



# Transparency Report

KPMG Hungary

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2016

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KPMG.hu



# Contents

<b>Message from the National Senior Partner</b>	<b>3</b>
<b>1. Who we are</b>	<b>4</b>
<b>2. Our structure and governance</b>	<b>5</b>
<b>3. System of quality control</b>	<b>6</b>
<b>4. Financial information</b>	<b>20</b>
<b>5. Partner and registered statutory auditor remuneration</b>	<b>21</b>
<b>6. Network arrangements</b>	<b>22</b>
<b>7. Statement by the Management Committee of KPMG Hungary Ltd. on the effectiveness of quality controls and independence</b>	<b>23</b>
<b>A. Appendices</b>	<b>24</b>

# Message from the National Senior Partner



**Robert Stöllinger**  
National Senior Partner  
KPMG Hungary Ltd.

KPMG Hungary provides a wide range of audit, tax and legal and advisory services to clients, including private individuals, public and private companies and government organisations. The quality and integrity of our people and our work are paramount to everything we do. The strength of our reputation underpins the value which using our services adds for our clients.

KPMG Hungary Ltd. is our registered audit firm. Reliable financial information is the lifeblood of the capital markets and the auditor's role in ensuring the probity of such information is vital. It is for this reason that we believe that all audit firms, entrusted with this responsibility, should be open about the quality and integrity measures that they adopt.

We are therefore pleased to present this Transparency Report for KPMG Hungary Ltd. for the year to 30 September 2016. We hope that providing information about who we are, how we are organised and what quality processes we follow to assure integrity and audit quality will help enhance public confidence in us and the audit reports we provide.

A handwritten signature in blue ink, appearing to read "R. Stöllinger".

31 January 2017

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**Footnotes:**

- (i) This report complies with the requirements of Article 40 of the European Union Statutory Audit Directive as enacted in Hungary in Act LXXV of 2007 (on the Chamber of Hungarian Auditors, the activities of auditors and the public oversight of auditors). The latest annual Transparency Report issued by KPMG International is for the financial year ended 30 September 2016.
- (ii) Throughout this document, "KPMG Hungary" ("we," "our," and "us") refers to KPMG Hungary Ltd. and its subsidiary entities. KPMG Hungary Ltd. 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.

# 1. Who we are

## 1.1 Our business

KPMG Hungary is a professional services firm that delivers Audit, Tax and Legal and Advisory services. We operate through several legal entities (see Appendix A.1) and have our office in Budapest.

Our audit services in Hungary are delivered through KPMG Hungary Ltd. Full details of the services offered by KPMG Hungary Ltd. can be found on our website:

[www.kpmg.hu](http://www.kpmg.hu)

## 1.2 Our strategy

The strategy for our firm is set by the KPMG Hungary Ltd. Management Committee ("Management Committee") and has remained consistent for some time. It has determined that our overall ambition remains to be the number one multi-disciplinary professional services firm in Hungary.

The Management Committee has determined that a commitment to quality is one of the most important priorities in our strategy. We recognize that if we do not get the quality of our service and deliverables right then each and every one of the other objectives in our business plan may be jeopardized. As such, we put significant focus on ensuring that we deliver the quality of service that our clients and the national and international regulators expect, continually reinforcing the importance of quality across our firm.

# 2. Our structure and governance

## 2.1 Legal structure

### Legal structure and ownership

KPMG Hungary has entered into a legal agreement with KPMG CEE Holdings Ltd., which is a member of KPMG International. Under this agreement ("sub-license") the sub-licensee becomes a member firm of the KPMG network. Generally, the rights and obligations of a sub-licensee are exactly the same as if they were a member of KPMG International. In particular, all rights and obligations of a member firm that are described in this report are rights and obligations of a sub-licensee, unless otherwise specifically stated. In addition, the member that is a party to the sub-licensee's agreement with KPMG International is also responsible to KPMG International (but not to any other person or entity) for the sub-licensee's compliance with its obligations as a KPMG member firm. Further details about KPMG International and its business, including our relationship with it, are available in the [KPMG International Transparency Report](#).

KPMG Hungary Ltd., is a limited liability company incorporated in Hungary. Our registered company number is 01-09-063183 and our address is Váci út 31. H-1134 Budapest. KPMG Hungary Ltd. is registered with the Chamber of Hungarian Auditors to provide statutory audit services. Our Chamber registration number is 000202. In addition to statutory audit services, KPMG Hungary Ltd. also provides other financial audit and assurance services. KPMG Hungary Ltd. is a Registered Public Accounting Firm with the US Public Company Accounting Oversight Board (PCAOB).

KPMG Hungary Ltd. had four managing directors in the financial year ending on 30 September 2016: Ferenc Eperjesi, István Henye, Rezső Rózsai and Robert Stöllinger. KPMG Hungary Ltd. has three shareholders: KPMG

Hungary Holding Ltd., Rezső Rózsai and István Henye. Rezső Rózsai and István Henye are both members of the Chamber of Hungarian Auditors. KPMG Hungary Holding Ltd. is a limited liability company incorporated in Cyprus and is a subsidiary of KPMG CEE Holding Ltd. which is also a limited liability company incorporated in Cyprus. KPMG CEE Holdings Ltd. is a licensed auditor under Cyprus regulations.

KPMG CEE Holdings Ltd. is the top legal entity of the CEE Partnership. The Partners are beneficiary owners of KPMG CEE Holdings Ltd. via the KPMG CEE Partnership.

KPMG CEE Holdings Ltd. has no owners who are natural persons exerting at least twenty-five percent influence on the Company. Therefore during the financial year ended on 30 September 2016 the CEO, Richard Cysarz was the (beneficial) owner for the purposes of Section 3. re) of Act CXXXVI of 2007 on the Prevention and Combating of Money Laundering and Terrorist Financing.

On this basis, we declare that KPMG Hungary Ltd. is a transparent organisation based on Section 3 (1) b) of Act CXCVI of 2011 on national assets, and its ownership structure as well as its beneficial owner as per Act CXXXVI of 2007 on the prevention and combating of money laundering and terrorist financing are known.

A list of the KPMG Hungary Ltd. legal entities, together with details of their legal structure, regulatory status, the nature of their business and area of operation is set out in Appendix A.1.

## 2.2 KPMG name, ownership and legal relationships

KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the KPMG

name and marks are contained within agreements with KPMG International.

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.

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. (see section 6.2).

## 2.3 Governance structure of KPMG Hungary Ltd.

The Management Committee is responsible for setting the strategy of KPMG Hungary Ltd. and for overseeing its implementation.

The Management Committee is chaired by the National Senior Partner. The Chairman appoints the other members of the Management Committee who each has responsibility for specific aspects of our business operations: Quality & Risk Management, Audit, Tax and Legal, and Advisory. The committee met monthly during the year ended 30 September 2016. The committee reviews matters of fundamental importance to the firm such as operating and financial performance, annual business plans and budgets, new business activities, marketing, technology development, recruitment and retention and risk management policies.

The Management Committee is responsible to the Partners of KPMG Hungary.

# 3. System of quality control

KPMG International has policies of quality control that apply to all member firms. These policies 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), relevant to firms that perform statutory audits and other assurance and related services engagements.

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.

Our firm implements KPMG International policies and procedures and adopts additional policies and procedures that are designed to address rules and standards issued by the Chamber of Hungarian Auditors and other relevant regulators as well as applicable legal and other requirements.

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.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities.

While many KPMG quality control processes are cross-functional, and apply equally to tax and legal and advisory work, the remainder of this section focuses on what we do to enable our firm to deliver quality audits. In this section we therefore focus on our system of audit quality control.

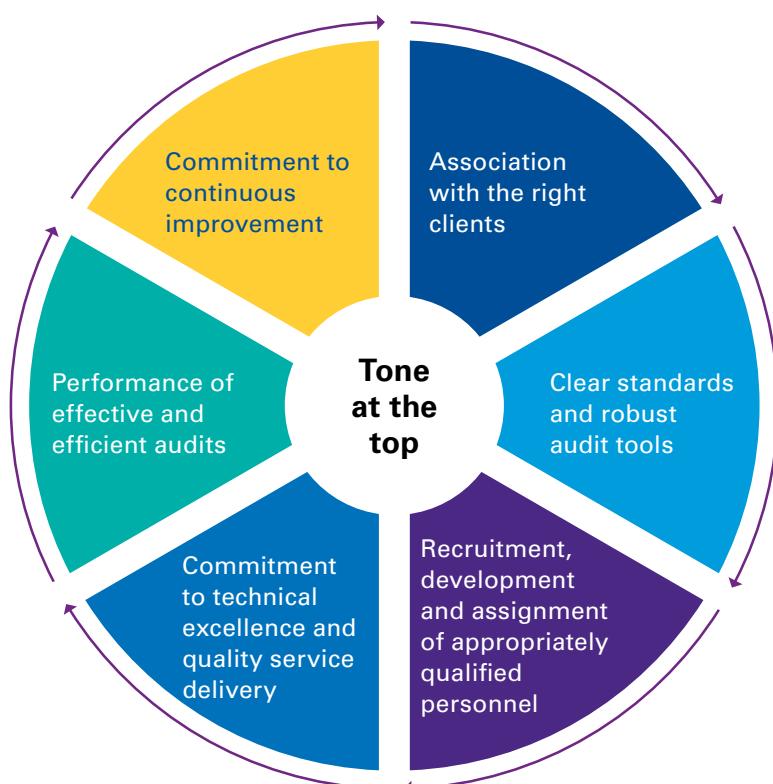
At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought, and integrity behind the audit report. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing 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, we have developed our global Audit Quality Framework. Our Framework introduces 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.

Our 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 our entire 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 is described in more detail in the following sections of this report.



### 3.1 Culture and 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 Hungary 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 core 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 Hungary. 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 in Appendix A.3.

#### Code of conduct

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 Hungary to 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 Hungary policies;
- report any illegal acts, whether committed by KPMG Hungary personnel, clients or other third parties;
- report breaches of risk management policies;
- uphold the highest levels of client confidentiality; and
- 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.

#### 3.1.1 Leadership responsibilities for quality and risk management

KPMG Hungary demonstrates commitment to quality, ethics and integrity, and communicates its 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 Hungary.

#### National Senior Partner

In accordance with the principles in ISQC 1, our National Senior Partner, Robert Stöllinger, has assumed ultimate responsibility for KPMG Hungary Ltd. system of quality control.

#### National Quality & Risk Management Partner

Our National Quality & Risk Management Partner has operational responsibility for the system of quality control, risk management and compliance in KPMG Hungary. He is responsible for setting overall professional risk management and quality control policies and monitoring compliance for our firm. He has a seat on our Management Committee and has a direct reporting line to the KPMG CEE Quality & Risk Management Partner. The fact that the role is a Management Committee position, and the seniority of the reporting lines, underlines the importance that we place on risk and quality issues. The National Quality & Risk Management Partner is supported by a central team of professionals and by partners in each of the functions.

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

The three heads of the client service functions (Audit, Tax and Legal and Advisory) are accountable 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 National Quality & 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.

Within our audit practice, a partner has been assigned responsibility for our Quality Performance support activities. He is supported by designated audit quality managers who advise engagement teams on best audit practice and perform quality reviews of engagement files.

KPMG Hungary 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 skepticism, objectivity, and independence;
- developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities; and
- working with the National Quality and 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.

## 3.2 Association with the right clients

### 3.2.1 Acceptance and continuance of clients and engagements

Rigorous client and engagement acceptance and continuance policies and processes are vital to our ability to provide high-quality professional services and to protect KPMG’s reputation and support its brand.

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

### 3.2.2 Prospective client and engagement evaluation process

#### Prospective client evaluation

Before accepting a client, we undertake an evaluation of the prospective client. This involves an assessment of its principals, its business, and other service-related matters. This also involves background checks on the prospective client, its key management, and beneficial owners where required. A key focus is on the integrity of management at a prospective client and the evaluation considers breaches of law and regulation, anti-bribery and corruption and human rights among the factors to consider. Every new client acceptance must be approved by 3 people: the client service partner or director, the Quality & Risk Management Partner and the National Senior Partner.

#### Audit engagement acceptance

The prospective engagement leader (partner or director) evaluates each prospective engagement. The evaluation identifies potential risks in relation to the engagement. A range of factors is considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, our global 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. Every audit engagement acceptance must be approved by the prospective Engagement Leader and the Head of Audit. Audit engagement acceptance for entities we assess as higher risk and new audit engagements must also be approved by the National Quality & Risk Management Partner.

Where audit services are to be provided for the first time, the prospective engagement team may be 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 *3.3.2.6 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.

We decline prospective clients or engagements if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and firm standards, or there are other quality and risk issues that cannot be appropriately mitigated.

Section 3.3 provides more information on our independence and conflict checking policies.

### 3.2.3 Continuance process

A client continuance re-evaluation is undertaken every 12 months, or earlier if there is an indication that there may be a change in their risk profile. Recurring or long running engagements are also subject to re-evaluation.

This re-evaluation serves two purposes. Firstly, our firm will decline to continue to act for any client where we are unable to deliver to our expected level of quality for any reason, or if we consider that it would not be appropriate to continue to be associated with the client. More commonly, we use the re-evaluation to consider whether or not any additional risk management or quality control procedures need to be put in place for the next engagement (this may include the assignment of additional professionals or the need to involve additional specialists on the audit).

Every client continuance must be approved by the client service partner or director and the National Quality & Risk Management Partner. Client continuance for audit clients which are we assess as higher risk must also be approved by the National Senior Partner.

### 3.2.4 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.

### 3.2.5 Client portfolio management

We appoint engagement leaders who have the appropriate competence, capabilities, time and authority to perform the role for each engagement. We review the client portfolios of each partner and director at least annually to ensure that they have sufficient time to manage the portfolio and to ensure that the risks are being appropriately managed and make changes as necessary.

## 3.3 Clear standards and robust audit tools

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

### 3.3.1 Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. Our global audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of the International Standards on Auditing (ISAs). The methodology is set out in KPMG International's KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, and which KPMG believes enhance the quality of our audits. 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 auditors worldwide 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;
- identify and assess risks;
- plan for involvement of KPMG 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, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. Our methodology encourages engagement teams to exercise professional skepticism in all aspects of planning and performing an audit. The 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.

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

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management Manual (GQ&RMM) that is applicable to all KPMG member firms, functions and personnel.

### **3.3.2 Independence, integrity, ethics and objectivity**

#### **3.3.2.1 Overview**

Member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics together with those of other applicable regulatory bodies (which may include those of a foreign jurisdiction where those requirements apply extraterritorially). These policies are supplemented by other processes to ensure compliance the laws in Hungary and standards issued by the Chamber of Hungarian Auditors.

These policies and processes cover areas such as personal independence, firm financial independence, business relationships, post-employment relationships, partner rotation, and approval of audit and non-audit services.

Our National Quality & Risk Management Partner is also our Ethics and Independence Partner (EIP). He and our dedicated risk management specialists ensures that we implement robust and consistent independence policies and procedures. Ethics and independence policies are communicated through various channels including our annual training program. Amendments to the ethics and independence policies in the course of the year are communicated by practice alerts. Our independence policies are published on our intranet.

To help ensure ethical conduct, including integrity and independence, our firm, and its personnel, must be free from prohibited financial interests in, and prohibited relationships with, the network's audit clients, their management, directors, and significant owners.

In the event of failure to comply with relevant independence policies, whether identified in the rolling compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and, in the case of partners, are reflected in their individual quality and risk metrics.

#### **3.3.2.2 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 audit clients 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

Our professionals are responsible for making appropriate inquiries 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 tracking system to assist our professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products. Partners and client facing managers are required to use this system prior to entering into an investment to identify whether they are able to do so. They are also required to maintain a record of all of their investments in the system, which automatically notifies them

if their investments subsequently become restricted. Our firm monitors compliance with this requirement as part of a program of independence compliance audits. We perform independence compliance audits of all partners on a cyclical basis and other professional staff on a sample basis. The last independence review was carried out in December 2015.

Any professional providing services to an audit client is also required to notify the EIP if they intend to enter into employment negotiations with that audit client.

#### **3.3.2.3 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 Hungary 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 '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 Hungary professionals by audit clients.

#### **3.3.2.4 Firm financial independence**

KPMG Hungary also uses KICS to record their own investments in SEC entities and affiliates (including funds), and in 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 Hungary confirms compliance with independence requirements as part of the Risk Compliance Program.

Our firm does not make investments in traded securities.

### 3.3.2.5 Business relationships / suppliers

Our firm 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 any additional applicable independence requirements. Compliance with these policies and procedures is reviewed periodically.

### 3.3.2.6 Independence clearance process

KPMG Hungary 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.

### 3.3.2.7 Independence training and confirmations

KPMG Hungary 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 Hungary or (b) before providing any services to and 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 biennial basis. New personnel are required to complete this training within three 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.

### 3.3.2.8 Non-audit services

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

We establish and maintain a process to review and approve all new and modified services that are developed by the KPMG Hungary 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. Lead audit engagement partners are required to maintain group structures for their publicly traded and certain other audit clients and their affiliates in the system and to 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. The system 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.

### 3.3.2.9 Fee dependency

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. In particular, 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 percent of the total fees received by a particular member firm for two consecutive years, a senior partner from another operating firm would be appointed as the engagement quality control (EQC) reviewer. Also, this would be disclosed to those charged with governance at the audit client.

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

### 3.3.2.10 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 National Risk Management Partner/ 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.

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.

### 3.3.2.11 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 the our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy.

KPMG Hungary 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.

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

Compliance with laws, regulation and standards is a key aspect for all KPMG personnel. In particular, KPMG 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 completed by client-facing professionals at a minimum of once every two years, with new hires completing such training within three months of joining our firm. 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 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](#).

### 3.3.2.13 Audit firm rotation

KPMG Hungary Ltd. is required to act for a public interest entity's for a maximum period of ten years (eight years for banks, insurance and investment companies) and not to act as auditor for such clients for a four year period thereafter — referred

to as the 'cooling off period'. KPMG Hungary Ltd. has processes in place to track and manage audit firm rotation.

### 3.3.2.14 Audit partner rotation

Audit partners are subject to rotation requirements that limit the number of years that they may provide audit services to a Public Interest Entity. Our policies comply with the IESBA Code of Ethics, and other applicable regulatory requirements. These include the requirement that individual Registered Statutory Auditors who sign the statutory accounts of Public Interest Entities and financial institutions must be rotated in accordance with Hungarian laws. We maintain records to monitor rotation requirements and develop transition plans for the allocation of new partners and Registered Statutory Auditors with appropriate experience and capacity to deliver a consistent quality of service to our clients. Our rotation monitoring is subject to compliance testing by us and by our external regulator.

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

One of the key drivers of quality is ensuring the assignment of professionals with the skills and experience appropriate to the entity subject to audit. This requires a focus on recruitment, development, promotion and retention of our personnel, and the development of robust capacity and resource management processes. We monitor quality incidents for the purposes of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

### 3.4.1 Recruitment

All candidates for professional positions 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.

KPMG Hungary Ltd. recruited 81 new people in the year ended 30 September 2016 (2015: 106).

Upon joining our firm, new personnel are required to participate in a comprehensive onboarding program, which includes training in areas such as ethics and independence. This also includes ensuring that any issues of independence or conflicts of interest are addressed before the individual can commence as a partner or employee with the firm.

### 3.4.2 Personal development

It is important that all professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills (see section 3.5.1).

In relation to audit, we provide opportunities 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. We further develop our personnel for high performance through coaching and mentoring on the job, stretch assignments, and country rotational and global mobility opportunities.

### 3.4.3 Performance evaluation and compensation

All professionals, including partners, undergo annual goal-setting and performance reviews. Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of the KPMG global behaviors, technical capabilities and market knowledge. These evaluations are conducted by performance managers and partners who are in a position to assess their performance and propose a performance rating. This is achieved through our global performance development process, which is supported by a web-based application.

KPMG is committed to the career development of its people. To support this, the Global People,

Performance, and Culture group has implemented a behavioral capability framework. This framework, combined with development initiatives in areas such as coaching and mentoring, support our people in enhancing their skills, maximizing their performance, and reaching their full potential.

Our firm has 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. Our policies do not allow audit partners to be compensated for the sale of non-audit services to their audit clients.

### 3.4.4 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.

### 3.4.5 Assignment

Our firm has procedures in place to assign 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, accreditation, 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 and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards, and applicable legal and regulatory requirements. This may include involving specialists from our own or other KPMG member firms.

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

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

### 3.4.6 Employee engagement

Biennially KPMG Hungary 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). 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 and 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 Hungary participate in the GPS, monitor results and take 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 (EEI); and
- employee performance through the Performance Excellence Index (PEI).

### 3.5 Commitment to technical excellence and quality service delivery

We provide all professionals with the technical training and support they need. This includes access to networks of specialists and professional practice departments (DPP). These 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 we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to deliver valued insights and to maintain audit quality.

#### 3.5.1 Professional training

In addition to personal development discussed at 3.4.2, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Audit Learning and Development steering groups at the global, regional and, where applicable, local levels identify annual technical 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 International Standards Group (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.

#### 3.5.2 Accreditation and licensing

All KPMG professionals are required to comply with applicable professional license rules in the jurisdiction where they practice.

Our firm is responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local financial reporting framework which in Hungary is the Hungarian accounting law and other relevant regulations.

In addition, we have specific accreditation 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 Generally Accepted Auditing Standards, and the Standards of the Public Company Accounting Oversight Board (PCAOB) for SEC and Internal Control Over Financial Reporting (ICOFR) 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.

Our firm requires that all Audit professionals maintain accreditation with their professional bodies and satisfy the Continuing Professional Development requirements of such bodies. Our policies and procedures are designed to ensure that those individuals that require a license to undertake their work are appropriately licensed.

#### 3.5.3 Access to specialist networks

KPMG Hungary 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 and Legal, 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).

#### 3.5.4 Consultation

Internal consultation is a fundamental contributor to quality and is mandated in certain circumstances and always encouraged.

To assist audit engagement professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

Our firm provides appropriate consultation support to audit engagement professionals through professional practice resources which include our local DPP. The role of the DPP is crucial in terms of the support that it provides to the Audit Function. Our local DPP

develops and disseminates specific guidance on emerging technical and professional issues deriving from changes in Hungarian laws and regulations, and also provides technical guidance to client service professionals on specific engagement-related matters.

Additional technical support is available through the CEE DPP and the International Standards Group (ISG) as well as the US Capital Markets Group for work on SEC foreign registrants.

The ISG works with Global IFRS and ISA 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.

Our protocols for consultation regarding significant accounting and auditing matters, include procedures to resolve differences of opinion on audit engagement issues. Consultation with a team member at a higher level of responsibility than either of the differing parties, or with DPP, usually resolves such differences. In exceptional circumstances Engagement Leaders and team members consult with the Head of Audit and/or the Quality & Risk Management Partner.

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

### 3.5.5 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 eAudIT. 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 eAudIT.

## 3.6 Performance of effective and efficient audits

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

### 3.6.1 KPMG Audit Process

Our audit workflow is enabled through eAudIT, KPMG International's activity based workflow and electronic audit file. eAudIT 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; and
- robust challenge and review, including EQC review.

#### 3.6.1.1 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 (or director) 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.

#### 3.6.1.2 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 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; and
- documenting the rationale for conclusions reached on a timely basis as a means of evaluating 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.

### 3.6.1.3 Ongoing mentoring and on-the-job coaching, 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 our professionals, without compromising on quality, we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Ongoing mentoring and on-the-job coaching and supervision during an audit involves:

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

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

### 3.6.1.4 Appropriately supported and documented conclusions

KPMG Hungary Ltd. uses the KAM and KPMG International's electronic audit tool, eAudIT, 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); and
- the basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.

### 3.6.1.5 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 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 auditor's 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 auditor's 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 Hungary Ltd. is continually seeking to strengthen and improve the role that the EQC review 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 eAudIT to facilitate effective reviews; and
- 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.

### 3.6.1.6 Reporting

Auditing standards and local Hungarian legislation largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement partners arrive at 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, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph.

Effective for December 2016 year ends onwards 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.

### 3.6.1.7 Insightful, open, and honest two-way communication with those charged with governance

Two-way communication with those charged with governance is key to audit quality. Often the audit committee will be the group identified as those charged with governance. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and ongoing discussions with members of the audit committee.

We deliver insights such as our assessment of the appropriateness of significant accounting practices, including accounting policies, accounting estimates, financial statement disclosures, significant deficiencies in the design and operation of financial reporting systems, controls when such deficiencies come to our attention during the course of the audit and any uncorrected misstatements. We share our industry experience to encourage discussion and debate with those charged with governance.

### 3.6.1.8 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, for PCAOB engagements, 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.

### 3.6.2 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 requirements as well as other applicable laws, standards and regulations.

Our firm has 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 personnel.

## 3.7 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 Hungary Ltd. compare the results of internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

### 3.7.1 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; and
- KPMG Hungary Ltd. 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 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 Legal, and Advisory functions: QPR and RCP.

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

#### *Audit Quality Performance Reviews (QPRs)*

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

#### *Risk-based approach*

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

KPMG Hungary Ltd. conducts the annual QPR program in accordance with global QPR instructions. The reviews are performed at KPMG Hungary Ltd. 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 client group is audited by a member firm where significant quality issues have been identified during the QPR.

#### *Risk Compliance Program (RCP)*

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

The objectives of the RCP are to:

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

Where deficiencies are identified, we are required to develop appropriate actions plan.

## 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 in a three year cycle.

The GCR provides external validation 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 and reinforce this commitment; and
- The completeness and robustness of our RCP.

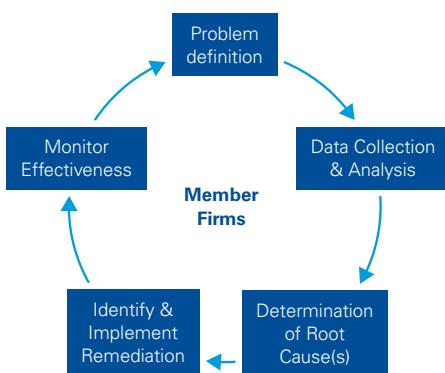
The GCR team performing the reviews is independent of KPMG Hungary Ltd., objective and knowledgeable of Global Quality and Risk Management policies.

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

The Global RCA 5 step principles are as follows:



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

KPMGHungary Ltd.'s 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.

### Recommendations for improvements

At a global level, through the GAQIC and the GQRMSG, KPMG International review the results of the quality monitoring programs, analyze member firm root causes and action plans and develop 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.

## 3.7.2 Regulators

The Auditors' Public Oversight Department of the Ministry for National Economy carried out a Quality Assurance Review of KPMG Hungary Ltd. in November 2015. The practice was assessed as Satisfactory (the highest possible level).

The Chamber of Hungarian Auditors reviews all individual Registered Statutory Auditors on a six-year cycle, the Public Oversight Committee reviews individuals who audits a Public Interest Entity on a three-year cycle.

All the auditors of KPMG Hungary Ltd. who were reviewed until the end of this business year were assessed as Satisfactory (the highest possible level).

At an 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.

## 3.7.3 Client feedback

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

## 3.7.4 Monitoring of complaints

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

# 4. Financial information

## Key financial data of KPMG Hungary Ltd. for the year ended 30 September:

Revenues	2016 Million HUF	2015 Million HUF
audit and related assurance services*	5.851	6.159
other revenues**	1.200	1.258
<b>Total</b>	<b>7.051</b>	<b>7.417</b>

\*It includes audit fees for statutory audits of Hungarian companies and audit fees for other non-statutory audits, of which statutory audits account for 62% in 2015 and 69% in 2016 (in part determined by allocating fees on the basis of working hours spent).

\*\*Other non-audit services include mediated services, other fees for services, training fees. KPMG Hungary Ltd. does not provide tax advisory services.

# 5. Partner and registered statutory auditor remuneration

## **Partners**

Partners receive salaries as remuneration for their personal work. The Partners are members of the CEE Partnership (see 2.1.) and as such are remunerated from the profits of the partnership. The CEE Board approves this process and oversees its application.

## **Registered statutory auditors**

Registered statutory auditors who are not partners are evaluated and receive remuneration, comprising salaries and performance bonuses.

# 6. Network arrangements

## 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 Legal, and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies, standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

## 6.2 Responsibilities and obligations of member firms

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

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.

## 6.3 Professional Indemnity Insurance

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

## 6.4 Governance structure

The key governance and management 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](#).

## 6.5 Area Quality & Risk Management Leaders

The Global Vice Chair — Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders 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, actively monitor alignment with global quality and risk management strategies and priorities;
- share leading best practices in quality and risk management; and
- report to Global Vice Chair – Quality, Risk and Regulatory.

# 7. Statement by the Management Committee of KPMG Hungary Ltd. on the effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality control for KPMG Hungary Ltd. 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 Management Committee of KPMG Hungary Ltd. have considered:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programs operated by our firm (including the KPMG International Review Programs as described in section 3.7.1 and our local compliance monitoring programs); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Management Committee of KPMG Hungary Ltd. confirm with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 September 2016.

Further, the Management Committee of KPMG Hungary Ltd. confirm that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2016.

# A. Appendices

## A.1. Subsidiaries of KPMG Hungary Ltd.

KPMG Advisory Ltd. is a subsidiary of KPMG Hungary Ltd. providing tax and advisory services to clients.

KPMG Academy Ltd. is a subsidiary of KPMG Hungary Ltd. under voluntary liquidation and does not provide any services.

## Other relationships

Bosznay, Tósó Law Firm KPMG Legal became a sub-licensee with effect from 8 January 2016 and provides legal services to clients.

KPMG Hungary Ltd. has a minority shareholding in KPMG Global Services Hungary Ltd.

KPMG Global Services Hungary Ltd. is not covered in this report.

## A.2. Public Interest Entities

The list of public interest entity audit clients for which KPMG Hungary Ltd. has performed a statutory audit in the year ended 30 September 2016 is given below.

### Publicly Listed Entities

CIB Bank Zrt.  
CIG Pannónia Életbiztosító Nyrt.  
M6 Duna Autópálya Koncessziós Zrt.  
Nitrogénművek Végipari Zrt.

### Other Public Interest Entities

#### Credit Institutions

Banco Primus Fióktelep  
Magyarország  
Banif Plus Bank Zrt  
BUDAPEST Hitel- és Fejlesztési Bank Zrt.  
Citibank Europe plc. Magyarországi Fióktelepe  
Cofidis Magyarországi Fióktelepe  
Deutsche Bank AG Magyarországi Fióktelepe  
Fundamenta-Lakáskassza Zrt.  
KDB Bank Európa Zrt.  
KELER Központi Értéktár Zrt.  
Oberbank AG Magyarországi Fióktelep  
Raiffeisen Bank Zrt.  
SOPRON BANK BURGENLAND Zrt.

#### Insurance Companies

Allianz Hungária Biztosító Zrt.  
CIG Pannónia Első Magyar Általános Biztosító Zrt.  
D.A.S. Jogvédelmi Biztosító Zrt.  
ERGO Életbiztosító Zrt.  
ERSTE Vienna Insurance Group Biztosító Zrt.  
Magyar Posta Biztosító Zrt.  
Magyar Posta Életbiztosító Zrt.  
MKB Általános Biztosító Zrt.  
MKB Életbiztosító Zrt.

UNION Vienna Insurance Group  
Biztosító Zrt.

Vienna Life Vienna Insurance Group  
Biztosító Zrt.

Wáberer Hungária Biztosító Zrt.

#### Investment companies

QUANTIS Alpha Befektetési Zrt.  
Solar Capital Markets Zrt.

# A.3 KPMG's Values

**KPMG people work together to deliver value to clients. We believe strongly in a common set of shared values which guide our behavior when dealing with both clients and each other:**

## **We lead by example:**

At all levels we act in a way that exemplifies what we expect of each other and our clients.

## **We work together:**

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

## **We respect the individual:**

We respect people 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, we strengthen our reputation as trusted and objective business advisers.

## **We are open and honest in our communication:**

We share information, insight, and advice frequently and constructively and manage tough situations with courage and candor.

## **We are committed to our communities:**

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

## **Above all, we act with integrity:**

We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.



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

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