



# Transparency Report 2016

**KPMG Bulgaria OOD**

[kpmg.com/bg](http://kpmg.com/bg)



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# Message from our Managing Partner



Every day, around the world, KPMG and its people contribute to the accomplishments of our clients. So do we in Bulgaria. Working in a global structure designed to support consistency of service quality and adherence to agreed values and policies.

Change helps keep a company relevant. In today's fast paced world, we strive to make transformation a source of strength – for ourselves and for our clients. We continue to make targeted investments in people, knowledge and technology, enabling us to provide greater clarity and deeper insights.

We are now pleased to welcome you to the Transparency Report of KPMG Bulgaria OOD for the year ended 31 December 2016 prepared in accordance with Article 40m of the Independent Financial Audit Act, repealed, State Gazette issue 95 dated 29 November 2016 applicable to this report.

We would also like to take this opportunity to extend our gratitude to our clients, employees and business partners for their trust in KPMG.

A handwritten signature in blue ink, appearing to read 'G. Mantarkova', written over a light blue grid background.

Gergana Mantarkova  
Managing Partner

# Our relentless focus on audit quality



In the continually evolving landscape of independent financial audit, our commitment to quality and meeting both international and local professional and ethical standards is a constant.

We have robust programmes in place to underpin service excellence. We abide by extensive standards based on KPMG International's Audit Quality Framework and we have embedded support networks available to every auditor.

Integrity is our greatest asset and a basic prerequisite for excellence in our audit work. It allows us to adopt a critical yet constructive approach while our reporting is characterised by objectivity, transparency and candor.

We are working closely with regulators, audit committees, investors and businesses to enhance quality and ensure that we meet the expectations of all stakeholders.

We trust that you will find that our Transparency Report provides useful insight into the central role of audit quality to KPMG.



Tzvetelina Koleva  
Partner, Head of Audit

# Who we are

## Section 1

KPMG IN BULGARIA  
IS A LEADING PROFESSIONAL  
SERVICES FIRM  
IN THE COUNTRY

### 1.1 Our business

KPMG Bulgaria OOD<sup>1</sup> is a professional services firm that delivers Audit, Tax and Advisory services. KPMG Bulgaria is a specialized audit firm and a member of the Institute of Certified Public Accountants in Bulgaria, registered in the Certified Auditors Register under No 045.

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

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

### 1.2 Our strategy

The strategy of KPMG 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 ambition is to be the clear choice. This includes being one of the leading multi-disciplinary professional services 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 being the best firm to do business with we will win more work and attract, develop and retain the best people.

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<sup>1</sup> Throughout this document, "KPMG" ("KPMG Bulgaria", the "Firm", the "Company", "we", "our" and "us") refers to KPMG Bulgaria OOD. KPMG Bulgaria OOD is a member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"). KPMG International, a Swiss entity, provides no client services.

# Our structure and governance

## Section 2

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

### 2.1 Legal structure and ownership

KPMG Bulgaria 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 the [supplement to the KPMG International Transparency Report](#).

KPMG International is 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 Bulgaria OOD is a limited liability company incorporated in 1992 under the Commercial Code of the Republic of Bulgaria. It is governed by the Bulgarian Law. The Firm has been 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: Sofia 1404, 45/A Bulgaria Boulevard.

KPMG CEE Holdings Limited, an audit firm registered in Cyprus, is the majority shareholder of KPMG Bulgaria, holding 76% ownership interest. Eight individuals, with 3% each, hold the remaining 24% of KPMG Bulgaria capital. Three of them are registered auditors.

The information with regard to the 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 Name, ownership and legal relationships

KPMG is the registered trademark of KPMG International and is the name by which the member firms, including KPMG Bulgaria 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.

### 2.3 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.

## 2.4 Corporate governance

We apply high standards of corporate governance.

The key governance and management body of KPMG Bulgaria is the General Meeting of the partners.

As a Managing Partner, Gergana Mantarkova manages and represents the Company individually. The following individuals represent the Company jointly with Gergana Mantarkova:

- Antoaneta Boycheva
- Dobrina Kaloyanova
- Ivan Andonov
- Maria Peneva
- Tzvetelinka Koleva

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

# System of quality control

## Section 3

AT KPMG, 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 personnel. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

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 the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both of these are relevant to firms that perform statutory audits and other assurance and related services engagements.

KPMG Bulgaria implements KPMG International policies and procedures and adopts additional systems of quality controls for its audit practice that are designed to address the rules and standards issued by the Institute of Certified Public Accountants in Bulgaria and other relevant regulators as well as applicable legal and other requirements. 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 Bulgaria 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.

KPMG International's policies reflect individual quality control elements to help our personnel act with integrity and objectivity, perform their work with diligence, and comply

with applicable laws, regulations, and professional standards. Amendments to risk and quality policies, including ethics and independence policies, are communicated by email alerts from KPMG International and included in quality and risk communications. KPMG Bulgaria 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 Bulgaria 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. While many KPMG's quality control processes are cross-functional, and apply equally to tax and advisory work, the remainder of this section focuses on the delivery of quality audits.

### 3.2 Audit quality framework

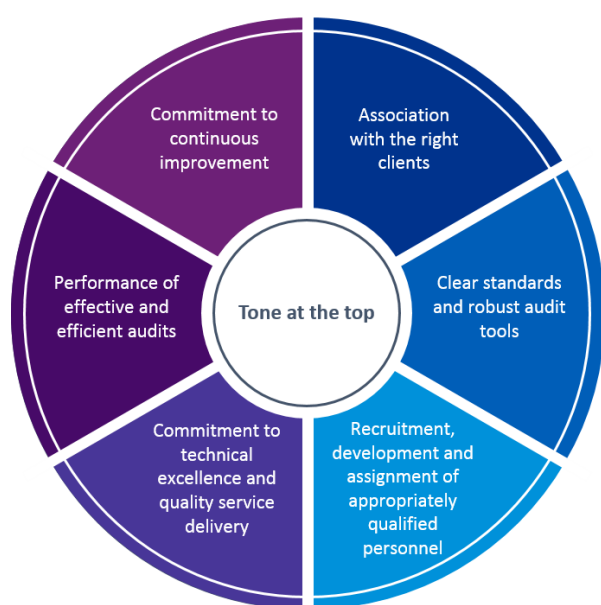
At KPMG Bulgaria audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the audit report. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means, above all, being independent, and compliant with relevant legal and professional requirements.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver an appropriate and independent opinion, KPMG International utilizes the Audit Quality Framework. This framework uses a common language that is used by all KPMG member firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

The Audit Quality Framework identifies seven drivers of audit quality.

1. Tone at the top
2. Association with the right clients
3. Clear standards and robust audit tools
4. Recruitment, development and assignment of appropriately qualified personnel
5. Commitment to technical excellence and quality service delivery
6. Performance of effective and efficient audits
7. Commitment to continuous improvement

‘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 are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers of our quality control system is described in more detail in the following sections of this report.



### 3.3 Tone at the top

The culture of KPMG International and the 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, starting from

the very top. We promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG Bulgaria 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 to our clients and rigorously maintaining independence.

Our Values, which have been explicitly codified for a number of years, are embedded into working practices and values-based compliance culture at KPMG Bulgaria. Individuals are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our values or professional responsibilities. Our Values are considered in the performance appraisal process that our people follow and adherence to these Values is also reviewed when our people are considered for more senior promotions, including to Partner. Our Values are set out [here](#).

KPMG International’s Code of Conduct incorporates our Values and defines the standards of ethical conduct that is required from all KPMG people. It sets out our ethical principles and helps partners and employees at KPMG Bulgaria understand and uphold those principles. In addition, the 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. It has provisions that require our people to:

- Comply with all applicable laws, regulations and KPMG Bulgaria policies
- Report any illegal acts, whether committed by KPMG Bulgaria personnel, clients or other third parties
- Report breaches of risk management policies
- Uphold the highest levels of client confidentiality
- Not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

In addition, the [KPMG International hotline](#) is a vehicle for KPMG partners, employees, clients and other parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, its employees or the senior leadership of a KPMG member firm.

### 3.3.1 Leadership responsibilities for quality and risk management

KPMG Bulgaria demonstrates commitment to quality, ethics and integrity, and communicate their focus on quality to clients, stakeholders and society. However, leadership plays a critical role in setting the right tone and leading by example.

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 Bulgaria.

#### Managing Partner

In accordance with the principles in ISQC1, our Managing Partner has assumed ultimate responsibility for KPMG Bulgaria system of quality control.

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

#### Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG Bulgaria 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 the firm. She has a direct reporting line to the Managing Partner. She consults with the appointed 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 and by a team of partners and professionals in each of the functions.

#### The Audit, Tax and Advisory functions – Function Heads

The heads of the client service functions (Audit, Tax and Advisory) are accountable to the Managing Partner for the quality of service delivered in their respective functions. Between them, they determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Quality and 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.

KPMG Bulgaria Head of Audit is responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG people. 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 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 whole 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 Global Audit for consideration and potential development by the Global Services Centre (GSC) and International Standards Group (ISG).

### 3.4 Association with the right clients

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

#### 3.4.1 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.

### 3.4.2 Prospective client and engagement evaluation process

Before accepting a client, KPMG Bulgaria undertakes an evaluation of a prospective client.

This involves an assessment of the prospective client's principals, its business, and other service-related matters. This also involves background checks on the prospective client, its key management and beneficial owners. A key focus is on the integrity of management at a prospective client and the evaluation considers factors such as breaches of law and regulation, anti-bribery and corruption and human rights among the factors to consider. 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 delegate is involved in approving the evaluation.

The prospective engagement partner evaluates each prospective engagement, in practice this may be completed at the same time as the client evaluation, particularly in respect of audit appointments. The evaluation identifies 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) as well as factors specific to the type of engagement, including for audit services, 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 Bulgaria 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 relationships.

Similar independence evaluations are performed when an existing audit client becomes a public interest entity 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 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 and firm standards, or if there are other risk issues that cannot be appropriately mitigated.

### 3.4.3 Continuance process

An annual re-evaluation of all KPMG Bulgaria audit clients is undertaken. In addition, clients are re-evaluated if there is an indication that there may be a change in their risk profile. Recurring or long running non-audit engagements are also subject to annual re-evaluation.

This re-evaluation serves two purposes. Firstly, we will decline to continue to act for any client we consider it would not be appropriate to continue to be associated with. Secondly, and more commonly, we use the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place for the subsequent engagement we perform for that client (this may include the assignment of additional professionals such as an EQC reviewer or the need to involve additional specialists on the audit).

### 3.4.4 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 and regulatory steps. We also communicate as required with those charged with governance and any other appropriate authority.

### 3.4.5 Client portfolio management

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

## 3.5 Clear standards and robust audit tools

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

### 3.5.1 Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. KPMG International's global audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of International Standards on Auditing (ISAs). The methodology is set out in KPMG International's Audit Methodology (KAM) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhance the quality of audit. KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal, or regulatory requirements.

Our audit methodology is supported by eAudit, KPMG International's electronic audit tool, which provides KPMG Bulgaria auditors with the methodology, guidance, and industry knowledge needed to perform efficient, high-quality audits.

eAudit's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to stakeholders. The key activities within the eAudit workflow are:

#### Engagement setup

- Perform engagement acceptance and scoping
- Determine team selection and timetable

#### Risk assessment

- Understand the entity
- Plan for involvement of our specialists and external experts, internal audit, service organizations and other auditors as required
- Evaluate design and implementation of relevant controls
- Conduct risk assessment and planning discussion
- Determine audit strategy and planned audit approach

#### Testing

- Test operating effectiveness of selected controls
- Plan and perform substantive procedures

#### Completion

- Update risk assessment
- Perform completion procedures, including overall review of financial statements

- Perform overall evaluation, including evaluation of significant findings and issues
- Communicate with those charged with governance (e.g., the audit committee) and
- Form the audit opinion

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 methodology encourages engagement teams to exercise professional skepticism in all aspects of planning and performing an audit.

Our 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.

KAM includes the implementation of quality control procedures at the engagement level that provide us with reasonable assurance that engagements comply with the relevant professional, legal, regulatory, and KPMG International requirements.

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 in KPMG Bulgaria for any local policies and procedures.

#### Data & Analytics (D&A)

We are rolling out D&A tools to assist engagement teams with identification and evaluation of key audit risks, and substantive testing. D&A innovations enable engagement teams, where appropriate, to dig deeper into financial data and to analyze it in different ways, revealing more about a client's business and its risks, thereby transforming the KPMG audit by helping to deliver high-quality, innovative audits with actionable insights for clients.

### 3.5.2 Independence, integrity, ethics and objectivity

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 KPMG Bulgaria or 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.

To help ensure ethical conduct, including integrity and independence, KPMG International requires that each member firm, and its personnel, must be free from prohibited financial interests in, and prohibited relationships with, the audit clients, their management, directors and significant owners.

KPMG Bulgaria has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures. Member firms' EIPs are supported by the Global Independence Group. The Partner-in-Charge of the Global Independence Group is supported by a core team of specialists to help ensure that implement robust and consistent independence policies, procedures and tools are implemented.

Amendments to KPMG International's ethics and independence policies in the course of the year are communicated by email alerts and 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 3.9.1 [Internal monitoring and compliance programs](#).

KPMG Bulgaria personnel are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual.

In the event of failure to comply with our independence policies, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and performance discussions.

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. Our EIP oversees policies and procedures in relation to ethical matters and breaches of requirements.

### Personal financial independence

KPMG International policy extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member firm partner in respect of any audit client of any member firm.

Each member firm and its professionals must be free from prohibited financial interests in, and prohibited relationships with, KPMG's audit clients, their management, directors, and significant owners.

KPMG Bulgaria 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 member firms of KPMG International, we use a web-based independence compliance system (KICS) to assist our professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products.

Partners and all client-facing staff who are manager grade or above 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 their investments subsequently become restricted and they must dispose of that investment within 5 business days of the notification. We monitor 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 a member firm are prohibited from joining an audit client in certain roles unless they have disassociated from the member firm financially and have ceased participating in KPMG Bulgaria business or professional activities.

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 Bulgaria professionals by audit clients.

### Firm financial independence

KPMG Bulgaria also uses KICS to record its own investments, if any, 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, we are 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 Bulgaria confirms compliance with independence requirements as part of the Risk Compliance Program.

### Business relationships/suppliers

KPMG Bulgaria has policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with the IESBA Code of Ethics and 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 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. Certain third parties are required to complete independence training.

### Business acquisitions, admissions and investments (if applicable)

If KPMG Bulgaria is in the process of considering the acquisition of, or investment in, a business, we are 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 Bulgaria and the network.

### Independence clearance process

KPMG Bulgaria 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

KPMG Bulgaria provides all relevant personnel (including all partners and client service professionals) with independence training that is appropriate to their grade and function on an annual basis. New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Bulgaria or (b) before providing any services to an SEC client or its affiliates.

We also provide all personnel with training on the 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 periodic basis. New personnel are required to complete this training within 3 months of joining the firm.

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.

In addition, all KPMG personnel are required to confirm their understanding of, and compliance with, the applicable Code of Conduct upon joining their member firm and on an annual basis thereafter. This confirmation is used to evidence the individual's compliance with and understanding of our independence policies.

### Non-audit services

We have policies which address the scope of services that can be provided to audit clients. These policies are consistent with IESBA principles, the Bulgarian Independent Financial

Audit Act and other restrictive independence rules applicable to the respective client.

We are required to establish and maintain a process to review and approve all new and modified services that are developed by the KPMG Bulgaria or adopted from another member firm. The EIP is involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed for global adoption.

In addition to identifying potential conflicts of interest, KPMG International's proprietary system, Sentinel™, facilitates compliance with these policies. Certain information on all prospective engagements that includes service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Using Sentinel™ lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their affiliates, and identify and evaluate 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 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 operating firm expressing the audit opinion. In particular, KPMG International's policies 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% 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
- A Senior Partner from another KPMG member firm would be appointed as the Engagement Quality Control (EQC) reviewer.

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

### Conflicts of interest

Conflicts of interest can arise in situations where KPMG 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 Risk Management Partner or the Ethics and Independence Partner 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.

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

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 personnel are required to report an independence breach as soon as they become aware of it. 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 Bulgaria 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.

Matters arising are factored into 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 Bulgaria personnel. In particular, KPMG Bulgaria has 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.

Accordingly, training covering compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards, and the KPMG Code of Conduct is required to be periodically completed by client-facing professionals, with new hires completing such training within 3 months of joining KPMG Bulgaria. In addition, certain non-client-facing personnel who work in finance, procurement or sales and marketing departments, and who are at the manager level and above, are also required to participate in anti-bribery training.

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

### Partner rotation

KPMG International rotation policies are consistent with the IESBA Code of Ethics and require our firm to comply with any stricter applicable rotation requirements.

KPMG Bulgaria 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.

We monitor 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 develop 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.

## 3.6 Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring that KPMG professionals have the skills and experience to deliver on our vision. This requires recruitment, promotion and retention of professionals and a robust capacity and resource management processes. KPMG's global behaviors, which are linked to our Values, are designed to help articulate what is required for success – both individually and collectively. One of KPMG's global behaviors is 'Delivering Quality'.

We strive to be an employer of choice by creating an environment where our people can fulfill their potential, generating pride and motivation.

We focus on performance development, coaching and mentoring, reward and recognition, flexible benefits, visible leadership, and open and honest employee communications.

We aspire to create a culture of learning, collaboration and inclusivity, all underpinned by a shared set of values and a common purpose.

### 3.6.1 Recruitment

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.

Our recruiting strategies are focused on drawing entry-level talent from a broad talent base, including working with established universities, colleges and business schools, but also working with secondary schools, helping build relationships with a younger, diverse talent pool at an early age.

Across our member firms we are regularly recognized as an established and reputable employer. This is a reflection on our presence in both the early career and experienced hire candidate markets.

### 3.6.2 Personal development

It is important that all our professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills (see section [3.7.1 Professional training](#)).

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 Bulgaria professionals are developed further 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 our Firm 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.

### 3.6.3 Inclusion and Diversity programs

KPMG Bulgaria 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.

Leadership and management teams also need to reflect the diversity of our organization and the diversity of KPMG Bulgaria clients. Our established Global Inclusion and Diversity strategy provides the framework to drive the actions we believe are necessary to promote inclusive leadership across the KPMG network.

### 3.6.4 Evaluation, compensation and promotion

KPMG Bulgaria professionals, including partners, have annual goal-setting and performance reviews. Each professional is evaluated on their agreed-upon goals, demonstration of our global behaviors, technical capabilities and market knowledge. Partners and certain professionals are also evaluated on key quality and compliance metrics. These evaluations are conducted by performance managers and partners who are in a position to assess their performance and propose a performance rating.

We have compensation and promotion policies that are clear, simple, and linked to the performance evaluation 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.

KPMG Bulgaria monitors quality and compliance incidents and maintains quality metrics for the purposes of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

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

### 3.6.5 Partner admissions

Our process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the 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 Bulgaria need to be approved by the KPMG Central and Eastern Europe Board.

### 3.6.6 Assignment of professionals

KPMG Bulgaria 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.

Function heads are responsible for the partner assignment process. Key considerations include partner experience, and capacity – based on an annual partner portfolio review – to perform the engagement in view of 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, accreditation and capabilities 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 in Audit (where the services are of more of a recurring nature than across much of the rest of our business), 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 or not taken as a whole the specific engagement partner has the appropriate time and the right support to enable them 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 standards 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 Bulgaria's quality control policies and procedures
- QPR results and results of regulatory inspections.

### 3.6.7 Employee engagement

Biennially KPMG Bulgaria invites all our people to participate in an independent Global People Survey (GPS) which measures our people's attitudes and provides an overall Employee Engagement Index (EEI) and Performance Excellence Index (PEI). The GPS also provides insights about what drives engagement across different demographic groups and how we are faring in selected categories. In alternate years we run a short form Pulse survey.

The results of GPS provide leadership with information about employee/partner perceptions about audit quality, tone at the top, and employee engagement and motivation; helping track progress against strategic priorities as well as providing warning indicators if there are areas of concern.

KPMG Bulgaria 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 against agreed targets relevant to:

- Audit quality and tone at the top - referred to in the GPS as 'leadership behavior'
- Employee engagement through the Employee Engagement Index
- Employee performance through the Performance Excellence Index.

The results of the GPS are presented to the Global Board each year and appropriate follow-up actions agreed.

## 3.7 Commitment to technical excellence and quality service delivery

All KPMG Bulgaria professionals are provided with the technical training and support they need. This includes access to networks of specialists and professional practice departments 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.

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

### 3.7.1 Professional training

In addition to personal development discussed in the section above, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

#### Formal training

Audit Learning and Development steering groups at global, regional, and where applicable, KPMG Bulgaria, identify annual training priorities for development and delivery using a blend of classroom, e-learning and virtual classroom methods. Audit Learning and Development teams work with subject

matter experts and leaders from GSC, the ISG and 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 at the moment of need 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 Bulgaria:

- 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 at the click of a mouse and aligned with job specific role profiles and learning paths. Coaching guides are available on judgmental audit topics - these are used by audit teams and their content 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.

Coaching guides are available on judgmental audit topics – these are used by audit teams and are embedded within audit learning solutions. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential, where every team member is responsible for building the capacity of the team, coaching and sharing experiences.

### 3.7.2 Accreditation and licensing

All KPMG 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 ensure that those individuals that require a license to undertake their work are appropriately licensed.

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 Article 22 of the Independent Financial Audit Act (repealed) 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.

In addition, we have specific requirements for partners and managers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework. Similar policies apply for US Generally Accepted Accounting Principles (US GAAP), US Generally Accepted Auditing Standards (US GAAS), and the Standards of the Public Company Accounting Oversight Board (PCAOB) for SEC and Internal Control Over Financial Reporting (ICFR) engagements performed outside the US. 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.

### 3.7.3 Access to specialist networks

KPMG Bulgaria engagement teams have access to a network of local KPMG specialists as well as specialists in other KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills.

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.

Specialists who are members of an audit team are provided with training on audit concepts.

### 3.7.4 Consultation

We promote 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.

Appropriate consultation support is provided through professional practice resources that include a Department of Professional Practice (DPP) or equivalent. For KPMG Bulgaria, 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 accounting and auditing support is available to all member firms through the GSG and the ISG as well as the US Capital Markets Group for SEC foreign registrants.

### Global Services Centre (GSC)

The GSC develops, maintains and deploys KPMG's global audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient Audits. It also provides auditing support, with emphasis on global quality and consistency.

### 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 between member firms, identify emerging issues, and develop global guidance on a timely basis.

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

### 3.7.5 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

within eAuditIT. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries, as well as a summary of the industry knowledge provided in eAuditIT.

## 3.8 Performance of effective and efficient audits

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

### 3.8.1 KPMG Audit Process

Our audit workflow is enabled through eAuditIT, KPMG International's activity based workflow and electronic audit file. eAuditIT integrates our audit methodology, guidance and industry knowledge, and the tools needed to manage audits consistently. Our high-quality audit process includes:

- Timely partner and manager involvement
- Timely access to the right knowledge – specialists, accredited individuals and relevant industry expertise
- Critical assessment of audit evidence
- Exercise of professional judgment and professional skepticism
- Ongoing mentoring, supervision and review
- Appropriately supported and documented conclusions
- Robust challenge and review, including EQC review.

### Timely partner and manager involvement

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position, and the environment in which it operates.

The engagement partner is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

Involvement and leadership from the engagement partner during the planning process and early in the audit process helps set the appropriate scope and tone for the audit, and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement

allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment, and significant risks.

The engagement partner is responsible for the final audit opinion and reviews key audit documentation – in particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaison with the client and team, building a deep business understanding that helps the partner and team deliver valued insights.

### Critical assessment of audit evidence with emphasis on professional skepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. For the purpose of obtaining sufficient appropriate audit evidence each team member is required to exercise professional judgment and maintain professional skepticism throughout the audit engagement.

Professional skepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional skepticism features prominently throughout auditing standards and receives significant focus from regulators. The KPMG Audit Quality Framework emphasizes the importance of maintaining an attitude of professional skepticism throughout the audit.

KPMG's professional judgment process facilitates good judgment by introducing a structured approach to auditing areas that require significant judgment. It also reinforces the importance of independence and objectivity and emphasizes the importance of having the right mindset – the need to apply professional skepticism.

Our professional judgment process recognizes the need to be aware of and alert to biases which may pose threats to good judgment. The structured approach to auditing areas that require significant judgment involves:

- Considering alternatives
- Critically assessing audit evidence by challenging management's assumptions and following up contradictory or inconsistent information
- Documenting the rationale for conclusions reached on a timely basis as a means of valuating testing their completeness and appropriateness.

The use of the professional judgment process and the application of professional skepticism is reinforced through coaching and training, acknowledging that judgment is a skill developed over time and with different experiences.

Professional judgment training has been embedded in our core Audit Technical training program for junior professionals and included in our periodic and annual update training for qualified and experienced professionals and partners.

### 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 Bulgaria promotes a continuous learning environment and supports a coaching culture.

Ongoing mentoring 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.

### Appropriately supported and documented conclusions

KPMG Bulgaria uses the KAM and KPMG International's electronic audit tool, eAuditIT, to provide guidance, mechanisms for and documentation of, the supervision and control of the audit engagement. Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on significant matters on each audit engagement. KPMG policies require review of documentation by more experienced engagement team members.

KAM recognizes that documentation prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence

obtained and conclusions reached before our report is finalized. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the auditors' report but may be more restrictive under certain applicable regulations.

The key principle that engagement team members are required to consider is whether an experienced auditor, having no previous connection with the engagement, will understand:

- The nature, timing, and extent of audit procedures performed to comply with the ISAs and KAM
- Applicable legal and regulatory requirements
- The results of the procedures performed, and the audit evidence obtained
- Significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained)
- The basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.

### Appropriate involvement of the EQC Reviewer

EQC reviewers are independent of the engagement team and have 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 the statutory 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, 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 to be completed.

KPMG Bulgaria 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 eAuditIT 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 audit reports, engagement partners have access to extensive reporting guidance and technical support to audit through consultations with DPPs, especially where there are significant matters to be reported to users of the audit report, (e.g. a modification to the opinion or through the inclusion of an emphasis of matter or other matter paragraph).

Effective for December 2016 year ends onward in compliance with the new IAASB requirements, we are enhancing auditor reporting for those auditors' reports prepared under the ISAs. The changes in auditors' reporting will give users more insight into the audit and improve transparency.

### 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 a key aspect of reporting and service delivery.

At KPMG Bulgaria we stress the importance of keeping those charged with governance informed of issues arising throughout the audit, the need to listen 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 that the engagement team and KPMG has complied with relevant independence requirements; describes all relationships and other matters between KPMG 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, KPMG International's 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 35 countries across the globe and provides audit committee members with authoritative guidance on matters of interest to audit committees as well as 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.

### Focus on effectiveness of group audits

Our audit methodology, KAM, covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is a key to audit quality. The group audit engagement partner is required to evaluate the competence of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance process.

Consistent methodology and tools are used across the KPMG network. Lead audit engagement partners are provided with information on component auditors within the KPMG network to help them evaluate their competence and capabilities. In addition, the results of relevant inspections related to the KPMG component member firms are made available to the lead audit engagement partner.

Lead audit engagement partners may review component auditor engagement documentation in person or obtain electronic access.

Additional guidance, training and material has been issued in this area as follows:

- eAudIT includes guidance and functionality based on revised ISA 600 for group audit engagement and heightened attention is being given to key risk areas for group audits, for example emerging markets and business environments that may be subject to heightened fraud risk
- Training for partners and managers in 2016 reinforced key principles and requirements about the responsibility of the group auditor for the work undertaken by component auditors.

### 3.8.2 Client confidentiality, information security and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the Code of Conduct, training, and the annual affidavit/confirmation process, that 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 rules 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 Bulgaria personnel.

### 3.9 Commitment to continuous improvement

We commit to continually improve the quality, consistency and efficiency of our 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 member firm's 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 member firms, including the nature and extent of testing and reporting. KPMG Bulgaria compare the results of internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

#### 3.9.1 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 Bulgaria 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 across the Audit, Tax, and Advisory functions: QPR and RCP.

Additionally all member firms are covered at least every 3 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 3 year cycle. A risk-based approach is used to select engagements.

KPMG Bulgaria conducts the annual QPR program in accordance with global QPR instructions. The reviews are performed at KPMG Bulgaria 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 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 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 conclusion.

The objectives of the RCP are to:

- Monitor, document and assess the extent of compliance of KPMG Bulgaria 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 Bulgaria to evaluate that the member 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.

### Global Compliance Review (GCR) program

Each member firm is subject to a GCR conducted by the global GCR team, independent of the member firm, at least once a 3 year cycle.

The GCR provides independent oversight of our assessment of our system of quality control, including:

- Our commitment to quality and risk management (tone at the top) and the extent to which the overall structure, governance and financing support reinforce this commitment
- The completeness and robustness of our RCP.

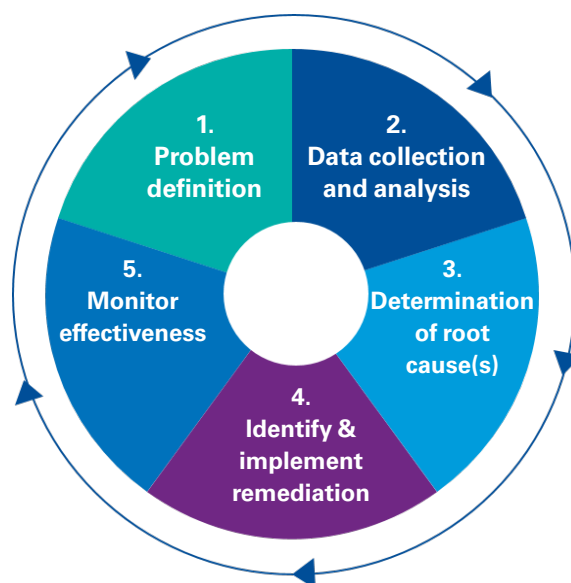
The GCR team performing the reviews is independent of KPMG Bulgaria, objective and knowledgeable of Global Quality and Risk Management policies.

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 a global GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQRMSG), and where necessary to appropriate KPMG International and regional leadership, to ensure timely remedial actions.

### Root Cause Analysis (RCA)

KPMG Bulgaria 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. In 2016, RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG Bulgaria who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

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

#### 3.9.2 Recommendations for improvement

At a global level, through the GAQIC and the GQRMSG, 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.

The GAQIC considers network-wide issues arising from internal quality control reviews and external inspections, monitors progress being made in addressing audit quality issues and makes recommendations to the GASG on audit quality issues.

Global remediation plans to date include holistic actions aimed at culture and behavior and at driving consistent engagement team performance. The global actions also include training, tools and guidance to drive consistency, ensure we have the fundamentals right and that best practice is shared across the network.

### 3.9.3 External feedback and dialogue

#### Regulators

As an audit firm auditing public interest entities, KPMG Bulgaria 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 Bulgaria 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 Bulgaria as a registered 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 Bulgaria maintains a list of public interest entities audited by the Company during 2016. The list is provided as Appendix 1: Public Interest Entities to the report.

At international level, 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), as well as the ASEAN Audit Regulators Group (AARG).

#### 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 and in-flight review of audit engagements.

# Financial information

## Section 4

Presented below is financial information about the overall combined revenue of the KPMG member firms in Bulgaria for the year ended 31 December 2016.

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.

Services	2016 Revenue BGN '000
Independent Financial Audit	7,155
Other Audit and Related Services	767
Tax	6,967
Advisory	12,982
<b>Total</b>	<b>27,871</b>

Total amount of revenues of KPMG Bulgaria OOD for the year ended 31 December 2016 is BGN 19,445 thousand, including revenues from services provided related to independent financial audits at the amount of BGN 7,155 thousand; revenues from tax services – BGN 5,276 thousand, and revenues from other services – BGN 7,014 thousand.

# Partner compensation

## Section 5

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

## Section 6

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 and 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 [2016 International Annual Review Report](#).

The name of each audit firm that is a member of the network and the 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 [www.kpmg.com](http://www.kpmg.com).

### 6.2 Professional Indemnity Insurance

An 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.

### 6.3 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 2016 KPMG International Transparency Report.

### 6.4 Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARLs) who:

- Assess the effectiveness of a member firm's quality and risk management efforts to identify and mitigate significant risks to the member firm and network, and actively monitor alignment with global quality and risk management strategies and priorities
- Share leading best practices in quality and risk management
- Report to Global Head of Quality, Risk and Regulatory.

# Statement by the Partners of KPMG Bulgaria on the effectiveness of quality controls and independence

## Section 7

The measures and procedures that serve as the basis for the system of quality control for KPMG Bulgaria 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 Partners of KPMG Bulgaria 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 Internal Monitoring and our local compliance monitoring programs), and
- Findings, if any, from regularly scheduled regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Partners of KPMG Bulgaria 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 2016.

Further, the Partners of KPMG Bulgaria confirm that an internal review of independence compliance within our firm has been conducted over the last financial year.

**Sofia, 31 March 2017**

**The Partners of KPMG Bulgaria**

# Appendix: Public Interest Entities

The list of PIEs for which audit opinions were issued during the year 2016 is as follows:

Allianz Bank Bulgaria AD

Asarel Chista Energia EOOD

Axpo Bulgaria Services EAD (previously Axpo Bulgaria EAD)

BULSTRAD LIFE VIENNA INSURANCE GROUP JOINT STOCK COMPANY

Doverie General Pension Fund

Doverie Professional Pension Fund

Doverie Voluntary Pension Fund

EVN Bulgaria Electrorazpredelenie EAD

EVN Bulgaria Electrosnabdiavane EAD

EVN Bulgaria Toplofikatsia EAD

EVN – Kavarna EOOD

EVN Trading South East Europe EAD

E.V.T. – Electra Volt Trade AD

Frea Axpo OOD

GRAWE Bulgaria Jivotozastrahovane EAD

Grazer Wechselseitige Versicherung AG, Zweigniederlassung für Bulgarien, Sofia

Herti AD

Kaliakra Wind Power AD

LUKOIL Energy and Gas Bulgaria EOOD

LUKOIL Neftohim Burgas AD

Mandatory Professional Pension Fund Allianz Bulgaria

Mandatory Universal Pension Fund Allianz Bulgaria

Naturkraft EOOD

Pension Assurance Company Doverie AD

POD Allianz Bulgaria AD

Raiffeisenbank (Bulgaria) EAD

Raiffeisen (Bulgaria) Active Protection Fund

Raiffeisen (Bulgaria) Global Growth Fund

Raiffeisen Conservative Fund Bulgaria

Sofiyska Voda AD

Sviloza AD

Turk Telekom International BG EOOD

Veolia Energy Bulgaria EAD

Veolia Energy Varna EAD

Voluntary Pension Fund Allianz Bulgaria

ZAD Allianz Bulgaria AD

ZAD Allianz Bulgaria Zhivot AD

ZAD Bulstrad Vienna Insurance Group AD

ZAD Energy AD

# KPMG's 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.

**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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