

# Transparency report

KPMG Audit S.R.L.

1 October 2016 – 30 September 2017



A vintage typewriter and a small potted plant are positioned on a solid green background. The typewriter is on the right side, showing its keyboard and mechanical parts. The plant is a small, leafy green shrub in a white pot, located to the left of the typewriter. The word "Contents" is written in a large, white, serif font on the left side of the green background.

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## 1

## Foreword



**Șerban Toader**  
Senior Partner

Digitalization, new regulatory requirements, new business players and stakeholders' expectations have focused attention on the role and the value of the audit.

More than ever, we need to be able to articulate clearly and consistently what audit quality means to us, as well as being able to demonstrate how we safeguard the quality of the service we provide.

We feel it is important to underline and reconfirm our values and those things we stand for: to lead by example, work together, respect the individual, seek the facts and provide insights as well as to be committed to our communities. The quality and integrity of our people and our work is paramount to everything we do at KPMG.

To ensure every partner and employee concentrates on the skills and behaviors needed to deliver an appropriate, robust and independent opinion, we have developed a global Audit Quality Framework. The seven drivers in this framework provide us with a common language to describe what we believe drives audit quality, and importantly, to highlight how every partner and staff member at KPMG contributes to the delivery of audit quality.

At KPMG Audit SRL, we maintain a system of quality control that is designed not only to reflect our drive and determination to deliver independent, unbiased advice and opinions, but also meet the requirements of Romanian law and professional standards. Audit Quality is integral to our business and is the responsibility of every partner and employee. To help ensure a common understanding of what drives audit quality within KPMG, we adhere to the Global Audit Quality Framework.

At KPMG, we inspire confidence and empower change in all we do for clients, our people and society at large. It is something our people focus on and unite around. And it is helping us to become the Clear Choice in professional services in the markets we serve and the communities we represent. Our people recognize the responsibility that comes with this sense of purpose. That is why everything we do is underpinned by a shared set of values that guide our every action, none more so than our focus on integrity. And it is a commitment which ensures, through the decisions we make and the work we do, that we leave our society, global network and one another stronger for the future. In a world of disruption, rapid change and technological evolution these principles have never been as important as they are today. They enable a culture that brings out the best in our people. One where innovation, deep expertise and a global mindset, combine with passion and working shoulder-to-shoulder to deliver real results that build trust. This is what it means to work with and for KPMG. This is what makes us different.

This Transparency Report offers you a clear perspective of how we do business. We open a door for you to see and understand us at a deeper level. We show to you our governance, our structure, our culture of integrity, our approach and systems of quality control, our application of the provisions of the Statutory Audit Law 162/2017 and Regulation (EU) No 537/2014 on specific requirements for statutory audits of public-interest entities, and the way we understand Audit quality.

This transparency report covers the period from the last reporting date (1 October 2016) to 30 September 2017.

We invite you to read on...

Șerban Toader  
Senior Partner

KPMG Audit S.R.L.



**Cezar Furtună**  
Partner, Head of Audit  
Ethics and Independence Partner



# 2

## Legal structure and governance

KPMG in Romania delivers Audit, Tax and Advisory services.

We operate out of 5 offices and during the period 1 October 2016 - 30 September 2017, we had an average of 843 employees.

Our audit and assurance services are delivered in Romania through KPMG Audit SRL. Full details of the services offered by KPMG in Romania can be found on our website [www.kpmg.ro](http://www.kpmg.ro).

KPMG Audit S.R.L. ("the Company") is a Romanian limited liability company and a member firm of the KPMG network of independent member firms 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 2017 KPMG International Transparency Report (available [here](#)).

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

The shareholders of KPMG Audit SRL are as follows: KPMG Romania SRL, Ori Efraim, Bogdan Văduva, Aura Giurcăneanu, Tudor Grecu, Raluca Soare, Răzvan Mihai, Daniela Strusevici, Cezar Furtună, Richard Perrin, Serban Toader, Mikael Olsson and John Lane.

KPMG Audit SRL has been a member of the Romanian Chamber of Financial Auditors ("CAFR") since 2001.

The current address of KPMG Audit SRL is Victoria Business Park, 69-71 București-Ploiești, District 1, Bucharest, Romania.



# 3

## Network arrangements

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 out 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.

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.

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.

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

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

The name of each audit firm that is a member of the network and the EU/EEA countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available [here](#). This is a list of KPMG audit firms as defined in Article 2 (3) of EU Directive 2006/43/EC which are located in EU/EEA countries.

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

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

Member firms commit to a common set of KPMG Values (please refer to Appendix 1 of this Report - KPMG Values).

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

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team.

The Global Head of 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, 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.

Details of KPMG International's governance structure can be found in the [2017 KPMG International Transparency Report](#).

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.



# 4

## Management of the company

The administrators of KPMG Audit S.R.L. are: Rene Schöb, Răzvan Mihai, Ramona Jurubiță, Mădălina Racovițan, Mikael Olsson, Cezar Furtună, Bogdan Văduva, Aura Giurcăneanu,

Șerban Toader, Tudor Grecu, Raluca Soare, Ori Efraim and John Lane, who are also KPMG Partners.

# 5

## System of quality control

A robust and consistent system of quality control is an essential requirement in performing high quality services.

Accordingly, KPMG International has policies of quality control 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 assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances, as well as to help member firm personnel act with integrity and objectivity and perform their work with diligence.

These policies and procedures are based on the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and on the Code of Ethics for Professional

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

KPMG Audit SRL implements KPMG International policies and procedures and adopts additional policies and procedures that are designed to address rules and standards issued by the Authority for Public Supervision of Statutory Audit Activity ("ASPAAS") and other relevant regulators as well as applicable legal and other regulatory requirements.

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

Quality control and risk management are the responsibility of all KPMG Audit SRL personnel.



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

While many of 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.

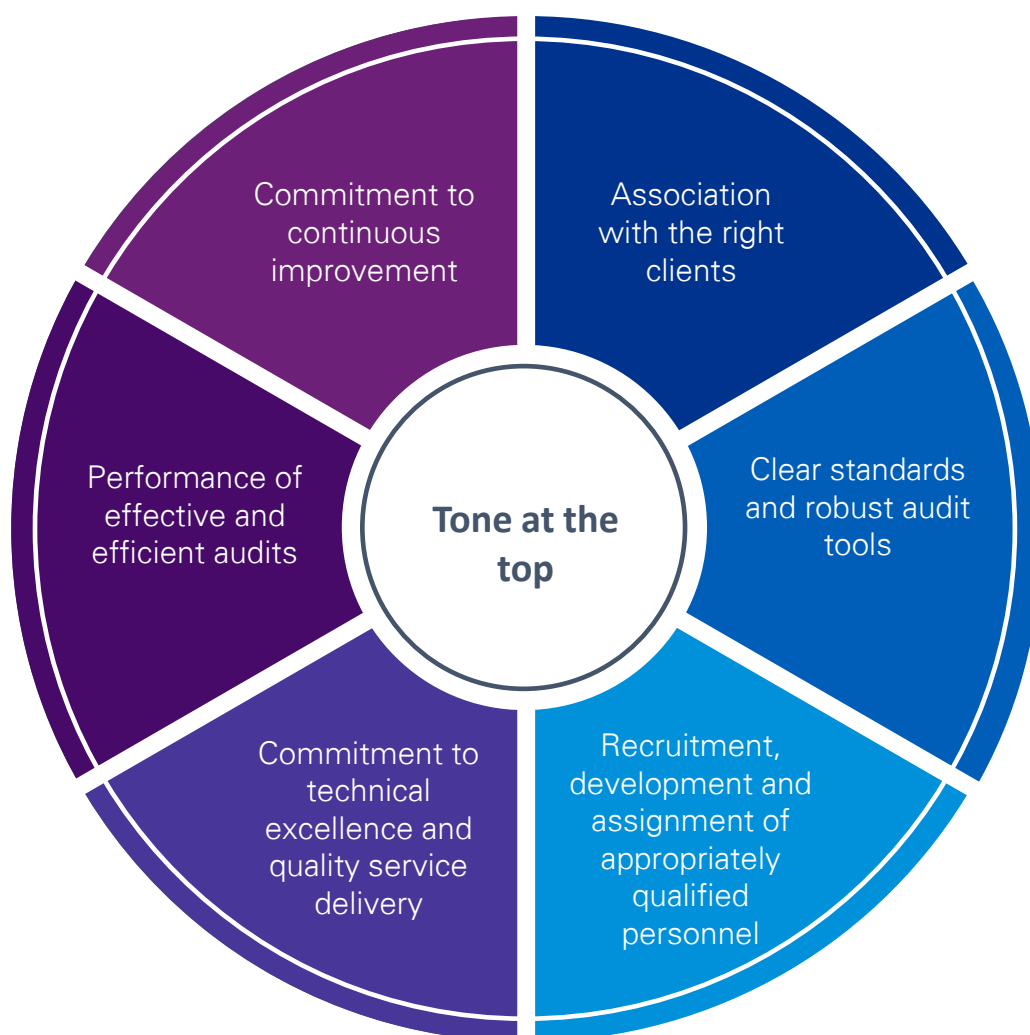
### Audit quality framework

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

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG International has developed the Audit Quality Framework.

This framework uses a common language that is adopted by all KPMG member firms, including KPMG Audit SRL to describe what the KPMG network believes drives audit quality, and to highlight how every audit professional at each KPMG member firm contributes to the delivery of audit quality.

'Tone at the top' sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviors permeate across the entire KPMG network. All of the other drivers 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.



The Audit Quality Framework identifies seven drivers of audit quality:



Tone at the top sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviors permeate across the entire KPMG network.

Each of the seven drivers is described in more detail:

### 5.1. Tone at the top

The culture of KPMG International and KPMG member firms is underpinned by a strong set of values and supporting policies and processes and enables the right attitudes and behaviors to permeate throughout the KPMG network. At KPMG Audit SRL we promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG Audit SRL 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 quality advice to our clients and rigorously maintaining independence.

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

We communicate our Values clearly to our people and embed them into our people processes — induction, performance development and reward.

### Code of Conduct

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

The KPMG Audit SRL Code of Conduct incorporates the KPMG Values and defines the standards of ethical conduct that is required from all KPMG people. It sets out sound ethical principles and helps partners and employees at KPMG Audit SRL 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.

The Code of Conduct includes provisions that require KPMG personnel to:

- comply with all applicable laws, regulations and KPMG Audit SRL policies
- report any illegal acts, whether committed by KPMG Audit SRL personnel, clients or other third parties
- report breaches of KPMG policies
- uphold the highest levels of client confidentiality
- not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

All KPMG Audit SRL personnel are required to:

- confirm their understanding of, and compliance with, the Code of Conduct upon joining the firm, and annually thereafter; and
- complete training on the Code of Conduct upon joining the firm and on a biennial basis thereafter.

Our personnel are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our Values or professional responsibilities and required to do so when they see breaches of KPMG policies, laws and regulations, and professional standards.

We have procedures and established channels of communication so that our personnel can report ethical and quality issues and individuals who report in good faith will not suffer any adverse impact regardless of whether the concern is ultimately substantiated.

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

At KPMG Audit SRL, we regularly monitor the extent to which our people feel we live our Values through the Global People Survey.

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

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

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

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

### **Senior Partner (SP) – Șerban Toader**

In accordance with the principles in ISQC 1, our Senior Partner Șerban Toader has assumed ultimate responsibility for KPMG Audit SRL's system of quality control.

### **Risk Management Partner (RMP) – Mikael Olsson**

Operational responsibility for the system of quality control, risk management and compliance in KPMG Audit SRL has been delegated to the Risk Management Partner (RMP) who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm. The RMP has a direct reporting line to the Senior Partner. The RMP consults with the appointed Area Quality and Risk Management Leaders.

The RMP is supported by a team of partners and professionals in each of the functions.

### **Ethics and Independence Partner (EIP) – Cezar Furtună**

The Ethics and Independence Partner has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Audit SRL.

### **Head of Audit – Cezar Furtună**

KPMG Audit SRL's Head of Audit is responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG personnel.

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
- working with the Risk Management Partner and Senior 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
- working with DPP to increase the quality and effectiveness of statutory audits.

## **5.2. 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 of our ability to provide high-quality professional services.

Accordingly, 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.

### **Client and engagement acceptance process**

#### ***Client evaluation***

KPMG Audit SRL undertakes an evaluation of every prospective client. This involves an assessment of the prospective client's principals, its business and other service-related matters. This also involves obtaining and analyzing 'know your client information' on the prospective client, its key management and significant beneficial owners. 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 ethical business practices, including human rights, among the factors to consider.

A second partner, in addition to the evaluating partner reviews and approves each prospective client evaluation. Where the client is considered to be 'high risk' the Risk Management Partner or experienced delegate is involved in approving the evaluation.

### ***Engagement evaluation***

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system) as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG Audit SRL personnel and includes review by quality and risk management leadership as required.

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

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

We follow specific procedures to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

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

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

### ***Continuance process***

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

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







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

#### ***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 necessary with those charged with governance and any other appropriate authority.

#### ***Client portfolio management***

Our leadership appoints engagement partners who have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

### **5.3 Clear standards and robust audit tools**

All KPMG Audit SRL professionals are expected to adhere to KPMG International and KPMG Audit SRL 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.

#### ***Audit methodology and tools***

Significant resources are dedicated to keeping our standards and tools complete and up to date. The global audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of International Standards on Auditing (ISAs).

The global audit methodology is set out in KPMG International's Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhance the quality of the audit. KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal, or regulatory requirements.

The global audit methodology is supported by eAudit, KPMG International's electronic audit tool, which provides KPMG Audit SRL auditors with the methodology, guidance, and industry knowledge needed to perform 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.

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

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 policy 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.

## ***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 the Romanian Chamber of Financial Auditors ("CAFR") and the Authority for Public Supervision of Statutory Audit Activity ("ASPAAS"). These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

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

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

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications. Member firms are required to implement changes as specified in email alerts, and this is checked through the internal monitoring programs.

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

### ***Personal financial independence***

KPMG International policies require that each KPMG member firm and its professionals are free from prohibited financial interests in, and prohibited relationships with, KPMG's audit clients, their management, directors, and significant owners. The policies also extend the IESBA Code of Ethics restrictions on ownership of audit client securities to every KPMG member firm partner in respect of any audit client of any member firm.

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

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

Partners and all client-facing personnel 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 five 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 KPMG Audit SRL are prohibited from joining an audit client in certain roles unless they have disassociated from KPMG Audit SRL financially and have ceased participating in KPMG Audit SRL business and 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 Audit SRL professionals by audit clients.

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

KPMG Audit SRL also uses KICS to record its own investments in SEC entities and affiliates (including funds), locally listed companies and funds, as well as direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

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

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



#### *Business relationships/suppliers*

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

#### *Independence clearance process*

KPMG Audit SRL 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.

#### *Independence training and confirmations*

KPMG Audit SRL 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 Audit SRL or (b) before providing any services to, or becoming a member of the chain of command for, any audit client, including any of its related entities or affiliates.

We also provide all personnel with training on the 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.

In addition, certain non-client-facing personnel who work in finance, procurement or sales and marketing departments, and who are at manager level and above, are also required to undertake anti-bribery training.

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

#### *Non-audit services*

We have policies that are consistent with IESBA principles and applicable laws and regulations (i.e. Regulation EU 537/2014 and statutory audit Law 162/2017), which address the scope of services that can be provided to audit clients.

We are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Audit SRL. KPMG Audit SRL's RMP is involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed which are intended to be delivered to audit or assurance clients in more than one jurisdiction.



In addition to identifying potential conflicts of interest, Sentinel™, facilitates compliance with these policies. Certain information on all prospective engagements, including service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. 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 those entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

#### *Fee dependency*

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. In particular, 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:

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

No audit client accounted for more than 10 percent of the total fees received by KPMG Audit SRL 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 RMP or the EIP is required in these situations.

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

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

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

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



### *Breaches of independence policy*

All KPMG Audit SRL 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 Audit SRL 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.

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

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

We prohibit involvement in any type of bribery — even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third-parties, including by our clients, suppliers or public officials. Further information on KPMG International anti-bribery and corruption policies can be found on [the anti-bribery and corruption site](#).

### *Partner and firm rotation*

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

KPMG Audit SRL 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 in relation to technical or industry-specific issues or in any way influence the outcome of the audit.

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

KPMG Audit SRL is required to act as an auditor for:

- a maximum period of 5 (extendable up to maximum 8 years under certain circumstances) for public interest entities as defined in Financial Supervision Authority ("FSA") Norm 27/2015 with related amendments
- other public interest entities outside the scope of FSA Norm 27/2015 with related amendments – for a period of maximum 10 years, which can be extended to 20 years when the selection procedure is won in accordance with EU Regulation 537/2014

and not to act as auditor for such clients for 4 years thereafter (referred to as the 'cooling off period'). KPMG Audit SRL monitors audit firm rotation.



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

One of the key drivers of quality is the assignment to a certain client of KPMG professionals with the appropriate skills and experience, passion and purpose to deliver the highest quality in audit. This requires appropriate recruitment, development, promotion and retention and assignment of professionals.

KPMG global behaviors, which are linked to the KPMG Values, are designed to articulate what is required for success — both individually and collectively. One of KPMG's global behaviors is 'Delivering Quality'.

### *Recruitment*

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

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, as well as qualification/reference checks.

Upon joining our firm, new personnel are required to participate in a comprehensive on boarding program, which includes training in areas such as ethics and independence.

### *Personal development*

It is important that all our professionals have the necessary business and leadership skills in addition to technical skills to be able to perform quality work.

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

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

### *Evaluation process including quality and compliance metrics*

KPMG Audit SRL 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.

A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers. Feedback gathered forms an integral part of performance reviews.

Going beyond performance reviews and compensation, the KPMG Global Behaviors are designed to extend across all our people processes, including recruitment methodologies, recognition approaches and development planning. The behaviors are a constant reference point, articulating to our people what is required for success individually and collectively.

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

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

### *Reward*

We have compensation and promotion policies that are clear, simple, and linked to the performance review process which, for partners, includes the achievement of key audit quality and compliance metrics. This helps our partners and employees know what is expected of them, and what they can expect to receive in return.

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

### *Promotion*

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

### *Partner admissions*

The KPMG Audit SRL process for admission to the partnership is rigorous and thorough, involving appropriate members of the leadership. Our criteria for admission to the KPMG Audit SRL 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.

### *Assignment of professionals*

KPMG Audit SRL 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 taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards, and applicable legal and regulatory requirements. This may include involving specialists from our own firm or other KPMG member firms.

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 as well as appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing
- knowledge of relevant industries in which the client operates
- ability to apply professional judgment
- an understanding of KPMG Audit SRL's quality control policies and procedures
- QPR results and results of regulatory inspections.

### **5.5 Commitment to technical excellence and quality service delivery**

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

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

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

#### *Formal training*

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

#### *Licensing*

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

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

#### *Access to specialist networks*

KPMG Audit SRL 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, Environmental, Actuarial, Forensic, Valuation, Financial Risk Management) 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 and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

#### *Consultation*

KPMG Audit SRL promotes a culture in which consultation is recognized as a strength and that encourages personnel to consult on difficult or contentious matters. To assist audit engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, our Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

Appropriate consultation support is provided to audit engagement professionals through our professional practice resources.

Auditing and technical accounting support is available to all member firms and their professionals through the GSC, ISG, CEE DPP and local DPP 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.



### *International Standards Group (ISG)*

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

Further details about the GSC and ISG and its activities are available in the 2017 KPMG International Transparency Report (available [here](#)).

### *Departments of Professional Practice (DPP)*

Across KPMG Audit SRL, the Role of CEE DPP and local 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 differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by technical specialists.

### *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 with respect to particular industries, as well as a summary of the industry knowledge provided in eAuditIT.

## **5.6 Performance of effective and efficient audits**

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

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

The KPMG high-quality audit process includes:

- timely and effective 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 EOC review.

### *Timely and effective 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 direction, supervision and performance of the engagement and therefore is also responsible for the overall quality of the audit engagement.

Involvement and leadership from the engagement partner during the planning 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.

The 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.

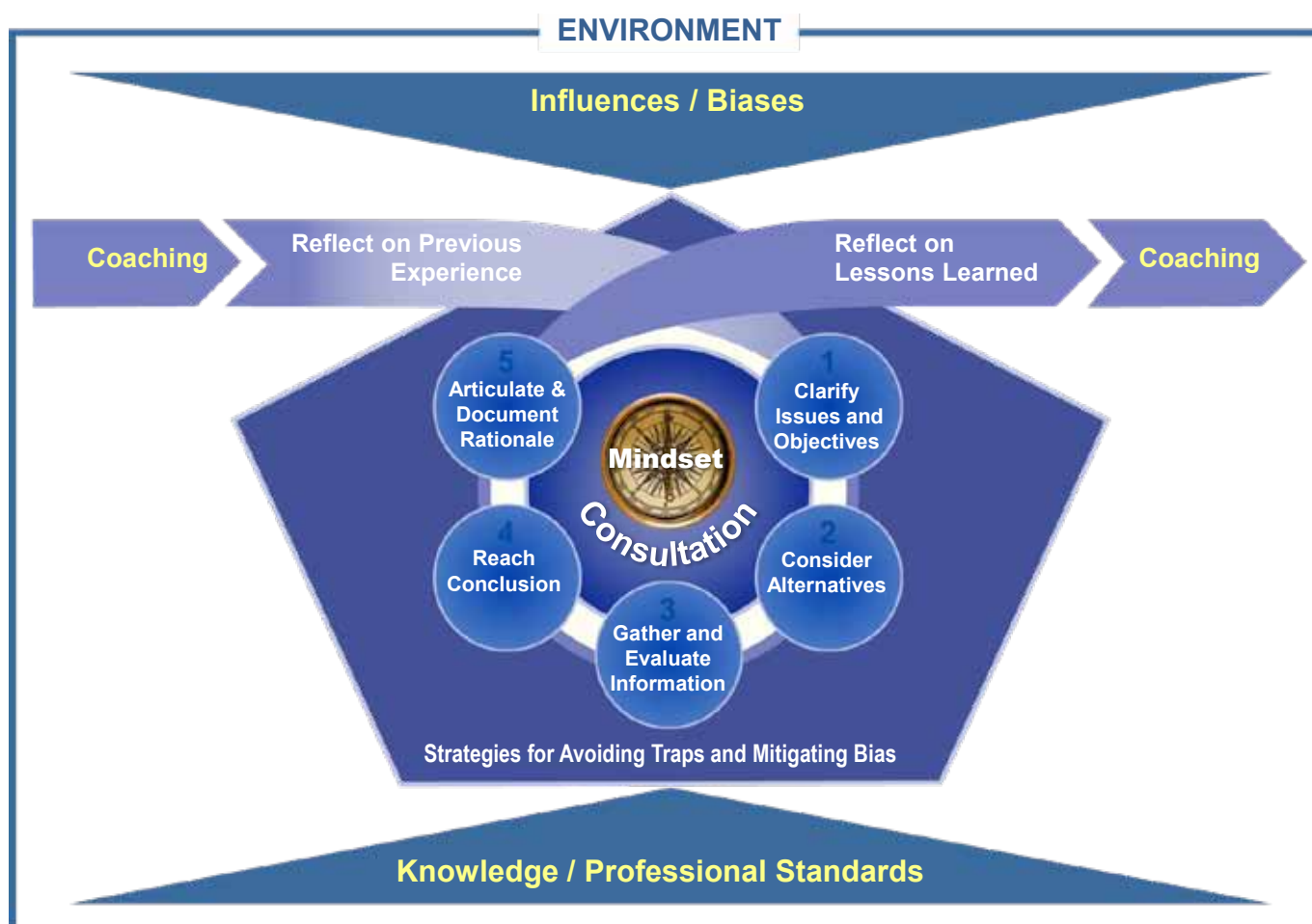
Our professional judgment process recognizes the need to be aware of, and alert to, biases which may pose threats to good judgment.

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
- 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.

## The KPMG Professional Judgment Process





### *Ongoing mentoring, supervision and review*

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of KPMG professionals, without compromising on quality, KPMG Audit SRL promotes a continuous learning environment and supports a coaching culture.

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

Ongoing mentoring, coaching and supervision during an audit involves:

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

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

### *Appropriately supported and documented conclusions*

KPMG Audit SRL 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 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.

Engagement 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 when preparing audit documentation is whether an experienced auditor, who has previous connection with the engagement, will understand:

- the nature, timing, and extent of audit procedures performed to comply with the ISAs, KAM and other 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.

### *Appropriate involvement of the Engagement Quality Control reviewer (EQC reviewer)*

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

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

For statutory audit engagements of public interest entities related to financial statements with year ended on or after 1 January 2017, an EQCR reviewer is always required.

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
- evaluation of the conclusions reached in formulating the auditors' report and consideration of whether the proposed report is appropriate.



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

KPMG Audit SRL 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 eAudit 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.

### *Reporting*

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

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

'emphasis of matter' or 'other matter' paragraph, as well as key audit matters to be communicated).

Effective for December 2016 year-end onwards in compliance with the new IAASB requirements, we have enhanced auditor reporting for those auditors' reports prepared under the ISAs. The changes in auditors' reporting 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 is a key aspect of reporting and service delivery.

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

### *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 KPMG professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, standards and regulations.



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

### **5.7 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 with respect to 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 Audit SRL compares the results of its internal monitoring programs with those of any external inspection programs and takes appropriate action.

### ***Internal monitoring and compliance programs***

Our monitoring programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulations, as well as KPMG International policies and procedures
- KPMG Audit SRL's 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 three years by the cross functional GCR program. Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.

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

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

#### *Risk-based approach*

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

KPMG Audit SRL conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG Audit SRL 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 who 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.

#### ***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 have a robust assessment program consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to:

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

Where deficiencies are identified, we are required to develop appropriate action plans.

#### ***Global Compliance Review (GCR) program***

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

The GCR 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 and reinforce this commitment
- the completeness and robustness of our RCP.

The GCR team performing the reviews is independent of KPMG Audit SRL, and is 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 the GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQRMMSG) and, where necessary, to the appropriate KPMG International and regional leadership, to help ensure timely remedial actions are taken by the member firm. The last Global Compliance Review covering KPMG in Romania took place in August 2017.

#### ***Recommendations for improvements***

At a global level, through the GAQIC and the GQRMMSG, 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 Global Audit Steering Group (GASG) on audit quality issues.

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

#### ***External monitoring***

In Romania the Romanian Chamber of Financial Auditors has been carrying out independent quality assurance inspections for a number of years. The most recent quality assurance inspection of our firm carried out by the Romanian Chamber of Financial Auditors took place in November 2014 and we received an „A” rating.

None of the external quality assurance inspections have identified any issues related to the conduct of our statutory audits.



## 6

# Statement by the administrators of KPMG Audit SRL

## on the effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality control for KPMG Audit SRL 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 administrators of KPMG Audit SRL 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 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 administrators of KPMG Audit SRL 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 2017.

Further, the administrators of KPMG Audit SRL confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2017.



## 7

# Statement of the firm's policies

on professional development of statutory auditors



Internal policies require employees to maintain their technical competence and to comply with professional requirements as well as with applicable regulatory requests. Employees are offered a complex training and development program designed to satisfy the continuing learning requirements, both internal and external, of various professional bodies.

This program includes a complex curricula of technical, software or specific industry courses delivered through various methods that enable employees to take self-study courses, attend classroom courses and participate in web-based seminars in real time.

We also encourage our professionals to stay abreast of technical updates by attending internal and external industry specific training programs and conferences as well as reviewing relevant bulletins and periodicals.

Training courses are provided for professionals to develop the skills, behaviors, and personal qualities that are needed for a successful career in auditing. Courses are delivered to enhance personal effectiveness and develop technical, leadership, and business skills.

## 8

## Financial information

The total turnover for KPMG Audit S.R.L. for the financial year ended 30 September 2017 is 72.9 mil RON, out of which the turnover related to audits and related services for public interest entities in Romania was 10.9 mil RON.

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit

of annual and consolidated financial statements was EUR 2.7 billion during the year ended 30th September 2017. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2017.

## 9

## Information on partner remuneration

All professionals, including partners, undergo annual goal-setting and performance evaluations. Each partner is evaluated on his or her attainment of agreed-upon goals, set for each partner on a number of matters relevant to their role.

Our firm has partner compensation policies that are clear, simple, and linked to the performance evaluation process. These compensation policies do not permit audit partners to be compensated for the sale of non-audit services to their audit clients.

This report complies with the requirements of Article 13 of EU Regulation 537/2014.

KPMG International has also published its Transparency Report 2017, which is prepared in accordance with the standards set by Article 13 of EU Regulation 537/2014. KPMG member firms in EU member states are required to publish their own Transparency Reports in accordance with local legislation. For the most part, KPMG member firms outside the EU are not required to publish Transparency Reports.

Throughout this document, “KPMG” (“we,” “our,” and “us”) refers to KPMG Audit SRL, a Romanian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

# 10

## Appendix 1

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:

### KPMG Values

We **lead by example** at all levels in a way that exemplifies what we expect of each other and member firms' 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 candor.

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.



# Appendix 2 - KPMG Audit SRL Clients, that are Public Interest Entities

The list of Public Interest Entities audit clients, as defined by the Accounting Law (no 82/1991 and related amendments) and Statutory Audit Law 162/2017, for which KPMG Audit S.R.L provided audit services for statutory purposes for financial years ended during the period 1 October 2016 - 30 September 2017 is provided below:

1	Access Financial Services - IFN SA	27	Fondul Deschis de Investitii Carpatica Stock
2	Allianz Tiriac Asigurari SA	28	Gothaer Asigurari Reasigurari SA
3	Allianz-Tiriac Pensii Private Societate de Administrare a Fondurilor de Pensii Private SA	29	IFN EOS Finance SA
4	Alpha Bank Romania SA	30	IFN Next Capital Finance SA
5	Alpha Finance Romania SA	31	Intercapital Invest SA
6	Alpha Leasing Romania IFN SA	32	Mercedes-Benz Leasing IFN SA
7	Apavil SA Valcea	33	NN Asigurari de Viata SA
8	Asigurarea Romaneasca Asirom - Vienna Insurance Group SA	34	NN Pensii Societate de Administrare a unui Fond de Pensii Administrat Privat SA
9	Banca Comerciala Intesa Sanpaolo Romania SA	35	Omniasig Vienna Insurance Group SA
10	Banca de Import Export a Romaniei EximBank SA	36	Opportunity Microcredit România IFN SA
11	Banca Romana de Credite si Investitii SA	37	Orange Money IFN SA
12	Bank Leumi Romania SA	38	Pool-ul de Asigurare impotriva Dezastrelor Naturale SA
13	BCR Asigurari de Viata Vienna Insurance Group SA	39	Procredit Bank SA
14	CEC Bank SA	40	RCI leasing Romania IFN SA
15	Credit Europe Bank Romania SA	41	Retrasib SA
16	Credit Europe Ipotecar IFN SA	42	Compania de Asigurari – Reasigurari Exim Romania (CARE Romania) SA
17	Deutsche Leasing Romania IFN SA	43	SAI Carpatica Asset Management SA
18	ERGO Asigurari de Viata SA	44	SAI Muntenia Invest SA
19	Ergo Asigurari SA	45	SIF Muntenia SA
20	Ferratum Romania SA	46	Societatea Energetica Electrica SA
21	Fondul de Garantare a Drepturilor din Sistemul de Pensii Private	47	Speed Transfer Financiar SRL
22	Fondul De Pensii Administrat Privat AZT VIITORUL TAU	48	Stirom SA
23	Fondul De Pensii Facultative AZT MODERATO	49	Teraplast SA
24	Fondul De Pensii Facultative AZT VIVACE	50	Vitas Institutie Financiara Nebancara SA
25	Fondul Deschis de Investitii Carpatica Global	51	Viva Credit IFN SA
26	Fondul Deschis de Investitii Carpatica Obligatiuni	52	Vrancart SA





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