



Transparency Report 2018

KPMG Audit OOD

kpmg.com/bg

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Message from our Managing Partner



Welcome to the Transparency Report of KPMG Audit OOD for the year ended 31 December 2018 prepared in accordance with Article 62 of the Independent Financial Audit Act.

We are conscious of the challenges facing businesses today as a result of geopolitical change, technological disruption and increased regulation. We see our clients tackle these challenges by remaining positive and continuing to invest. So do we at KPMG.

We have set ourselves on the course to succeed in digital transformation. We are proud to be the first KPMG practice in Central and Eastern Europe to launch our new global smart audit platform, KPMG Clara, including D&A Advanced Capabilities. The platform brings all of our powerful data & analytics capabilities into one interface offering greater insights and boosting the client experience.

It is our conviction that progress is only real when it benefits both people and society. And, as progress is also something personal, we have committed to power up our people for the future. With this in mind, we identify and follow systematic actions to change the way we attract the very best and brightest and enable everyone at KPMG to unleash their potential.

In all this, our license to operate is based on public trust. Our quality, our culture, attitudes and behaviours will continue to be our focus in the coming time in both the Audit practice and all of our services, in Bulgaria and globally.

We encourage you to contact us if you wish to elaborate on any matter set out in this report.



Gergana Mantarkova
Managing Director, KPMG Audit OOD
Managing Partner, KPMG in Bulgaria

Driving quality and consistency



Our strategy begins with a focus on quality and continuous improvement.

KPMG's international footprint allows for a globally-mandated approach to maintaining quality. Last year, KPMG's Global Board established an Audit Quality Committee and appointed a Global Head of Audit Quality. This committee takes the lead in monitoring and driving improvements to audit quality across the global KPMG organisation.

We welcome this development. As professionals, we are accountable for adhering to the global requirements and intent of professional standards. There is no single factor that results in high quality services. We are making coordinated and consistent efforts encompassing everything from our methodology, to ongoing training, investment in our people and enabling technologies, all built on a culture of integrity and accountability.

Responsibility for quality starts at the top and means reinforcing accountability through the complete chain of command in all our teams so that every action helps us to meet our rigorous quality objectives.

Being a good auditor means having an inquiring mind and the ability to understand different people and businesses. Our human skills combined with intelligent automation tools make the future of audit an exciting place.

This year's Transparency Report provides insight into our audit quality measures and the steps we take to ensure every audit is a quality audit.



Ivan Andonov
Managing Director, KPMG Audit OOD
Head of Audit

Who we are

KPMG IN BULGARIA
IS A LEADING
AUDIT FIRM
IN THE COUNTRY

1.1 Our business

KPMG Audit OOD¹ is a professional services firm that delivers Audit services. KPMG Audit OOD is an audit firm and a member of the Institute of Certified Public Accountants in Bulgaria, registered in the Register of registered auditors under No 045.

The Company operates in Bulgaria through its offices in Sofia and Varna.

Further details of our service offerings can be found on our website at the following link:
www.kpmg.com/bg.

1.2 Our strategy

The strategy of KPMG in Bulgaria is set by its partners and is based on four priorities: being market-focused, issues-led, driven by operational excellence and having a high performance culture.

Through these priorities, our overall vision is to be the clear choice. This includes being one of the leading audit firms in Bulgaria and being a quality service provider to all of our clients, placing quality at the heart of our agenda.

As an organization we have a strong belief that by attracting extraordinary people and applying our deep expertise and sector knowledge we are able to deliver real results to the benefit of our clients and our communities.

We continue to build our capabilities to meet client needs in the digital age, particularly in digital transformation and data and analytics.

¹ Throughout this document, "KPMG" refers to the network of independent member firms operating under the KPMG name and affiliated with KPMG International Cooperative ("KPMG International") or to one or more of these firms or to KPMG International. KPMG International, a Swiss entity, provides no client services. Throughout the document, "KPMG Audit", the "Firm", the "Company", "we", "our", and "us" refer to KPMG Audit OOD. KPMG Audit OOD is a member firm of the KPMG network of independent firms affiliated with KPMG International. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

Our structure and governance

OUR STRUCTURE ENSURES
CONTINUITY AND STABILITY
AND WE COMMIT TO KPMG'S
SET OF VALUES

2.1 Legal structure

KPMG Audit OOD is affiliated with KPMG International Cooperative ("KPMG International"). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated. Further details about KPMG International and its business, including our relationship with it, are available in section 'Governance and leadership' to the [KPMG International Transparency Report](#).

KPMG Audit OOD is part of a global network of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organizations. KPMG International's structure is designed to support consistency of service quality and adherence to agreed values wherever the member firms operate.

KPMG Audit OOD is a limited liability company incorporated in 1992 and registered with the Commercial Register at the Registry Agency of the Republic of Bulgaria under Unified Identification Code 040595851, with a registered office and business address at: 45/A Bulgaria Boulevard, 1404 Sofia, Bulgaria.

KPMG CEE Holdings Limited, an audit firm registered in Cyprus, is the majority shareholder of KPMG Audit, holding 76% ownership interest. The remaining 24% are owned by two individuals – registered auditors with the Institute of Certified Public Accountants in Bulgaria, holding 12% each.

Gergana Mantarkova and Tzvetelinka Koleva manage and represent the Company individually. The other registered Managing Directors – Ivan Andonov, Maria Peneva and Dobrina Kaloyanova, represent the Company jointly with Gergana Mantarkova or Tzvetelinka Koleva.

The information with regard to the legal and ownership structure of the Company, its

management bodies and the other circumstances which under the law are subject to registration is publicly available under the batch of the Company at the Commercial Register with the Registry Agency.

2.2 Governance

We apply high standards of corporate governance.

Empowered individuals admitted as KPMG partners play the key role in the governance and management of the firm. Within the KPMG structure, the position of a partner is not equivalent to a registered equity owner of the local KPMG member firm.

The partners are responsible for determining policy, developing the business plan within the overall strategy of KPMG International, together with its subsequent implementation.

2.3 Name, ownership and legal relationships

KPMG is the registered trademark of KPMG International and is the name by which the member firms, including KPMG Audit OOD, are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities.

Member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

2.4 Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources, service multi-national clients, manage risk, and deploy global methodologies and tools.

Each member firm takes responsibility for its management and the quality of its work.

Member firms commit to a common set of KPMG values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

System of quality control

AT KPMG AUDIT, AUDIT QUALITY IS NOT JUST ABOUT REACHING THE RIGHT OPINION, BUT HOW WE REACH THAT OPINION

3.1 Overview

A robust and consistent system of quality control is an essential requirement in performing high-quality services. Accordingly, KPMG international has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual (Global Q&RM Manual) available to all KPMG personnel. These policies and associated procedures are designed to assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances, as well as help member firm personnel act with integrity and objectivity and perform their work with diligence.

These policies and procedures are based on the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both of these are relevant to member firms that perform statutory audits and other assurance and related services engagements.

KPMG Audit is required to implement KPMG International policies and procedures and also adopts additional policies and procedures that are designed to address rules and standards issued by the Institute of Certified Public Accountants in Bulgaria and other relevant regulators as well as applicable legal and regulatory requirements². Integrating key policies and procedures, this system also facilitates compliance with relevant rules and regulations of the Bulgarian Commission for Public Oversight of Statutory Auditors, the Bulgarian Financial Supervision Commission and other relevant regulatory authorities.

The Management System of KPMG Audit is certified for compliance with the ISO 9001:2008 management system standard. Amongst other matters, the scope of certification includes professional services for audits and reviews of historical financial information, assurance engagements, related services and other.

Amendments to risk and quality policies, including ethics and independence policies, are included in quality and risk management alerts and are communicated by email. KPMG Audit is required to implement changes specified in the email alerts and this is checked through internal monitoring.

Quality control and risk management are the responsibility of all KPMG Audit personnel. This responsibility includes the need to understand and adhere to member firm policies and associated procedures in carrying out their day-to-day activities. The system of quality control applies to KPMG personnel wherever they are based.

3.2 Audit quality framework

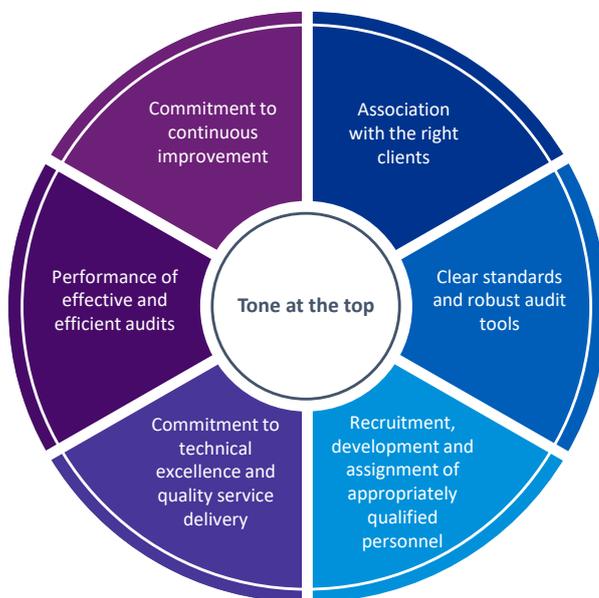
At KPMG Audit audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditors' report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG International has developed the Audit Quality Framework. This framework uses a common language that is adopted by all KPMG member firms, including KPMG Audit, to describe

² All the references to 'KPMG policies and procedures' or 'our policies and procedures' refer to the KPMG International policies and to the additional KPMG Audit OOD policies together.

what the KPMG network believes drives audit quality, and to highlight how every audit professional at each KPMG member firm contributes to the delivery of audit quality.

‘Tone at the top’ sits at the core of the Audit Quality Framework’s seven drivers of audit quality and helps ensure that the right behaviors permeate across the entire KPMG network. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections of this report.



3.3 Tone at the top

The culture of KPMG International and KPMG member firms is underpinned by a strong set of values and supporting policies and processes and enables the right attitudes and behaviors to permeate throughout the KPMG network.

Our global leadership, working with regional and member firm leaderships, plays a critical role in establishing our commitment to quality and the highest standards of professional excellence. A culture based on quality, integrity and ethics is essential in an organization that carries out audits and other services on which stakeholders and investors rely.

At KPMG Audit we promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG Audit leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG value: “Above all, we act with integrity.” Integrity means constantly striving to uphold the highest professional standards, providing sound good-quality advice and rigorously maintaining our independence.

The KPMG values, which have been explicitly codified for a number of years, are embedded into the working practices and values-based compliance culture at KPMG Audit. The KPMG values form the foundation of our culture and set the tone at the top. They also form the foundation of the KPMG approach to audit and shape how we work together.

We communicate the KPMG values clearly to our people and embed them into our people processes — induction, performance development and reward. Specific consideration is given to our KPMG values for senior level promotions, including to Partner.

The KPMG values are set out [here](#).

KPMG Global Code of Conduct

KPMG’s commitment to integrity and quality is enshrined in the KPMG values that lie at the heart of the way we do things. They define KPMG’s diverse and inclusive culture and our commitment to the right personal and professional conduct. The KPMG values emphasize that, above all, KPMG personnel act with integrity, uphold the highest professional standards and provide sound advice while rigorously maintaining independence and complying with laws, regulations, and professional standards. The KPMG values are communicated clearly to all people and are embedded into member firms’ people processes — induction, performance development and reward.

Building on the KPMG values is the KPMG Global Code of Conduct. Member firms, including KPMG Audit, are required to adopt, as a minimum, the Global Code of Conduct.

In addition, the KPMG Global Code of Conduct lays out the expectations of ethical behavior for all partners and employees at KPMG Audit and is built

on the foundation of the KPMG values, the shared set of beliefs and principles at KPMG. In addition, the KPMG Global Code of Conduct emphasizes that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. The KPMG Global Code of Conduct includes provisions that require KPMG Audit personnel to:

- Comply with all applicable laws, regulations, professional standards and KPMG Audit policies
- Work with the right clients and third parties
- Focus on quality
- Maintain our objectivity and independence
- Not tolerate any illegal or unethical acts, committed within KPMG Audit OOD, by clients or suppliers, or public officials with whom we deal
- Protect information
- Compete fairly
- Help our people to be extraordinary
- Be responsible corporate citizens
- Build public trust

All KPMG Audit personnel are required to:

- Comply with both the Global Code of Conduct and confirm their compliance with the Code of Conduct upon joining the firm, and annually thereafter; and
- Complete regular training covering the Code of Conduct upon joining the firm and on a biennial basis thereafter.

Individuals are encouraged to speak up when they see something that makes them uncomfortable or that is inconsistent with the KPMG values. Moreover, everyone at KPMG is responsible for reporting, and is required to report, any activity that could potentially be illegal or in violation of the KPMG values, KPMG policies, applicable laws, regulations, or professional standards.

We have procedures and established channels of communication so that our personnel can report ethical and quality issues. Retaliation is prohibited against individuals who 'raise their hand' and speak up in good faith.

In addition, the [KPMG International hotline](#) is a mechanism for all KPMG partners, employees,

clients and other external parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, KPMG member firms or the senior leadership or employees of a KPMG member firm.

At KPMG Audit, we regularly monitor the extent to which our people feel we live the KPMG values through the Global People Survey (refer to [3.7.7 Insights from our people – Global People Survey \(GPS\)](#)).

3.4 Leadership responsibilities for quality and risk management

KPMG Audit demonstrates commitment to quality, ethics and integrity, and communicates its focus on quality to clients, stakeholders and society. Our leadership plays a critical role in setting the right tone and leading by example – demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives.

Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions – written and video communications, presentations to teams and one-to-one discussions.

The following individuals have leadership responsibilities for quality and risk management at KPMG Audit.

3.4.1 Managing Partner

In accordance with the principles in ISQC 1, our Managing Partner has assumed ultimate responsibility for the KPMG Audit system of quality control.

Our Head of Audit, who is a registered auditor, has assumed responsibility for the KPMG Audit system of quality control with respect to audit services.

3.4.2 Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG Audit has been delegated to the Risk Management Partner who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG Audit OOD. The Risk Management Partner has a direct

reporting line to the Managing Partner. She consults with the appointed KPMG Area Quality and Risk Management Leader. The seniority of the reporting lines underlines the importance that the firm places on risk and quality issues. The Risk Management Partner is supported by a central quality and risk management team.

3.4.3 Ethics and Independence Partner

The Ethics and Independence Partner has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Audit and reports on ethics and independence issues to the Managing Partner and to the Risk Management Partner.

3.4.4 Head of Audit

The Head of Audit is accountable to the Managing Partner for the quality of service delivered in the Audit function. The Head of Audit determines the operation of the risk management, quality assurance and monitoring procedures for the Audit function within the framework set by the Risk Management Partner. These procedures make it clear that at the engagement level, risk management and quality control is ultimately the responsibility of all professionals.

Our Head of Audit is responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG Audit personnel. This includes:

- Setting the right 'tone at the top' by demonstrating an unwavering commitment to the highest standards of professional excellence, including scepticism, objectivity, and independence
- Developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities
- Working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice, including an annual evaluation of activities considered to be key to audit quality.

Audit Leadership Team

The Audit Leadership Team of KPMG Audit held regular discussions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures

and other quality matters identified from a variety of sources. These were debated, other observations collected from client-facing teams were considered and actions agreed. Typically, most of these actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the entire Audit function and also, if considered of sufficient magnitude, in the next mandatory training. For more complex issues (which might require amendments to KPMG's global audit methodology or audit tools) these will be raised with KPMG International's Global Audit groups for consideration and potential development by the KPMG Global Solutions Group (previously Global Services Center – GSC) and the International Standards Group (ISG). For more information about the KGSG and the ISG refer to sections [KPMG Global Solutions Group \(KGSG\)](#) and [International Standards Group \(ISG\)](#).

3.4.5 Investing in continuous improvement

At a global level, KPMG International has introduced a number of changes as the KPMG network continues to invest in continuous improvement. These include the creation of the Global Audit Quality Committee of the Global Board, comprised of Senior Partners from the largest firms in the KPMG network, and the appointment of a dedicated Global Head of Audit Quality who reports to the committee.

3.4.6 What is audit quality?

Audit quality is fundamental to maintaining public trust and is the key measure on which our professional reputation stands.

We define 'audit quality' as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls; and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

3.5 Association with the right clients

One of the keys to managing audit quality is to understand the nature of our clients and the issues they face and build a robust audit response to the identified risks.

We understand our clients are linked to the quality of our work and our reputation.

Rigorous client and engagement acceptance and continuance policies and processes help protect KPMG's reputation, support the KPMG brand and are an important part to our ability to provide high-quality professional services.

3.5.1 Acceptance and continuance of clients and engagements

KPMG International has established policies and procedures which all member firms are required to implement in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client.

3.5.2 Client and engagement acceptance process

Client evaluation

KPMG Audit undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analysing the information to be able to make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client's risk profile and obtaining background information on the client, its key management, directors and owners. In addition, we obtain additional information required to satisfy our local legal and regulatory requirements.

A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be "high risk" the Risk Management Partner or a sufficiently skilled and experienced delegate is involved in approving the evaluation.

Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™ KPMG's conflicts and independence checking system), intended purpose and use of engagement deliverables, as well as factors specific to the type of engagement. For audit services, these include the

competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG Audit personnel and includes review by quality and risk management leadership as required.

Where audit services are to be provided for the first time, the prospective engagement team is required to perform additional independence evaluation procedures, including a review of any non-audit services provided to the client and of other relevant business and personal relationships.

Similar independence evaluations are performed when an existing audit client becomes a public interest entity (PIE) or additional independence restrictions apply following a change in the circumstances of the client.

We follow specific procedures (detailed further in section [Independence clearance process](#)) to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are required to be documented and resolved prior to acceptance.

A prospective client or engagement will be declined if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional standards and our policies, or if there are other quality and risk issues that cannot be appropriately mitigated.

3.5.3 Continuance process

KPMG Audit undertakes an annual re-evaluation of all its audit clients. The re-evaluation identifies any issues in relation to continuing association and any mitigating procedures that need to be put in place (this may include the assignment of additional professionals such as an Engagement Quality Control (EQC) reviewer or the need to involve additional specialists on the audit).

Recurring or long running non-audit engagements are also subject to re-evaluation.

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile.

3.5.4 Withdrawal

Where we obtain information that indicates that we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal, professional and regulatory responsibilities. We also communicate as necessary with those charged with governance and any other appropriate authority.

3.5.5 Client portfolio management

Engagement partners who have the appropriate competence, capabilities, time and authority to perform the role are appointed for each engagement.

We review each audit partner's client portfolio at least annually in individual discussions with the audit partner. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the partner to deliver a quality audit for every client.

Each partner's client portfolio is regularly reviewed by the Head of Audit to ensure that they have sufficient time to manage the portfolio and to ensure that the risks are being appropriately managed.

3.6 Clear standards and robust audit tools

All KPMG Audit professionals are expected to adhere to KPMG International and KPMG Audit policies and procedures (including independence policies) and are provided with a range of tools and guidance to support them in meeting these expectations. The policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.

3.6.1 Our approach to audit

KPMG has been investing significantly in evolving the network's audit capabilities and will continue to do so in the coming years including a new global electronic audit workflow delivered through KPMG Clara platform – KPMG's smart, modular audit platform – capable of continually integrating new and emerging technologies, with advanced capabilities

embedded that leverage data, automation, and visualization. Data & Analytics (D&A) is integral to the way how KPMG member firms obtain audit evidence and interact with clients in the digital era.

KPMG's high-quality audit process will continue to include:

- Timely partner and manager involvement throughout the engagement
- Access to the right knowledge including involvement of specialists, training and experience requirements and relevant industry expertise
- Critical assessment of all audit evidence obtained during the audit, exercising appropriate professional judgment
- Ongoing mentoring, supervision and review of the engagement team
- Managing and documenting the audit.

Consistent audit methodology and tools

Significant resources are dedicated to keeping KPMG's standards and tools complete and up to date. The KPMG audit methodology, developed by the KPMG Global Solutions Group (KGSG), is based on the requirements of the International Standards on Auditing (ISAs). The KPMG audit methodology is set out in KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhance the quality of the audit. The methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence. Enhancements to the audit methodology, guidance and tools are made regularly to be in compliance with standards, emerging auditing areas of focus and audit quality results (internal and external). Key topics include accounting estimates, internal control, revenue recognition, group audits, audit sampling and risk assessment.

KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal, or regulatory requirements.

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

The KPMG audit methodology encourages use of specialists when appropriate, and also requires involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Q&RM Manual that is applicable to all KPMG member firms, functions and personnel and is tailored by KPMG Audit for any local policies and procedures.

The KPMG audit workflow is enabled through eAudit's, an activity-based workflow and electronic audit file. eAudit is KPMG's audit documentation workflow that allows 75,000+ professionals to complete high quality and consistent audits. eAudit integrates KPMG's audit methodology, guidance and industry knowledge, and the tools needed to execute and document the audit work performed.

eAudit can be "scaled" to present the relevant requirements and guidance, depending on the nature of the entity to be audited and in accordance with professional standards and applicable legal and regulatory requirements. It provides direct access to our audit guidance, professional standards and documentation templates.

Significant investments are underway to revise and enhance the KPMG audit methodology (KAM) and workflow tool (eAudit), with the deployment of KPMG Clara Workflow which is being piloted in 2018, planned for initial deployment globally in 2019, and full deployment beginning in 2020. Refer to section KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics (D&A) below for more details on the KPMG Clara Workflow.

KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics (D&A)

KPMG International is making significant investments to improve audit quality, drive consistency in execution of audits and strengthen both the member firm and global monitoring of engagements.

KPMG Clara

In 2017, KPMG International commenced the global launch of KPMG Clara – KPMG's Smart Audit Platform, bringing together KPMG's Audit, Data

& Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and audit workflow.

This represents KPMG's ambition to:

- Transform audit execution for our people and clients through new, modern technology-enabled interfaces and collaboration functionality
- Integrate the required capability to digitize the audit and deliver new D&A routines
- Enable an enhanced and re-designed workflow
- Incorporate the development of monitoring capabilities at the engagement-level and across engagement portfolios for use by engagement teams and member firms
- Support global's leadership's monitoring of the effectiveness of member firm systems of quality control; and
- Develop an extendable audit platform to enable member firm customization and scale, as well as future capabilities.

KPMG Clara also encompasses the tracking of selected engagement-level indicators by engagement teams for an individual engagement and across an engagement portfolio. This provides a summary and visualisation of these indicators to:

- Measure audit engagement progress and ensure timely issue resolution;
- Facilitate audit execution by providing key indicators for prioritising tasks; and
- Highlight unexpected results/relationships that may require further investigation.

KPMG Clara will be enriched over time as emerging technologies continue to transform the audit, with areas like cognitive and predictive technology being channeled through KPMG Clara to deliver ever greater capabilities. Through alliances with some of the world's most advanced technology companies such as Microsoft, KPMG is building the future of audit, aligning with technology leaders to bring new insights faster and, with growing capabilities, deliver even more value through KPMG member firm audits. KPMG International's investment strategy also includes innovation, working with universities on important applied audit research and working with member firms as they develop advanced technologies.

KPMG Clara Workflow

Building on the launch of KPMG Clara in 2017, KPMG International is creating a new workflow tool that will be used by KPMG audit teams to execute and document KPMG audits. It will be intuitive, user-friendly and modern. The new system will genuinely be a workflow – guiding audit teams through a series of steps in a logical sequence, with clearer display of information and visuals, knowledge and guidance available at the moment of need, and with embedded advanced D&A capabilities. The workflow and methodology will also be scalable – adjusting the requirements to the size and complexity of the audit engagement. This globally-driven project will significantly overhaul and redesign the execution of an audit by KPMG professionals and drive improvements in audit quality.

KPMG Clara Workflow will incorporate the development of monitoring capabilities (e.g. data mining) at the engagement level for use by member firms. The KPMG Clara Workflow is being piloted in 2018, with initial deployment globally in 2019 and full deployment beginning in 2020. The predecessor audit workflow tool, eAudit, is expected to be decommissioned in the 2021 fiscal year.

Audit data & analytics (D&A)

KPMG's audit, powered by D&A:

- Enhances audit quality; by providing a deeper understanding of data populations, giving focus to higher risk transactions
- Is secure; by restricting access to data both in transit and within kpmg's it environments; and
- Is transparent; by facilitating detailed analysis to uncover the reasons behind, and root causes of, outliers and anomalies and provide increased visibility into higher risk transactions and process areas.

D&A tools and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

3.6.2 Independence, integrity, ethics and objectivity

Auditor independence is a cornerstone of international professional standards and regulatory requirements.

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's Global Q&RM Manual. Automated tools facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards issued by the Commission for Public Oversight of Statutory Auditors (CPOSA) and those of other applicable regulatory bodies. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

KPMG International has a Partner-in-Charge of the Global Independence Group, who is supported by a core team of specialists to help ensure that robust and consistent independence policies and procedures are in place at KPMG member firms, and that tools are available to help them and their personnel comply with these requirements.

KPMG Audit has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Audit.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications. Member firms are required to implement changes as specified in the email alerts, and this is checked through the internal monitoring programs described in section [3.10.1 Internal monitoring and compliance programs](#).

KPMG Audit personnel are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual. Consultations may also be required with the Global Independence Group, depending upon the facts and circumstances.

Personal financial independence

KPMG International policies require that KPMG member firms and KPMG professionals are free from prohibited financial interests in, and prohibited relationships with, KPMG member firm audit clients, their management, directors, and significant owners. The policies also extend the IESBA Code

of Ethics restrictions on ownership of audit client securities to every KPMG member firm partner in respect of any audit client of any member firm.

KPMG Audit professionals are responsible for making appropriate inquiries and taking other appropriate actions on an ongoing basis to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes.

In common with other KPMG member firms, we use a web-based independence compliance system (KICS) to assist our professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments.

Partners and all manager grade and above client-facing personnel are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if any investment subsequently become restricted. Newly restricted investments must be disposed of within five business days of the notification. KPMG monitors partner and manager compliance with this requirement as part of our program of independence compliance audits of a sample of professionals.

Employment relationships

Any professional providing services to an audit client irrespective of function is required to notify our EIP if they intend to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG member firm that is a public interest entity.

Former members of the audit team or former partners of KPMG Audit are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG Audit, including payments which are not fixed, and determined and/or would be material to KPMG Audit and ceased participating in KPMG Audit business and professional activities. In addition, the requirements of Article 58 of the Bulgarian Independent Financial Audit Act are complied with in relation to cooling-off period for registered auditors, engagement partners and other audit team members joining an audit client in management level

positions, as members of the audit committee, a management or supervisory body.

Key audit partners and members of the chain of command for an audit client that is a public interest entity are subject to time restrictions (referred to as 'cooling-off' periods) that preclude them from joining that client in certain roles until a defined period of time has passed.

We communicate and monitor requirements in relation to employment of KPMG Audit professionals by audit clients.

Firm financial independence

KPMG member firms must also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and significant owners.

In common with other KPMG member firms, KPMG Audit uses KICS to record its own investments in SEC entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

Additionally, KPMG Audit is required to record in the system all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, KPMG Audit confirms compliance with independence requirements as part of the Risk Compliance Program.

Business relationships/suppliers

KPMG Audit has policies and procedures in place that are designed to ensure its business relationships are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements.

These include establishing and maintaining a process to evaluate potential third-party arrangements (for example business alliances and joint working arrangements, procurement relationships and marketing and public affairs activities) with particular regard to whether they have a bearing on auditor independence.

All prospective business relationships are evaluated to assess association risks and to identify potential auditor independence and conflicts of interest issues. A relationship involving a third-party service provider – that a member firm will use to assist with client engagements or for other purposes – is also evaluated to determine whether the third party has the competence to provide the relevant services. The individuals providing the services are required to confirm they understand and will comply with applicable ethics and independence requirements, and they are also required to complete ethics training. Third parties providing services to audit or assurance clients are required to complete independence training.

Business acquisitions, admissions and investments

If KPMG Audit is in the process of considering the acquisition of, or investment in, a business, it is required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues prior to closing the transaction. Specific consultation requirements are applied to enable independence and other issues to be addressed when integrating the business into KPMG Audit and the wider KPMG network.

Independence clearance process

KPMG Audit follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as ‘the independence clearance process,’ must be completed prior to accepting an audit engagement for these entities.

A ‘KPMG Independence Checkpoint’ tool was introduced to automate and standardize all the workflows that comprise the independence clearance process. This is in anticipation of the increasing number of audit tenders member firms will be participating in and the number of independence clearances that need to be completed as a result of mandatory firm rotation of statutory audits in certain parts of the world.

Independence training and confirmations

All KPMG Audit partners and client service professionals, as well as certain other individuals, must complete independence training that is appropriate to their grade and function upon joining KPMG Audit and on an annual basis thereafter.

New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Audit or (b) before providing any services to, or becoming a member of the chain of command for, any audit client, including any of its related entities or affiliates.

We also provide all personnel with training on the Global Code of Conduct and ethical behavior, including KPMG’s anti-bribery policies, compliance with laws, regulations, and professional standards, and reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG’s policies on a biennial basis. New personnel are required to complete this training within three months of joining KPMG Audit.

In addition, certain non-client-facing personnel who work in support functions departments, and who are at the manager level and above, are also required to undertake anti-bribery training.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by, applicable ethics and independence rules and policies. Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the confirmation as well as their understanding of, and compliance with, the applicable Code of Conduct. This confirmation is used to evidence the individual’s compliance with and understanding of KPMG’s independence policies.

Non-audit services

We have policies that are consistent with IESBA principles and applicable laws and regulations, related to the scope of services that can be provided to audit clients.

We are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Audit. KPMG Audit’s EIP is involved in the review of potential

independence issues, and the Global Independence Group is involved in the case of services developed which are intended to be delivered to audit or assurance clients in more than one jurisdiction.

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with these policies. Certain information on all prospective engagements, including service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their affiliates in Sentinel™, and they are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. Sentinel™ enables lead audit engagement partners, for those entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

Fee dependency

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. In particular, they require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years:

- This would be disclosed to those charged with governance at the audit entity; and
- A senior partner from another KPMG member firm would be appointed as the EQC reviewer.

No audit client accounted for more than 10 percent of the total fees received by KPMG Audit over the last two years.

Avoiding conflicts of interest

Conflicts of interest can arise in situations where KPMG Audit personnel have a personal connection with the client which may interfere, or be perceived to interfere, with their ability to remain objective,

or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the RMP or the EIP is required in these situations.

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived by a fully informed, reasonable observer, to have an impact on a member firm or its personnel in their ability to be objective or otherwise act without bias.

Any potential conflict matters that raise important points of principle for us are referred to our Risk Management Partner for resolution; in cases of difficulty a panel of partners may be convened to resolve the matter.

All KPMG member firms must use Sentinel™ for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

KPMG Audit has risk management resources ('Resolvers') who are responsible for reviewing an identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which must be documented. It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise, or be perceived to arise, so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients, and making arrangements to monitor the operation of such dividers.

Escalation and dispute resolution procedures are in place for situations in which agreement cannot be reached on how to manage a conflict. If a potential conflict issue cannot be appropriately mitigated, the engagement is declined or terminated.

Breaches of independence policy

All KPMG Audit personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy.

KPMG Audit has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them but at a minimum on an annual basis.

Matters arising are factored into our promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics.

Compliance with laws, regulations, and anti-bribery and corruption

Compliance with laws, regulation and standards is a key aspect for all KPMG Audit personnel. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery – even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third-parties, including by our clients, suppliers or public officials.

Further information on KPMG International anti-bribery and corruption policies can be found on the [anti-bribery and corruption site](#).

Partner and firm rotation

Partner rotation

KPMG International partner rotation policies are consistent with the IESBA Code of Ethics and require all member firms to comply with any stricter local applicable rotation requirements.

KPMG Audit partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide statutory audit services to a client, followed by a 'time-out' period during which time these partners may not participate in the audit, provide quality control for the audit, consult with the engagement team or the client regarding technical or industry-specific issues or in any way influence the outcome of the audit.

In particular, in accordance with the Bulgarian Independent Financial Audit Act, a responsible auditor, who performs a financial audit of a public interest entity's financial statements on behalf of an audit firm, shall be replaced after having carried out financial audit engagements for a time period of four consecutive years from the appointment of the audit firm by such entity. This registered auditor shall be prohibited from carrying out compulsory financial audit engagements at this entity in the capacity of an auditor for a time period of three years from the date of his or her withdrawal.

KPMG Audit monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and EQC Reviewer, where there is a rotation requirement) and develops transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients. The partner rotation monitoring is subject to compliance testing.

Firm rotation

Under the Bulgarian Independent Financial Audit Act KPMG Audit is permitted to act as an auditor for a public interest entity for a maximum period of seven years and not to act as auditor for such clients for four years thereafter (referred to as the 'cooling off period'). KPMG Audit has processes in place to track and manage audit firm rotation.

3.7 Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, passion and purpose to deliver the highest quality in audit. This requires appropriate recruitment, development, promotion, retention and assignment of professionals. The KPMG performance development approach is linked to the KPMG values and is designed to articulate what is required for success – both individually and collectively. Ensuring Audit quality is an essential element of the training, planning and development underway to support the KPMG Clara Workflow roll-out and the associated updated KPMG audit methodology, with processes embedded in all KPMG learning programs.

3.7.1 Recruitment

KPMG Audit strives to be an employer of choice by creating an environment where our people can fulfill their potential and feel proud and motivated to give their best.

Our recruiting strategies are focused on drawing entry-level talent from a broad talent base, including working with established universities.

All candidates submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks.

Where individuals are recruited for senior grades, a formal independence discussion is conducted with them by the Ethics and Independence Partner or a delegate. KPMG Audit does not accept any confidential information belonging to the candidate's former firm/employer.

The Partner hire process is rigorous and thorough, involving appropriate members of leadership. Our criteria for Partner hires are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice.

3.7.2 Personal development

It is important that all our professionals have the necessary business and leadership skills in addition to technical skills to be able to perform quality work (see section [3.8.1 Lifetime learning strategy](#)).

KPMG is launching a new Performance Development process which will apply to all member firms called 'Everyone a Leader', where stretching goals should be set and reviewed regularly throughout the year. Leadership competencies will include 'driving quality', 'advancing an ethical environment' and 'making sound decisions'. A goals library is available for colleagues to gain inspiration around what goals they want to set, with one category of goals focused specifically around quality.

A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers. In our performance development approach feedback can be sought and received through

two mechanisms, informal feedback, which should be regular and owned by the individual for their own development and growth, and formal feedback through an engagement review form. The engagement review form specifically requests feedback on quality and is required quarterly, and inputs into performance evaluations.

Partners and certain professionals are also required to be evaluated on key quality and compliance metrics. KPMG Audit monitors quality incidents and maintains quality and compliance metrics for the purpose of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

In relation to audit, opportunities are provided for professionals to develop the skills, behaviors, and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership, and business skills.

KPMG Audit professionals are also developed for high performance through coaching and mentoring on the job, stretch assignments, country rotational and global mobility opportunities.

Talent and development is at the very top of our people agenda and there is a significant investment of time, money and other resources to build professional capability, leadership and business skills and technical expertise.

All staff are encouraged to think about their careers and personal development needs via regular performance conversations with ongoing feedback and support. To support career and professional development there is a range of core skills programs covering skills and behaviors that provide performance improvement and ensure that individuals reach their full potential. Development centres and feedback tools enable KPMG Audit to identify high performers who also have the potential to take on more senior or more complex roles. We also have long-term development programs to support the journey to manager for more junior grades, and for those in the promotion pipeline for identified director and partner roles. In recognition that some of our professionals are unable to always attend training courses in person, to complement the mix between education, collaboration and experience, and to provide training accessible at the right time in a flexible and interactive approach, we

also provide training via online learning and virtual classrooms.

In relation to audit we provide specific opportunities from graduate upwards for professionals to develop and maintain the skills, behaviors and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills.

3.7.3 Inclusion and Diversity programs

KPMG Audit works hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

Our leadership and management teams also need to reflect the diversity within our firm and the diversity of our clients. We believe that the established Global Inclusion and Diversity strategy of KPMG International provides the framework to drive the actions that are necessary to promote inclusive leadership at KPMG Audit and across the KPMG network.

For more about Inclusion & Diversity at KPMG read [here](#).

3.7.4 Performance & Reward

Evaluation process including quality and compliance metrics

KPMG Audit professionals, including partners, have annual goal-setting and performance reviews. Each professional is evaluated on agreed-upon goals, demonstration of our leadership competencies, technical capabilities and market knowledge. A culture of continuous improvement is encouraged to drive feedback, both formal and informal, from junior and senior colleagues, as well as peers. Feedback gathered forms an integral part of performance reviews.

KPMG Audit monitors quality and compliance incidents and maintains quality metrics in assessing the overall evaluation, promotion and remuneration of partners and directors and managers. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

KPMG Audit's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

Each year, the partners are also required to agree objectives for the coming year which are specific to their individual role. They do this using a goal setting form which records both their objectives and their performance against those objectives at year-end, including their performance related to quality and risk matters (which is of course important for all of our services but absolutely critical for statutory audit). As for staff, as part of the year-end performance development activity our partners discuss achievement of agreed goals, strengths and development areas with particular focus on the delivery and personal development of the partner attributes. They are required to provide objective evidence to demonstrate this, which includes their individual quality, ethics and compliance metrics.

These standardised metrics (which are issued to all engagement leaders and managers) are one of the inputs to the annual performance appraisal process. The quality, ethics and compliance metrics include a number of parameters, such as the results of external regulatory reviews, timely completion of training and the outcome of internal monitoring programmes. Individuals received metrics (which are either red, amber or green) in relation to each of Quality, Ethics and Compliance.

The action taken in respect of any Partner with amber and red ('adverse') metrics is dependent upon the cause of the adverse metric initially. The range of actions that can be taken includes remediation of the initial deficiency giving rise to the adverse metric, remedial training, one-to-one counselling with functional leadership and/or Quality & Risk Partners on the issue arising, or, ultimately, the suspension of signing rights. Adverse metrics generally result in a reduction in the overall compensation paid to the Partner concerned.

Reward

We have compensation and promotion policies that are clear, simple, and linked to the performance review process which, for partners, includes the achievement of key audit quality and compliance metrics. This helps our partners and employees

know what is expected of them, and what they can expect to receive in return.

Reward decisions are based on consideration of both individual and organizational (member firm) performance. The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed accordingly.

Promotion

The results of performance evaluations directly affect the promotion and remuneration of partners and staff and, in some cases, their continued association with KPMG.

3.7.5 Partner admissions

The KPMG Audit process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the KPMG Audit partnership are consistent with our commitment to professionalism and integrity, quality and being an employer of choice. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles. All recommendations for admission to partnership of KPMG Audit need to be approved by the KPMG Central and Eastern Europe Board.

3.7.6 Assignment of professionals

KPMG Audit has procedures in place to assign both the engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement.

The Head of Audit is responsible for the partner assignment process. Key considerations include partner experience, and capacity – based on an annual partner portfolio review – to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards, and applicable legal and regulatory requirements. This

may include involving specialists from our own firm or other KPMG member firms.

As an additional control, our Head of Audit performs an annual review of the portfolio of all of our audit engagement partners. The purpose of this portfolio review is to look at the complexity and risk of each audit and then to consider whether, taken as a whole, the specific engagement partner has the appropriate time and the right support to enable the engagement partner to perform a high-quality audit for each client in their portfolio.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner's considerations may include the following:

- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- An understanding of professional standards and legal and regulatory requirements
- Appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing
- Knowledge of relevant industries in which the client operates
- Ability to apply professional judgment
- An understanding of KPMG Audit's quality control policies and procedures
- QPR results and results of regulatory inspections.

3.7.7 Insights from our people – Global People Survey (GPS)

The survey also specifically provides KPMG Audit leadership and KPMG global leadership with results related to audit quality, upholding the KPMG values, employee and partner attitudes to quality, leadership and tone at the top.

KPMG Audit participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. This includes monitoring GPS results including those related to audit quality and tone at the top, and employee engagement through the EEI.

The results of the GPS are also aggregated for the KPMG network and are presented to the Global

Board each year and appropriate follow-up actions agreed.

3.8 Commitment to technical excellence and quality service delivery

All KPMG Audit professionals are provided with the technical training and support they need. This includes access to specialists and the professional practice department which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG Audit, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

At the same time, audit policies require professionals to have the appropriate knowledge and experience for their assigned engagements.

3.8.1 Lifetime learning strategy

In addition to personal development discussed in the section above, our lifetime learning strategy is underpinned by policies requiring all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional, and where applicable, KPMG Audit level. Training is delivered using a blend of classroom, e-digital learning and performance support to assist auditors on the job. Audit Learning and Development teams work with subject matter experts and leaders from the KGSG, the ISG and member firm Department of Professional Practice (DPP), as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job and is delivered on a timely basis.

Mentoring and on the job training

Learning is not confined to the classroom – rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific

role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

In relation to audit, KPMG Audit:

- Deploys a variety of learning solutions that are designed to reinforce our Values and ensure our professionals get the fundamentals right, and develop the necessary skills and attitudes to make judgments, and apply professional skepticism that enhance audit quality and the value of audit
- Provides instructor-led and virtual classroom training, performance support tools, coaching guides and just-in-time learning available on judgmental audit topics — this is used by audit teams and this guidance is embedded across audit learning solutions
- Has also developed professional judgment tools, designed to reinforce the importance of independence and objectivity, and to assist engagement teams in demonstrating professional skepticism
- Provides courses to enhance personal effectiveness and develop leadership and business skills. Our personnel are developed further for high performance through coaching and mentoring on the job, stretch assignments and country rotational and global mobility opportunities.

3.8.2 Licensing and mandatory requirements for IFRS engagements

All KPMG Audit professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice. Policies and procedures are designed to facilitate compliance with license requirements.

The firm's registered auditors who are members of the Institute of Certified Public Accountants in Bulgaria participate in annual training and comply with the requirements of the Independent Financial Audit Act for minimum hours of continuing education required by the Institute of Certified Public Accountants.

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting framework – IFRS.

In addition, we have specific requirements for partners, managers and EQC reviewers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework. Similar policies apply to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that the partner, manager, and EQC reviewer have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

3.8.3 Access to specialist networks

KPMG Audit engagement teams have access to a network of local KPMG specialists as well as specialists in other cross-border KPMG member firms.

Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

The need for specialists (e.g. Information Technology, Tax, Treasury, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

3.8.4 Culture of Consultation

KPMG encourages a strong culture of consultation that supports member firm teams throughout their decision-making processes and is a fundamental contributor to audit quality. KPMG Audit promotes a culture in which consultation is recognized as a strength and that encourages personnel to consult on difficult or contentious matters. To assist audit engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the KPMG Global Q&RM Manual includes mandatory consultation requirements where certain

matters are identified such as concerns over client integrity.

Technical consultation and global resources

For KPMG Audit, the role of DPP is crucial in terms of the support that it provides to the Audit Function. It provides technical guidance to client service professionals on specific engagement related matters, develops and disseminates specific topic related guidance on emerging local technical and professional issues and disseminates international guidance on IFRS and ISAs.

Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by technical specialists. In exceptional circumstances, a matter may be referred to the Head of Audit, Head of DPP, Risk Management Partner (or appropriate nationally qualified delegates) or ultimately the national senior partner.

Technical auditing and accounting support is available to all member firms and their professionals through the KGSG and the ISG as well as the US Capital Markets Group for SEC foreign registrants.

KPMG Global Solutions Group (KGSG)

The KGSG's mission is to drive success for KPMG's global network of Audit practices through collaboration, innovation and technology. The KGSG develops, maintains and deploys KPMG's audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits. With three global locations, one in each region, the KGSG Audit team is made up of professionals with backgrounds in audit, IT, data science, mathematics, statistics, and more from around the world who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

International Standards Group (ISG)

The ISG works with Global IFRS and ISAs topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis.

Further details about the KGSG and ISG and its activities are available in the [KPMG International Transparency Report](#).

Member firm professional practice resource

Appropriate consultation support on auditing and technical accounting matters is provided to audit engagement professionals through our professional practice resources (referred to as Department of Professional Practice or DPP). DPP also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to be escalated to senior partners for final resolution. The ISG is also available for consultation when required.

KPMG International policies include minimum requirements for member firm DPPs.

3.8.5 Developing business understanding and industry knowledge

A key part of quality is having a detailed understanding of the client's business and industry.

For significant industries, global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals through the KPMG audit workflow. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available that provide general and business information in respect of particular industries, as well as a summary of the industry knowledge provided in the KPMG audit workflow.

3.9 Performance of effective and efficient audits

How an audit is conducted is as important as the final result. KPMG Audit personnel are expected to demonstrate certain key behaviors and follow certain policies and procedures in the performance of effective and efficient audits.

3.9.1 Ongoing mentoring, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of KPMG professionals, without compromising on

quality, KPMG Audit promotes a continuous learning environment and supports a coaching culture.

The engagement partner, supported by the engagement manager, is responsible for driving a culture of coaching and continuous learning throughout the audit process and setting an example in the performance of the audit to drive a culture of continuous audit quality improvement.

Ongoing mentoring, coaching and supervision during an audit involves:

- Engagement partner participation in planning discussions
- Tracking the progress of the audit engagement
- Considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement
- Helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately
- Identifying matters for consultation with more experienced team members during the engagement.

A key part of effective mentoring and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

Timely engagement quality control (EQC) reviewers

EQC reviewers are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

An EQC reviewer is required to be appointed for audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, high risk engagements and other engagements as designated by the Risk Management Partner or country Head of Audit.

The EQC review takes place before the date of the auditors' report and includes, among other matters:

- Review of selected audit documentation relating to significant judgments the engagement team made and the conclusions it reached;
- Review of the financial statements and proposed auditors' report; and
- Evaluation of the conclusions reached in formulating the auditors' report and consideration of whether the proposed report is appropriate.

Although the engagement partner is ultimately responsible for the resolution of financial reporting and auditing matters, the EQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered complete.

KPMG Audit is continually seeking to strengthen and improve the role that the EQC reviewer plays in audits, as this is a fundamental part of the system of audit quality control. In recent years, a number of actions have been taken to reinforce this, including:

- Issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers
- Incorporating specific procedures in the KPMG audit workflow to facilitate effective reviews
- Implementing policies relating to recognition, nomination and development of EQC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement
- Ensuring that the role performed by EQCRs is also taken into account when performing the Partner Portfolio Review process to ensure adequacy of time and appropriate skill set for the role and reallocation if needed; and
- Assessing, as part of our Quality Performance Reviews, the work performed by the EQC reviewer and the adequacy of involvement including discussion with the EQC reviewer.

Reporting

Auditing standards and the Independent Financial Audit Act largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement partners form all audit opinions based on the audit performed.

In preparing auditors' reports, engagement partners have access to extensive reporting guidance and technical support through consultations with our DPP, especially where there are significant matters to be reported to users of the auditors' report, (e.g. a modification to the opinion or through the inclusion of "an emphasis of matter" or "other matter" paragraph).

As a result of the EU Audit Directive and Regulation, the auditors' reports for PIEs for periods beginning on or after 17 June 2016 also include increased transparency on the auditor independence:

- A declaration that the non-audit services prohibited were not provided and the auditor remains independent of the client in conducting the audit;
- An indication of any services, in addition to the audit, which were provided by the auditor to the client and its undertakings and which have not been disclosed in the annual report or the financial statements of the client;
- The disclosure of the auditor's period of tenure.

Insightful, open and honest two-way communication

Two-way communication with those charged with governance, often identified as the audit committee, is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG Audit we stress the importance of keeping those charged with governance informed of issues arising throughout the audit and the need to listen to and understand their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing informal discussions with management and members of the audit committee.

Communications with audit committees include:

- An overview of the planned scope and timing of the audit, which includes communicating significant risks identified
- Significant findings from the audit which may include control deficiencies and audit misstatements
- An annual written communication that states the engagement team and KPMG Audit have complied with relevant independence requirements; describes all relationships and

other matters between KPMG Audit and the audit client that, in our professional judgment, may reasonably be thought to bear on independence; and states related safeguards we have applied to eliminate (or reduce to an acceptable level) identified threats to independence.

We ensure such communications meet the requirements of professional standards.

In recognition of the demanding and important role that audit committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, the Audit Committee Institute (ACI) aims to help audit committee members enhance their commitment and ability to implement effective audit committee processes. The ACI operates in more than forty countries across the globe and provides audit committee members with authoritative guidance (such as the ACI Audit Committee Handbook) on matters of interest to audit committees, updates on issues like EU audit reform, changes to accounting standards and other matters of interest to Audit Committees (such as cyber security and corporate culture); and the opportunity to network with their peers during an extensive program of technical updates and awareness seminars.

The ACI's offerings cover the array of challenges facing Audit Committees and businesses today — from risk management and emerging technologies to strategy and global compliance.

KPMG's Global IFRS Institute provides information and resources to help KPMG Audit and Audit Committee members, executives, management, stakeholders and government representatives gain insight and access thought leadership about the evolving global financial reporting framework.

3.9.2 Client confidentiality, information security and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including through regular communications on the topic, the Global Code of Conduct, training and the annual independence/confirmation process, which all of our professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit

documentation and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, standards and regulations.

We have clear policies on information security that cover a wide range of areas. Data Privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG Audit personnel.

We are committed to providing a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our clients, service providers and other third parties.

Within Quality & Risk Management the Firm has a dedicated National IT Security Officer who has the necessary authority, skills and experience to perform the information protection function.

Our information protection requirements are set out in the Global Information Security Policy published by KPMG International. Compliance monitoring against these standards and policies is carried out through our internal information security audit programme and is supplemented by annual checks by the Global Information Protection Group.

In addition, KPMG Audit is certified to ISO27001, the international standard for Information Security Management. Obtaining and maintaining ISO27001 is part of our commitment to information security. We are independently audited against the standard by an accredited external third party.

We believe that everyone has a role to play in protecting client and confidential information. Policies and practices are communicated to all personnel and, as appropriate, reinforced through guidance, awareness and training. Data privacy and Information Security policies are in place governing the handling of personal and confidential information.

3.10 Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of KPMG audits. Integrated quality monitoring and compliance programs enable member firms to identify quality

deficiencies, to perform root cause analysis and develop, implement and report remedial action plans both in respect of individual audit engagements and the KPMG system of quality control. KPMG International's integrated quality and monitoring programs include the Quality Performance Review (QPR) program, the Risk Compliance Program (RCP) and the Global Compliance Review (GCR) program.

The quality monitoring and compliance programs are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG Audit compares the results of its internal monitoring programs with the results of those of any external inspection programs and takes appropriate action.

3.10.1 Internal monitoring and compliance programs

Our monitoring programs evaluate both:

- Engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International policies and procedures
- KPMG Audit compliance with KPMG International policies and procedures and the relevance, adequacy, and effective operation of key quality control policies and procedures.

The results and lessons from the integrated monitoring programs are communicated internally, and the overall results and lessons from the programs are considered and appropriate action is taken at local, regional and global levels. Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Two KPMG International developed and administered inspection programs are conducted annually: QPR and RCP.

Additionally, all member firms are covered at least every three years by the cross functional GCR program. Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.

Audit Quality Performance Reviews (QPRs)

The QPR program assesses engagement level performance and identifies opportunities to improve engagement quality.

Risk-based approach

Each engagement leader is reviewed at least once in a three year cycle. A risk-based approach is used to select engagements.

KPMG Audit conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG Audit level and are monitored regionally and globally. Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

Reviewer selection, preparation and process

There are robust criteria for selection of reviewers. Review teams include senior experienced lead reviewers that are independent of the member firm under review.

Training is provided to review teams and others overseeing the process, with a focus on topics of concern identified by audit oversight regulators and the need to be as rigorous as external reviewers.

Evaluations from Audit QPR

Consistent criteria are used to determine engagement ratings and member firm audit practice evaluations.

Audit engagements selected for review are rated as 'Satisfactory', 'Performance Improvement Needed' or 'Unsatisfactory'.

Reporting

Findings from the QPR program are disseminated to member firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings.

These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

Lead audit engagement partners are notified of less than satisfactory engagement (defined as 'Performance Improvement Needed' or 'Unsatisfactory') ratings on their respective cross-border engagements. Additionally, lead audit engagement partners of parent companies / head offices are notified where a subsidiary / affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR.

Risk Compliance Program (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all member firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, we perform a robust assessment program consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to:

- Monitor, document and assess the extent of compliance of KPMG Audit system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services
- Provide the basis for KPMG Audit to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified, we are required to develop appropriate action plans and monitor the status of each action item.

Global Compliance Review (GCR) program

Each member firm is subject to a GCR conducted by KPMG International's GCR team, independent of the member firm, at least once in a 3 year cycle.

The GCR team performing the reviews is independent of the KPMG member firm and is objective and knowledgeable of Global Quality and Risk Management policies. GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of:

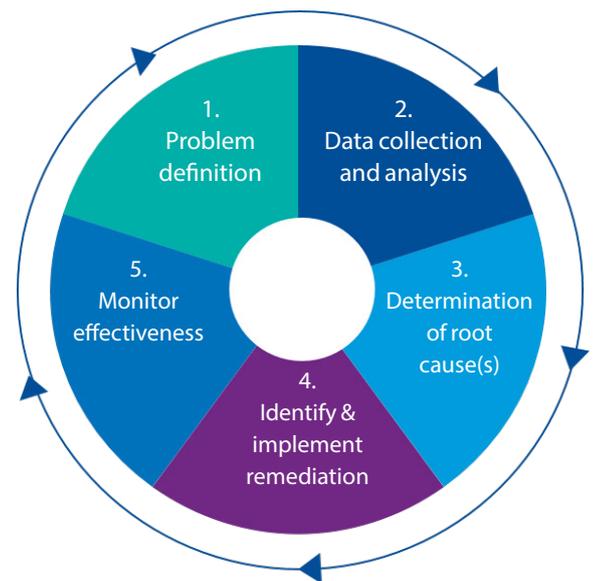
- A member firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment
- A member firm's compliance with key KPMGI policies and procedures; and
- The robustness with which the member firm performs its own compliance program (RCP).

We develop action plans to respond to all GCR findings and agree these with the GCR team. Our progress on action plans is monitored by the GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GO&RMSG) and, where necessary, to appropriate KPMG International and regional leadership, to help ensure timely remedial actions taken by the member firm.

Root Cause Analysis (RCA)

KPMG Audit performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement.

The Global RCA 5 Step Principles are as follows:



It is the responsibility of member firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

KPMG Audit Head of Audit is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners. The Risk Management Partner monitors their implementation.

Over the last year we have significantly increased the formality of root-cause analysis performed. The RCA is performed by a team trained in our Global root-cause analysis 5-step methodology and independent of the engagement team.

The outcome of this process is increased visibility of the underlying factors at engagement level that hinder the consistent delivery of high quality audits. This improved visibility allows us to develop more insightful and focused actions. These actions are broader than training, tools and guidance and are designed to address behavioral and structural matters in addition to areas such as technical knowledge and work allocation.

3.10.2 Recommendations for improvement

At a global level, through the Global Audit Quality Issues Council (GAQIC) and the Global Quality & Risk Management Steering Group (GQ&RMSG), KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global actions as required.

To date, global remediation plans developed by KPMG International have been aimed at changing culture and behavior across the KPMG network and at driving consistent engagement team performance within KPMG member firms. The remediation plans have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the KPMG network.

3.10.3 External feedback and dialogue Regulators

As an audit company auditing public interest entities, KPMG Audit is subject to regular quality assurance review of the audit practice, carried out by the Bulgarian Commission for Public Oversight of Statutory Auditors at least every three years. The last regular review of KPMG Audit was performed by CPOSA in November/December 2016 and covered the period 1 July 2015 – 30 June 2016. The purpose of the review was to assess the design and implementation of the audit quality control system used with respect to audit engagements; the performance of the audit engagements in

compliance with professional standards, regulatory and statutory requirements; compliance with the ethics requirements of the IESBA Code of Ethics for Professional Accountants; appropriate and adequate evidence in the audit work papers; appropriateness of time and human resources allocated to the reviewed audit engagements; and fees received. The report of the Commission as a result of the examination states that the activities of KPMG Audit as an audit firm for the period under review were in compliance, in all material aspects, with the audit service quality requirements and the procedures stipulated by auditing standards.

As part of the quality control and the requirements for transparency in the audit practice KPMG Audit maintains a list of public interest entities audited by the Company during 2018. The list is provided as [Appendix 1: Public Interest Entities](#) to the report.

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues at a network level. At a regional level, we also have regular dialogue with representatives of the Committee of European Auditing Oversight Bodies (CEAOB) — formerly known as the European Audit Inspection Group (EAIG).

Client feedback

We proactively seek feedback from clients through in-person conversations and third-party surveys to monitor their satisfaction with services delivered. We endeavor to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients' needs.

Monitoring of complaints

We have procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are referred to in our general terms of business.

Other assessments of audit quality

We have also adopted additional processes to assess audit quality, such as pre-issuance review of client's financial statements.

Financial information

Presented below is financial information regarding KPMG Audit OOD total turnover broken down into categories:

Services	2018 Revenue BGN '000
Revenues from compulsory audit of annual financial statements (individual and consolidated) of PIEs and of entities which are part of a group and the parent company of which is a PIE in Bulgaria, and directly related services required by law or other regulations in Bulgaria and/or the EU for PIEs	907
Revenues from compulsory audit of annual financial statements (individual and consolidated) of other entities	4,240
Revenues from permitted services, other than statutory audit, provided to the audited entities	1,386
Revenues from services, other than audit, provided to other clients	179
Total	6,712

The overall combined revenue of the KPMG member firms in Bulgaria for the year ended 31 December 2018 is BGN 34,351 thousand. The revenue includes services provided across the KPMG network (while eliminating the revenues generated between KPMG member firms in Bulgaria) as well as direct costs invoiced to clients.

Partner compensation

The partners' compensation system is based on common principles adopted by the Regional Board of KPMG in CEE and is designed to reflect individual partner's responsibilities and experience, their role in the management of the professional practices and the firm as a whole, as well as local market conditions. The objectives set to each partner cover both financial indicators and results such as growth in revenue and profitability as well as the quality of work and excellence in client service, leadership and living the values of the firm.

Partners' target compensation is set by the Managing Partner in consultation with the Chairman of KPMG CEE Board. The compensation has two elements:

- Base – This is the remuneration determined as a proportion of the firm's budgeted profits. The amount of the base component reflects the role and seniority of each partner; and
- Performance profit related component – This reflects the annual partner's performance against set individual objectives, that of the relevant function and his/her contribution to the development of the firm.

The amount of the performance profit related component awarded at the conclusion of the financial year depends on the partner's performance and is subject to availability of distributable profits.

Network arrangements

KPMG INTERNATIONAL ESTABLISHES AND FACILITATES THE IMPLEMENTATION AND MAINTENANCE OF UNIFORM POLICIES AND STANDARDS OF WORK

6.1 Legal structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

One of the main purposes of KPMG International is to facilitate the provision by member firms of high-quality Audit, Tax, and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies, standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. More information about the KPMG network can be found in the [KPMG Global Review](#).

The name of each audit firm that is a member of the network and the EU/EEA countries in which each network member firm is qualified as a

statutory auditor or has its registered office, central administration or principal place of business are available on this [link](#).

Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements³

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion during the year ended 30th September 2018.

The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2018.

6.2 Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

³ The financial information set forth represents combined information of the separate KPMG member firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG Values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

The objectives of the ARL role are to:

- Assist GO&RM leadership in the monitoring of member firms' quality and risk activities
- Work with GO&RM leadership and the International Office of General Counsel (IOGC) when significant brand and legal risk issues occur to assist in ensuring that matters are properly handled; and
- Monitor the effectiveness of member firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.

6.3 Professional Indemnity Insurance

Insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.

6.4 Governance structure

The key governance bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team. Further details on KPMG International's governance structure can be found in the [2018 KPMG International Transparency Report](#).

6.5 Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARL) who serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a member firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. Significant activities of the ARL, including member firm issues identified and related member firm response/remediation, are reported to GO&RM leadership:

Statement by the Managing Directors of KPMG Audit on the effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality control for KPMG Audit outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm comply with the applicable laws and regulations. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

The Managing Directors of KPMG Audit have considered:

- The design and operation of the quality control systems as described in this report
- The findings from the various compliance programs operated by our firm (including the KPMG International Review Programs as described in [section 3.10.1 Internal Monitoring and compliance programs](#)); and
- Findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Managing Directors of KPMG Audit confirm with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 31 December 2018.

Further, the Managing Directors of KPMG Audit confirm that an internal review of independence compliance within our firm has been conducted over the last year.

Sofia, 30 April 2019

The Managing Directors of KPMG Audit

Appendix: Public Interest Entities

The list of PIEs for which KPMG Audit OOD carried out statutory audits and audit opinions were issued during the year 2018 is as follows:

Allianz Bank Bulgaria AD
Doverie General Pension Fund
Doverie Professional Pension Fund
Doverie Voluntary Pension Fund
Mandatory Professional Pension Fund Allianz Bulgaria
Mandatory Universal Pension Fund Allianz Bulgaria
NN Pension Insurance Company
NN Professional Pension Fund
NN Universal Pension Fund
NN Voluntary Pension Fund
Pension Assurance Company Doverie AD
POD Allianz Bulgaria AD
Sofiyska Voda AD
Voluntary Pension Fund Allianz Bulgaria
ZAD Allianz Bulgaria AD
ZAD Allianz Bulgaria Zhivot AD
ZAD Energy AD

The KPMG values

We lead by example at all levels in a way that exemplifies what we expect of each other and our clients.

We work together to bring out the best in each other and create strong and successful working relationships.

We respect the individual for who they are and for their knowledge, skills and experience as individuals and team members.

We seek the facts and provide insight by challenging assumptions and pursuing facts, to provide insight as trusted and objective business advisers.

We are open and honest in our communication and share information, insight and advice frequently and constructively manage tough situations with courage and candour.

We are committed to our communities to act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment.

Integrity is a critical characteristic that stakeholders expect and rely on. Therefore, above all **we act with integrity** and are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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