

Ministry of Finance explains how to audit financial statements of a foreign branch

I. Ministerial accounting department addresses the issue of branch financial statements

The Ministry of Finance has presented its position on the doubts raised by auditors and audit firm clients regarding determining what body or person has the authority to select the audit firm to perform the year-end audit of the financial statements of a foreign company branch, and the body or person with the authority to conclude an audit agreement, as well as sign the financial statements. A request for a position on this matter was submitted to the Ministry of Finance by the Polish Chamber of Statutory Auditors (PIBR). The Ministry found the standpoint presented in PIBR's request to be correct.

The duties of those authorized at the branch to represent the foreign business include signing the branch's financial statements and agreements for their audit. The governing body of the foreign business is authorized to appoint the auditor of the branch's financial statements.



II. Contractual provisions and regulations decide

In its position, the Ministry of Finance repeated (after the arguments presented by PIBR) that the person authorized to represent the branch, as disclosed in the National Court Register (KRS), is the manager of the entity authorized to sign the financial statements of the branch and the audit agreement. Those entered in the KRS as authorized to represent the branch may also include persons who at the same time sit on the management board of the parent company. Such a branch manager, in accordance with the Accounting Act, cannot choose the auditor of the branch's financial statements. At the same time, in a situation where - as in the organizational structure of a foreign company branch - there is no separate approving organ, the authority of another organ authorized to choose the audit firm should clearly arise out of the contractual or legislative regulations applicable to the branch.

III. Responsibilities to be regulated internally

The authority, i.e. the right to select the auditor of the financial statements of a foreign company branch, should arise from a legislative act generally applicable in the country of the parent company or, in the absence of such provisions - the internal regulations of that parent company. It is therefore recommended that, where this issue is not regulated by common law, the entity analyze its own regulations to determine the body authorized to select the audit firm to audit the financial statements of the branch in Poland. In the absence of such regulations, the parent company should clarify in relevant internal regulations how to proceed in this respect.



IV. Financial statements signed by representative, auditor chosen by management

In consequence, the Ministry of Finance has found acceptable the position presented by PIBR, indicating that the responsibilities of the person authorized at the branch to represent the foreign company also include signing the branch's financial statements and agreements for their audit, whilst the foreign company's management body is authorized to choose the auditor of the branch's financial statements. It should be noted that the Department of Public Spending Efficiency and Accounting stressed that this was only its view and that it does not bind other authorities, in particular courts, which perform their own interpretations of legal regulations in specific matters.

V. Acceptable solution chosen based on position presented by PIBR

PIBR's standpoint included three alternative solutions. The first was that since the organ approving the financial statements of the foreign company simultaneously approves the financial statements of the branch (which happens automatically - i.e. it is sufficient for the foreign company to approve its financial statements for the financial statements of the branch to also be approved), then the body authorized/obligated to select the branch's auditor is the organ that approves the foreign company's financial statements. The second was that the financial statements are approved by an organ that is also a "stakeholder" of the financial statements - i.e. the foreign company's management organ obligated to prepare the foreign company's financial statements. The third was to recognize that the selection of the audit firm that will audit the foreign company's financial statements constitutes an automatic selection of the auditor of the financial statements of the branch, where the financial statements of the branch would in this case be audited by an audit firm that belongs to the network of the auditor of the foreign company's financial statements and is registered in the country of the branch. In the end, however, it recommended an interpretation that was approved by the Ministry of Finance.



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