Moreover abovementioned document was revised in year 2025 and further strengthens the auditor's responsibilities by clarifying expectations, enhancing risk response, and emphasizing transparency components for public companies.

The equivalent of this regulation in the U.S. is AS 2401, "Consideration of Fraud in a Financial Statement Audit," issued by the Public Company Accounting Oversight Board (PCAOB).

3. Selected Internal Control and New Audit Technics

Accounting and financial manipulation pose a significant threat to the integrity and reliability of financial statements. Such practices can lead to serious consequences for companies and their stakeholders, including investors, lenders, and regulators. In response to these risks, a variety of control and audit mechanisms have been implemented to detect and prevent accounting manipulation.

These mechanisms include both internal and external measures, which together form a comprehensive system of protection against financial fraud.

Control and audit mechanisms consist of tools, procedures, and practices designed to monitor and evaluate a company's financial activities. They operate at multiple levels to ensure the accuracy and reliability of financial statements, as well as compliance with applicable accounting regulations and standards. This framework encompasses both internal controls and external audits, which are essential to maintaining the integrity of financial information.

Internal controls, in particular, are a key component of a company’s risk management system. They are designed to ensure the accuracy, completeness, and reliability of financial reporting.

Internal audits are a key element of a company's risk management system, designed to ensure the accuracy, completeness, and reliability of accounting records, as well as compliance with applicable accounting regulations and standards. Internal audit procedures encompass a range of principles and activities that together create a framework for the effective monitoring and management of financial processes.

One of the fundamental internal control techniques is transaction authorization, which ensures that all transactions are approved by appropriately authorized individuals. Monitoring activities involve regular reviews of financial operations, including the analysis of deviations from standard procedures. Monitoring is crucial for the timely detection and correction of errors and potential fraud. Regular reviews help identify anomalies in financial data that may indicate irregularities or fraudulent activity.

Another important aspect is the segregation of duties, which prevents conflicts of interest and reduces the risk of fraud by separating the tasks related to the authorization, recording, and control of financial and accounting transactions. This involves ensuring that no single person has full control over all stages of key financial processes. This technique minimizes the risk of fraud and errors resulting from dishonest actions or simple mistakes.

The nature of external auditing is also evolving. In addition to traditional audit techniques and tools, new technologies such as AI are becoming increasingly popular.

In large business organizations, the volume and complexity of accounting data traditionally required sampling—for example, when examining receivables or payables. Instead of the sampling methods commonly used in audits, automation and modern AI models make it possible to analyze much larger sets of data.

Machine learning can be used to review potential fraudulent scenarios, detect fraud and errors, and perform risk analysis. Auditors may use NLP to summarize findings and prepare first drafts of reports. Optical Character Recognition (OCR), on the other hand, can assist in selecting samples for testing, performing audit confirmations, and carrying out routine audit tests and reconciliations.

One of the tasks in auditing which can be simplified from the implementation of AI is Internal Control evaluation since it consists of complex and advanced information systems. Also, with the help of artificial intelligence, the decision-making, and control evaluation process can be embedded in the data systems, creating an advanced auditing and accounting database system.

Some experts believe that AI may increase efficiency of crucial audit processes. According to Zemankova, there are benefits from the usage and application of Artificial Intelligence in risk assessment, corporations include Bankruptcy Prediction, by identifying early warning signs of financial distress, Going Concern decisions, and a review of Analytical Procedures for audit evidence (Zemankova, 2019).

Conducting audit procedures and identifying anomalies or irregularities in financial processes no longer requires hiring a large team of employees. Instead, access to appropriate data-analysis models has become essential. A smaller team of experts is still needed to verify and interpret the irregularities initially detected by the model.

Automation allows to increase both data samples and the number of processes covered by the audit. It helps to detect irregularities and distortions of data. AI can contribute to increasing the effectiveness of audit processes.

4. Evaluating the Role of the Auditor: New Regulations in the Auditing Profession

As the way businesses operate changes, the role of the auditor is also evolving. Legal regulations governing the audit profession, as well as the operations of audit firms, are changing as well.

The primary responsibility of external auditors is financial auditing. A financial audit serves to confirm the information contained in an entity's annual financial statements. The outcome of a financial audit is the creation of an audit report, along with an auditor's opinion on whether the financial statements meet all the requirements of standards, i.e., compliance with the form and content required by accounting law and other specific regulations, as well as the audited entity's statute or articles of

association; preparation based on accurate and complete documents, entered into the audited entity's accounting records, and compliance with the entity's applicable accounting policies; preparation is reliable and transparent, ensuring that the assessment of the entity's assets, financial performance, and significant information is factually accurate.

However, an audit involves not only verifying the accuracy of accounting records, but also analyzing and identifying risks related to the entity, as well as assessing the effectiveness of internal controls. The numerical data presented in the financial statements reflect the entity's financial and income situation for a given period.

The role of a statutory auditor in today's complex business and financial world is crucial to ensuring the accuracy and transparency of corporate financial reporting. In the business world, accurate financial reporting is crucial to attracting new investors. International standards and Polish law impose on statutory auditors the obligation to work in accordance with the principles of professional ethics.

Auditors conduct audits of financial statements in line with an established audit plan, exercising due diligence and adhering to professional standards while maintaining audit effectiveness. When conducting an audit, a certified auditor should be guided by the principles set out in national auditing standards, as well as by professional judgment based on knowledge, intuition, and experience.

Auditors must also comply with ethical requirements, as the auditing profession is regarded as a profession of public trust. Therefore, regardless of external pressures, an auditor's approach should be unwavering in integrity (Misińska, Cebrowska, and Szafraniec, 2003).

In the context of auditing financial statements, the requirement of independence is crucial. The general principle is that the auditor conducting the audit and issuing the opinion must meet the conditions necessary to express an impartial and independent opinion on the report. Independence applies not only to the lead auditor but also to all members of the audit team, as well as to members of the management and supervisory bodies of the audited entity. The audit agreement should include a clause in which the parties confirm that independence and impartiality have been maintained.

Further regulations on auditor independence arise from additional provisions of the new act of May 1, 2017. The act on statutory auditors, audit firms, and public oversight, passed by the Sejm (the lower house of parliament), entered into force on June 21, 2017. It introduces numerous changes to the regulation of the audit market and the activities of statutory auditors. The regulations adopted by Poland are considered among the most restrictive in the entire European Union.

A key change introduced by the act is the prohibition on the simultaneous provision of audit and advisory services to public interest entities. The new regulations also

introduce mandatory rotation of audit firms after five years of engagement. One of the objectives of the legislators was to increase the deconcentration of audit services in a market largely dominated by the Big Four firms. The act aims to create opportunities for smaller audit firms to expand their market presence.

It should also be emphasized that auditors are increasingly subject to new control activities in the areas of compliance with anti–money laundering regulations and anti-corruption requirements.

5. Consequences of Failure to Maintain Auditor Independence in the US, EU, and Poland

The issue of auditor independence and impartiality is crucial not only in Europe but also in the United States. There are well-known cases in which the Securities and Exchange Commission (SEC) initiated proceedings against audit firms for failing to comply with independence requirements. One such example is the Ernst & Young case. Former EY partners were accused of violating auditor independence rules, marking the first SEC enforcement action related to independence breaches caused by close personal relationships.

On September 19, 2016, the SEC announced that Ernst & Young had agreed to pay USD 9.3 million to settle penalties after two partners at the firm developed personal relationships with their clients, thereby violating rules designed to ensure objectivity and impartiality during audits. As a consequence, the partners were suspended from holding professional licenses. This situation clearly represented a violation of independence (SEC Release, No. 2016-187).

This raises the question of whether an auditor can truly remain independent and objective when long-term relationships with a client exist—for example, KPMG's 40-year engagement with Citibank, Xerox's 40-year engagement with KPMG, or Carillion's 19-year engagement with KPMG. The answer is fairly obvious, which is why regulators, including Polish authorities, have attempted to shorten the duration of such "relationships" by introducing and enforcing mandatory audit firm rotation.

It is worth noting that using the same audit firm for both audit and advisory services was a common practice in Poland. A few examples of the biggest public companies illustrate this: in 2015, KGHM paid PwC PLN 3.7 million for the audit and approximately PLN 5 million for other non-audit services; Grupa Lotos paid EY approximately PLN 1.5 million for the audit and PLN 1.2 million for non-audit services; and PKO Bank Polski paid KPMG PLN 1.25 million for the audit and PLN 2 million for non-audit services.

The situation is even more noteworthy in the United States. For example, in 2014, IBM paid PwC USD 35 million for the audit and USD 41.2 million for other services.

JPMorgan Chase paid its auditor, PwC, USD 30.6 million for non-audit services, while Citigroup paid its auditor, KPMG, USD 33.9 million for such services.

Following the 2008 financial crisis and in order to increase level of auditors' independence, new regulations were introduced prohibiting a single audit firm from simultaneously providing audit, advisory, and accounting services to the same client, as such practices could create conflicts of interest and violate independence and impartiality principles.

In response, many audit firms adopted a structural approach to circumvent these restrictions by dividing their operations into separate companies within the same corporate group—one focused on auditing and others on accounting, tax advisory, transaction advisory, and similar services. As a result, specialized entities operated under the same brand and corporate umbrella while providing different services to the same clients.

To maintain independence—or at least the appearance of it—the so-called "Chinese Wall" was introduced. This framework was intended to prevent auditors from selling non-audit services to the same corporations they audited and from evaluating transactions they themselves had designed. In practice, however, this often proved ineffective, as the incentives linked to the profitability of additional services remained strong.

Large audit firms claim to implement "Chinese walls" to prevent their tax departments from offering tax optimization schemes to audited clients. However, lawsuits in the UK demonstrate that the effectiveness of the "Chinese wall" principle is rather limited. Consequently, many experts and academics, including Professor Prem Sikka, call for the complete separation of service categories, to the extent that affiliates of an audit firm would be prohibited from providing non-audit services to the same client. This is one of the reforms proposed for the UK audit market (Sikka, 2019).

In response to the evolving demands of financial markets and the constant changes in business operations, new regulations governing the audit profession have been introduced in Poland. A new institution was established to provide oversight of auditors themselves.

It is crucial for the functioning of the audit market that auditors have had their own corporate (industry) oversight for over 30 years. It is PIBR (Polska Izba Biegłych Rewidentów – Eng. Polish Chamber of Statutory Auditors**).**

On September 5, 2019, an amendment to the Act on Statutory Auditors, Audit Firms, and Public Oversight, as well as certain other acts, entered into force. This amendment established a new institution responsible for supervising statutory auditors – the Polish Audit Oversight Agency (PANA – Polska Agencia Nadzoru Audytowego).

As of January 1, 2020, PANA replaced the existing Audit Oversight Commission (KNA), which had functioned as a corporate body.

The goal of PANA is to ensure an effective system for monitoring the activities of audit firms. It is also intended to limit the role of the previous oversight mechanism carried out by the professional self-government body, the Polish Chamber of Statutory Auditors.

The Ministry of Finance had criticized the existing oversight system as lacking adequate tools to verify the quality of services provided by audit firms. Therefore, the newly established agency assumes responsibility for supervising audit firms, replacing the prior professional oversight framework.

PANA itself is overseen by the Minister of Finance, who appoints its president and deputy. Each audit firm conducting statutory audits of public interest entities must be inspected at least once every three years, while other audit firms must be reviewed at least once every six years.

There is a widespread view among statutory auditors that this solution, on the one hand, reduces the authority of the professional body and, on the other, may lead to higher prices for audit and assurance services. It should also be noted that the operations of the new PANA agency are financed through mandatory contributions from audit firms.

6. Conclusions

A number of new mechanisms have been introduced in both international and Polish markets to increase the effectiveness of combating financial fraud. However, analysis of their impact indicates that these measures remain insufficient. Even strengthening internal controls—an approach strongly emphasized across all countries—can be ineffective against certain types of fraud.

This is particularly true when fraud is committed by company owners or management, internal control personnel, or groups of employees who may collude to gain access to IT, accounting, and financial systems, and who have the ability to conceal evidence of wrongdoing.

The continual emergence of financial fraud highlights the need for ongoing improvement of existing regulatory and security systems. The unprecedented development of modern information technologies has increased the risk of financial crime. At the same time, new technologies have expanded the tools available for detecting fraud. However, it remains an uneven race.

Effective auditing of a company's operations—through both internal and external audit procedures—allows for early detection of problems and the rapid

implementation of corrective actions. This is crucial for maintaining the financial security of the company and its shareholders. By ensuring effective segregation of duties, reliable transaction authorization, and systematic monitoring of activities, companies can manage risk more effectively while maintaining transparency and compliance in their financial operations.

Experts point out that the rapid development of financial operations, along with advanced technological tools, has created new threats. This situation highlights the continued need to develop new mechanisms for detecting and prosecuting financial crimes and in this process, auditors play a particularly important role.

Conflicts of Interest: The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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