



# Transparency report 2018

**Our relentless focus on quality**

KPMG Baltics, UAB  
for the year ended 30 September, 2018



# Contents

|          |  |           |          |  |           |
|----------|--|-----------|----------|--|-----------|
| <b>1</b> | <b>Message from the Local Senior Partner</b>     | <b>6</b>  | <b>5</b> | <b>Tone at the top</b>   | <b>12</b> |
| <b>2</b> | <b>Who we are</b>                                | <b>7</b>  |          | Leadership responsibilities for quality and risk management      | 13        |
| <b>3</b> | <b>Our structure and governance</b>              | <b>8</b>  | <b>6</b> | <b>Association with the right clients</b>                        | <b>15</b> |
|          | Legal structure and ownership                    | 8         |          | Acceptance and continuance of clients and engagements            | 15        |
|          | Responsibilities and obligations of member firms | 8         |          | Client and engagement acceptance process                         | 15        |
|          | Name and ownership                               | 8         |          | Continuance process  | 16        |
|          | Governance structure                             | 8         |          | Withdrawal   | 16        |
| <b>4</b> | <b>System of quality control</b>                 | <b>11</b> | <b>7</b> | <b>Clear standards and robust audit tools</b>                    | <b>18</b> |
|          |  |           |          | Our Approach   | 18        |
|          |  |           |          | Consistent audit methodology and tools                           | 18        |
|          |  |           |          | KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics (D&A) | 19        |
|          |  |           |          | Independence, integrity, ethics and objectivity                  | 20        |

|           |   |           |           |  |           |
|-----------|---|-----------|-----------|--|-----------|
| <b>8</b>  | <b>Recruitment, development and assignment of appropriately qualified personnel</b> | <b>23</b> | <b>12</b> | <b>Financial information</b>   | <b>33</b> |
|           | Recruitment   | 23        | <b>13</b> | <b>Partner remuneration</b>  | <b>34</b> |
|           | Personal development  | 23        | <b>14</b> | <b>Network arrangements</b>  | <b>35</b> |
|           | Inclusion and Diversity programs  | 23        |           | Legal Structure  | 35        |
|           | Performance and reward  | 24        |           | Responsibilities and obligations of member firms   | 35        |
|           | Assignment of professionals   | 24        |           | Professional Indemnity Insurance   | 35        |
|           | Insights from our people — Global People Survey (GPS)                               | 25        |           | Governance structure   | 36        |
|           |   |           |           | Area Quality & Risk Management Leaders   | 36        |
| <b>9</b>  | <b>Commitment to technical excellence and quality service delivery</b>              | <b>26</b> | <b>15</b> | <b>Statement by the Board of KPMG Baltics, UAB on the effectiveness of quality controls and independence</b> | <b>36</b> |
|           | Lifetime learning strategy  | 26        | <b>16</b> | <b>Appendices</b>  | <b>38</b> |
|           | Licensing and mandatory requirements for IFRS and US GAAP engagements               | 26        |           | Details of those charged with governance at KPMG Baltics, UAB  | 38        |
|           | Access to specialist networks   | 27        |           | Public Interest Entities   | 39        |
|           | Culture of Consultation   | 27        |           | KPMG Values  | 40        |
|           | Developing business understanding and industry knowledge                            | 27        |           |  |           |
| <b>10</b> | <b>Performance of effective and efficient audits</b>                                | <b>28</b> |           |  |           |
|           | KPMG Audit Process  | 28        |           |  |           |
|           | Client confidentiality, information security, and data privacy                      | 29        |           |  |           |
| <b>11</b> | <b>Commitment to continuous improvement</b>   | <b>30</b> |           |  |           |
|           | Internal monitoring and compliance programs   | 30        |           |  |           |
|           | Recommendations for improvements  | 31        |           |  |           |
|           | External feedback and dialogue  | 32        |           |  |           |

# 1

## Message from the Local Senior Partner

KPMG in Lithuania, through its offices in Vilnius and Klaipėda, provides a wide range of audit, tax and advisory services to private individuals, public and private companies and government organizations. The quality of our work and integrity of our people are paramount to everything we do.

KPMG provides its services in Lithuania through KPMG Baltics, UAB a registered audit firm. Reliable financial information is essential for capital markets and the auditor's role in ensuring the probity of such information is vital. It is for this reason that we believe that audit firms, entrusted with this responsibility, should be open about the quality and integrity measures that they adopt.

We are therefore pleased to present this Transparency Report for KPMG Baltics, UAB for the year ended 30 September 2018. We have included information about who we are, how we are organized, the structure of our audit quality framework and the procedures we have in place to enhance integrity and meet the quality standards expected of us.



**Rokas Kasperavičius**

National Senior Partner

[rkasperavicius@kpmg.com](mailto:rkasperavicius@kpmg.com)

Vilnius, 31 January 2019

This report complies with the requirements of Article 40 of the European Union Statutory Audit Directive as enacted in Lithuania in Audit Law, Article 51 (Additional Requirements to Auditors and Audit Firms Auditing Public Interest Entities).

Throughout this document, "KPMG" ("we," "our," and "us") refers to KPMG Baltics, UAB. KPMG Baltics, UAB is a member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity, provides no client services.

# 2

## Who we are

KPMG Baltics, UAB is a professional services firm that delivers Audit, Tax and Advisory services. We operate out of 2 offices across Lithuania and had an average of 130 staff in the year to 30 September 2018 (2017: 131).

Full details of the services offered by KPMG Baltics, UAB can be found on our website [kpmg.com/LT](http://kpmg.com/LT).



# 3

## Our structure and governance

### Legal structure and ownership

KPMG Baltics, UAB is a Lithuanian Limited Liability Company, with its registered head office in Vilnius and a branch in Klaipėda. It is owned by KPMG CEE Holdings Limited (Cyprus) which holds 100% of the shares. KPMG Baltics, UAB is governed by Lithuanian legislation.

KPMG Baltics, UAB is a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. Further details about KPMG International and its business activities, including our relationship with it, are available in section "Governance and leadership" to the KPMG [International Transparency Report](#).

KPMG Baltics, UAB is not a member of KPMG International as a matter of Swiss law, but has entered into legal agreements as a sub-licensee with KPMG CEE Holdings Limited ("KPMG CEE"), which is a member of KPMG International, and with KPMG International. Under such agreements ("sub-licenses"), sub-licensees become member firms of the KPMG network.

KPMG CEE Holdings Limited ("KPMG CEE") is a limited liability company incorporated under, and governed by, Cyprus law. KPMG CEE is a licensed auditor under Cyprus regulations.

Generally the rights and obligations of a sub-licensee are exactly the same as if they were a member firm of KPMG International. In particular, all rights and obligations of member firms that are described in this report are rights and obligations of sub-licensee's, unless otherwise specifically stated. In addition, the member that is a party to the sub-licensee's agreement with KPMG International is also responsible to KPMG International (but not to any other person or entity) for the sub-licensee's compliance with its obligations as a KPMG member firm.

### Responsibilities and obligations of member firms

As a sub-licensee, KPMG Baltics, UAB commits itself to a common set of KPMG Values (see Appendix A3). KPMG

Baltics, UAB is required to comply with the policies and regulations of KPMG International, including quality standards governing how we operate and provide services to clients. This includes having a firm structure that ensures continuity and stability and being able to adopt global and regional strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools. KPMG Baltics, UAB takes responsibility for its management and the quality of its work. In accordance with our Global Code of Conduct, partners and professionals working within member firms are required to act with integrity at all times.

KPMG International can and does terminate the license of any member firm or sub-licensee which fails to meet the quality standards required of KPMG member firms.

### Name and ownership

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

Member firms throughout the world 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.

### Governance structure

The principal governance and oversight body of KPMG Baltics, UAB is the Board, which provides leadership to the organisation and is responsible for the long term growth and sustainability setting our strategy and overseeing its implementation, monitoring performance against our business plan and protecting and enhancing the KPMG brand.



The Board consists of 3 Board members. As at 30 September 2018, it was chaired by Rokas Kasperavičius, KPMG Baltics, UAB, National Senior Partner.

A schedule of matters to be monitored regularly by the Board includes matters of fundamental importance to the company such as its commitment to quality, operating and financial performance, annual business plans and budgets, new business proposals (considered individually), marketing, technology development, recruitment and retention, remuneration and risk management policies.

Appointments to the Board are made by the Shareholder after consultation with the Chairman of the company. The members of the Board of KPMG Baltics, UAB as at and for the year ended 30 September 2018 were:

- Rokas Kasperavičius, Chairman
- Domantas Dabulis
- Birutė Petrauskaitė.

# 4

## System of quality control

### Overview

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

Accordingly, KPMG International has quality control policies that apply to all member firms.

These are included in KPMG's Global Quality & Risk Management Manual available to all KPMG personnel. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances as well as help member firm personnel act with integrity and objectivity and perform their work with diligence.

These policies and procedures are based on the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both are relevant to member firms that perform statutory audits and other assurance and related services engagements.

KPMG Baltics, UAB is required to implement KPMG International policies and procedures and also adopts additional policies and procedures that are designed to address the rules and standards issued by the Lithuanian Chamber of Auditors, the Authority of Audit, Accounting, Property Valuation and Insolvency Management and other relevant regulators as well as applicable legal and regulatory requirements.

Amendments to risk and quality policies, including ethics and independence policies, are included in quality and risk management alerts and are communicated by email. KPMG Baltics, UAB is required to implement changes specified in the e-mail alerts and this is checked through internal monitoring.

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

The system of quality control applies to all KPMG personnel. While many KPMG quality control processes are cross-

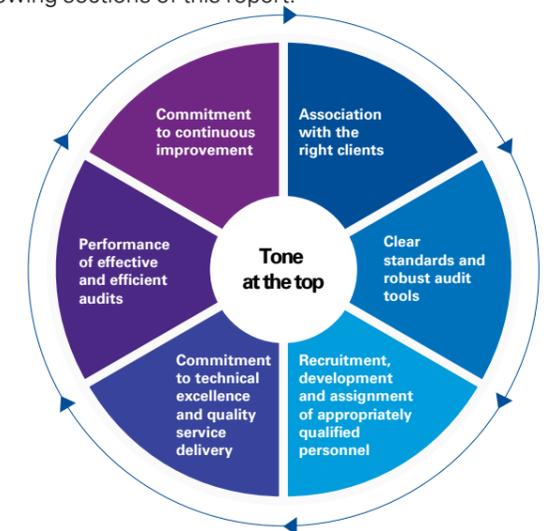
functional, and apply equally to tax and advisory work, the remainder of this section focuses on the delivery of quality audits.

### Audit quality framework

At KPMG in Lithuania audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the 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 quality audit, KPMG International has developed the Audit Quality Framework. This Framework introduces a common language that is used by all KPMG member firms, including KPMG Baltics, UAB to describe what we believe drives audit quality, and to highlight how every audit professional at each KPMG member firm contributes to the delivery of audit quality.

Tone at the top sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviors permeate across the entire KPMG network. All of the other drivers create a virtuous circle, because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections of this report.



## 5

# Tone at the top

The culture of KPMG International and KPMG member firms is underpinned by a strong set of values and supporting policies and processes and enables the right attitudes and behaviors to permeate throughout the KPMG network.

Our global leadership, working with regional and member firm leaderships, 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 and investors rely.

At KPMG Baltics, UAB we promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG Baltics, UAB leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG value – “Above all, we act with Integrity.” Integrity means constantly striving to uphold the highest professional standards, providing sound good-quality advice and rigorously maintaining our independence.

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

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

The KPMG values are set out in Appendix A3.

## *KPMG Global Code of conduct*

KPMG’s commitment to integrity and quality is enshrined in the KPMG values that lie at the heart of the way we do things. They define KPMG’s diverse and inclusive culture and our commitment to the right personal and professional conduct. The KPMG values emphasize that, above all, KPMG personnel act with integrity, uphold the highest professional standards and provide sound advice while rigorously maintaining independence and complying with laws, regulations, and

professional standards. The KPMG values are communicated clearly to all people and are embedded into member firms’ people processes — induction, performance development and reward.

Building on the KPMG values is the KPMG Global Code of Conduct. Member firms, including KPMG Baltics, UAB are required to adopt, as a minimum, the Global Code of Conduct.

In addition, the KPMG International’s Global Code of Conduct lays out the expectations of ethical behaviour for all partners and employees at KPMG Baltics, UAB and is built on the foundation of the KPMG values, the shared set of beliefs and principles at KPMG. In addition, the Global Code of Conduct emphasizes that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. The KPMG Code of Conduct sets out our commitments and includes provisions that require KPMG Baltics, UAB personnel, in summary to:

- comply with all applicable laws, regulations, professional standards and KPMG Baltics, UAB policies;
- work with the right clients and third parties;
- focus on quality;
- maintain our objectivity and independence;
- not tolerate any illegal acts or unethical acts, committed within KPMG Baltics, UAB by clients, or suppliers, or public officials with whom we deal;
- protect information;
- compete fairly;
- help our people to be extraordinary;
- be responsible corporate citizens;
- build public trust.

All KPMG Baltics, UAB personnel are required to:

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

Individuals are encouraged to speak up when they see something that makes them uncomfortable or that is inconsistent with the KPMG 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 the KPMG values, KPMG policies, applicable laws, regulations or professional standards.

We have procedures and established channels of communication so that our personnel can report ethical and quality issues. Retaliation is prohibited against individuals who raise their hand’ and speak up in good faith.

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

At KPMG Baltics, UAB, we regularly monitor the extent to which our people feel we live the KPMG values through the Global People Survey (refer to section *Insights from our people – Global People Survey (GPS)*).

## Leadership responsibilities for quality and risk management

KPMG Baltics, UAB demonstrates commitment to quality, ethics and integrity, and communicates our focus on quality to clients, stakeholders, and society. Our leadership plays a critical role in setting the right tone and leading by example - demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives. Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions - written and video communications, presentations to teams and one-to-one discussions.

In accordance with the principles in ISQC1, our National Senior Partner, Rokas Kasperavičius, has assumed ultimate responsibility for KPMG Baltics, UAB system of quality control. He is responsible for firm-wide risk management, all professional practice matters, regulatory relationships, approval of all new service offerings and development of all methodologies and tools.

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

The fact that the role is a Board position, and seniority of the reporting lines, underlines the importance that the firm places

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

Each of the functions, Audit, Tax and Advisory has a partner who has been given operational responsibility for the performance of that function, reporting to the National Senior Partner. These functional heads determine the operations of risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Risk Management Partner. These procedures all make it clear though that at engagement level risk management and quality control is ultimately the responsibility of all professionals.

KPMG Baltics, UAB Head of Audit is responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG personnel. This includes:

- setting the right ‘tone at the top’ by demonstrating an unwavering commitment to the highest standards of professional excellence, including 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
- monitoring and addressing 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 meets on a weekly basis. These meetings during years 2017 and 2018 included regular discussions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources. These were debated, other observations collected from client-facing teams were considered and actions agreed. Typically, most of these actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the whole Audit function and also, if considered of sufficient magnitude, included in the next mandatory training. For more complex issues, the Department of Professional Practice (DPP) is addressed. If further escalation is needed (which might require amendments to KPMG’s Global Audit methodology or audit tools), these will be raised with KPMG International’s Global Audit groups for consideration and potential development of solutions by the Global Services Centre (GSC) and the International Standards Group (ISG). For more information about the GSC and the ISG refer to section *Culture of Consultation*.

Our policies reflect individual quality control elements to help ensure that all partners and staff act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards.

### *Investing in continuous improvement*

At a global level, KPMG International has introduced a number of changes as the KPMG network continues to invest in continuous improvement. These include the creation of the Global Audit Quality Committee of the Global Board, comprised of Senior Partners from the largest firms in the KPMG network, and the appointment of a dedicated Global Head of Audit Quality who reports to the committee.



# 6

## Association with the right clients

### **Acceptance and continuance of clients and engagements**

One of the keys to managing audit quality is to understand the nature of our clients and the issues they face and build a robust audit response to the identified risks.

We understand our clients are linked to the quality of our work and our reputation.

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

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

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

#### *Client evaluation*

Before accepting a client, KPMG Baltics, UAB 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 analysing 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/or regulatory requirements. A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be 'high risk' the Risk Management Partner or a sufficiently skilled and experienced delegate is involved in approving the evaluation.

#### *Engagement evaluation*

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors is 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, as well as a range of factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior member firm personnel and includes review by quality and risk management leadership as required.

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

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

We follow specific procedures (detailed further in section *Independence clearance process*) to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are 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 risk issues that cannot be appropriately mitigated. We follow specific procedures (detailed further in section *Independence clearance process*) to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are 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 risk issues that cannot be appropriately mitigated.

## Continuance process

KPMG Baltics, UAB 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 (EOC) reviewer or the need to involve additional specialists on the audit).

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

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

## Withdrawal

Where we obtain information that indicates that we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal, professional and regulatory responsibilities. We also communicate as required with those charged with governance and any other appropriate authority.

## Client portfolio management

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

We review each audit partner's client portfolio at least annually 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.



# Clear standards and robust audit tools

All KPMG Baltics, UAB professionals are expected to adhere to KPMG International and KPMG Baltics, UAB policies and procedures including independence policies, and are provided with a range of tools and guidance to support them in meeting these expectations.

The policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.

## Our Approach

KPMG has been investing significantly in evolving the network's 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, automation, and visualization. Data & Analytics (D&A) 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.

## Consistent audit methodology and tools

Significant resources are dedicated to keeping KPMG's standards and tools complete and up to date. The KPMG audit methodology, developed by the Global Service Centre (GSC),

is based on the requirements of International Standards on Auditing (ISAs). The KPMG audit methodology is set out in KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhance the quality of the audit. The methodology emphasizes applying appropriate professional scepticism 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 be in compliance with standards, emerging auditing areas of focus and audit quality results (internal and external). Key topics include accounting estimates, internal control, revenue recognition, group audits, audit sampling and risk assessment.

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

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

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

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

The KPMG audit workflow is enabled through eAudIT's, an activity-based workflow and electronic audit file. eAudIT is KPMG's audit documentation workflow that allows 75,000+ professionals to complete high quality and consistent audits. eAudIT integrates KPMG's audit methodology, guidance and industry knowledge, 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 our audit guidance, professional standards and documentation templates.

Significant investments are underway to revise and enhance the KPMG audit methodology (KAM) and workflow tool (eAudIT), with the deployment of KPMG Clara Workflow is planned for initial deployment globally in 2019, and full deployment beginning in 2020.

## KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics (D&A)

KPMG International is making significant investments to improve audit quality, drive consistency in execution of audits and strengthen both the member firm and global monitoring of engagements.

### KPMG Clara

In 2017, KPMG International commenced the global launch of KPMG Clara – KPMG's Smart Audit Platform, bringing together KPMG's Audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and audit workflow.

This represents KPMG's ambition to:

- transform audit execution for our people and clients through new, modern technology-enabled interfaces and collaboration functionality;
  - integrate the required capability to digitize the audit and deliver new D&A routines;
  - enable an enhanced and re-designed workflow;
  - incorporate the development of monitoring capabilities at the engagement-level and across engagement portfolios for use by engagement teams and member firms;
  - support Global leadership's monitoring of the effectiveness of member firm systems of quality control; and
  - develop an extendable audit platform to enable member firm customization and scale, as well as future capabilities.
- KPMG Clara also encompasses the tracking of selected engagement-level indicators by engagement teams for an individual engagement and across an engagement portfolio. This provides a summary and visualisation of these indicators to:
- measure audit engagement progress and ensure timely issue resolution;
  - facilitate audit execution by providing key indicators for prioritising tasks; and
  - highlight unexpected results/relationships that may require further investigation.

KPMG Clara will be enriched over time as emerging technologies continue to transform the audit, with areas like cognitive and predictive technology being channelled through KPMG Clara to deliver ever greater capabilities. Through alliances with some of the world's most advanced technology companies such as Microsoft, KPMG is building the future of audit, aligning with technology leaders to bring new insights faster and, with growing capabilities, deliver even more value through KPMG member firm audits. KPMG International's investment strategy also includes innovation, working with universities on important applied audit research and working with member firms as they develop advanced technologies.

### KPMG Clara Workflow

Building on the launch of KPMG Clara in 2017, KPMG International is creating a new workflow tool that will be used by KPMG audit teams to execute and document KPMG audits. It will be intuitive, user-friendly and modern. The new system will genuinely be a workflow – guiding audit teams through a series of steps in a logical sequence, with clearer display of information and visuals, knowledge and guidance available at the moment of need, and with embedded advanced D&A capabilities. The workflow and 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 drive improvements in audit quality.

KPMG Clara Workflow will incorporate the development of monitoring capabilities (e.g. data mining) at the engagement level for use by member firms. The KPMG Clara Workflow is planned for initial deployment globally in 2019 and full deployment beginning in 2020. The predecessor audit workflow tool, eAudIT, is expected to be decommissioned in the 2021 fiscal year.

### Audit data & analytics (D&A)

KPMG's audit, powered by D&A:

- enhances audit quality; by providing a deeper understanding of data populations, giving focus to higher risk transactions;
  - is secure; by restricting access to data both in transit and within KPMG's IT environments; and
  - is 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.
- D&A tools and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

## Independence, integrity, ethics and objectivity

### Overview

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

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's Global Q&RM Manual. Automated tools facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards issued by the Lithuanian Chamber of Auditors and the Authority of Audit, Accounting, Property Valuation and Insolvency Management. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

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

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

KPMG Baltics, UAB personnel are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual. Consultations may also be required with the Global Independence Group, depending upon the facts and circumstances.

### Personal financial independence

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

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

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

Partners and all client-facing managers and above are required to use the KICS system prior to entering into an investment to identify whether they are able to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if any investment subsequently become restricted. Newly restricted investments must be disposed of within 5 business days of the notification. KPMG monitors compliance with this requirement through performing regular audits of a sample of partners and managers.

### Employment relationships

Any professional providing services to an audit client irrespective of function is required to notify the Ethics and Independence Partner if he or she enters into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG member firm that is a public interest entity.

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

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

We communicate and monitor requirements in relation to employment of KPMG Baltics, UAB professionals by audit clients.

### Firm financial independence

KPMG member firms must also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and significant owners.

In common with other KPMG member firms, KPMG Baltics, UAB uses KICS to record its investments in SEC entities and affiliates (including funds), and locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

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

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

### Business relationships/suppliers

KPMG Baltics, UAB has policies and procedures in place that are designed to ensure its business relationships are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements. Compliance with these policies and procedures is reviewed periodically.

### Independence clearance process

KPMG Baltics, UAB follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the independence clearance process,' must be completed prior to accepting an audit engagement for these entities.

### Independence training and confirmations

All KPMG Baltics, UAB partners and client service professionals, as well as certain other individuals, must complete independence training that is appropriate to their grade and function upon joining KPMG Baltics, UAB and on an annual basis thereafter. New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Baltics, UAB, or (b) before providing any services to, or becoming a member of the chain of command for, any audit client, including any of its related entities or affiliates.

We also provide all personnel with training on the 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 on a biennial basis. New personnel are required to complete this training within 3 months of joining KPMG Baltics, UAB.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by applicable ethics and independence rules and policies. Thereafter, all KPMG personnel are required to © 2019 KPMG Baltics, UAB, a Lithuanian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the confirmation as well as their understanding of, and compliance with, the applicable Code of Conduct. This confirmation is used to evidence the individual's compliance with and understanding of KPMG's independence policies.

### Non-audit services

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

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

In addition to identifying potential conflicts of interest Sentinel™, facilitates compliance with these policies. Certain information on all prospective engagements including service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their affiliates in Sentinel™ and 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. Sentinel™ enables lead audit engagement partners for those entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

### Fee dependency

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. They require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10% of the total fees received by a particular member firm for two consecutive years:

- This would be disclosed to those charged with governance at the audit entity; and
- A senior partner from another KPMG member firm would be appointed as the Engagement Quality Control (EQC) reviewer.

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

### Conflicts of interest

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

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

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

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

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

#### *Breaches of independence policy*

All KPMG Baltics, UAB 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 the firm's independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy.

KPMG Baltics, UAB has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them but at a minimum on an annual basis.

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 all KPMG Baltics, UAB personnel. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery — even if such conduct is legal or permitted under applicable law or

local practice. We also do not tolerate bribery by third-parties, including by our clients, suppliers or public officials.

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

#### *Partner rotation*

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

KPMG Baltics, UAB partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide statutory audit services to a client, followed by a "time-out" period during which time these partners may not participate in the audit, provide quality control for the audit, consult with the engagement team or the client regarding technical or industry-specific issues or in any way influence the outcome of the audit.

As to the Law on Audit of Financial Statements of the Republic of Lithuania, an audit engagement leader shall not be a part of an audit team on all public interest entities for more than 5 consecutive years and take three years "time-out" period.

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

# 8

## Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, passion and purpose, to deliver the highest quality in audit. This requires appropriate recruitment, development, promotion, retention and assignment of professionals. The KPMG performance development approach, linked to the KPMG values, and is designed to articulate what is required for success – both individually and collectively. Ensuring Audit quality is an essential element of the training, planning and development underway to support the KPMG Clara Workflow roll-out and the associated updated KPMG audit methodology, with processes embedded in all KPMG learning programs.

### Recruitment

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

All candidates submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/ reference checks.

Our recruiting strategies are focused on drawing entry-level talent from a broad talent base, including relationships with established universities, colleges and business schools.

### Personal development

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

KPMG is launching a new Performance Development process which will apply to all member firms called 'Everyone a Leader', where stretching goals should be set and reviewed regularly throughout the year. Leadership competencies will include 'driving quality', 'advancing an ethical environment' and 'making sound decisions'.

As part of the open approach, stretching goals should be set and reviewed regularly throughout the year. To support this, a goal library is available for colleagues to again inspiration around what goals they want to set, with one category of goals focussed specifically around quality.

A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers. In our performance development approach feedback can be sought and received through two mechanisms, informal feedback, which should be regular and owned by the individual for their own development and growth, and formal feedback through an engagement review form. The engagement review form specifically requests feedback on quality and is required quarterly, and inputs into performance evaluations.

Partners and certain professionals are also required to be evaluated on key quality and compliance metrics. KPMG Baltics, UAB monitors quality incidents and maintains quality and compliance metrics for the purpose of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

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

KPMG Baltics, UAB professionals are further developed for high performance through coaching and mentoring on the job, stretch assignments, country rotational and global mobility opportunities.

### Inclusion and Diversity programs

We work hard to foster a diverse and inclusive culture. In doing so we are able to build teams with the broadest range of skills, experiences and perspectives — teams that then bring the most innovative ideas to clients. We believe that clients deserve the very best we can offer and this can only be achieved when we have a work environment that is inclusive, fair and ethical.

We understand that our leadership and management teams also need to reflect the diversity within our firm and that we have to create inclusive leadership programs for our people to ensure we continue to be the best choice for our clients. We believe that the well established Global Diversity Network drives the changes necessary to promote inclusive leadership across KPMG's global network.

## Performance and reward

### Evaluation process including quality and compliance metrics

All professionals, including partners, undergo annual goal-setting and performance reviews. Each professional is evaluated on their agreed-upon goals, demonstration of our leadership competencies, technical capabilities and market knowledge.

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

KPMG Baltics, UAB monitors quality and compliance incidents and maintains quality 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.

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

### Reward

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

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

### Promotion

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

### Partner admissions

Our process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles.

## Assignment of professionals

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

Function heads are responsible for the partner assignment process. Key considerations include partner experience, and capacity, based on an annual partner portfolio review, to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement).

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

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

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

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

KPMG Baltics, UAB measures its people's attitudes and their overall level of engagement through the Global People Survey (GPS). This survey runs biennially (annually for Global Board countries) and provides an overall measure of our people's engagement through an Employee Engagement Index (EEI) as well as insights into areas driving engagement which may be strengths or opportunities. The survey also identifies opportunities to strengthen those levels of engagement. Results can be analyzed by functional or geographic area, grade, role, gender to provide additional insight. Additional insight is provided on how we are faring on categories known to impact employee engagement. The survey also specifically provides KPMG Baltics, UAB leadership and KPMG global leadership with results related to audit quality, upholding the KPMG values, employee and partner attitudes to quality, leadership and tone at the top.

KPMG Baltics, UAB participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey.

This includes monitoring GPS results including those related to audit quality and tone at the top, and employee engagement through the EEI.

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



# Commitment to technical excellence and quality service delivery

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

At the same time audit policies require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to maintain audit quality and deliver valued insights.

## Lifetime learning strategy

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

### Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and local levels. Training is delivered using a blend of classroom, e-learning and performance support to assist auditors on the job. Audit Learning and Development teams' work with subject experts and leaders from the GSC, the International Standards Group (ISG) and member firm Department of Professional Practice (DPP), as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job, and is delivered on a timely basis.

### Mentoring and on the job training

Learning is not confined to the classroom — 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. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

### The continuing education of statutory auditors

Based on the Law on Audit of Financial Statements of the Republic of Lithuania, auditors must continuously develop their professional qualifications (to complete, every three consecutive years, at least 120 hours of courses in professional development courses organised by the Chamber of Auditors or in courses other than those organised by the Chamber of Auditors or to complete an equivalent course of development of professional qualifications).

All KPMG partners and professionals devote to relevant professional development activities at least 20 hours minimum per year and at least 120 hours over a three-year period.

## Licensing and mandatory requirements for IFRS and US GAAP engagements

### Licensing

All KPMG Baltics, UAB professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice. Our policies and procedures are designed to facilitate compliance with licence requirements. We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework – Business Accounting Standards of the Republic of Lithuania.

### Mandatory requirements — IFRS and US GAAP engagements

In addition, we have specific requirements for partners, managers and 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 the partner, manager, and Engagement Quality Control reviewer (EQCR) have completed relevant training and that the engagement team, collectively, have sufficient experience to perform the engagement or has implement appropriate safeguards to address any shortfalls.

## Access to specialist networks

Our engagement teams have access to a network of local KPMG specialists as well as specialists in other KPMG member firms.

Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

The need for specialists (e.g. Information Technology, Tax, Treasury, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

## Culture of Consultation

KPMG encourages a strong culture of consultation that supports member firm teams throughout their decision-making processes and is a fundamental contributor to audit quality. Internal consultation is a fundamental contributor to quality and is mandated in certain circumstances and always encouraged.

To assist audit engagement professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the KPMG Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

### Technical consultation and global resources

Technical auditing and accounting support is available to all member firms and their professionals through the Global Service Center (GCR) and the International Standards Group (ISG) as well as the US Capital Markets Group for SEC foreign registrants.

### Global Services Centre (GSC)

The GSC's mission is to drive success for KPMG's global network of Audit practices through collaboration, innovation and technology. The GSC maintains and updates KPMG's audit platform and methodology, enabling audit professionals to perform high-quality audits that comply with the auditing standards. With three global locations, one in each region, the GSC Audit team is made up of 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 and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis.

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

### Member firm professional practice resource

Appropriate consultation support on auditing and technical accounting matters is provided to audit engagement professionals through our professional practice resources (referred to as Department of Professional Practice or DPP).

Across KPMG Baltics, UAB, 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 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, Head of Quality and Risk (or appropriate nationally qualified delegates) or ultimately the national senior partner (or appropriate nationally qualified delegates). DPP also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to be escalated to senior partners for final resolution. The ISG is also available for consultation when required.

KPMG International policies include minimum requirements for member firm DPPs.

## Developing business understanding and industry knowledge

A key part of quality is having a detailed understanding of the client's business and industry.

For significant industries global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals through the KPMG audit workflow.

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

# Performance of effective and efficient audits

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

## *Ongoing mentoring, supervision and review*

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of our professionals, without compromising on quality, KPMG Baltics, UAB promotes a continuous learning environment and supports a coaching culture. The engagement partner, supported by the engagement manager, is responsible for driving a culture of coaching and continuous learning throughout the audit process and setting an example in the performance of the audit to drive a culture of continuous audit quality improvement.

Ongoing mentoring, coaching and supervision during an audit involves:

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

## *Timely engagement quality control (EQC) reviewers*

EQC reviewers are independent of the engagement team and have the appropriate experience and knowledge to

perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

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

The EQC review takes place before the date of the auditor's report and includes, among other matters:

- review of selected audit documentation relating to significant judgments the engagement team made and the conclusions it reached;
- review of the financial statements and proposed auditor's report;
- evaluation of the conclusions reached in formulating the auditors' report and consideration of whether the proposed report is appropriate.

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

We are continually seeking to strengthen and improve the role that the EQC review plays in audits, as this is a fundamental part of the system of audit quality control. In recent years we have taken a number of actions to reinforce this, including:

- issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers;
- incorporating specific procedures in the KPMG audit workflow to facilitate effective reviews; and
- implementing policies relating to recognition, nomination and development of EQC reviewers, as well as monitoring

and assessing the nature, timing and extent of their involvement.

## *Reporting*

Auditing standards and the regulations of Lithuanian Chamber of Auditors largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation in all material respects of the client's financial statements in all material respects. Experienced engagement partners arrive at all audit opinions based on the audit performed.

In preparing 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, either as a qualification to the audit report or through the inclusion of an 'emphasis of matter' paragraph, as well as key audit matters to be communicated).

## *Insightful, open and honest two-way communication*

Two-way communications 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 Baltics, UAB we stress the importance of keeping those charged with governance informed of issues arising throughout the audit and the need to listen to and understand their views.

We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing informal discussions with management and members of the audit committee.

Communications with audit committees include:

- an overview of the planned scope and timing of the audit, which includes communicating significant risks identified;

- significant findings from the audit which may include control deficiencies and audit misstatements; and

- an annual written communication that states the engagement team and KPMG Baltics, UAB have complied with relevant independence requirements, describes all relationships and other matters between KPMG Baltics, UAB and the audit client that, in our professional judgment, may reasonably be thought to bear on independence, and related safeguards we have applied to eliminate (or reduce to an acceptable level) identified threats to independence.

We ensure such communications meet the requirements of professional standards.

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

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the Global Code of Conduct, training, and the annual affidavit / confirmation process, that all KPMG professionals are required to complete.

We have a formal document retention policy 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 Baltics, UAB personnel.

# 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 KPMG system of quality control. KPMG International's integrated quality and monitoring programs include the Quality Performance Review (QPR) program, the Risk Compliance Program (RCP) and the Global Compliance Review (GCR) program.

The quality monitoring and compliance programs are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG Baltics, UAB compares the results of its internal monitoring programs with the results of those of any external inspection programs and takes appropriate action.

## Internal monitoring and compliance programs

Our monitoring programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International policies and procedures
- KPMG Baltics, UAB compliance with KPMG International policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

The results and lessons from the integrated monitoring programs are communicated internally, and the overall results and lessons from the programs are considered and appropriate action is taken at local, regional and global levels. Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Two KPMG International developed and administered inspection programs are conducted annually across the Audit, Tax, and Advisory functions: the Quality Performance Review Program (QPR) and the Risk Compliance Program (RCP).

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

### Audit Quality Performance Reviews (QPRs)

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

### Risk-based approach

Each engagement leader is reviewed at least once in a 3-year cycle. A risk-based approach is used to select engagements.

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

### Reviewer selection, preparation and process

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

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

### Evaluations from Audit QPR

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

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

### Reporting

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

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

Lead Audit Engagement Partners (LAEPs) are notified of less than satisfactory engagement (defined as 'Performance Improvement Needed' or 'Unsatisfactory') ratings on their respective cross-border engagements. Additionally, LAEPs 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.

Partners and audit directors in KPMG Baltics, UAB were subject to Quality Performance review in 2018.

### Risk Compliance Program (RCP)

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

The objectives of the RCP are to:

- monitor, document and assess the extent of compliance of KPMG Baltics, UAB system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services
- provide the basis for KPMG member firm 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 member firm is subject to a GCR conducted by KPMG International's GCR team, independent of the member firm, at least once in a 3 year cycle.

The GCR team performing the reviews is independent of the KPMG member firm and is objective and knowledgeable of Global Quality and Risk Management 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 member 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 member firm's compliance with key KPMGI policies and procedures; and
- the robustness with which the member firm performs its own compliance program (RCP).

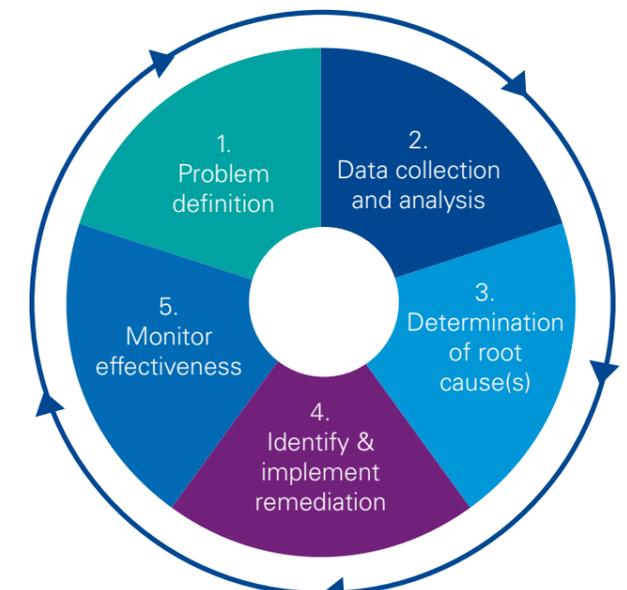
We develop action plans to respond to all GCR findings and agree these with the GCR team. Our progress on action plans

is monitored by the GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQ&RMSG) and, where necessary, to appropriate KPMG International and regional leadership, to help ensure timely remedial actions taken by the member firm.

### Root Cause Analysis (RCA)

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

The Global RCA 5 Step Principles are as follows:



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

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

## Recommendations for improvements

At a global level, through the Global Audit Quality Issues Council (GAQIC) and the GQ&RMSG, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global actions as required.

To date, global remediation plans developed by KPMG International have been aimed at changing culture and behavior across the KPMG network and at driving consistent engagement team performance within KPMG member firms.

The remediation plans have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the KPMG network.

## External feedback and dialogue

### Regulators

In Lithuania the Lithuanian Chamber of Auditors and the Authority of Audit, Accounting, Property Valuation and the Insolvency Management have been carrying out independent inspections for a number of years. The most recent quality assurance review conducted by the Authority of Audit, Accounting, Property Valuation and Insolvency Management was in June 2018, the scope of which included a review of KPMG Baltics, UAB, being a registered audit firm, and a review of the individual Lithuanian certified auditors employed by the company.

### Client feedback

In addition to internal and external monitoring of quality, we operate a formal program each year where we actively solicit feedback from management and those charged with governance on the quality of specific services that we have provided to them.

The feedback that they receive from this program is formally considered centrally and by the individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions arising from client feedback are followed up by the engagement partner to ensure that concerns on quality are dealt with on a timely basis.

### Monitoring of complaints

We have procedures in place for handling complaints received from clients relating to the quality of our work. These procedures include the identification on many engagements of a more senior partner who is responsible for the specific client relationships and is the individual who is responsible to address any complaints raised. In most other cases, the Senior Partner of KPMG Baltics, UAB is responsible for handling complaints and concerns.

### Interaction with regulators

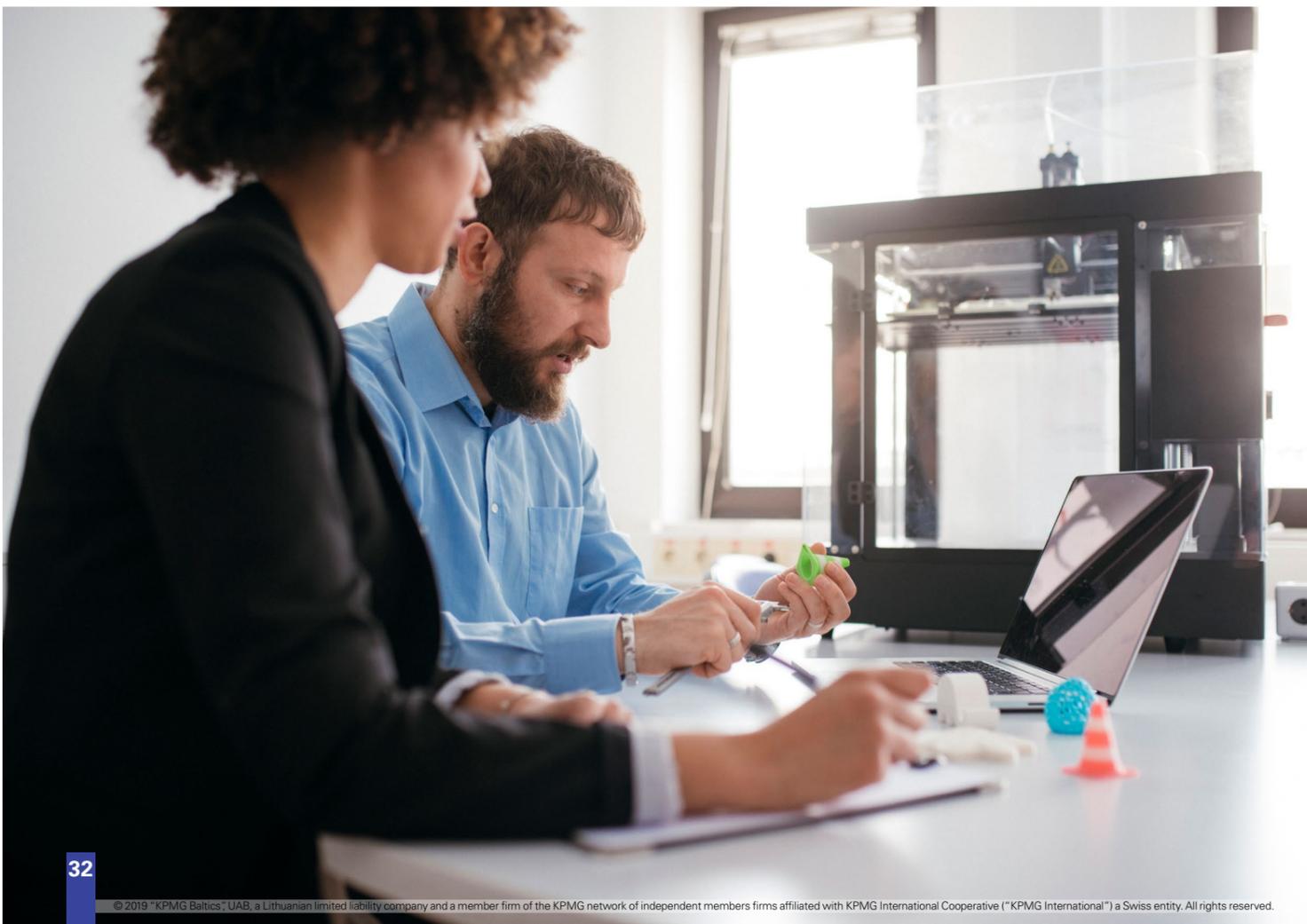
At an international level KPMG International has regular two way communication with the International Federation of Independent Audit Regulators (IFIAR) to discuss issues identified and actions taken to address such issues at a network level.

12

# Financial information

Revenue for the year ended 30 September 2018 is as follows and is unaudited at the date of this report:

| Revenue  | 30 Sep 2018<br>EUR thousand |
|--|-----------------------------|
| Statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity | 1 392                       |
| Statutory audit of annual and consolidated financial statements of other entities  | 2 170                       |
| <b>Total audit revenue</b>   | <b>3 562</b>                |
| Non-audit services to audit clients  | 496                         |
| Non-audit services to other clients  | 2 827                       |
| Other services   | 120                         |
| <b>Total revenue</b>   | <b>7 005</b>                |



## 13

# Partner remuneration

Partners are remunerated out of the distributable profits of the firm and are personally responsible for funding pensions and other benefits. The Senior Partner monitors the allocation of profits between partners to ensure that a consistent approach is adopted and that remuneration is determined by objectives set for each partner on a number of matters relevant to their role in the group. These include quality of work,

performance in client service, growth in revenue and profitability, leadership and living the values of the firm. Audit partner remuneration setting takes no account of the level of non-audit services provided to the partner's audit clients. The Senior Partner reports to the Chairman of the KPMG CEE region in respect of all remuneration allocations to partners in KPMG Baltics, UAB.

## 14

# Network arrangements

## Legal Structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

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

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or 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 oblige or bind any member firm.

The name of each audit firm that is a member of the network and the EU/EEA countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available here: <https://home.kpmg.com/xx/en/home/about/governance/list-of-kpmg-eu-eea-audit-firms.html>.

### 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 2.8 billion during the year ending 30 September 2018. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2018.

## Responsibilities and obligations of member firms

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

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG values.

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

## 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.

\* The financial information set forth represents combined information of the separate KPMG member firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

## Governance structure

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

### Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit KPMG International has no share capital and, only has members, not shareholders).

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

### Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms.

The Global Board includes the Global Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms.

It is led by the Global Chairman who is supported by the Executive Committee, consisting of the Global Chairman, the Chairman of each of the regions and currently three other senior partners of member firms. The list of Global Board members, as at 1 October 2018 is available in the [International Annual Review](#).

One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board ("non-executive" members). A key role of the lead director is to act as liaison between the Global Chairman and the "non-executive" Global Board members.

### Global Management Team

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments.

It is led by the Global Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads and the General Counsel.

The list of Global Management Team members, as at 1 October 2018 is available in the [International Annual Review](#).

### Global Steering Groups

The Global Steering Groups work closely with regional and member firm leadership to:

- establish and communicate appropriate audit and quality/risk management policies;
- enable effective and efficient risk processes to promote audit quality;
- proactively identify and mitigate critical risks to the network.

The Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in section "Governance and leadership" of the KPMG [International Transparency Report](#).

Each member firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International's policies and processes within the region.

Further details about KPMG International including the governance arrangements, can be found in section "Governance and leadership" of the KPMG [International Transparency Report](#).

## 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
- monitor the effectiveness of member firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.

# 15

# Statement by the Board of KPMG Baltics, UAB 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 Baltics, UAB outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm complies 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 Board of KPMG Baltics, UAB has considered:

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

Taking all of this evidence together, the Board of KPMG Baltics, UAB confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 September 2018.

Further, the Board of KPMG Baltics, UAB confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2018.

Vilnius, 31 December 2018

### Members of the Board:

**Rokas Kasperavičius, Chairman**

**Domantas Dabulis**

**Birutė Petrauskaitė**

## Details of those charged with governance at KPMG Baltics, UAB

**Rokas Kasperavičius**  
National Senior Partner



Rokas Kasperavičius is a Partner of our firm and National Senior Partner starting from 2 October 2015. He has been a partner within KPMG for eleven years and has served on our board for ten years.

**Domantas Dabulis**  
Partner



Domantas Dabulis is a Partner of our firm. He has been a partner within KPMG for eleven years and has served on our board for ten years.

**Birutė Petrauskaitė**  
Partner



Birutė Petrauskaitė is a Partner of our firm. She has been a partner within KPMG since for 1 October 2017 and has served on our board since 1 January 2018.

## Public Interest Entities

The list of public interest entity audit clients for which KPMG Baltics, UAB has signed an audit opinion in the year ended 30 September 2018 is given below. The definition of public interest for this purpose is that given under the provisions of the Law on Audit of the Republic of Lithuania.

All audit opinions for below specified public interest entities were issued in respect to the financial statements for the year ended 31 December 2017. For one entity (Lietuvos geležinkeliai AB) audit opinions were issued in respect to the financial statements for the year ended 31 December 2016 and for the year ended 31 December 2017.

### Entities listed on Vilnius Stock Exchange

Grigeo AB  
Pieno žvaigždės AB  
Kauno energija AB  
Vilniaus baldai AB  
Vilniaus degtinė AB

### Name of the fund

#### Investment funds

Prudentis Global Value Fund  
Prudentis Quantitative Value Fund  
Lords LB Baltic Fund III  
Lords LB Opportunity Fund II  
Lords LB Private Equity Fund I  
Vitality  
Synergy Finance turto taktinio paskirstymo fondas

### Government entities

Vilniaus šilumos tinklai AB  
Lietuvos geležinkeliai AB

### Financial sector

Compensa Vienna Insurance Group UADB  
ERGO Life Insurance SE  
PZU Lietuva gyvybės draudimas UAB  
Lietuvos draudimas AB  
Medicinos bankas UAB  
Citadele bankas AB

### Name of the fund managing company

Prudentis UAB  
Prudentis UAB  
Lords LB Asset Management UAB  
Lords LB Asset Management UAB  
Lords LB Asset Management UAB  
Synergy Finance UAB  
Synergy Finance UAB

## KPMG Values

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

We **work together** to bring out the best in each other and create strong and successful working relationships.

We **respect the individual** for who they are and for their knowledge, skills and experience as individuals and team members.

We **seek the facts and provide insight** by challenging assumptions and pursuing facts to provide insight as trusted and objective business advisers.

We **are open and honest** in our communication and share information, insight and advice frequently, and constructively manage tough situations with courage and candor.

We **are committed to our communities** to act as responsible corporate citizens by broadening our skills, experience, and perspectives through work in our communities.

**Integrity** is a critical characteristic that stakeholders expect and rely on. Therefore, above all we **act with integrity** and are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.



[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



If you have any questions, please send an email to [info@kpmg.lt](mailto:info@kpmg.lt)

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

The KPMG name and logo are registered trademarks or trademarks of KPMG International Cooperative ("KPMG International").

© 2019 KPMG Baltics, UAB, a Lithuanian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.