



Transparency Report 2020

KPMG Audit OOD

kpmg.com/bg



The KPMG Values

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:

- **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.

Our Values express our firm'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.



Message from our Head of Audit



This Transparency Report is guided by KPMG Audit's desire to explain clearly how we are striving to create, maintain, and improve audit quality.

We recognize transparency is key if we are to pursue our ongoing ambition for better public understanding of audit effectively. How an audit is conducted is as important as the final result. Effective and efficient audits are dependent on the demonstration of certain behaviours. We focus on these behaviours during the performance of the audit, through education sessions and coaching, and via our review processes.

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.

Over the past year, we have been updating our audit methodology and embedding it in our 'smart' audit platform, known as KPMG Clara, which unites our data and analytics capabilities, new technologies, and collaboration capabilities to improve data flows between the audit team and our clients.

We have also been working to implement the revised polices equivalent to International Standard of Quality Management (ISQM) 1, expected to become mandatory in 2022.

COVID-19 has affected so much of our audit function this year and, in recognition of this, we have included in this report a special COVID-19 response summary page.

One thing COVID-19 has not affected, however, is our KPMG values. The values helped us to stay focused and determined to perform high quality audits.

Ivan Andonov
Managing Director, KPMG Audit OOD
Head of Audit



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

We define “audit quality” as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.



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Who we are

KPMG IN BULGARIA
IS A LEADING
AUDIT FIRM
IN THE COUNTRY

1.1 Our business



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

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

Further details of our service offerings can be found on our website at the following link:

www.kpmg.com/bg

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

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

1.2 Our strategy



The strategy of KPMG in Bulgaria is set by its partners 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.

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

¹ 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.



Our structure and governance

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

2.1 Legal structure



KPMG Audit OOD is affiliated with KPMG International Cooperative ("KPMG International"). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. 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 with. Further details about KPMG International and its business, including our relationship with it for the financial year ending 30 September 2020, are available in the 'Governance and leadership' section of the [2020 KPMGI Transparency Report](#).

Legal structure and ownership from 1 October 2020

On 1 October 2020, KPMG Audit and all other KPMG firms entered into new membership and associated documents, 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. KPMG International Limited acts 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 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 or any of its related entities have any such authority to obligate

or bind any member firm. KPMG Audit is part of the KPMG 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 the member firms operate.

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

The registered capital of KPMG Audit OOD amounts to BGN 174,000 (one hundred and seventy-four thousand Bulgarian leva) distributed into 17,400 (seventy thousand and four hundred) shares with a nominal value of BGN 10 (ten Bulgarian leva) each as follows:

- „KPMG CEE HOLDING, a.s.“, joint stock company, registered in the Czech Republic, owns 8,526 (eight thousand five hundred and twenty-six) shares with a nominal value of BGN 10 (ten Bulgarian leva) each, representing 49% of the capital of the Company.
- Ivan Andonov, registered auditor with the Institute of Certified Public Accountants in Bulgaria, owns 4,176 (four thousand one hundred and seventy-six) shares with a nominal value of BGN 10 (ten Bulgarian leva) each, representing 24% of the capital of the Company.
- Maria Peneva, registered auditor with the Institute of Certified Public Accountants in Bulgaria, owns 2,436 (two thousand four hundred and thirty-six) shares with a nominal value of BGN 10 (ten Bulgarian leva) each, representing 14% of the capital of the Company.
- Dobrina Kaloyanova, registered auditor with the Institute of Certified Public Accountants in Bulgaria, owns 2,262 (two thousand two hundred



and sixty-two) shares with a nominal value of BGN 10 (ten Bulgarian leva) each, representing 13% of the capital of the Company.

Kalin Hadjidimov and Ivan Andonov manage and represent the Company individually. The other registered Managing Directors – Maria Peneva and Dobrina Kaloyanova, represent the Company jointly with Kalin Hadjidimov or Ivan Andonov.

The information with regard to the legal and ownership structure of the Company, its management bodies and the other circumstances which under the law are subject to registration is publicly available under the batch of the Company at the Commercial Register with the Registry Agency.

2.2 Governance



We apply high standards of corporate governance.

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

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

2.3 Name, ownership and legal relationships



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

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

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

2.4 Responsibilities and obligations of member firms



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

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

Member firms commit to a common set of KPMG Values.

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



System of quality control

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

3.1 Overview

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 International Code of Ethics for Professional Accountants (including International Independence Standards) 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 is required to establish and maintain a system of quality control and design, implement, and test the operating effectiveness of quality controls.

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

Financial Supervision Commission and other relevant regulatory authorities.

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

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

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). Approved by the IAASB in September 2020, the new standard is expected to be effective from December 2022. ISQM 1 requires each KPMG firm to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the effectiveness of the system annually.

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.

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



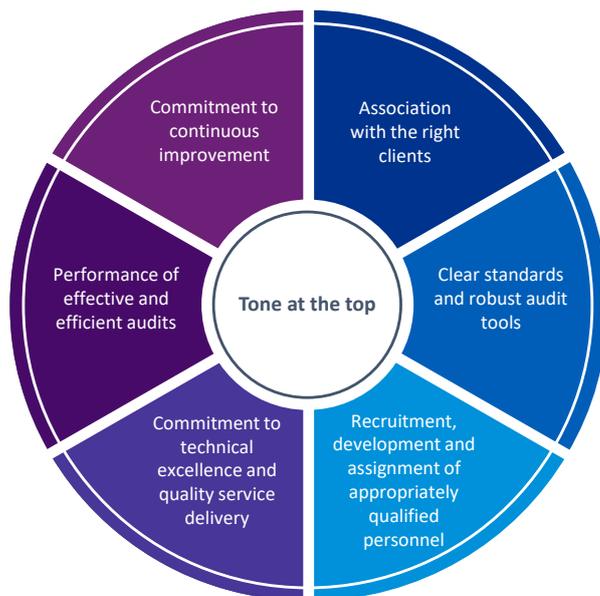
3.2 Audit quality framework

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

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

KPMG’s audit quality framework introduces a common language that is used by all KPMG firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to its delivery.

‘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 firms. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others.



3.3 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 we promote a culture in which consultation is encouraged and recognized as a strength.

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

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

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, and shape our admissions. 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, activities of KPMG firms or 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, we regularly monitor the extent to which our people feel that the firm lives the KPMG Values through the Global People Survey (refer to [3.78 Insights from our people – Global People Survey \(GPS\)](#)).

3.4 Leadership responsibilities for quality and risk management



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

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

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

Managing Partner

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

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

Risk Management Partner

The Risk Management Partner (RMP) is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG Audit OOD. The Risk Management Partner has a direct reporting line to the Managing Partner. She consults with the appointed KPMG Area Quality and Risk Management Leader. The seniority of the reporting lines underlines the importance that the firm places on risk and quality issues. The Risk Management Partner is supported by a central quality and risk management team.

Ethics and Independence Partner

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

Head of Audit

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

Our 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 scepticism, objectivity, and independence
- Developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities; and
- Working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice,



including an annual evaluation of activities considered to be key to audit quality.

Audit Leadership Team

The Audit Leadership Team of KPMG Audit held regular discussions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources. These were debated, other observations collected from client-facing teams were considered and actions agreed. Typically, most of these actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the entire Audit function of KPMG Audit and also, if considered of sufficient magnitude, in the next mandatory training.

For more complex issues (which might require amendments to KPMG's global audit methodology or audit tools) these will be raised with the KPMG International Global Audit groups for consideration and potential development by the KPMG Global Solutions Group (previously Global Services Center – GSC) and the International Standards Group (ISG). For more information about the KGSG and the ISG refer to sections [KPMG Global Solutions Group \(KGSG\)](#) and [International Standards Group \(ISG\)](#).

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.

What is audit quality?

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

We define 'audit quality' as the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls; and

- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

3.5 Association with the right clients



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.

3.5.1 Acceptance and continuance of clients and engagements

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

3.5.2 Client and engagement acceptance process

Client evaluation

KPMG Audit undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly 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, its key management, directors and owners. In addition, we obtain additional information required to satisfy our local legal and 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 and employees assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG Audit partners and employees and includes review by quality and risk management leadership as required.

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

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

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

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

3.5.3 Continuance process

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

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

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

3.5.4 Withdrawal process

Where KPMG Audit 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.

3.5.5 Client portfolio management

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

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

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

3.6 Clear standards and robust audit tools



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



3.6.1 Our approach to audit

The KPMG organization has been investing significantly in evolving its audit capabilities and will continue to do so in the coming years including a new global electronic audit workflow delivered through KPMG Clara platform – KPMG’s smart, modular audit platform – capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data, science, audit automation, data visualization and more. Digital audit is integral to the way how KPMG member firms obtain audit evidence and interact with clients in the digital era.

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

- timely partner and manager involvement throughout the engagement
- access to the right knowledge including involvement of specialists, training and experience requirements and relevant industry expertise
- critical assessment of all audit evidence obtained during the audit, exercising appropriate professional judgment
- ongoing mentoring, supervision and review of the engagement team
- managing and documenting the audit.

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 to assist companies and other stakeholders understand 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.

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 may be less demanding than the ISAs

The KPMG audit methodology is set out in KPMG's Audit Manual (currently used with eAudit 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 and impairments 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.

The current KPMG audit is enabled through eAudit, an activity-based workflow and electronic audit file used by KPMG member firms. eAudit is KPMG's audit documentation workflow that allows professionals to complete quality and consistent audits. eAudit integrates KPMG's audit methodology, guidance and industry specific, and the tools needed to execute and document the audit work performed.

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

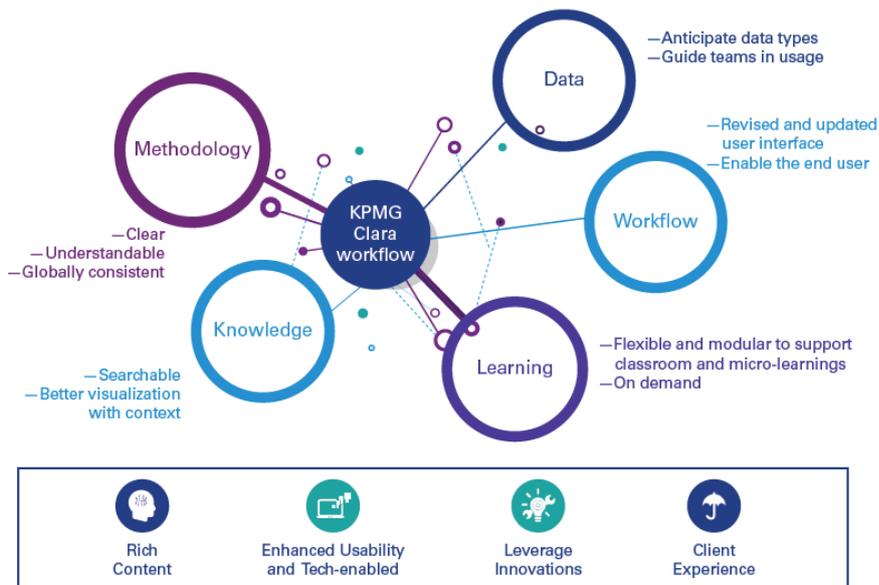
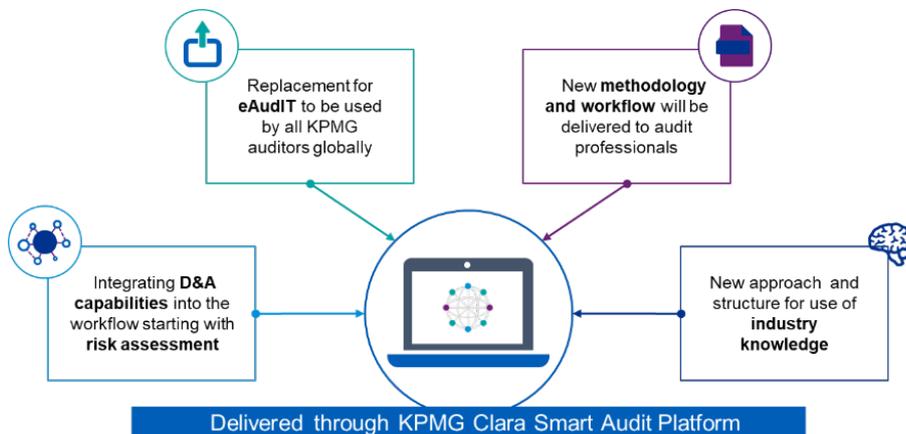
The continuation of this process will see a new workflow and revised audit methodology embedded into the KPMG Clara platform. Limited deployment of the new "KPMG Clara workflow" took place during 2019, and full deployment globally started in 2020, and is expected to be completed by the end of 2022.

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 KPMG member firm 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, eAuditIT, will be retired.

Strategically embedding the use of digital audit capabilities

KPMG Clara also allows us to more seamlessly 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.

3.6.2 Independence, integrity, ethics and objectivity

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

KPMG International has detailed independence policies and procedures, incorporating the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code of Ethics). These are set out in KPMG's GORMM, 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 Commission for Public Oversight of Statutory

Auditors (CPOSA) and those of other applicable regulatory bodies. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

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

KPMG Audit has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Audit. 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; and
- 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. KPMG firms are required to implement changes as specified in the communications, and this is checked through the internal monitoring programs described in



section [3.10.1 Internal monitoring and compliance programs](#).

KPMG Audit partners 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 or 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 (i.e., late reporting of an investment acquisition).

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

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

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

We communicate and monitor requirements in relation to employment and partnership of KPMG Audit professionals by 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 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 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 confirms compliance with independence requirements as part of the Risk Compliance Program.

Business relationships/suppliers

KPMG Audit has policies and procedures in place that are designed to ensure its business relationships 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.

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

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

Business acquisitions, admissions and investments

If KPMG Audit is in the process of considering the acquisition of, or investment in, a business, it is required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues prior to closing the transaction. Specific consultations with the Global Independence Group and Global Quality & Risk Management are required to enable independence and other issues to be addressed when integrating the business into KPMG Audit and the wider global organization.

Independence clearance process

KPMG Audit follows specific procedures to identify and evaluate threats to independence related to

prospective audit clients that are public interest entities; these procedures, also referred to as ‘the independence clearance process,’ required to be completed prior to accepting an audit engagement for these entities.

A ‘KPMG Independence Checkpoint’ tool is used to automate and standardize all the workflows that comprise the independence clearance process. The tool was developed in anticipation of the increasing number of audit tenders and independence clearances that need to be completed as a result of mandatory firm rotation of statutory audits.

Independence training and confirmations

All KPMG Audit partners 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 and on an annual basis thereafter.

New partners and employees who are required to complete this training should do so by the earlier of (a) thirty days after joining KPMG Audit or (b) before providing any services to, or becoming a member of the chain of command for, any audit client.

We also provide all partners and employees with training on the Global Code of Conduct and ethical behavior, including KPMG’s anti-bribery policies, compliance with laws, regulations, and professional standards, and Reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG’s policies.

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

All KPMG partners and employees are required to sign, upon joining KPMG Audit 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 International Code of Ethics for Professional Accountants (including International Independence standards) and applicable laws and regulations, related to the scope of services that can be provided to audit clients.



KPMG Audit is required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Audit. KPMG Audit's EIP is involved in the review of potential independence issues related to these new or modified services.

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with 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 (LAEPs) are required to maintain group structures for their publicly traded and certain other audit clients including their related entities 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 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 member firm be appointed as the engagement quality control (EQC) reviewer.

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

Resolving conflicts of interest

Conflicts of interest can arise in situations where KPMG Audit partners 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 (RMP) or the EIP is required in these situations.

KPMG International policies are also in place to prohibit KPMG partners 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 cast doubt on the individual's or the member firm's integrity, independence, objectivity or judgment.

All KPMG firms and personnel 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' or employees' in their ability to be objective or otherwise act without bias.

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

All KPMG firms are required to use Sentinel™ for potential conflict identification so that these can be



addressed in accordance with legal and professional requirements.

KPMG Audit has risk management resources who are responsible for reviewing any identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which are 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 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 has a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations.

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

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

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

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

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

Partner and firm rotation

Partner rotation

KPMG International partner rotation policies are consistent with the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) and require all member firms to comply with any stricter local applicable rotation requirements.

KPMG Audit partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide audit services to a client, followed by a 'time-out' period during which time these partners may not:

Participate in the audit

- Provide quality control for the audit
- Consult with the engagement team or the client regarding technical or industry-specific issues
- In any way influence the outcome of the audit;
- Oversee the relationship of the firm with the audit client; or
- Have any other significant or frequent interaction with senior management or those charged with governance at the client

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

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



Firm rotation

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

In the event that a joint statutory audit of the financial statements of a public interest entity is required under law or regulation, the Bulgarian Independent Financial Audit Act permits that the rotation period is extended by not more than five years. This extension is permitted if the Audit Committee of the public interest entity has made such a recommendation and it has been presented and approved at the General Meeting of the Shareholders.

3.7 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 recruitment, development, reward, promotion, retention and assignment of professionals.

3.7.1. Recruitment

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

Our recruitment strategy is focused on drawing entry-level talent from a broad talent base, including working with established universities.

All candidates submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks. These leverage fair and job-related criteria to ensure that candidates possess the appropriate skills and experience to perform competently, are suitable and best placed for their roles.

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

3.7.2 Personal development

KPMG Audit's approach to performance development, 'Open Performance Development', is built around 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); and
- 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 behavior 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.

Partners and certain professionals are also required to be evaluated on key quality and compliance metrics. KPMG Audit 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 who are in a position to assess performance.

Attracting, retaining and developing talent individuals is at the very top of our people agenda and is key to KPMG firms being a magnet for talent. The firm dedicates a significant amount of time, money and other resources to build professional



capability, leadership and business skills and technical expertise.

All our people are encouraged to think about their careers and personal development needs via regular performance conversations with ongoing feedback and support. To support career and professional development there is a range of core skills programs covering skills and behaviors that provide performance improvement and ensure that individuals reach their full potential. Our learning and development framework focuses on critical and stretching experiences and learning opportunities are provided through a blend of formal learning for the development of key technical, leadership and business skills; social learning or learning through others; and through their engagement and project work. A clear focus on high performance and regular feedback helps our firm identify high performers who have the potential to take on more senior or more complex roles.

3.7.3 Inclusion and Diversity programs

KPMG Audit 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.

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

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

3.7.4 Reward

KPMG Audit has compensation and promotion policies that are informed by market data, clear, simple, and linked to the performance review process. This helps our partners 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 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.

3.7.5 Promotion

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

3.7.6 Partner admissions

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

3.7.7 Assignment of professionals

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

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

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time, to perform audit engagements in accordance with 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.

As an additional control, our Head of Audit performs an annual review of the portfolio of all of our audit engagement partners. The purpose of this portfolio review is to look at the complexity and risk of each audit and then to consider whether, taken as a whole,



the specific engagement partner has the appropriate time and the right support to enable the engagement partner to perform a high-quality audit for each client in their portfolio.

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

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

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

Annually KPMG Audit 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, gender to provide additional focus for action. Additional insight is provided on how we are faring on categories known to impact 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 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 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 global organization and are presented to the Global Board each year and appropriate follow-up actions agreed.

3.8 Commitment to technical excellence and quality service delivery



All KPMG Audit professionals are provided with the technical training and support they need 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, 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.

3.8.1 Lifetime learning strategy

Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional, and where applicable, at a local level. Training is delivered using a blend of learning approaches and performance support to assist auditors on the job.

Mentoring and on the job training

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

Mentoring and on-the-job experience play key roles in developing the personal qualities important for a



successful career in auditing, including professional judgment, technical excellence and instinct.

We support a coaching culture throughout KPMG as part of enabling KPMG professionals to achieve their full potential and instill that every team member is responsible for building the capacity of the team, coaching other team members and sharing experiences.

In relation to audit, KPMG Audit:

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

3.8.2 Licensing and mandatory requirements for IFRS engagements

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

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

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

In addition, KPMG has specific requirements for partners, managers and Engagement Quality Control (EQC) reviewers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework.

Similar policies apply to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that at a minimum, all partners, managers and, if appointed, the EQC reviewers (and for engagements conducted in accordance with US GAAP and/or US auditing standards engagements, the engagement partner, engagement team members and, if appointed the EQCR reviewers) assigned to the engagement have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

3.8.3. Access to specialist networks

KPMG Audit engagement teams have access to a network of local KPMG specialists either within their firm or in other KPMG firms.

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

The need for specialists to be assigned to an audit engagement in an area 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.

3.8.4 Culture of consultation

Encouraging a culture of consultations

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 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 GQRMM includes mandatory consultation requirements on certain matters.

Technical consultation and global resources

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

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

Technical auditing and accounting support is available to member 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 KOGSG and GAMG work collaboratively to support member firms through collaboration, innovation and technology. We have made significant investment 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 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

Member firms provide consultation support on auditing and technical accounting matters to their audit professionals through professional practice resources (referred to as 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 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.

3.9 Performance of effective and efficient audits



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

3.9.1 Embedding ongoing mentoring, supervision and review

To invest in the building of skills and capabilities of KPMG professionals, KPMG Audit 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 any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, high risk engagements and other engagements as designated by the Risk Management Partner or country Head of Audit.

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 Audit is continually seeking to strengthen and improve the role that the EQC review plays in member firm audits and have 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. In recent years, a number of actions have been taken to reinforce this, including:

- Ensuring that the role performed by EQCRs is also taken into account when performing the Partner Portfolio Review process to ensure adequacy of time and appropriate skill set for the role and reallocation if needed; and
- Assessing, as part of our Quality Performance Reviews, the work performed by the EQC reviewer and the adequacy of involvement including discussion with the EQC reviewer.

Reporting

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

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

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

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

Engagement Documentation

Our audit documentation is completed and assembled according to the timeline established by KPMG Audit policy, auditing standards and we have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information

Insightful, open and honest two-way communication

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

At KPMG Audit we stress the importance of keeping those charged with governance informed of issues arising throughout the audit. 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.

3.9.2. Client confidentiality, information security and data privacy

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

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

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

3.10. Commitment to continuous improvement



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



member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans both in respect of individual audit engagements and the overall system of quality control.

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

3.10.1 Internal monitoring and compliance programs

KPMG Audit monitoring programs evaluate both:

- Engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International key policies and procedures; and
- KPMG Audit compliance with KPMG International 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, effectively implemented, and operates effectively. These include:

- Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across the Audit, Tax and Advisory functions; and
- 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 is reviewed at least once in a three year cycle. A risk-based approach is used to select engagements.

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

Reviewer selection, preparation and process

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

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

Evaluations from Audit QPR

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

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

Reporting

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

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

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



Risk Compliance Program (RCP)

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

The objectives of the RCP are to:

- Document, assess and monitor the extent of compliance of KPMG Audit 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 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:

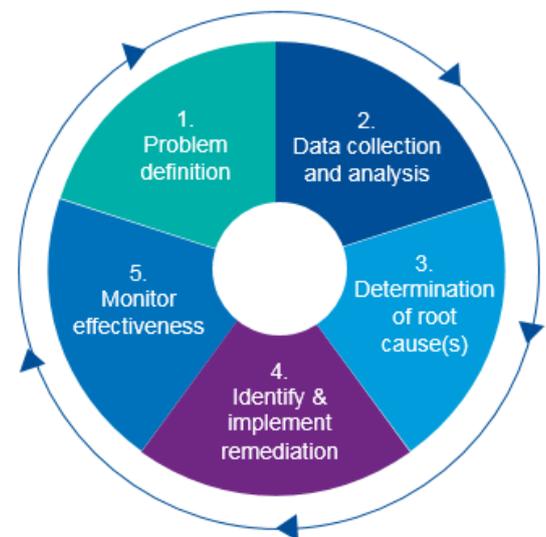
- a firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment
- a firm's compliance with KPMGI policies and procedures; and
- the robustness with which the member firm performs its own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

KPMG Audit 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 appropriate KPMG International and regional leadership.

Root Cause Analysis (RCA)

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

The Global RCA 5 Step Principles are as follows:



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

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

3.10.2 Recommendations for improvement

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, reviews firm root causes and



planned remedial actions and develops additional global 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 engagement team performance within KPMG firms. The remediation actions have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the global organization.

3.10.3 External feedback and dialogue

Regulators

As an audit company auditing public interest entities, KPMG Audit is subject to regular quality assurance review of the audit practice, carried out by the Bulgarian Commission for Public Oversight of Statutory Auditors at least every three years. The last regular review of KPMG Audit was performed by CPOSA in November/December 2016 and covered the period 1 July 2015 – 30 June 2016. The purpose of the review was to assess the design and implementation of the audit quality control system used with respect to audit engagements; the performance of the audit engagements in compliance with professional standards, regulatory and statutory requirements; compliance with the ethics requirements of the IESBA Code of Ethics for Professional Accountants; appropriate and adequate evidence in the audit work papers; appropriateness of time and human resources allocated to the reviewed audit engagements; and fees received. The report of the Commission as a result of the examination states that the activities of KPMG Audit as an audit firm for the period under review were in compliance, in all material aspects, with the audit service quality requirements and the procedures stipulated by auditing standards. The report on the quality control review performed was formally accepted by CPOSA in Decision no. 6/17.01.2017 with which the "A" grade provided to KPMG Audit was confirmed.

As part of the quality control and the requirements for transparency in the audit practice KPMG Audit maintains a list of public interest entities audited by the Company during 2019. The list is provided as [Appendix 1: Public Interest Entities](#) to the report.

KPMG International has regular two-way communication with the International Forum of

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

Client feedback

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

Monitoring of complaints

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

Other assessments of audit quality

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



Financial information

Presented below is financial information regarding KPMG Audit OOD net revenue broken down into categories (as per Art. 62, para. 1, item 11 of the Bulgarian Independent Financial Audit Act):

Services	2020 Revenue BGN '000 (generated by KPMG Audit OOD)
Revenues from compulsory audit of annual financial statements (individual and consolidated) of PIEs and of entities which are part of a group and the parent company of which is a PIE in Bulgaria	369
Revenues from compulsory audit of annual financial statements (individual and consolidated) of other entities	4,360
Revenues from permitted services, other than statutory audit, provided to the audited entities	1,767
Revenues from services, other than audit, provided to other clients	570
Total	7,606

The overall combined revenue of the KPMG member firms in Bulgaria for the year ended 31 December 2020 is BGN 47,133 thousand (2019: BGN 38,472 thousand). The revenue includes services provided across the KPMG network (while eliminating the revenues generated between KPMG member firms in Bulgaria) as well as direct costs invoiced to clients.

Presented below is financial information regarding the net revenue of all KPMG member firms in Bulgaria for the year ended 31 December 2020 broken down into the following categories (as per Art. 62, para. 1, item 12 of the Bulgarian Independent Financial Audit Act):

Services	2020 Revenue BGN '000
Revenues from services, provided to PIEs, that are audited by KPMG and to entities which are part of a group and the parent company of which is a PIE in Bulgaria, that are audited by KPMG	925
Revenues services provided to other entities, that are audited by KPMG	6,288
Total	7,213



Partner compensation

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

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

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

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



Network arrangements

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

6.1 Legal Structure



Legal structure for the Financial Year ending 30 September 2020

KPMG Audit 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 with. 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 marks are contained within agreements with KPMG International.

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. More information about the KPMG network can be found in the [KPMG Global Review](#).

The name of each audit firm that is a member of the 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 on this [link](#).

Legal structure from 1 October 2020

On 1 October 2020, KPMG Audit and all other KPMG firms entered into new membership and associated documents, 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 acts 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 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.

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

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.9 billion during the year ended 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 ended 30th September 2020.

6.2 Responsibilities and obligations of member firms



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

Each KPMG firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG Values (as set out in the Appendices to this document).

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the firms. A firm's status as a KPMG member 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.

6.3 Professional Indemnity Insurance

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

6.4 Governance structure



The key governance bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team. Further details on KPMG International's governance structure can be found in the [2020 KPMG International Transparency Report](#).

6.5 Area Quality & Risk Management Leaders



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



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

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

The Managing Directors of KPMG Audit have considered:

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

Taking all of this evidence together, the Managing Directors of KPMG Audit confirm with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 31 December 2020.

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

Sofia, 29 April 2021

The Managing Directors of KPMG Audit



Appendix: Public Interest Entities

The list of PIEs for which KPMG Audit OOD carried out statutory audits and audit opinions were issued during the year 2020 is as follows:

Pension Assurance Company Doverie AD

Doverie General Pension Fund

Doverie Professional Pension Fund

Doverie Voluntary Pension Fund

Eurobank Bulgaria AD

NN Pension Insurance Company

NN Professional Pension Fund

NN Universal Pension Fund

NN Voluntary Pension Fund

Sofiyska Voda AD

ProCredit Bank Bulgaria EAD

KPMG Audit OOD

45/A Bulgaria Boulevard

1404 Sofia

Tel: +359 (2) 9697 300

Fax: +359 (2) 9697 878

bg-office@kpmg.com

kpmg.com/bg



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

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