

Ethical threats and safeguards. The case of statutory auditors in the Gdansk region

Zagrożenia etyczne i zabezpieczenia. Przypadek biegłych rewidentów regionu gdańskiego

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Abstract


Purpose: The purpose of this study is to identify ethical threats faced by Polish statutory auditors in their professional work and the methods of counteracting these threats, i.e., safeguards ensuring compliance with ethical principles of statutory auditors.


Methodology/Approach: Survey research was conducted among 45 statutory auditors from the Regional Branch of the Polish Chamber of Statutory Auditors in Gdansk with the aim of identifying the types of ethical threats and safeguards in the practice of Polish statutory auditors.

Findings: Based on the research, it was found that among all types of ethical threats indicated in the survey, statutory auditors indicated the risk of familiarity as the type with which they most often deal. The risk of intimidation was ranked second on the list of threats. When it comes to safeguards used by the audited auditors, they primarily indicated two types, i.e., principles and procedures that enable the identification of interest and business relationship between the firm, the personnel and the client, as well as rotating senior assurance team personnel.

Originality/Value: Our study fills the gap in the Polish literature in the field of research on the types of ethical threats in the work of statutory auditors and the safeguards they use. We have audited the occurrence of individual types of ethical threats and assessed which of them appear most often in the practice of statutory auditors, threatening the ethical attitudes of statutory auditors. Our study also enriches the literature by presenting the types of security used by Polish statutory auditors to comply with ethical principles.

Keywords: auditors' ethics, safeguards, public interest, independence, impartiality

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Streszczenie

Cel: Celem niniejszego opracowania jest identyfikacja zagrożeń etycznych na jakie narażeni są polscy biegli rewidentzi w pracy zawodowej oraz sposobów przeciwdziałania tym zagrożeniom, czyli zabezpieczeń zapewniających przestrzeganie zasad etycznych biegłych rewidentów.

Metodyka/podejście: W celu identyfikacji rodzajów zagrożeń etycznych i zabezpieczeń w praktyce polskich biegłych rewidentów przeprowadzono badanie ankietowe wśród 45 biegłych rewidentów Oddziału Okręgowego Polskiej Izby Biegłych Rewidentów w Gdańsku.

Wyniki: Na podstawie przeprowadzonego badania stwierdzono, że spośród wszystkich wskazanych w ankiecie rodzajów zagrożeń etycznych biegli rewidentzi, jako typ, z którym mają do czynienia najczęściej, wskazywali na ryzyko znajomości. Ryzyko zastraszenia zajęło drugie miejsce na liście zagrożeń. Jeśli chodzi o zabezpieczenia stosowane przez audytorów, wskazali oni przede wszystkim dwa ich rodzaje, tj. zasady i procedury umożliwiające identyfikację interesów i relacji biznesowych pomiędzy firmą, personelem i klientem oraz rotacyjną kadrę wyższego szczebla zespołu wykonującego prace weryfikacyjne.

Oryginalność/wartość: Nasze opracowanie wypełnia lukę w polskiej literaturze z zakresu badań nad rodzajami zagrożeń etycznych w pracy biegłych rewidentów i stosowanych przez nich zabezpieczeniach. Zbadaliśmy występowanie poszczególnych rodzajów zagrożeń etycznych i oceniliśmy, które z nich najczęściej pojawiają się w praktyce biegłych rewidentów, zagrażając postawom etycznym biegłych rewidentów. Nasze opracowanie wzbogaca również literaturę o prezentację rodzajów zabezpieczeń stosowanych przez polskich biegłych rewidentów w celu przestrzegania zasad etycznych.

Keywords: etyka audytorów, zabezpieczenia, interes publiczny, niezależność, bezstronność.

Introduction

Auditors have a unique position within firms as public interest representatives, monitoring and reporting on an organisation's compliance with established criteria (Jeppesen, 2019, p. 1) and fulfilling the mission on which the security of business transactions depends. Membership in the family of public trust professions is not only an issue of prestige and material benefits, but first and foremost, it implies the obligation of care for the public interest. As written in the communication of the Audit Oversight Commission,¹ "The basic feature of the profession of a statutory auditor and activities of an entity authorised to audit financial statements is acceptance of liability for acting in the public interest" (Schedule No. 1 to resolution No. 91/2014). As noted by Kotb, Halabi and Elbardan, independence and competence are the two primary qualities that auditors are expected to possess (2018, p. 464). This requires conduct in compliance with the standards of professional ethics of statutory auditors, understood as the overall moral standards that are a point of reference for evaluating their conduct. Statutory auditors (audit firms) must be independent when carrying out an audit of financial statements of

¹ The Audit Oversight Commission in Poland operated until 31.12.2019, whereas as of 1 January 2020, its successor has been the Polish Agency for Audit Oversight.

entities; in particular, they should refrain from auditing entities in which they have economic or financial interests (Pfaff, 2015, p. 101).

Based on an analysis of reference books and earlier studies, it was concluded that “The ethics of professional accountants (PAs) is a topic of continued interest and relevance” (West, 2017, p. 328), and even though the literature features publications describing threats to the observance of ethical principles and modes of securing them, there is a research gap in this area. The analysis of the materials available on the website of the Polish Chamber of Statutory Auditors showed that no studies were conducted on the types of threats to ethical principles and the modes of mitigating them by Polish statutory auditors. We also analysed the literature on the subject. The keyword of the query was the phrase “ethical threats to statutory auditors”, and the searched collections were the BazEkon database and Google Scholar. In addition, articles published in the last ten years in two of the most important accounting journals in Poland, i.e. *Accountancy* and the *Theoretical Journal of Accounting*, were also analysed. Knowledge of the types of ethical threats in the work of the statutory auditor enables the development of better safeguards, thus improving the quality of the audit and confidence in the information generated by the accountancy system.

The purpose of the study is to identify ethical threats faced by Polish statutory auditors in their professional work and the methods of counteracting these threats, i.e., safeguards for compliance with ethical principles of statutory auditors. From the legal point of view, the ethical principles of the practice of the profession of a statutory auditor in Poland are regulated by the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (Act on Statutory Auditors or AoSA), where Art. 69 makes statutory auditors liable for acting in the public interest and observing the principles of professional ethics. From the practical and moral point of view, as well as local governance discipline of the Polish statutory auditors, the IFAC Code of Ethics,² which – as indicated by its name – is fully devoted to the ethics of statutory auditors (and accountants), is seminal.

The study aims at answering the following research questions:

RQ1. What types of ethical threats that adversely affect impartiality and independence do statutory auditors face in an audit of financial statements?

RQ2. How do statutory auditors counteract ethical threats that adversely affect their impartiality and independence in auditing financial statements?

To this aim, a survey was carried out where we asked statutory auditors about the most frequent ethical threats encountered in their professional practice and the most frequently used safeguards. The survey took the form of a pilot study, the intention of which was to assess the current state of affairs, i.e., to assess the very occurrence of individual types of ethical threats. Therefore, the focus was on identifying the occurrence of the phenomenon itself (present/absent) and not on the assessment of its scale, which determined the choice of a qualitative survey based on binary variables. Based on the research, it was found that:

² More on the IFAC Code of Ethics in Section 1 of this paper.

- 1) of all types of ethical threats indicated in the survey, statutory auditors indicated the risk of familiarity as the type with which they most often deal. This threat was indicated by as many as 62% of the audited statutory auditors,
- 2) second on the list of threats is the risk of intimidation of statutory auditors, given that as many as 31% of statutory auditors revealed in the questionnaire that they were intimidated by their clients.

When it comes to safeguards used by the audited auditors, they primarily indicated two types:

- 1) principles and procedures that enable the identification of interest and business relationship between the firm, the personnel and the client and
- 2) rotating senior assurance team personnel.

The present study contributes to the Polish literature in auditing and accounting in the following ways. First, our study fills the gap in the literature in the research on the types of ethical threats in the work of Polish statutory auditors and the safeguards they use. We have audited the occurrence of individual types of ethical threats and assessed which of them appear most often in the practice of statutory auditors, threatening the ethical attitudes of statutory auditors. Secondly, our study also enriches the literature by presenting the types of security used by Polish statutory auditors to comply with ethical principles.

The structure of this paper is as follows. The first part (Section 1) is theoretical and describes the profession of the statutory auditor along with the characteristics of the existing ethical threats. On this basis, the impact of ethical threats on the independence and impartiality of the auditor is presented. The second part (Sections 2 and 3) presents the assumptions of the study conducted among Polish statutory auditors, the purpose of which was to determine what ethical threats are faced in practice by statutory auditors and how to prevent them. Section 4 presents the discussion on the findings. Finally, Section 5 presents the conclusions of the study, outlines its limitations, and points out some directions for future research and practice.

1. Threats and Safeguards for Adhering to Ethical Principles

With numerous ethical collapses in corporations such as Enron, HealthSouth, WorldCom, Countrywide Financial, and, more recently, Barclays Bank and SNC-Lavalin, the first years of the third millennium may forever be known as the decade of accounting and business scandals (Sheehan, Schmidt, 2015, p. 184; Waldron, Fisher, 2017, p. 37; Aschauer, Quick, 2018, p. 131; Sorensen, Miller, 2016, p. 77). A number of irregularities related to financial reporting were disclosed in this period (Dobija, 2009, p. 38; Payne et al., 2020, p. 1117), which resulted in declining trust as to the reliability of financial statements audited by well-known audit companies (Sawicki, 2009, p. 225).

One of the biggest scandals and an example of an audit firm's unethical behaviour was the destruction of audit documents carried out by Arthur Andersen, one of the largest audit firms. The outrageous practice showed that despite the existing ethical requirements for auditors, the existing safeguards were not effective. As extended by Voss (2008, p. 291), these negative experiences called into question the applied accounting practices and the role of the auditor. And thus, as Kamela-Sowińska (2009, p. 30) asked, did the oldest system of the world's economic record, namely, accounting, fail? Did the control function of accounting, which turned out to be ineffective in detecting creative and fraudulent accounting, fail? In response to these questions and charges, various actions were taken that include far-reaching changes within the scope of financial auditing (Sawicki, 2012, p. 165), the most important being the requirement of absolute fairness in contacts with clients and the condition of observing the professional ethics of statutory auditors. As Micherda noted, professional values, ethics, and attitudes are an integral part of the professional characteristics of a statutory auditor (2010, p. 156), and the key question that remains to be addressed is the cause of such lapses in professional ethics (Gendron et al., 2006, p. 169).

Following these outrageous events, ethical threats and safeguards used by audit firms were the subject of much research (Turzyński, 2011, p.694), and various activities were undertaken to improve the quality of audit services. In the studies devoted to ethical threats, it was emphasised that the motivation of the management board is a significant factor in exerting pressure on a statutory auditor, and intimidation was listed as the most important threat (Beattie et al., 2005, p. 22). Studies carried out by Iranian researchers stress that the major ethical threats are private financial gains offered by entrepreneurs and received by auditors who conduct business in Iran. The researchers recommend introducing a strategy to counteract private financial gains in the operation of firms and statutory auditors (Boolaky et al., 2020, p. 34). In turn, American researchers draw attention to the fact that the threat to the independence of a statutory auditor increases when revenues from a single audit client exceed 15% of revenues in total (Allen, Siegel, 2002, p. 536).

The feature that distinguishes the profession of a statutory auditor is the acceptance of liability for public activities that is not limited exclusively to satisfying the needs of an individual client who hires a statutory auditor (paragraph 100.1 A1, CoE). However, the professional obligation of auditors often competes with their self-interest since they are hired and fired by their own clients (Guiral et al., 2015, p. 105). As Samsonova-Taddei and Siddiqui wrote (2016, p. 183), this creates a conflict between the two cultures, i.e., the professional and the commercial, with auditors having to make decisions and perform their work without undue client or extra-professional influence in service to the public interest while also being attentive to the interests and revenue generation of the client. The possible impairment of auditor independence caused thereby has been a longstanding concern of regulators, legislators and market participants (Ettredge et al., 2017, p. 262).

Auditor independence sometimes requires them to take positions that client managers will dislike (Ettredge et al., 2017, p. 262). This exposes the statutory

auditors to threats related to observing principles of professional ethics and meeting their obligations to act in the public interest. In compliance with the IFAC Code of Ethics, such threats must be classified into one or several of the threat categories listed below (paragraph 120.6 A3 and paragraph 300.6 A1):

1. Deriving self-interest: a threat that a financial or other interest will improperly affect the assessment or the conduct of a statutory auditor, e.g.:
 - a financial interest in a client;
 - quoting a low fee with a view to receiving a new order³ and quoting a fee on such a low level that it could hinder the performance of professional engagement for this price in line with the applicable technical and professional standards;⁴
 - having a close business relationship with a client;
 - having access to confidential information which could be used for personal gain;
 - discovering a significant error while assessing the results of previously provided professional services by a member of the audit firm of the statutory auditor.
2. Self-review (of own work): a threat that a statutory auditor would incorrectly assess the results of a prior evaluation or an action performed by himself/herself or another person in the audit firm or an organisation employing the statutory auditor on which the statutory auditor relies during the formulation of an assessment when performing the current activity, e.g.:
 - a statutory auditor issuing an assurance report on the efficiency of the functioning of an operational and financial system after its implementation by the same auditor;
 - preparing source data used to generate records which comprise issues that are the object of the assurance engagement;
3. Promoting the client's interests: a threat that a statutory auditor is going to promote the client's standpoint or the standpoint of the organisation employing him/her to a degree threatening his/her objectivity, e.g.:
 - promoting the client's interests or client's shares by a statutory auditor;
 - the statutory auditor acting as the client's advocate in litigation or in disputes with third parties;
 - the statutory auditor's lobbying for the benefit of legislation on the client's behalf;

³ In reference books, it is referred to as lowballing (LB), i.e. the practice of setting audit fees lower than audit costs during the initial year of an audit engagement to better compete for large and prestigious clients (Cho et al., 2020, p. 2).

⁴ Researchers also describe a practice that involves lowering fees for the audit, which is later compensated by high fees for other services provided by the statutory auditor for the client's benefit that form an "important source of non-audit fees" (Klumpes et al., 2016, p. 278). The issues related to the amount of fees for audit services and non-audit fee are also described by (Kohler et al., 2016; Dart, 2011; Carmona et al., 2015).

4. Familiarity: a threat that on account of a long or close relationship with the client or the organisation employing the auditor, the statutory auditor is too sympathetic towards their interests or agrees with their operation, e.g.:
 - the member of a close or immediate family of a statutory auditor holds the function of a client's director or employee;
 - the director or a client's employee or an employee holding a position that makes it possible to exert significant influence on an issue which is the object of the engagement, recently providing services as a partner responsible for the engagement;
 - the member of a team performing the audit has a long-term relationship with the assurance client;
5. Intimidation: the threat that a statutory auditor is not able to act objectively due to actual or alleged pressure, including attempts at exerting unjustified influence on the statutory auditor, e.g.:
 - threatening the statutory auditor with dismissal or replacement in relation to a client engagement on account of the differences in opinion pertaining to professional issues;
 - the pressure experienced by the statutory auditor to accept the client's judgement on account of more extensive specialist knowledge held by the client about the issue in question;
 - informing the statutory auditors that their planned promotion depends on the acceptance of an incorrect accounting approach;
 - acceptance by the statutory auditor of a material gift from the client and a threat that accepting such gift will be disclosed publicly.

After identifying a threat to the observance of professional, ethical principles, a statutory auditor should assess whether such threat is or is not at an acceptable level. In line with the IFAC Code of Ethics, an acceptable level of threat is a level at which the statutory auditor, using a test of a reasonable and well-informed third party, could conclude that the basic principles are observed (paragraph 120.7 A1). However, if the statutory auditor concludes that the identified threats are significant (are not at an acceptable level), the auditor should react to these threats by eliminating them or by reducing them to an acceptable level. Three modes of reaction are possible:

- eliminate circumstances, including shares or ties, which cause threats;
- apply safeguards wherever they are available and possible to apply to reduce threats to an acceptable level;⁵ or
- refuse or cease performing a specific professional activity.

Thus, depending on the facts and circumstances, the statutory auditor must assess the threats that such work may pose to auditor independence and assess

⁵ Safeguards are individual or combined actions taken by the statutory auditor that efficiently reduce threats for the observance of basic principles to an acceptable level (paragraph 120.10 A2, CoE).

the effectiveness of the safeguards in place to eliminate these threats (Dart, 2011, p. 175). In practice, there are also situations where the only possible way to react to existing threats is to refuse or cease performing a specific professional activity. This happens because it is impossible to eliminate circumstances that result in the emergence of threats or where there is no possibility to apply safeguards in order to reduce the threat to an acceptable level.

Safeguards are understood as individual or combined actions taken by the statutory auditor which efficiently reduce threats for the observance of basic principles to an acceptable level. The most frequently applied safeguards in the professional practice of a statutory auditor may include:

- general safeguards created by the profession, legislation or regulation;
- specific safeguards that function as part of a given work environment (general or related to a specific engagement), where specific safeguards may be applied either by the audit firm or the client.

2. Methodology and sample

With the aim of examining ethical threats and modes of counteracting them in the practice of Polish statutory auditors, a survey was carried out from November 15 to 30, 2020, using an online questionnaire. We decided that at that stage of the pilot study that survey research would be the optimum method in terms of expenditure and expected results.

As the survey was qualitative and not quantitative, study sampling was purposeful and not probability-based. Out of the entire population of 5,608 statutory auditors in Poland who are listed in the register of statutory auditors maintained by the Polish Chamber of Statutory Auditors (PIBR, 2020, p. 40),⁶ a group of 370 statutory auditors associated with the Regional Branch of the Polish Chamber of Statutory Auditors in Gdansk was selected for the survey. This choice was dictated by the fact that one of the authors of this study is a statutory auditor associated with this PIBR branch, and therefore we could count on the support of the President of the Gdańsk branch of the PIBR in contacts with auditors of this branch. In fact, the electronic questionnaire was sent to all the auditors from the research sample from the e-mail address of the Gdansk branch of PIBR, along with a cover letter from the President of the branch encouraging the auditors to participate in the survey. The template of the questionnaire is presented in the Appendices.

The questionnaire comprised two substantive parts:

1. a part pertaining to the types of threats and adherence to ethical principles;

⁶ Status as of 31.12.2019. The current number of statutory auditors as of the survey date is not known, as the Polish Chamber of Statutory Auditors does not make such data available; hence, the number offers only some view as to the number of statutory auditors in Poland.

2. a part pertaining to the modes in which auditors secure themselves from such threats.

Participation in the study was voluntary and – most importantly – anonymous. The respondents did not have to provide their personal (or their firm’s) data, and the electronic form of the questionnaire ensured that such data were not automatically recorded by the system collecting data from the forms that were sent back. The research sample size (the number of questionnaires sent) and the number of completed questionnaire forms received (researched auditors) were as follows:

- research sample 370,
- researched auditors 45,
- response rate 12.16%.

Each returned questionnaire form was verified for correctness, and the collected data were subjected to detailed analysis. The findings of this analysis are presented and discussed below.⁷

3. Discussion on Findings

Table 1 presents the categories of threats for the observance of basic principles of professional ethics (Panel A) and their specific practical examples (Panel B-F), which is a response to RQ1.

Table 1. Threats to the observance of principles of ethics among the statutory auditors covered by the survey

Panel A: Categories of ethical threats in the practice of statutory auditors covered by the study

Occurrence of a given category of threat		Self-review	Deriving self-interest	Promoting client’s interests	Familiarity	Intimidation
responses						
Yes	number	11	12	6	28	14
	%	24	27	13	62	31
No	number	34	33	39	17	31
	%	76	73	87	38	69
Total	number	45				
	%	100				

⁷ The findings have also been posted on the Mendeley data repository at <https://data.mendeley.com/datasets/rg8x72c4g8/1>

Panel B: Types of threats related to self-review

Types of services that were subject to self-review	Number of	Percentage of
	responses	
Maintenance of accounting and tax books	7	41
Evaluation of enterprise	4	23
Tax counselling services	2	12
HR and payroll services	2	12
Other	2	12
Total	17	100

Panel C: Types of threats related to self-interest

Examples of self-interest	Number of	Percentage of
	responses	
Financial interest related to the provision of audit services	7	37
Close business relation with the client	6	32
Client's overdue payments towards the audit firm	3	16
Gifts and hospitality from the client beyond the accepted practice	1	5
Lower fee for audit services	1	5
Other	1	5
Total	19	100

Panel D: Types of threats related to representing the client's interests

Examples of representing the client's interests	Number of	Percentage of
	responses	
Legal counselling provided for the assurance client	3	38
Corporate services provided for the assurance client	3	38
Other	2	24
Total	8	100

Panel E: Types of threats related to familiarity

Examples of risk of familiarity	Number of	Percentage of
	responses	
Long association with the assurance client	25	60
Provision of other services for the assurance client	12	29
Hiring the audit firm's employees by the client	3	7
Family and personal relationship between the client and the audit firm	1	2
Other	1	2
Total	42	100

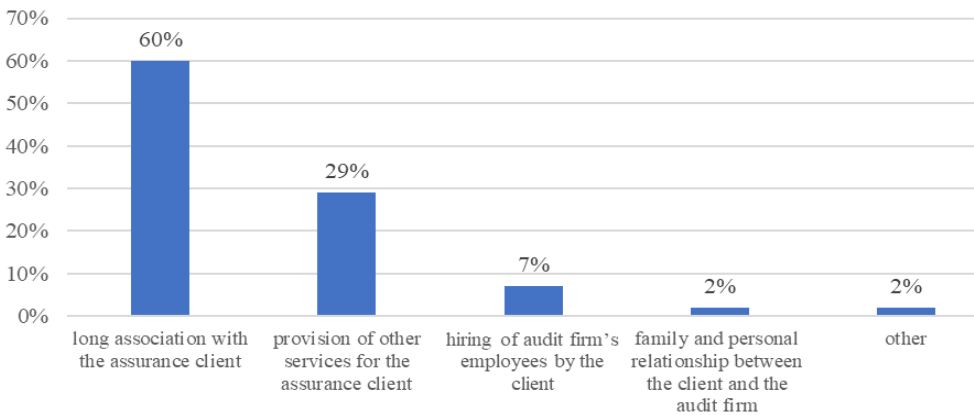
Panel F: Types of threats related to the risk of intimidation

Examples of the risk of intimidation	Number of	Percentage of
	responses	
Litigation with the client	3	19
Transfer of audit personnel to be employed by the client	2	12
Family and personal relationship	1	6
Other	10	63
Total	16	100

Source: own elaboration.

Based on the research, it was found that the greatest threat to the professional, ethical principles of statutory auditors is the risk of familiarity. It was mentioned by 62% of the respondents but did not manifest itself for 38% of the respondents. As shown in Diagram No. 1, statutory auditors most frequently noted the risk related to a long association with the assurance client (60% of responses), the provision of other services for the assurance client (29%) and the client hiring the audit firm’s employees (7%). Other responses (family and personal relationship between the client and the audit firm and other threats of familiarity) together did not exceed 4%.

Diagram 1. Risk of familiarity among statutory auditors covered by the study



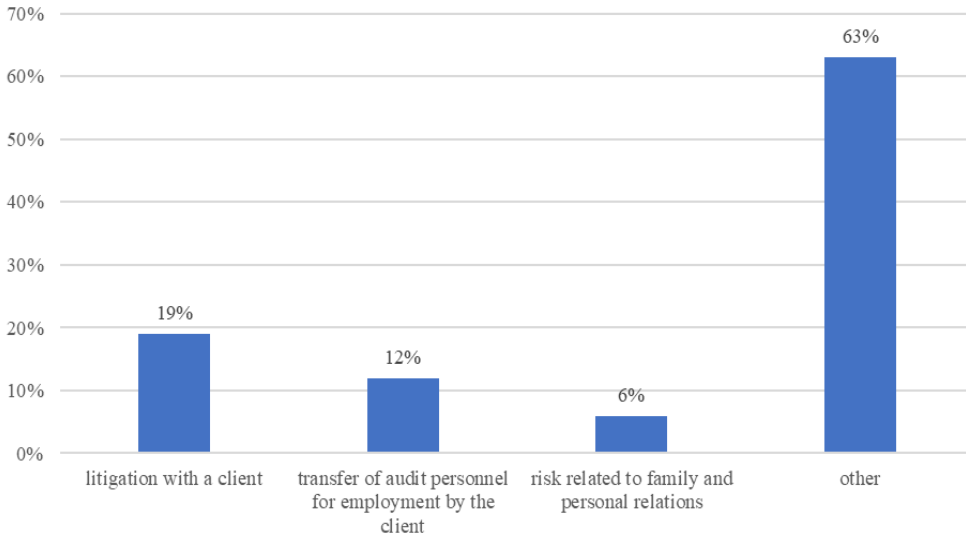
Source: own elaboration.

Second place on the list of threats is the risk of intimidation of statutory auditors, given that as many as 31% of statutory auditors revealed in the questionnaire that they were intimidated by their clients (69% of respondents were not intimidated). Statutory auditors who experienced intimidation most frequently (cf. Diagram 2) listed other types of risk of intimidation than specified in the form

of responses (as many as 63% of responses), yet they did not describe them. The rest of the statutory auditors indicated the following types of intimidation:

- 19% indicated the risk of litigation with a client;
- 12% indicated the risk related to the transfer of audit personnel for employment by the client, and;
- 6% indicated risk related to family and personal relations.

Diagram 2. Types of risk of intimidation of statutory auditors

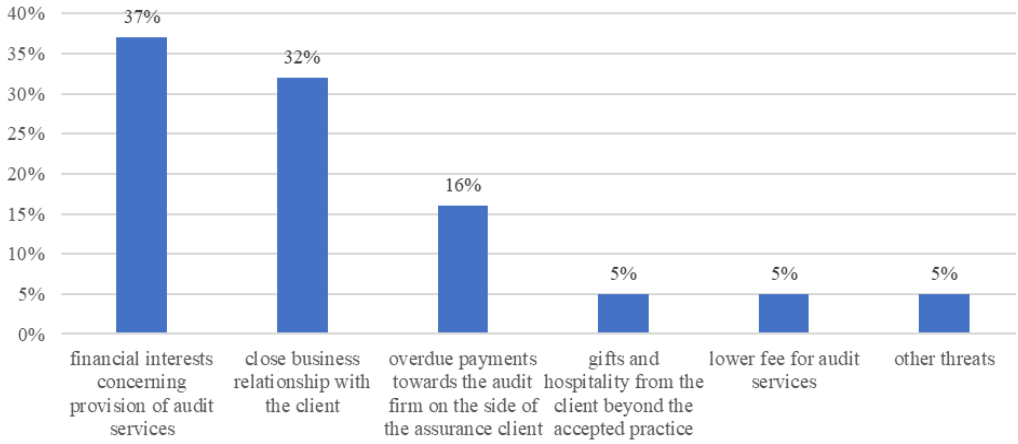


Source: own elaboration.

Risks related to self-interest (securing private gains) were encountered in professional practice by over 1/4th of the statutory auditors covered by the survey. Those who experienced risks related to self-interest most frequently listed threats comprising financial interests concerning the provision of audit services (37% of responses), a close business relationship with the client (32%) and overdue payments towards the audit firm on the side of the assurance client (16%). The remaining responses (gifts and hospitality from the client beyond the accepted practice, a lower fee for audit services and other threats) together did not exceed 15%, which is shown in Diagram 3.

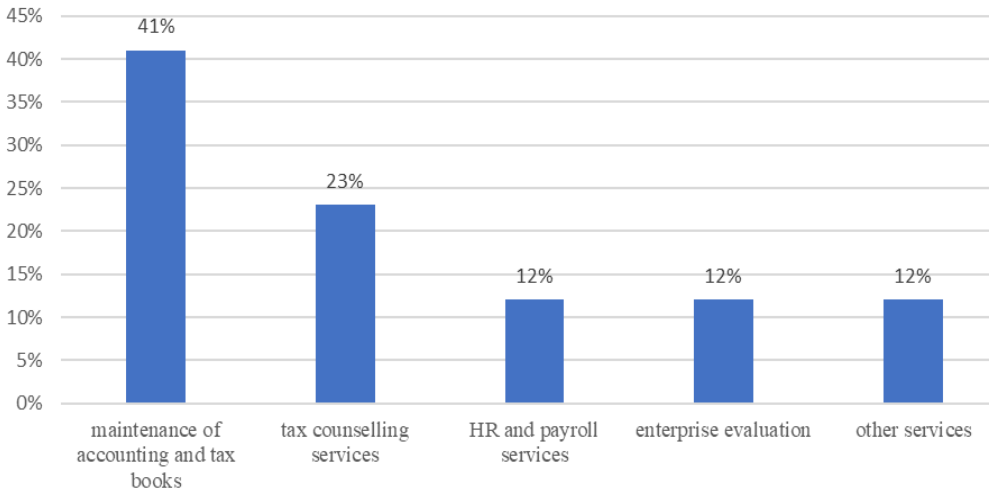
A definite majority of the statutory auditors covered by the survey (76%) responded that in their professional career, they had not encountered a situation in which they would have to self-review their own work. However, 24% of respondents had been affected by the risk of self-review. According to the data presented in Diagram 4, the most frequent services concerning which statutory auditors verified their own work was the maintenance of accounting and tax books (41% of responses) and enterprise evaluation services (23% of responses). Tax counselling services, HR and payroll services and other services were at the same level of 12% of answers.

Diagram 3. Risks related to self-interest in the work of statutory auditors



Source: own elaboration

Diagram 4. Types of services where statutory auditors had to self-review own work

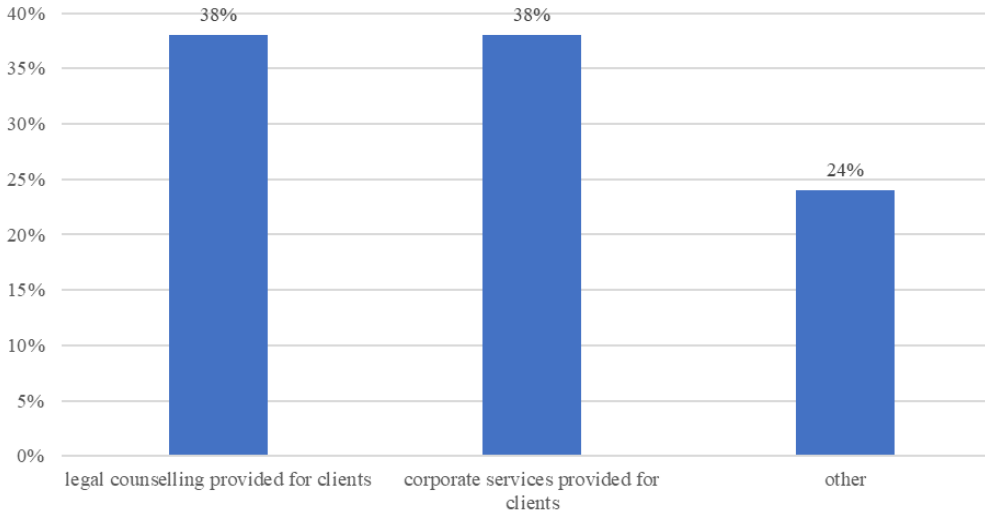


Source: own elaboration.

The risk related to representing the interests of their own clients, i.e., acting as the client's representative, appeared least frequently in the practice of statutory auditors covered by the survey. Only 13% of respondents answered that they had encountered this type of risk, whereas 87% had never experienced this type of threat. The identified threats related to representing their clients' interests (acting as a representative) are presented in Diagram 5. Statutory auditors who had experienced threats related to representing their client's interests most frequently listed

legal counselling provided for clients (38% of responses) and corporate services provided for the client (38% of responses). The remaining (other titles) were listed by 24% of statutory auditors.

Diagram 5. Threats related to representing the clients' interests



Source: own elaboration.

Table 2 presents the most frequent modes of counteracting ethical threats (safeguards) used by the statutory auditors covered by the survey, which offers a response to RQ2.

Table 2. Safeguards for the observance of ethical principles among the statutory auditors covered by the survey

Panel A: Generally applied firm-wide safeguards

Examples of generally applied safeguards	Number of	Percentage of
	responses	
Principles and procedures enabling the identification of interests and business relationships between the firm, the personnel and the client	27	30
Leadership of the firm that pays attention to complying with fundamental ethical principles: transparency, objectivity, professional competence and care, confidentiality, professional conduct	24	26
Policies and procedures aimed at enticing and hiring highly qualified personnel in order to communicate basic ethical principles pertaining to the cooperation with clients	18	20

Examples of generally applied safeguards	Number of	Percentage of
	responses	
Principles and procedures to monitor the volume of revenues from a single client (e.g., the maximum permissible limit is 10%; exceeding it may cause the risk of self-interest and risk of intimidation)	14	15
Other	8	9
Total	91	100

Panel B: Specifically applied firm-wide safeguards

Examples of specific safeguards	Number of	Percentage of
	responses	
Rotating senior assurance team personnel	25	26
Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant	17	18
Discussing ethical issues with those charged with governance of the client	16	17
Acting as a professional accountant who is not engaged in the financial audit of the performed work or providing consulting services	15	16
Involving another firm to perform or re-perform part of the engagement	7	7
Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged	6	6
Other	10	10
Total	96	100

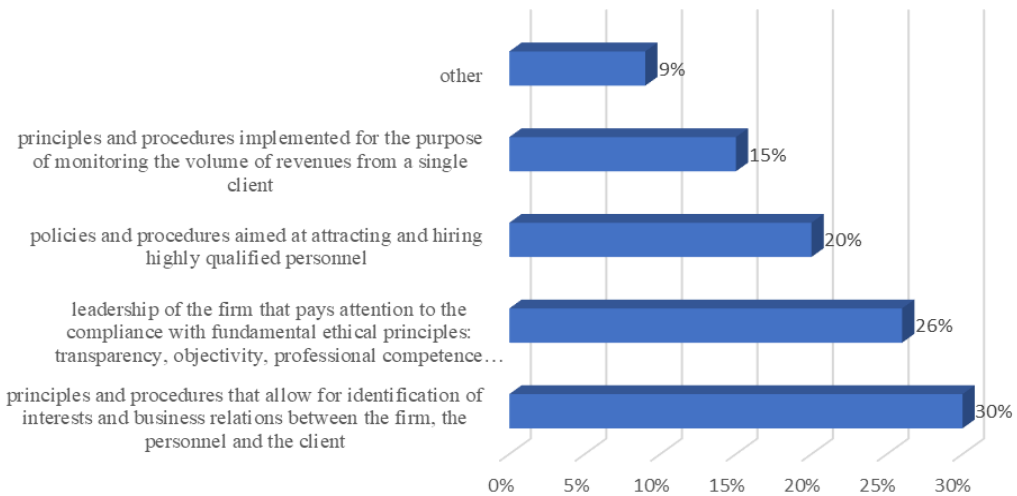
Source: own elaboration.

With a view to limiting threats to the observance of professional, ethical principles of statutory auditors, audit firms apply various types of general and specific safeguards, which were also the object of study (RQ2).

Among the generally applied corporate safeguards presented in Diagram 6, the statutory auditors covered by the survey most frequently indicated principles and procedures that allow for the identification of interests and business relations between the firm, the personnel and the client (30%). The second safeguard is leadership of the firm that pays attention to complying with fundamental ethical principles: transparency, objectivity, professional competence and care, confidentiality and professional conduct. Other safeguards listed by the statutory auditors comprise policies and procedures aimed at attracting and hiring highly qualified personnel to communicate basic ethical principles pertaining to the cooperation

with clients (20%). The last in the ranking are principles and procedures implemented to monitor the volume of revenues from a single client (e.g., the maximum permissible limit is 10%; exceeding it may cause the risk of self-interest and the risk of intimidation), and this is a generally applied firm-wide safeguard that was indicated by 15% of the statutory auditors in the survey. Other types of general safeguards were listed by 9% of statutory auditors; however, no description thereof was provided.

Diagram 6. Examples of generally applied corporate safeguards



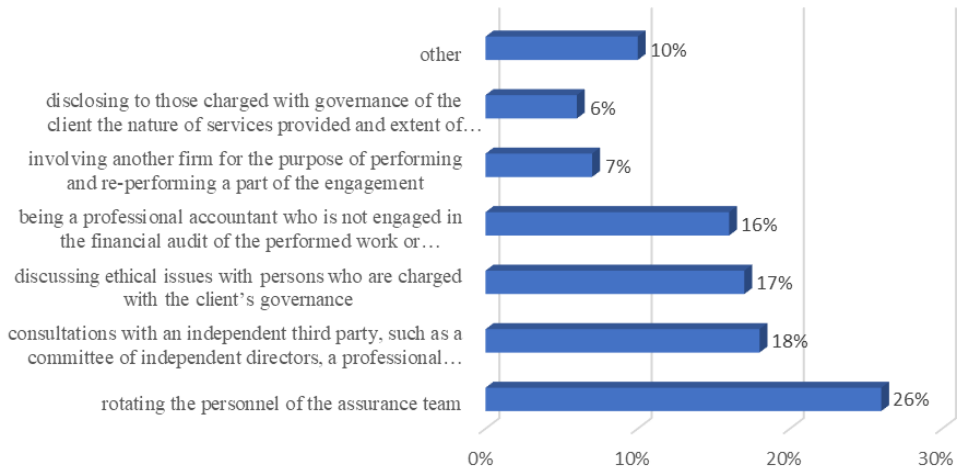
Source: own elaboration

From the catalogue of specific firm-wide safeguards, statutory auditors most often chose rotating the personnel of the assurance team (26%). The second safeguard was consultations with an independent third party, such as a committee of independent directors, a professional body, or another professional accountant (18%). Another safeguard is discussing ethical issues with people charged with the client's governance (17%). Being a professional accountant who is not engaged in the financial audit of the performed work or providing consulting services as a safeguard was indicated by 16% of respondents. The last two safeguards listed by the statutory auditors include:

- involving another firm to performing and re-perform part of the engagement as a safeguard was listed by 7% of the statutory auditors participating in the study, and,
- disclosing to those charged with governance of the client the nature of services provided and the extent of fees charged was listed by 6% of the statutory auditors participating in the study.

As with the general safeguards, some statutory auditors (10%) listed other modes of specific firm-wide safeguards, but without describing them.

Diagram 7. Examples of specific firm-wide safeguards



Source: own elaboration.

In summary, based on the research, we found that the ethical threat which occurs most often is the threat of familiarity. The second ethical threat which exists in the examined sample was self-interest. The least ethical threat was advocacy. Policies and procedures that will enable the identification of interests or relationships between the firm or staff and clients are the broadest safeguards indicated by the respondents. The rotating senior assurance team's personnel is the most specific safeguard indicated by respondents.

Conclusion

The role of the statutory auditor in society is to assure interested third parties that corporate reports and financial statements are a true and fair reflection of the firm's performance (Dart, 2011, p. 173), and the audit opinion should state whether financial statements give a true and fair view in accordance with the relevant financial reporting framework (Barac et al., 2017, p. 788). As Cyr et al. note, auditors face a number of ethical issues but regardless of the professional services performed, they should remain objective, maintain their integrity, and not subordinate their judgement to that of others (2020, p. 1189).

Auditor independence, the cornerstone of the audit profession, enhances the auditor's ability to act with integrity, to be objective, and to maintain an attitude of professional scepticism (Chiang, 2016, p. 193). As Chiang emphasises, auditors should be made aware of the ethical dimensions of their decisions and be constantly reminded to monitor virtuous ethics behaviours that ensure that their independence is not compromised (2016, pp. 193–194). The statutory auditor is therefore expected to comply with professional standards and the code of ethics. As Suhaiza and Zuhudha write, it must not be forgotten that future accountants

are current accounting students; hence the future of the accounting profession depends on the ethical standards of accounting students currently studying at the university (Suhaiza, Zuhudha, 2019, p. 806).

The originality of the study lies in the fact that threats to compliance with ethical principles in the profession of statutory auditor in Poland have thus far not been investigated in the literature. This makes this article a voice in the discussion of the importance of ethics in the auditing profession and the potential ethical risks and safeguards associated with the provision of additional non-audit services by statutory auditors to their clients.

The research findings indicate the riskiest types of ethical threats, which has some practical implications, i.e., it may help statutory auditors to identify and defend themselves against ethical threats. Based on the research, there are potential implications for the daily work of statutory auditors. Not all ethical threats are always identified. However, these threats may affect the quality of the auditor's work. Hence, it is important to find the right tools to effectively safeguard these threats. At a general level, audit firms must develop and implement procedures to prevent ethical risks. A detailed tool is certainly the introduction of a mandatory rotation of the audit lead partner.

The conducted research has some limitations, but these provide opportunities for future research. The most important limitation is that the study's approach is qualitative rather than quantitative, so the findings cannot be generalised to the entire population. Secondly, when analysing the response rate of the survey, it seems that the survey may be biased with a self-selection bias.⁸ The selection of the research sample was not random, and therefore it is burdened with all the disadvantages of the non-probabilistic selection of the research sample. Finally, it is not possible to cross-check our results with alternative procedures, but at the pilot stage of our research, we did not plan to do it. When continuing this direction of research, the possibility of verifying the results with alternative procedures should be taken into account.

The findings point to several avenues for future research. First of all, a broader quantitative study should be carried out, which would allow the findings to be generalised to the entire auditing population. Second, it would be worthwhile to audit how auditors are forced to deviate from the proper auditing of financial statements because the safeguards are ineffective.

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⁸ More on self-selection bias see Strawiński (2007, pp. 46–61).

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Appendices

Appendix 1. Questions about ethical threats in the questionnaire form sent to statutory auditors (Part 1)

1. Have you ever experienced a situation where, as statutory auditors, you self-reviewed your work?	Yes/No
If yes, please specify	
• Maintenance of accounting books	
• Tax counselling services	
• HR and payroll services	
• Actuarial valuation	
• Internal audit services	
• Enterprise valuation	
• Corporate governance services	
• Other (please describe)	
2. Have you, in your audit career, encountered threats related to self-interest?	Yes/No
If yes, please specify	
• Financial interest related to the provision of audit services	
• Close business relationship with the client	
• Audit partner who was a member of the management board in the audited firm	
• Gifts and hospitality from the client beyond the accepted practice	
• Loans and guarantees received from the client (when the audited client is a bank or another financial institution)	
• Client's overdue payments towards the audit firm	
• % or conditional payments depending on the type of issued opinion	
• Lower fee for audit services	
• Other (please describe)	
3. Have you, in your audit career, ever represented the interests of your client (acted as its advocate)?	Yes/No
If yes, please specify	
• Legal counselling provided for the client	
• Corporate services provided for the client	
• Conditional payments for the client	
• Other (please describe)	

4. Have you, in your audit career, ever encountered the risk of familiarity?	Yes/No
If yes, please specify	
<ul style="list-style-type: none"> • Family and personal relationship between the client and the firm 	
<ul style="list-style-type: none"> • The client hiring the audit firm's employees 	
<ul style="list-style-type: none"> • A long association with the assurance client 	
<ul style="list-style-type: none"> • Providing other services for the assurance client 	
<ul style="list-style-type: none"> • Other (please describe) 	
5. Have you, in your audit career, ever encountered the risk of intimidation?	
If yes, please specify	
<ul style="list-style-type: none"> • Close business relationship with the client 	
<ul style="list-style-type: none"> • Family and personal relationship 	
<ul style="list-style-type: none"> • Transfer of audit personnel to be employed by the client 	
<ul style="list-style-type: none"> • Litigation with the client 	
<ul style="list-style-type: none"> • Other (please describe) 	

Appendix 2. Questions regarding the methods of securing the statutory auditors against the risk of ethical threats in the questionnaire form sent to statutory auditors (Part 2)

<p>1. What types of safeguards do you apply in your audit procedures in order to reduce the following risks:</p> <ul style="list-style-type: none"> • self-review; • threat to self-interest; • acting at the client’s advocate; • familiarity; • intimidation. <p>Please choose relevant safeguards from the list below:</p>	
I. Examples of generally applied firm-wide safeguards	Yes – put X
<ul style="list-style-type: none"> • Leadership of the firm that pays attention to complying with fundamental ethical principles: transparency, objectivity, professional competence and care, confidentiality, professional conduct. 	
<ul style="list-style-type: none"> • Principles and procedures enabling the identification of interests and business relationships between the firm, the personnel and the client. 	
<ul style="list-style-type: none"> • Principles and procedures implemented to monitor the volume of revenues from a single client (e.g., maximum permissible limit is 10%) (this may cause the risk of self-interest and risk of intimidation). 	
<ul style="list-style-type: none"> • Policies and procedures aimed at enticing and hiring highly qualified personnel to communicate basic ethical principles pertaining to cooperation with clients. 	
<ul style="list-style-type: none"> • Other – please specify. 	
II. Examples of specific firm-wide safeguards	Yes – put X
<ul style="list-style-type: none"> • Acting as a professional accountant who is not engaged in the financial audit of the performed work or providing consulting services. 	
<ul style="list-style-type: none"> • Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant. 	
<ul style="list-style-type: none"> • Discussing ethical issues with those charged with governance of the client. 	
<ul style="list-style-type: none"> • Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged. 	
<ul style="list-style-type: none"> • Involving another firm to perform or re-perform part of the engagement. 	
<ul style="list-style-type: none"> • Rotating senior assurance team personnel. 	
<ul style="list-style-type: none"> • Other – please specify. 	

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