



# Transparency Report

**KPMG Audit S.R.L.**

1 October 2019 – 30 September 2020

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[kpmg.ro](http://kpmg.ro)





# Foreword

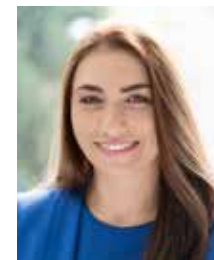
Digitalization, new regulatory requirements, new business players and stakeholders' expectations have focused attention on the role and the value of the audit. More than ever, we need to be able to articulate clearly and consistently what audit quality means to us, as well as being able to demonstrate how we safeguard the quality of the service we provide.

Our approach to audit quality relies on people with questioning minds demonstrating professional skepticism. Our people are supported by industry-leading technology to create greater consistency in performance and to strengthen monitoring.

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 to meet the requirements of Romanian and European 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.

# Foreword



**Ramona Jurubiță**  
*Country Managing  
Partner*

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.

In a changing and increasingly complicated world, our role has never been more important. Audit is the foundation of the KPMG brand and is the backbone of our business. Quality remains our top priority and underpins everything we do. We have an unwavering commitment to serve the public interest by leading the profession in audit quality.



**Mikael Olsson**  
*Risk Management  
Partner*

COVID-19 is pushing us to think differently about how we engage our people, companies we audit, stakeholders and society. The increased economic uncertainty and risk due to the pandemic will have significant financial reporting implications in all the world's markets. We will continue to respond to and embrace this challenge as we focus on recovery and resilience in this new reality. All of our actions are guided by our Values. They drive our daily behaviors, guide our decisions and shape our culture. Integrity remains a core Value — we do what is right, in the right way, at the right time. We embody our Values of integrity and excellence in our commitment to quality.

*Ethics and  
Independence  
Partner*

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 audit of public interest entities, and the way we understand Audit quality.



**Cezar Furtună**  
*Partner,  
Head of Audit*

This transparency report covers the period from the last reporting date (1 October 2019) to 30 September 2020.

We invite you to read on...

**Ramona Jurubiță**  
Country Managing Partner

**Cezar Furtună**  
Partner, Head of Audit

29 January 2021





# KPMG Audit S.R.L. AT A GLANCE

19

Audit partners & directors

249

Average number of employees

33

Authorised financial auditors

37

Public interest entities, audited statutory

KPMG Clara



a reimagined audit experience

powers



85,2 mil RON  
Turnover for FY 2020

KPMG clear choice



Audit quality



People



Innovation





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# Who we are



KPMG in Romania delivers Audit, Tax and Advisory services. We operate out of 5 offices and during the period 1 October 2019 - 30 September 2020, we had an average of 249 partners, directors and employees in KPMG Audit SRL.

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 SRL is part of a global organization of professional services firms providing Audit, Tax and Advisory services to a wide variety of public and private sector organizations.

The KPMG organization structure is designed to support consistency of service quality and adherence to agreed values wherever its member firms operate.

Our strategy is set by the KPMG Audit SRL Board and demonstrates a commitment to quality and trust.

Our focus is to invest significantly in priorities that form part of a multi-year collective strategy implementation that is taking place across our entire global organization.

The shareholders of KPMG Audit SRL as at 30 September 2020 are as follows: KPMG Romania SRL, **Ori Efraim, Bogdan Văduva, Aura Giurcăneanu, Tudor Grecu, Raluca Soare, Daniela Strusevici, Cezar Furtună, Richard Perrin, Mikael Olsson and John Lane.**

As at 30 September 2020, there were 19 partners and directors in KPMG Audit SRL.

KPMG Audit SRL has been a member of the Romanian Chamber of Financial Auditors ("CAFR") since 2001 and is authorized by ASPAAS (the Authority for Public Supervision of Statutory Audit Activity).

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



# Our structure and governance



## Legal structure for the Financial Year ending 30 September 2020

KPMG Audit SRL is affiliated with KPMG International Cooperative ("KPMG International"). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. Prior to 1 October 2020 it was the coordinating entity for the network and the entity with which all the member firms of the KPMG organization were required to be affiliated. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending 30 September 2020, are available in the 'Governance and leadership' section of the [2019 report](#).

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 logo 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.

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International's policies, including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes being professionally and financially stable, having an ownership, governance and management structure that ensures continuity and stability and long term success and being able to comply with policies issued by KPMG International, adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

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 organization and the EU/EEA countries in which each firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available [here](#).

## Legal structure from 1 October 2020

On 1 October 2020, KPMG Audit SRL and all other KPMG firms entered into new membership and associated agreements, the key impact of which is that all KPMG member firms in the KPMG global organization became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. From 1 October 2020, KPMG International Limited has acted as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organization from 1 October 2020 can be found in the section 'Governance and leadership' of the [2020 KPMG International Transparency Report](#).

KPMG International Limited and the KPMG member firms are not a global partnership, single firm, multinational corporation, 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 Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International Limited or any of its related entities have any such authority to obligate or bind any member firm.

## Responsibilities and obligations of member firms

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

Each KPMG firm takes responsibility for its management and the quality of its work. 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 to it 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 firm and its participation in the KPMG global organization may be terminated if, among other things, it has not complied with the policies set by KPMG International or any of its other obligations owed to KPMG International.





### 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 of KPMG International's governance structure can be found in the [2020 KPMG International Transparency Report](#).

### Professional Indemnity Insurance

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

### Area Quality & Risk Management Leaders



The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARLs) who serve a regular and ongoing monitoring and consultation function to assess the

effectiveness of a member firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. Significant activities

of the ARL, including member firm issues identified and related member firm response/remediation, are reported to GQ&RM leadership. The objectives of the ARL role are to:

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

# Management of the company



As at 30 September 2020, the administrators of KPMG Audit S.R.L. are: **Mikael Olsson, Cezar Furtună, Bogdan Văduva, Aura Giurcăneanu, Tudor Grecu, Raluca Soare, Ori Efraim, John Lane, Rene Schöb, Adela**

**Ciucioi, Andreea Vasilescu, Daniela Strusevici, Horatiu Mihali, Ramona Jurubiță, Richard Perrin, Alin Negrescu, Mădălina Racovițan, Dragos Doros** who are also KPMG Partners.

System of  
quality control

# System of quality control



Tone at the top, leadership, and a clear set of values and conduct are essential to set the framework for quality. However, these are required to be backed up by a system of quality control that ensures our performance meets the highest professional standards.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG has developed the Audit Quality Framework, based on International Standards on Quality Control (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), which apply to professional services firms that perform audits of financial statements.

KPMG International has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual (GQRMM) which applies to all KPMG personnel. KPMG Audit SRL is required to establish and maintain a system of quality control and design, implement, and test the operating effectiveness of quality controls.

KPMG Audit SRL is required to implement KPMG International policies and procedures and also adopts additional policies

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

Quality control and risk management are the responsibility of all KPMG Audit SRL partners, directors and employees. 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 all KPMG partners, directors and employees, wherever they are based.

We are implementing our program to adopt the new international standard on quality management (ISQM 1), which was [approved by the IAASB](#) in September 2020 and is expected to be effective from December 2022. ISQM 1 requires each KPMG firms to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the effectiveness of the system on an annual basis.

Across our global organization, we are building on our sound quality foundations to further strengthen the robustness and consistency of our global system of quality controls, enabling our firms' compliance with the new quality management standard (ISQM 1).

As we prepare for ISQM1 we are refreshing our current Audit Quality Framework to a new Global Quality Framework to better outline how we deliver quality at KPMG, and how everyone at KPMG contributes to its delivery. 'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate our processes as necessary.

While this Transparency Report summarizes KPMG's approach to audit quality, it may also be useful for stakeholders interested in member firms' Tax and Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.





## Audit quality framework

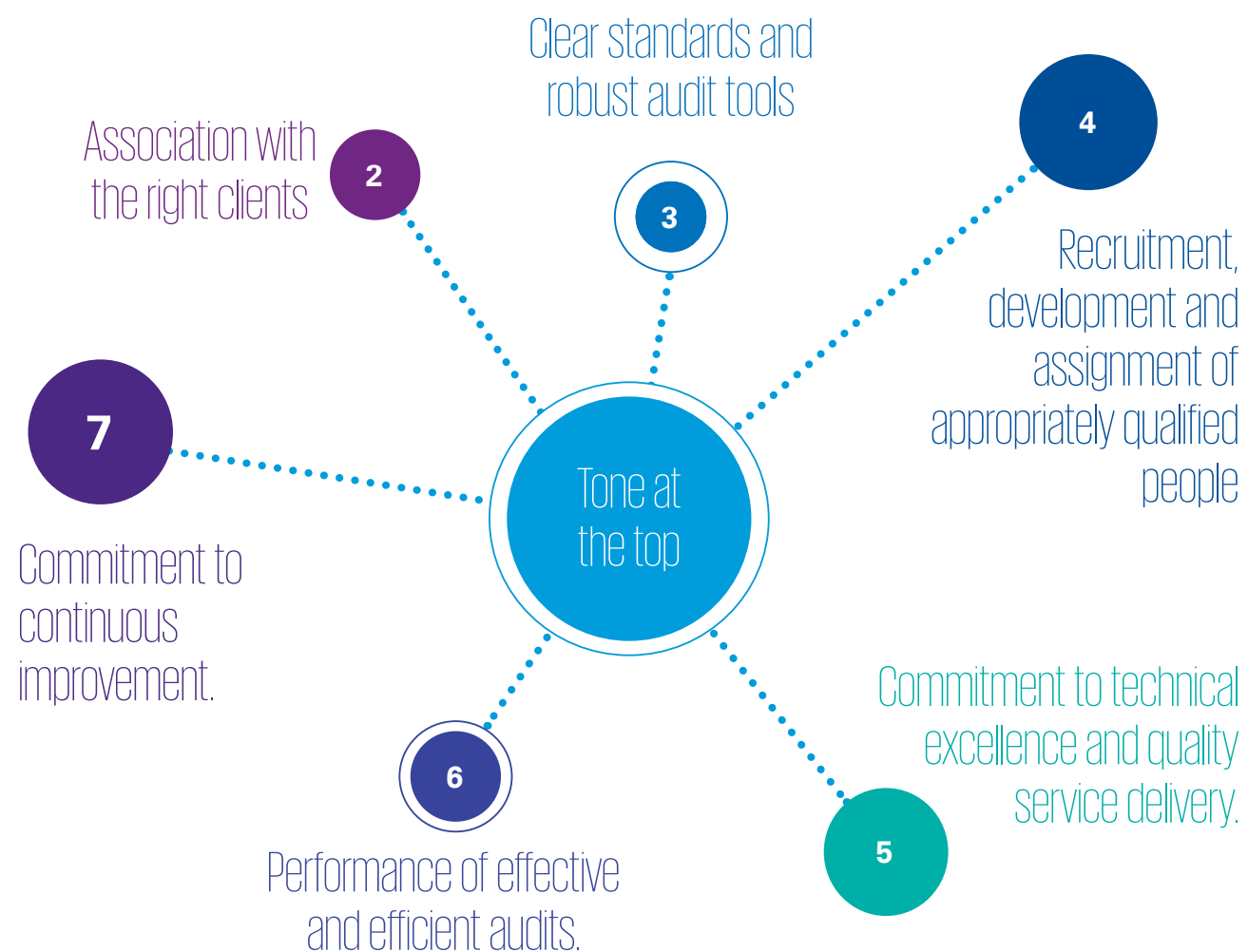
At KPMG Audit SRL, audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditors' report.

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.

KPMG's framework introduces a common language that is used by all KPMG member firms to describe what they believe drives audit quality and to highlight how each of their audit professionals 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 all KPMG member firms. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others.



## 5.1. Tone at the top



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

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's leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large to earn public trust.

The KPMG values are set out in Appendix 1.

Outlined in [KPMG's Global Code of Conduct](#) are the responsibilities all KPMG personnel have to each other, our clients, and the public. It shows how our Values inspire our greatest aspirations and guide all of our behaviors and actions. It defines what it means to work at and be part of KPMG, as well as our individual and collective responsibilities.

Our Values lie at the heart of the way we do things. To do the right thing, the right way. Always. They drive our daily behaviors, guide our decisions. They form the foundation of a resilient culture ready to meet challenge with integrity, so we never lose sight of our principal responsibility to protect the public interest. And they propel us forward — through our work and the example we set — as we inspire confidence and empower change throughout the world. Everyone at KPMG is required to comply with the Global Code of Conduct and to confirm their compliance with the Code. Everyone at KPMG is also required to take regular training covering the Code.

We are committed to holding ourselves accountable for behaving in a way that is consistent with the Code. Individuals

are encouraged to speak up if they see something that makes them uncomfortable or that is inconsistent with our Values.

Moreover, everyone at KPMG is responsible for reporting — and is required to report — any activity that could potentially be illegal or in violation of our Values, KPMG policies, applicable laws, regulations or professional standards. To safeguard this, each KPMG firm is required to have procedures and established channels of communication so that anyone working there can report suspected ethical and quality issues or concerns.

In addition, the KPMG International hotline is a mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by any KPMG International entity, including activities of KPMG firms and of KPMG personnel. All KPMG firms and personnel are prohibited from retaliating against individuals who have the courage to speak up in good faith. Retaliation is a serious violation of the Code, and any person who takes retaliatory action will be subject to their firm's disciplinary policy. At KPMG Audit SRL, we regularly (annually) monitor the extent to which our people feel that the firm lives the KPMG Values through the Global People Survey.

KPMG Audit SRL demonstrates commitment to quality, ethics and integrity, and communicates our focus on quality to clients, stakeholders and society.

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:







### Country Managing Partner (CMP) – Ramona Jurubiță

In accordance with the principles in ISQC 1, Ramona Jurubiță, in her capacity as Country Managing Partner, has assumed ultimate responsibility for KPMG Audit SRL's system of quality control.

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

The Risk Management Partner (RMP) is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG Audit SRL. The RMP has a direct reporting line to the Country Managing Partner. The RMP consults with the appointed Area Quality and Risk Management Leaders.

The RMP is supported by a team of partners/ directors and professionals in each of the audit, tax, and advisory departments.

### Ethics and Independence Partner (EIP) – Mikael Olsson

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.

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, directors and employees to fulfil their professional responsibilities and
- Working with the Risk Management Partner and Country Managing 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 the Department of Professional Practice (DPP) to increase the quality and effectiveness of audit engagements.

### Investing in continuous improvement



KPMG continues to invest significantly in audit quality across the global organization. We are building on our sound audit quality foundations, both in terms of how we manage our firms and how we execute audit engagements.

This means ongoing investment in our system of quality management, global monitoring of audit quality, enhanced support, and providing best-in class technology and tools for engagement teams.

Our global audit quality program supports consistent deployment of investments to enhance and drive a common approach.

#### 5.2. Association with the right clients

Rigorous global client and engagement acceptance and continuance policies are vital to being able to provide high-quality professional services.

KPMG's client and engagement acceptance and continuance policies and processes are designed to identify and evaluate any potential risks prior to accepting or continuing a client relationship, or performing a specific engagement.

KPMG firms are required to evaluate whether to accept or continue a client relationship, or perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required.

#### Acceptance and continuance of clients and engagements Client evaluation

KPMG Audit SRL undertakes an evaluation of every prospective client.

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

### Engagement evaluation



Each prospective engagement is also evaluated to identify potential risks in relation to the engagement.

A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system), intended purpose and use of engagement deliverables, public perception 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 partners, directors and employees assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG Audit SRL partners, directors and employees and includes review by the Risk Management Partner, 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, financial 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.

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 in the audit).

Recurring or long running non-audit engagements are also subject to periodic 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, and as part of the continuous independence evaluation process, engagement teams are required to identify if there have been any changes to previously identified threats or if there are new threats to independence. The threats are then evaluated and, if not at an acceptable level, are eliminated or appropriate safeguards are applied to reduce the threats to an acceptable level.

#### Withdrawal process

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

#### Client portfolio management

KPMG Audit SRL appoints engagement partners/ directors who have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

We review each audit partner's/ director's client portfolio in individual discussions with the audit partner and an analysis performed by the RMP together with the Head of Audit. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the partner to deliver a quality audit for every client.

#### 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 KPMG Audit SRL 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.

#### Our approach to audit

KPMG has been investing significantly in evolving the Global Organization's audit capabilities and will continue to do so in the coming years, including a new global electronic audit workflow delivered through the KPMG Clara platform

– **KPMG's smart, modular audit platform** – capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data, science audit automation, data visualization and more. Digital audit is integral to the way KPMG member firms obtain audit evidence and interact with clients in the digital era.





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

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

#### KPMG's commitment to audit quality during the COVID-19 pandemic



The COVID-19 pandemic has forced us all to think differently. We continue to respond to and embrace this challenge. Most organizations are likely to be impacted by the COVID-19 pandemic, either directly or indirectly, and the increased economic uncertainty and risk may have significant financial reporting implications. Issues including going concern, asset impairments and valuations will require careful judgment as organizations deal with a high degree of uncertainty and market volatility. KPMG firms' role as auditors is to evaluate these judgements. Since the start of the pandemic we have maintained an online COVID-19 Financial Reporting Resource Center at global level to assist companies and other stakeholders in understanding potential accounting and disclosure implications.

KPMG International has issued extensive guidance to assist teams in addressing the various accounting, financial reporting and audit related matters arising from the impacts of the COVID-19 pandemic including going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, inventory, subsequent events, audit evidence communications with Those Charged With Governance, and considerations for remote working environments. KPMG's guidance has been continually updated throughout the pandemic as other significant auditing, accounting and reporting issues have been identified. Based on the guidance issued by KPMG International, the professional practice departments at regional and local level have adopted the respective guidance. Also, a series of specially dedicated workshops were organized by these departments for the audit engagement teams.

KPMG is a technology-enabled organization, with all audit technical accounting and auditing resources, guidance and audit platforms and tools available electronically, enabling the conversion to a remote working environment.

Communication has been increasingly important to everyone during the COVID-19 pandemic. We have leveraged our investments in technology to provide KPMG firms with more regular updates, including virtual meetings to share best practices and guidance.



#### Consistent audit methodology and tools

##### Bringing consistency through our methodology

Our audit methodology, tools and guidance are:

- globally consistent and fully compliant with the applicable standards, including International Standard on Auditing (ISA), Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) and are supplemented to comply with local auditing standards and regulatory or statutory requirements by member firms
- inclusive of KPMG methodology interpretations that drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed
- centered on identifying risk, focusing on risks of material misstatements and the necessary audit response
- made available to all KPMG audit professionals and required to be used, where necessary
- applied even where local auditing standards and may be less demanding than the ISAs

The KPMG audit methodology is set out in KPMG's Audit Manual (currently used with eAuditIT) and the KPMG Audit Execution Guide (for use with the KPMG Clara workflow) and includes additional requirements that go beyond the ISAs, which we believe enhance audit quality. The methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence.

Enhancements to the audit methodology, guidance and tools are made regularly to maintain compliance with standards, and address emerging auditing areas of focus and audit quality results (internal and external). For example, as a result of the COVID-19 pandemic, many companies are experiencing significant financial uncertainty. We have issued guidance to our auditors conducting audit procedures in a remote-working environment, raising awareness of key audit risks such as going concern, impairments and valuation of assets and provided reminders of the importance of exercising professional skepticism taking appropriate actions if information is identified that is unexpected or unusual and may be indicative of potential management bias, a fraud risk or fraud.

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

We use RPA-type solutions, robots and artificial intelligence that free us from manual and redundant tasks, giving us more time to focus on value-added work.

##### Delivering through our current audit workflow

The current KPMG audit is enabled through eAuditIT, an activity-based workflow and electronic audit file. eAuditIT is KPMG's audit

documentation workflow that allows professionals to complete high quality, consistent audits. eAuditIT integrates KPMG's audit methodology, guidance and industry-specific information, and the tools needed to execute and document the audit work performed.

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

##### Investing for the future

While our current audit workflow and methodology are robust and consistent with all auditing standards' requirements, the changes we are making will enable us to concentrate on our objective of a relentless focus on audit quality and provide us with the platform to build in continuous enhancements as the power of new technologies develops.

We have laid the groundwork for this already with the launch of our smart audit platform, KPMG Clara, in 2017.

##### Audit solutions for today's world

We recognize that in order to deliver quality audits, we need to continually evolve and develop our technology solutions to keep pace with today's digital world.

That is why we embarked on a process of reimagining our audit platform, workflow and methodology to provide enhanced consistency and support to our audit engagement teams, deliver more detailed insights to our clients, and future-proof our systems for the expected continued development of new technologies such as robotic process automation, machine learning and cognitive technologies.

The continuation of this process will see a new workflow and revised audit methodology embedded into the KPMG Clara platform. Limited deployment of the new "KPMG Clara workflow" took place during 2019. Full deployment globally started in 2020, and is expected to be completed by the end of 2022.

The release of the KPMG Clara workflow and revised audit methodology is an important milestone in KPMG's journey to innovate, digitalize and transform the audit experience for our people.

It is a significant investment that underlines our commitment to audit quality, consistency and innovation.

##### Bringing it all together in KPMG Clara

The KPMG Clara smart audit platform brings together KPMG's digital audit capabilities, innovative new technologies, collaboration capabilities and our new KPMG Clara workflow.





### Creating the new KPMG Clara workflow

The new KPMG Clara workflow will be used by our audit teams to execute and document KPMG audits. It will guide audit teams through a series of steps in a logical sequence aligned to the applicable auditing standards with a clear display of information, visuals, and guidance available at the moment of need, and with embedded advanced digital audit capabilities. The workflow and revised audit methodology will also be scalable – adjusting the requirements to the size and complexity of the audit engagement. This globally-driven project will significantly overhaul and redesign the execution of an audit by KPMG professionals and clearly drive audit quality and global consistency.

Through the use of data mining and tracking of relevant engagement level data indicators, the KPMG Clara workflow will also facilitate member firms' monitoring of audit execution at the engagement level.

Once the KPMG Clara workflow has been fully deployed our predecessor audit workflow tool, eAudIT, will be retired.

### Strategically embedding the use of data through digital audit capabilities

KPMG Clara also allows us to more effectively build digital audit capabilities into our audits. Digital audit routines are capable of interrogating and analyzing vast quantities of data.

KPMG's audit is designed to:

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

Digital audit capabilities and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

Current capabilities in this area facilitate the performance of planning and risk assessment activities and substantive procedures, and include capabilities that:

- Enable the analysis of account balances and journal entry data.
- Automate 'period on period' balances comparison and 'time series' evolution information.
- Enable the analysis of sub-ledger, transactional data over certain business processes and accounts..

Together with our KPMG Clara platform, we are significantly investing in digital audit capabilities and paving the way for the increasing use of emerging technologies such as robotic process automation and machine learning — which will take the power of

technology applied in the audit to an even greater level.

### Independence, integrity, ethics and objectivity



Auditor independence is a cornerstone of international professional standards and regulatory requirements. KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's GQRMM, which applies to all KPMG firms. Automated tools, which are required to be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards issued by the Authority for Public Supervision of Statutory Audit Activity ("ASPAAS") and the Romanian Chamber of Financial Auditors ("CAFR").

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

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

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

The EIP is responsible for communicating and implementing KPMG global policies and procedures and ensuring that local policies and procedures are established and effectively implemented when they are more stringent than the global requirements. The EIP fulfills this responsibility through:

- Implementing/monitoring the ethics and independence quality control process and structure within the firm
- Approving/appointing partners responsible for ethics and independence within the firm.
- Overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients.
- Participating in the development and delivery of training materials.
- Monitoring compliance with policies.
- Implementing procedures to address non-compliance.
- Overseeing the disciplinary process for ethics and independence matters.

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

KPMG Audit SRL partners, directors and employees are required to consult with the EIP on certain matters as defined in the GQRMM. The EIP may also be required to consult with the Global Independence Group, depending upon the facts and circumstances.

### Personal financial independence

KPMG International policies require that KPMG firms and KPMG professionals are free from prohibited financial interests in, and prohibited financial relationships with, KPMG firm assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, directors, and, where required, significant owners. All KPMG partners — irrespective of their firm and function — are generally prohibited from owning securities of any audit client of any KPMG firm.

KPMG firms use a web-based independence compliance system (KICS) to assist KPMG professionals in complying with personal independence investment policies.

This system contains an inventory of publicly available investments and provides a tracking mechanism for required users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (e.g. late reporting of an investment acquisition).

All partners, directors and all manager grade and above client-facing employees 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 publicly traded entities

in KICS, which automatically notifies them if any investment subsequently becomes restricted. Newly restricted investments are required to be disposed of within five business days of the notification. KPMG monitors partner and manager compliance with this requirement as part of our program of independence compliance audits of professionals. The Global Independence Group provides guidance and required procedures relating to the audit and inspection by KPMG member firms of personal compliance with KPMG's independence policies. This includes sample criteria including the minimum number of professionals to be audited annually.

### Employment relationships

Any KPMG Audit SRL 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/ directors this requirement extends to any audit client of any KPMG firm that is a public interest entity.

Former members of the audit team or former partners/directors of KPMG Audit SRL are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG Audit SRL, including from payments which are not fixed and predetermined and/or would be material to KPMG Audit SRL and have ceased participating in KPMG Audit SRL's business and professional activities.

Key audit partners/ directors 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 and partnership of KPMG Audit SRL professionals with audit clients.







## Firm financial independence

KPMG firms are required to also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and, where required, significant owners.

In common with other KPMG firms, KPMG Audit SRL uses KICS to record its own direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in associated pension, and employee benefit plans.

Additionally, KPMG Audit SRL is required to record in KICS all borrowing and capital financing relationships, as well as 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 with audit clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements, such as those promulgated by the SEC.

## Independence clearance process

KPMG Audit SRL follows specific procedures to identify and evaluate threats to independence related to prospective audit clients. Also, 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,' are required to be completed prior to accepting an audit engagement for these entities.

## Independence training and confirmations

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

New partners/ directors and client facing employees who are required to complete this training should 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.

We also provide all partners, directors and employees with annual training on:

- The Global Code of Conduct and ethical behavior, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards; and

- Reporting suspected or actual non-compliance with laws, regulations, professional standards and KPMG's policies.

New partners/ directors and employees are required to complete this training within three months of joining KPMG Audit SRL.

All KPMG partners, directors and employees are required to sign, upon joining KPMG Audit SRL and thereafter, an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year.

## Non-audit services



All KPMG firms are required, at a minimum, to comply with the IESBA Code of Ethics and applicable laws and regulations related to the scope of

services that can be provided to audit clients.

KPMG Audit SRL is 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 Risk Management Partner/ Ethics & Independence Partner is involved in the review of potential independence issues related to these new or modified services.

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with these independence requirements. Certain information on all prospective engagements, including detailed service descriptions, deliverables and estimated fees are required to be entered into Sentinel™ as part of the engagement acceptance process. When the engagement is for an audit client an evaluation of potential independence threats and safeguards is also required to be included in the Sentinel™ submission. Lead audit engagement partners/ directors (LAEP) are required to: maintain group structures for their publicly traded and certain other audit clients including their related affiliates or affiliates in Sentinel™. They are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. For entities for which group structures are maintained, Sentinel enables LAEPs to review and request revision, approve, or deny, any proposed service for those entities worldwide. For approved proposed services, Sentinel designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

KPMG global independence policies prohibit member firm audit partners from being evaluated on, or compensated based on, their success in selling non-assurance services to their audit clients.

## 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 KPMG firm expressing the audit opinion. These policies require KPMG firms to consult with their Area Quality & Risk Management Leader where it is expected that total fees from an audit client will exceed 10 percent of the annual fee income of the member firm for two consecutive years. 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, these policies further require that:

- This be disclosed to those charged with governance at the audit client and a partner from another KPMG firm be appointed as the Engagement Quality Control reviewer.
- No audit client accounted for more than 10 percent of the total fees recorded by KPMG Audit SRL over the last two years.

## Resolving conflicts of interest

Conflicts of interest can arise in situations where KPMG Audit SRL partners, directors and employees have a personal connection with the client which may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the Risk Management Partner or the EIP is required in these situations.

KPMG International policies are also in place to prohibit KPMG partners/ directors and staff from offering or accepting inducements, including gifts and hospitality to or from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation and is not deemed to be have been offered with the intent to improperly influence the behavior of the recipient or which would not cast doubt on the individual's or the member firm's integrity, independence, objectivity or judgment.

All KPMG firms and partners, directors and employees are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have or may be perceived to have an impact on a firm's and/ or its partners'/ directors' or employees' ability to be objective or otherwise act without bias.

All KPMG firms are required to 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 resources staff who are responsible for reviewing any identified potential conflict

and working with the member firms affected to resolve the conflict, the outcome of which is required to be documented.

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.

## Independence Breaches

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

All breaches of independence rules are required to be reported to those charged with governance as soon as possible except where alternative timing for less significant breaches has been agreed to with those charged with governance.

KPMG Audit SRL has a documented and communicated disciplinary policy in relation to breaches of independence policies incorporating incremental penalties reflecting the seriousness of any violations.

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

Compliance with laws, regulation and standards is a key aspect for everyone at KPMG Audit SRL. 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's anti-bribery and corruption policies can be found on our [anti-bribery and corruption site](#).

## Partner and firm rotation



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

KPMG Audit SRL partners/ directors 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/ directors in certain roles may provide audit services to a client, followed by a 'time-out' period during which time these partners/ directors may not:



- Participate in the audit.
- Provide quality control for the audit.
- Consult with the engagement team or the client about technical or industry-specific issues.
- In any way influence the outcome of the audit.
- Lead or coordinate professional services at the client.
- Oversee the relationship of the firm with the audit client.
- Have any other significant or frequent interaction with senior management or those charged with governance at the client.

KPMG Audit SRL monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and Engagement Quality Control Reviewer, where there is a rotation requirement) and develops transition plans to enable allocation of partners/ directors with the necessary competence and capability to deliver a consistent quality of service to clients.

KPMG Audit SRL can act as an auditor for:

- A maximum period of 5 (extendable up to maximum 7 years under certain circumstances) for public interest entities as defined in Financial Supervision Authority ("FSA") Norm 13/2019 with related amendments.
- Other public interest entities outside the scope of FSA Norm 13/2019 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.

KPMG Audit SRL may 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 people



One of the key drivers of quality is ensuring that KPMG professionals have the appropriate skills and experience, passion and purpose, to deliver high quality audits. This requires the right policies on recruitment, development, reward, promotion, retention and assignment of professionals.

##### Recruitment

KPMG Audit SRL is committed to building an extraordinary people experience for all current and prospective KPMG partners, directors and employees.

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

KPMG provides students with an internship in which science in the fields of economics acquired in university is practically applied in combination with new methodologies and programs for process automation, technology and personal development.

The internship is organized in the form of a paid internship that can last up to 5 months. This internship takes place in a multicultural, dynamic environment, where our professionals work in collaboration with clients, members of executive management, board members, representatives of regulators and academia, to understand the ever-changing business environment.

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.

These leverage fair and job-related criteria to ensure that candidates possess the appropriate skills and experience to perform competently, and that they are suitable and best placed for their roles.

##### Personal development

###### Development

KPMG Audit SRL's approach to performance development, Open Performance Development, is built around the **Everyone a Leader** performance principles, and includes:

- Global role profiles (including role profiles specific to audit quality accountabilities and responsibilities).
- A goal library ((including audit quality content).
- Standardized review forms (with provision for audit quality ratings).

Open Performance Development is linked to the KPMG values and designed to articulate what is required for success

- both individually and collectively. We know that by being clear and consistent about the behaviors we're looking for and rewarding those who demonstrate them, we will continue to drive a relentless focus on audit quality.

At the same time, we are driving a shift in our performance-driven culture, supported by and enacted through leading technology that allows us to embed audit quality into the assessment of performance and the decisions around reward as well as drive consistency across the global organization.

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

##### Inclusion and Diversity programs

KPMG Audit SRL is committed to fostering an inclusive culture for all. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

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

##### Reward & Promotion

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

###### Reward

KPMG has compensation and promotion policies that are informed by market data, and are clear, simple, and linked to the performance review process. This helps our partners, directors and employees understand what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved by assessing relative performance across a peer group to inform reward decisions.

Reward decisions are based on consideration of both individual and firm performance.

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

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, directors and employees 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.







## Assignment of professionals

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

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

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

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the criteria for appointing the engagement partner may include the following requirements:

- 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.
- Quality Performance Review results and results of regulatory inspections.

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

Annually, KPMG Audit SRL invites all its people to participate in an independent Global People Survey to share their perception about their experience working for KPMG. The GPS provides an overall measure of our people's engagement through an Engagement Index as well as insights into areas driving engagement which may be strengths or opportunities. Results can be analyzed by functional or geographic area, grade, role, and gender to provide additional focus for action. Additional insight is provided on how we are faring on categories known to have an impact on

employee engagement. We also cover areas of focus which are directly relevant to audit quality; the survey includes specific audit quality related questions that all individuals who participated in audit respond to, giving us a particular data set for audit quality related matters. The survey also specifically provides KPMG Audit SRL leadership and KPMG global leadership with results related to quality and risk behaviors, audit quality, upholding the KPMG values, employee and partner attitudes to quality, leadership and tone at the top.

KPMG Audit SRL participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. The results of the GPS are also aggregated for the entire KPMG global organization and are presented to the Global Board each year and appropriate follow-up actions agreed.

## 5.5 Commitment to technical excellence and quality service delivery



All KPMG Audit SRL professionals are provided with the technical training and support they need to perform their roles. This includes access to internal specialists and the professional practice department, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG Audit SRL, the firm accesses a network of highly skilled KPMG professionals in other KPMG firms.

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

## 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, at a local level. Training is delivered using a blend of classroom, digital learning and performance support to assist auditors on the job.

## Licensing

All KPMG Audit SRL professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development requirements in the jurisdiction where they practice. KPMG Audit SRL 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 predominant local financial reporting framework.

Our firm requires all audit professionals to obtain accreditation with the professional bodies and satisfy the Continuing Professional Development requirements of these bodies, including ASPAAS and 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 firms.

These specialists receive the training they need to ensure they have the competencies, capabilities and objectivity to appropriately fulfill their roles.

The need for specialists to be assigned to an audit engagement in areas such as information, technology, tax, treasury, actuarial, forensic and valuations is considered as part of the audit engagement acceptance and continuance process, as well as during the conduct of the engagement.

## Culture of Consultation

KPMG encourages a strong culture of consultation that supports engagement teams at KPMG firms throughout their decision- making processes and is a fundamental contributor to audit quality.

KPMG Audit SRL promotes a culture in which consultation is recognized as a strength and that encourages all KPMG professionals to consult on difficult or contentious matters. To help with this, firms are required to 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. In addition, the KPMG GQRMM includes mandatory consultation requirements on certain matters.

## Technical consultation and global resources

Technical auditing and accounting support is available to KPMG firms through the Global Audit Methodology Group (GAMG), KPMG Global Solutions Group (KGSG), the ISG and the PCAOB Standards Group (PSG).

## Global Audit Methodology Group (GAMG)

KPMG's audit methodology is developed and maintained by the Global Audit Methodology Group (GAMG). The GAMG develops our audit methodology based on the requirements of the applicable auditing standards – International Standards on Auditing, PCAOB and AICPA.

## KPMG Global Solutions Group (KGSG)

The KGSG and GAMG work collaboratively to support member firms through collaboration, innovation and technology. We have made significant investments in our audit methodology and tools with the core focus of improving audit quality and global consistency.

Key areas of work performed include:

- Developing innovative audit capabilities (i.e. technology solutions) and deploying and using advanced audit solutions.

- Deploying KPMG Clara — our smart audit platform, incorporating advanced technologies, data science, audit automation, data visualization and more.
- Enhancing KPMG's audit methodology, workflow and knowledge used by member firms' audit professionals.

With locations in each of the three KPMG regions (Americas, EMA and ASPAC), the KGSG and GAMG teams comprise professionals with backgrounds in audit, IT, data science, mathematics, statistics, and more from around the world, who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

## International Standards Group (ISG)



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

## PCAOB Standards Group (PSG)

The PCAOB Standards Group (PSG) comprises a dedicated group of professionals with a background in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards applied globally in KPMG firms' audits of non-US components and foreign private issuers and non-US components of SEC issuers, as defined by SEC regulations. The PSG also provides input into the development of training for auditors who work on PCAOB audit engagements and, where practicable, facilitates delivery of such training.

## Member firm professional practice resource

KPMG firms provide consultation support with auditing and technical accounting matters to their audit professionals through professional practice resources (referred to as the Department of Professional Practice or DPP). This resource also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to be escalated to partners, who follow a prescribed escalation protocol for final resolution. KPMG's International Standards Group and PCAOB Standards Group are also available for consultation support when required.

## 5.6 Performance of effective and efficient audits

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



## Embedding ongoing mentoring, supervision and review



To invest in the building of skills and capabilities of KPMG professionals, KPMG Audit SRL promotes a continuous learning environment and supports a coaching culture.

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.

## Engagement quality control (EQC) reviewers

The EQC review is an important part of KPMG's framework for quality.

An EQC reviewer is required to be appointed for audits, including for any related review(s) of interim financial information, of all listed entities, and non-listed entities with a high public profile, as well as for 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.

An EQC review provides reasonable assurance that the team has appropriately identified significant risks, including fraud risks, and has designed and executed audit procedures to address them.

EQC reviewers are required to meet training and experience criteria to perform a quality control review for a particular engagement. Reviewers are independent of the engagement team and audit client 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.

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.

KPMG is continually seeking to strengthen and improve the role that the EQC review plays in member firm audits and has taken a number of actions to reinforce this, including issuing leading practice guidance, incorporating specific review requirements into our audit workflow, and developing policies relating to recognition, nomination and development of EQC reviewers.

## Reporting

Auditing standards and national 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, in accordance with the relevant financial reporting framework. Experienced engagement partners/directors form all audit opinions based on the audit performed.

In preparing auditors' reports, engagement partners have access to extensive reporting guidance and technical support through consultations with our DPP, and in certain circumstances with RMP, 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).

## 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 engagement. 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. We ensure such communications meets the requirements of professional standards.

## Client confidentiality, information security, and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the KPMG Global 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, which sets out 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.

## Engagement Documentation

Our audit documentation is completed and assembled according to the timeline established by KPMG Audit SRL's policies, as well as auditing standards as set by legislation, and we have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information.

## 5.7 Commitment to continuous improvement



KPMG is committed to continually improving 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 as well as to develop, implement and report remedial action plans, both with respect to individual audit engagements and the overall system of quality control.

The quality monitoring and compliance programs are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG Audit 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

KPMG Audit SRL monitoring programs evaluate both:

- Engagement performance in compliance with the applicable standards, applicable laws and regulations, as well as KPMG International key policies and procedures and
- KPMG Audit SRL's compliance with KPMG International key policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed and effectively implemented, and also that it operates effectively. It includes:

- Quality Performance Reviews (QPRs) and Risk Compliance Programs (RCPs), which are conducted annually across the Audit, Tax and Advisory functions;
- A cross functional Global Compliance review (GCR) program with firms selected for review at various intervals based on identified risk criteria.

The results and lessons from the integrated monitoring programs are communicated internally and appropriate action is taken at local, regional and global levels.

## 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 in every KPMG member firm 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. Firm Audit QPR reviews are overseen by a senior experienced lead reviewer who is independent from the 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 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 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 firm professionals through written communications, internal training tools, and periodic partner, director manager and staff meetings.

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

Lead audit engagement partners/directors are notified of less than satisfactory engagements (defined as 'Performance Improvement Needed' or 'Unsatisfactory') ratings for 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 KPMG 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:

- Document, assess and monitor the extent of compliance of KPMG Audit SRL's system of quality control with Global Quality & Risk Management (GQ&RM) policies and key legal and regulatory requirements relating to the delivery of professional services; and
- 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 and monitor the status of each action item.

#### Global Compliance Review (GCR) program

Each KPMG firm is subject to a GCR conducted by KPMG International's GCR team, independent of the member firm, at various intervals based on identified risk criteria.

The GCR team performing the reviews is independent of the firm and is objective and knowledgeable of GQ&RM policies. GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms.

The GCR provides an independent assessment of:

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

KPMG Audit SRL develops action plans to respond to all GCR findings that indicate improvement is required and agree these with the GCR team. Our progress on action plans is monitored by the GCR central team. Results are reported to the GQ&RM Steering Group and, where necessary, to the appropriate KPMG International and regional leadership. The last Global Compliance Review covering KPMG in Romania took place in May 2020.

#### Root Cause Analysis (RCA)

KPMG Audit SRL 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 all KPMG firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

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

#### Recommendations for improvements

At a global level, through the Global Audit Quality Council and the GQ&RM Steering Group, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and planned remedial actions and develops additional global remediation actions as required.

Global remediation actions developed by KPMG International are aimed at changing culture and behavior across the global organization and at driving consistent engagements team performance within KPMG firms.

The remediation actions 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 global organization.

#### External feedback and dialogue

##### Regulators

Currently ASPAAS is the audit oversight body in charge of independent quality assurance inspections for statutory audits.

Previously, the Romanian Chamber of Financial Auditors carried 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 inspections have identified any issues that have a material impact on the conduct of our statutory audit business.







# 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 period 1 October 2019 to 30 September 2020.

Further, the administrators of KPMG Audit SRL confirm that an internal review of independence compliance within our firm has been conducted for the period 1 October 2019 - 30 September 2020



# 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 requirements. Employees are offered a complex training and development program designed to satisfy the continuous 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.

# Financial information

The total turnover for KPMG Audit S.R.L. for the financial year ended 30 September 2020 was RON 85,2 million. The total turnover of KPMG Audit SRL can be divided into the following categories:

(i) revenues from the statutory audit of annual and consolidated financial statements of public interest entities and entities belonging to a group of undertakings whose parent undertaking is a public interest entity	RON 21,13 million
(ii) revenues from the statutory audit of annual and consolidated financial statements of other entities	RON 27,47 million
(iii) revenues from permitted non-audit services to entities that are audited by the audit firm	RON 23,7 million
(iv) revenues from non-audit services to other entities	RON 12,93 million





Aggregated revenues generated by KPMG firms in EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion during the year ending 30th September 2020.

The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ending 30th September 2020.

# Information on partner remuneration

Information on partner remuneration

All professionals, including partners/ directors, undergo annual goalsetting 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/ director compensation policies that are clear, simple, and linked to the performance evaluation process. These compensation policies do not permit audit partners/ directors 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 2020, 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 the global organization or to one or more of the member firms of KPMG International Limited, each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients.

No member firm has any authority to obligate or bind KPMG International Limited or any other member firm vis-à-vis third parties, nor does KPMG International Limited have any such authority to obligate or bind any member firm.

Throughout this document, references to “Firm”, “KPMG firm”, “member firm” and “KPMG member firm” refer to firms which are either: members of KPMG International Limited; sublicensee firms of KPMG International Limited; or entities that are wholly or dominantly owned and

controlled by an entity that is a member or a sublicensee. The overall governance structure of KPMG International and its associated entities is provided in the ‘Governance and leadership’ section of the 2020 KPMG International Transparency Report.



## Appendix 1

Our Values represent what we believe in, and what’s important to us as an organization. They guide our behaviors day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, companies that we audit, and all our stakeholders. Our values are:

### KPMG values

#### Integrity

We do what is right.

#### Excellence

We never stop learning and improving.

#### Courage

We think and act boldly.

#### Together

We respect each other and draw strength from our differences.

#### For Better

We do what matters.

KPMG’s Values express the organization’s long-standing core beliefs, and in 2020 the language was updated to make them bolder, simpler and more memorable to help each of us bring them to life every day.



# 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

SRL signed a statutory audit opinion in the year ended 30 September 2020 is provided below:

1.	Access Financial Services - IFN SA	19.	Mogo IFN SA
2.	Asigurarea Romaneasca Asirom - Vienna Insurance Group SA	20.	Motoractive IFN SA
3.	Banca Comerciala Intesa Sanpaolo Romania SA	21.	NN Asigurari de Viata SA
4.	Banca de Import Export a Romaniei EximBank SA	22.	NN Pensii Societate de Administrare a unui Fond de Pensii Administrat Privat SA
5.	BCR ASIGURARI DE VIATA VIENNA INSURANCE GROUP SA	23.	Omniasig Vienna Insurance Group SA
6.	CEC Bank SA	24.	Orange Money IFN SA
7.	DEUTSCHE LEASING ROMANIA IFN SA	25.	Patria Bank SA
8.	ERGO Asigurari de Viata SA	26.	PATRIA CREDIT INSTITUTIE FINANCIARA NEBANCARA S.A.
9.	Ergo Asigurari SA	27.	Pool-ul de Asigurare impotriva Dezastrelor Naturale SA
10.	FONDUL DE PENSII ADMINISTRAT PRIVAT AZT VIITORUL TAU	28.	ProCredit Bank SA
11.	FONDUL DE PENSII FACULTATIVE AZT MODERATO	29.	RALFI IFN SA
12.	FONDUL DE PENSII FACULTATIVE AZT VIVACE	30.	RCI LEASING ROMANIA IFN SA
13.	Garanti Bank SA	31.	ROCAPITAL IFN SA
14.	Hidroelectrica SA	32.	SAI MUNTENIA INVEST SA
15.	IFN NEXT CAPITAL FINANCE SA	33.	SIGNAL IDUNA ASIGURARE REASIGURARE S.A.
16.	Libra Internet Bank SA	34.	SOCIETATEA DE INVESTITII FINANCIARE MOLDOVA S.A
17.	Mecanica Ceahlau SA	35.	SOCIETATEA DE INVESTITII FINANCIARE MUNTENIA S.A
18.	Mercedes-Benz Leasing IFN SA	36.	Vitas Institutie Financiara Nebancara SA
		37.	Viva Credit IFN SA

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