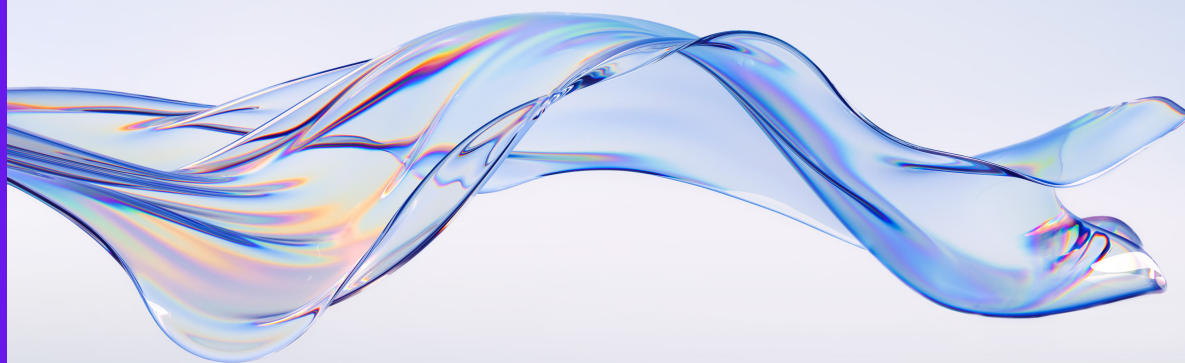




# Transparency Report 2022



KPMG Audit OOD



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



# Message from our Head of Audit

I am pleased to provide you with the Transparency Report of KPMG Audit OOD (“KPMG Audit”) for the year ended 31 December 2022. This document provides useful information about our organization and our quality control system; offering an insight into how we are driving quality across all we do. Together. For better.

The success of KPMG<sup>1</sup> will always be linked to the quality of the services we provide to those that rely on us. Quality has helped us become a trusted advisor to so many businesses and stakeholders across the world and the measure of our success will be determined by the level of quality we provide — no matter how the world turns.

Providing high-quality services takes hard work, dedication and focus, as well as a continued investment in the people and technology that make it happen.

We’re making sure our incredible people are with us every step of the way, living our Values and caring about doing the right thing. Although these past few years have been challenging in many ways, our people have demonstrated remarkable resilience and deep commitment to providing services of the highest quality to clients and stakeholders. And we’re helping them expand their careers, supporting their well-being, and building a safe and inclusive workplace. Because, their individual success is key to our collective growth.

That’s why we’re transforming the audit experience for both our clients and our teams by investing in KPMG Clara — our cloud-based audit methodology and workflows platform. KPMG Clara delivers smarter, data-driven outcomes and deeper insights by blending some of the best of technology with the best of our people.

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<sup>1</sup> Throughout this document, “KPMG”, “we”, “our” and “us” refers to the global organization or to one or more of the member firms of KPMG International Limited, each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients.

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

Throughout this document, references to “Firm”, “KPMG firm”, “member firm” and “KPMG member firm” refer to firms which are either: members of KPMG International Limited; sublicensee firms of KPMG International Limited; or entities that are wholly or dominantly owned and controlled by an entity that is a member or a sublicensee. The overall governance structure of KPMG International Limited is provided in the ‘Governance and leadership’ section of the [2022 KPMG International Transparency Report](#).



# Message from our Head of Audit

We have invested great time into strengthening the consistency and robustness of our system of quality management across our global organization to comply with the new International Standard on Quality Management (ISQM 1). We believe consistent execution and adherence to these requirements and the intent of the professional standards behind them will help drive higher quality across our organization for clients, large and small, no matter where they do business.

Through our own actions and open dialogue, we want to promote the continuous development of audit quality and also emphasize the relevance of the auditor profession in the society. I encourage you, our clients, potential clients and other stakeholders, who wish to discuss any matter set out in this report, to contact us. We would be delighted to discuss our approach and views with you.



**Ivan Andonov**  
Managing Director, KPMG Audit OOD  
Head of Audit



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# Living our culture and Values

## Living our culture and Values

It's not just what we do at KPMG that matters, we also pay attention to how we do it. Our Values are our core beliefs, guiding and unifying our actions and behaviors. Shared across every level and in every country, jurisdiction and territory in which we operate, they are the foundation of our unique culture.

Applying expertise  
and knowledge

### Fostering the right culture, starting with tone at the top

Embracing digital  
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#### Tone at the top

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

our differences.

**For Better:** We do what matters.

Nurturing diverse  
skilled teams

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

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

Associating with  
the right clients  
and engagements

We communicate our commitment to clients, stakeholders, and society at large to earn the public's trust.

Everyone at KPMG is held accountable for behaviour consistent with the Code and is required to confirm their compliance with it. All KPMG personnel are required to take annual training covering the Code. We are committed to holding ourselves accountable for behaving in a way that is consistent with the Code.

Being independent  
and ethical

Our Values lie at the heart of the way we do things. To do the right thing, the right way, at the right time. Always. They form the foundation of a resilient culture ready to meet challenge with integrity, so we never lose sight of our principal responsibility to protect the public interest. And they propel us forward – through our work and the example we set – as we inspire confidence and empower change throughout the world.

Individuals are encouraged to speak up if they see something that makes them uncomfortable or is not in compliance with the Code, or our Values.

Performing quality  
engagements

KPMG is committed to quality and service excellence in all that we do, helping to bring our best to clients and earning the public's trust through our actions and behaviors both professionally and personally.

Everyone at KPMG is required to report – any activity that could potentially be illegal or in violation of our Values, KPMG policies, applicable laws, regulations or professional standards.

Assessing risks  
to quality

Our Values guide our behaviors day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, companies that we audit, and all of our stakeholders.

To safeguard this principle of holding each other accountable, each KPMG firm is required to establish, communicate and maintain clearly defined channels to allow KPMG personnel and third parties to make inquiries about, raise concerns in relation to, provide feedback on, and notify, reportable matters, without fear of reprisal, in accordance with applicable law or regulation.

Communicating  
effectively

**Integrity:** We do what is right.

**Excellence:** We never stop learning and improving.

**Courage:** We think and act boldly.

**Together:** We respect each other and draw strength from

The [KPMG International hotline](#) is a further mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by KPMG International, activities of KPMG firms or KPMG personnel. We take reports received by the International hotline seriously, and for each of them we respond, and take appropriate action.

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All KPMG firms and personnel are prohibited from retaliating against individuals who have

the courage to speak up in good faith. Retaliation is a serious violation of the Code, and any person who takes retaliatory action will be subject to their firm's disciplinary policy.

The Global People Survey provides KPMG Audit leadership and KPMG International leadership with results related to upholding the KPMG Values. KPMG Audit and KPMG International monitor the results and take appropriate actions to communicate and respond to any findings.

### System of quality management

Audit quality is foundational to instilling confidence and public trust in the capital markets and it remains our highest priority.

Tone at the top, leadership, and a clear set of Values and conduct are essential to set the framework for quality. The quality of each audit rests on a foundational system of quality management.

Across our global organization we have strengthened the consistency and robustness of our system of quality management that enables compliance with the International Standard on Quality Management 1 (ISQM 1), issued by the International Auditing and Assurance Standards Board (IAASB), which took effect on 15 December 2022. We consider this a transformational and fundamental change for KPMG firms.

Our globally consistent approach to ISQM 1 drives the robustness of our responses to the risks of achieving the quality objectives set out in the standard. For each component in the standard, we have established minimum required quality objectives, quality risks and responses for all KPMG firms.

KPMG International has established a risk assessment process required to be used by KPMG firms in identifying additional firm specific quality objectives, quality risks, and responses and requirements for testing and evaluation of their system of quality management together with guidance, tools and templates to support the consistent

implementation of ISQM 1 across KPMG firms.

The new requirements apply to all KPMG firms within our global organization. The objective of this centralized approach is to drive the consistency, robustness, and accountability of responses within KPMG firm's processes.

In preparation for ISQM 1, we adopted a new Global Quality Framework to better outline how we deliver quality at KPMG, and how everyone at KPMG is accountable for its delivery. The principle of 'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate our processes as necessary.



The Global Quality Framework also meets the requirements of the current International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB) and on the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements.

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

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## Leadership responsibilities for quality and risk management

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

Our leadership team is committed to building a culture based on integrity, quality, objectivity, independence, and ethics, demonstrated through their actions.

KPMG Audit is required to seek input from the chair of the relevant Global Steering Group or his/her delegee on the performance of certain leaders within KPMG Audit whose role most closely aligns with the activities of the Global Steering Group. Input is sought as part of the annual performance process and is based on an assessment of the leader's performance, which includes matters of public interest, audit quality and risk management activities.

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

### Managing Partner

In accordance with the principles in ISQM1, our Managing Partner has assumed ultimate responsibility for the KPMG Audit's System of quality management.

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

### Risk Management Partner

The Risk Management Partner (RMP) is responsible for the direction and execution of risk, compliance, and quality control in KPMG Audit. The RMP is a member of KPMG Audit's Executive team and has a direct reporting line to the Managing Partner. She consults with the appointed KPMG Area Quality and Risk Management Leader.

The seniority of the reporting lines underlines the importance that the firm places on risk and quality issues.

The Risk Management Partner is supported by a central quality and risk management team.

### Ethics and Independence Partner

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

### Head of Audit

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

Our Head of Audit is responsible for the effective management and control of the Audit Function. This includes:

- Setting a strong tone and culture supporting audit quality through communication, engagement support and commitment to the highest standards of professional excellence, including professional skepticism, objectivity, and ethics and integrity
- Developing and implementing an audit strategy which is aligned with KPMG Audit's audit quality requirements; and
- Working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice.

### Audit Leadership Team

The Audit Leadership Team of KPMG Audit has regular discussions to agree actions about current and emerging audit quality issues arising from external and internal

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quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources.

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

## What is audit quality?

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

We define ‘audit quality’ as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong System of quality management. All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

## Clearly articulated strategy focused on quality, consistency, trust, and growth

### Our business

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

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

Further details of our service offerings can be found on our website at the following link: [www.kpmg.com/bg](http://www.kpmg.com/bg).

### Our strategy

The strategy of KPMG in Bulgaria is set by its partners and demonstrates a commitment to quality and trust. Our focus is to invest significantly in priorities that form part of a global strategy execution.

### Defined accountabilities, roles and responsibilities, including for leadership

#### Legal structure

KPMG Audit and all other KPMG firms are party to new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization are members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organization can be found in section ‘Governance and leadership’ of the [2022 KPMG International Transparency Report](#).

KPMG International Limited and the KPMG member firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International Limited or any of its related entities have any such authority to obligate or bind any member firm. KPMG Audit is part of the KPMG global organization of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organizations. The KPMG organization structure is designed to support consistency of service quality and adherence to agreed Values wherever the member firms operate.

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

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

- „KPMG CEE HOLDING, a.s.“, joint stock company, registered in the Czech Republic, owns 6,438 (six thousand four hundred and thirty-eight) shares with a nominal value of BGN 10 (ten Bulgarian leva) each, representing 37% of the capital of the Company.
- Ivan Andonov, registered auditor with the Institute of Certified Public Accountants in Bulgaria, owns 4,176 (four thousand one hundred and seventy-six) shares with a nominal value of BGN 10 (ten Bulgarian leva) each, representing 24% of the capital of the Company.
- Maria Peneva, registered auditor with the Institute of Certified Public Accountants in Bulgaria, owns 2,436 (two thousand four hundred and thirty-six) shares with a nominal value of BGN 10 (ten Bulgarian leva) each, representing 14% of the capital of the Company.
- Dobrina Kaloyanova, registered auditor with the Institute of Certified Public Accountants in Bulgaria, owns 2,262 (two thousand two hundred and sixty-two) shares with a nominal value of BGN 10 (ten Bulgarian leva) each, representing 13% of the capital of the Company.
- Kalin Hadjidimov owns 2,088 (two thousand and eighty-eight) shares with a nominal value of BGN 10 (ten Bulgarian leva) each, representing 12% of the capital of the Company.

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

The information with regard to the legal and ownership structure of the Company, its management bodies and

the other circumstances which under the law are subject to registration is publicly available under the batch of the Company at the Commercial Register with the Registry Agency.

## Name, ownership and legal relationships

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

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

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

## Responsibilities and obligations of member firms

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

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

Member firms commit to a common set of KPMG Values (see section [Fostering the right culture](#), starting with tone at the top).

KPMG International’s activities are funded by an annual payment paid to it by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms.

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A firm's status as a KPMG member firm and its participation in the KPMG organization may be terminated if, among other things, it has not complied with the policies, procedures and regulations set by KPMG International or any of its other obligations owed to KPMG International.

## Overseen using robust governance structures

### Governance structure

KPMG Audit applies high standards of corporate governance.

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

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

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# Applying expertise and knowledge

We are committed to continuing to build on our technical expertise and knowledge recognizing its fundamental role in delivering quality audits.

## Methodology aligned with professional standards, laws and regulations

### Consistent audit and assurance methodology and tools

#### *Bringing consistency through our methodology*

Our audit and assurance methodology, tools and guidance enable a consistent approach to planning, performing and documenting audit procedures over key accounting processes:

- Globally consistent and fully compliant with the applicable standards, including International Standards on Auditing (ISA), Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) and are supplemented to comply with local auditing standards and regulatory or statutory requirements by KPMG firms;
- Inclusive of KPMG methodology interpretations that drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed;
- Centered on identifying risk, focusing on risks of material misstatements and the necessary audit response;
- Made available to all KPMG audit professionals and required to be used, where necessary;
- Applied even where local auditing standards may be less demanding than the ISAs;
- Based on the requirements of the International Standard on Assurance Engagements (ISAE) and aligned to assurance products in response to the growth of ESG reporting.

The KPMG audit methodology is set out in the KPMG Audit Manual (for use with eAudit) and the KPMG Audit Execution Guide (for use with the KPMG Clara workflows)

and includes KPMG interpretation of how to apply ISAs, which we believe enhance audit quality.

The KPMG Assurance Manuals provide the requirements and guidance for a consistent approach to performing assurance engagements, in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information. The audit and assurance methodologies emphasize applying appropriate professional skepticism in the execution of audit procedures and require compliance with relevant ethical requirements, including independence.

Enhancements to the audit and assurance methodologies, guidance and tools are made regularly to maintain compliance with the applicable standards, and address emerging auditing and assurance areas of focus and audit quality results (internal and external). For example, the current focus on ESG assurance is driving updates to our assurance methodologies, tools and guidance.

KPMG firms may add local requirements and/or guidance to the globally prescribed minimum requirements in the KPMG Audit Manual, the KPMG Audit Execution Guide and the KPMG Assurance Manuals to comply with additional professional, legal, or regulatory requirements.

## Deep technical expertise and knowledge

### Access to specialist networks

Specialist expertise is an increasingly important part of the modern audit. KPMG Audit engagement teams have access to a network of local KPMG specialists either within their firm or in other KPMG firms. These specialists receive the training they need to ensure they have the competencies, capabilities and objectivity to appropriately fulfill their role on our audits. They also receive a global annual update on global quality performance issues.



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

## Our commitment to audit quality during significant external events

Significant external events such as the conflict in Ukraine, the COVID-19 pandemic and the emerging impacts of climate change have contributed to rising inflation and interest rates, supply chain disruption and increased global economic uncertainty.

Matters such as going concern, asset impairments and valuations will likely require careful judgment as organizations deal with elevated uncertainty and market volatility. KPMG firms' role as auditors is to evaluate these judgements.

We maintain an [online financial reporting resource center](#) to assist financial statement preparers and other stakeholders in understanding the potential accounting and disclosure implications of significant external events.

KPMG International issues extensive guidance to assist engagement teams in addressing the financial reporting, auditing and reporting related matters arising from the impacts of these external events, addressing the potential implications for going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, subsequent events, audit evidence and communications with those charged with governance.

KPMG's guidance is continually updated as new significant accounting, auditing, and reporting issues emerge.

KPMG is a technology-enabled organization, with technical accounting and auditing resources, guidance and audit platforms and tools available electronically, which enable our engagement teams to effectively operate in office and remote working environments.

## Quality and risk management manual

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



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# Embracing digital technology

At KPMG, we are committed to serving the public interest and creating value through continuous innovation. We are transforming the audit experience for our professionals and clients by leveraging the data and insights of leading technologies and enhancing audit quality by increasing our ability to focus on the issues that matter.

## Intelligent, standards-driven audit workflows

All KPMG Audit professionals are expected to adhere to KPMG International and KPMG Audit policies and procedures, including independence policies, and are provided with a range of tools and guidance to support them in meeting these expectations. The KPMG Audit policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations<sup>2</sup>. They are designed to address rules and standards issued by the Institute of Certified Public Accountants in Bulgaria and other relevant regulators as well as applicable local legal and regulatory requirements, among which the Bulgarian Commission for Public Oversight of Statutory Auditors, the Bulgarian Financial Supervision Commission and other relevant regulatory authorities.

## Evolving our audit workflows

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

That is why we reimagined our audit platform, workflows and methodology to provide enhanced consistency and support to our audit engagement teams, deliver detailed insights, and future-proof our systems for the expected continued development of new technologies, such as

robotic process automation, machine learning and cognitive technologies.

The release of the KPMG Clara workflow and revised audit methodology is an important milestone in KPMG's journey to innovate, digitalize and transform the audit experience. It is a significant investment that underlines our commitment to audit quality, consistency and innovation.

### KPMG Clara

KPMG Clara is our smart and intuitive technology platform that is driving globally consistent audit execution. As a fully integrated, scalable, cloud-based platform, it enables the enhanced audit methodology through a data-enabled workflow.

The platform integrates new and emerging technologies, with advanced capabilities that leverage data science, audit automation, and data visualization.

The digital audit is increasingly integral to how KPMG member firms perform quality audits and interact with their clients. Policies and guidance are in place to establish and maintain appropriate processes and controls regarding the development, evaluation and testing, deployment and support of technology in our audits.

KPMG Clara is helping auditors see meaningful patterns across a business, whether conducting risk assessment, tracing transactions through a complex revenue process, or simply adding up the accounts. Examples of current

<sup>2</sup> - All the references to 'KPMG policies and procedures' or 'our policies and procedures' refer to the KPMG International policies and to the additional KPMG Audit policies together.



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# Embracing digital technology



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capabilities include:

- Analysis of account balances and journal entry data
- Automation 'period on period' balances comparison and 'time series' evolution information
- Analysis of sub-ledger, transactional data over certain business processes and accounts; and
- Integration (where applicable) with industry-specific digital procedures and solutions.

## Our vision of the future

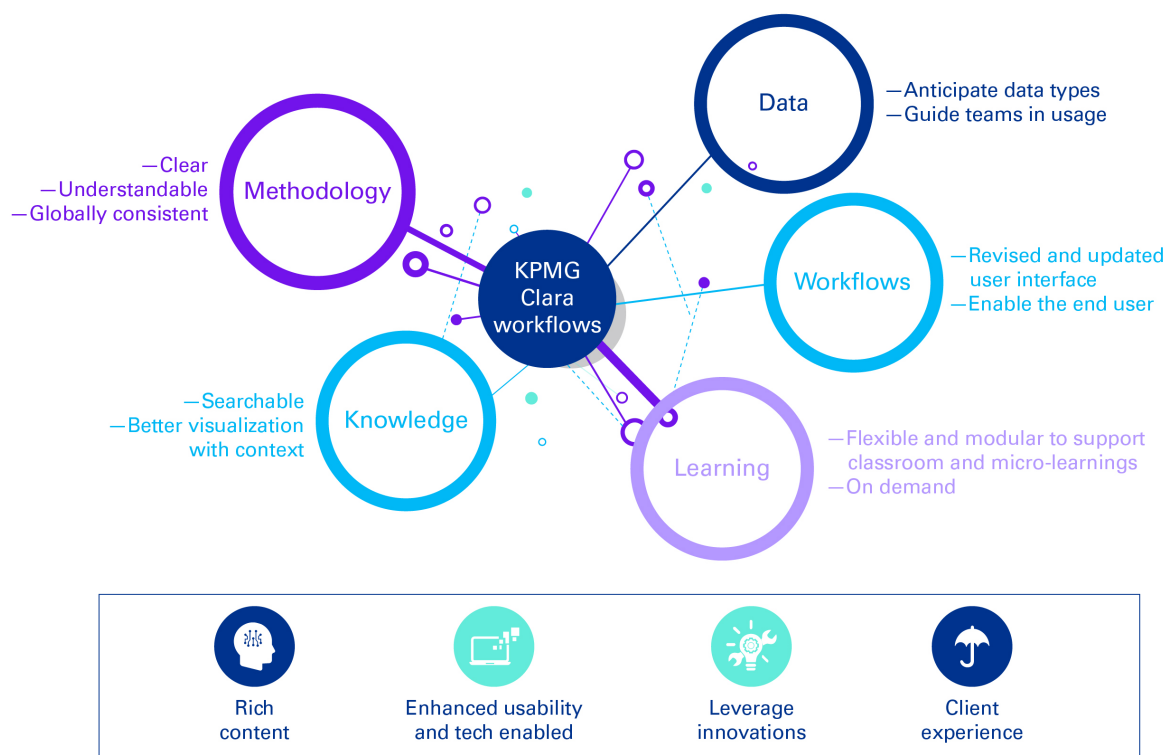
KPMG Clara was developed to be a foundational technology platform for KPMG to deliver audit quality. It delivers this by being the base technology providing new capabilities in a globally consistent way, enabling the audit workflows and providing a fully digital experience for our audit professionals.

The KPMG Clara platform evolves as technologies such as artificial intelligence, blockchain and cognitive capabilities transform how audits are delivered.

## KPMG Clara workflow

Our previous platform, eAudit, is being replaced with new workflow embedded with our revised audit methodology and enabled by the KPMG Clara smart audit platform. Phased full deployment of the KPMG Clara workflows (with the exception of very small and less complex national audits) commenced globally in 2020 with planned completion of full global transition for the 2022 fiscal period-end audits. Global transition for less complex national audits, leveraging enhanced scaling capability has commenced in 2022 and will be completed by 2023.

The web-enabled KPMG Clara workflow guides audit teams through a series of steps in a logical sequence aligned to the applicable professional auditing standards with a clear display of information, visuals, and guidance available, and with embedded advanced digital audit and project management capabilities. The workflow and revised audit methodologies are scalable – adjusting the requirements to the size and complexity of the audit engagement. KPMG Clara workflow significantly enhances the execution of an audit by KPMG professionals and drive audit quality and global consistency.



# Embracing digital technology

Using data mining and tracking of relevant engagement level data indicators, the KPMG Clara workflows can also facilitate monitoring of audit execution at the engagement level.

We continue to enhance the KPMG Clara smart audit platform to accommodate evolving security demands, further integrate existing audit applications, and develop new capabilities to digitalize additional audit processes.

## Client confidentiality, information security, and data privacy

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

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

We have policies on information security, confidentiality, personal information and data privacy. 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 applicable laws, standards and regulations.

KPMG provides training on confidentiality, information protection and data privacy requirements to all KPMG Audit personnel annually.



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# Nurturing diverse skilled teams

Our people make the real difference and are instrumental in shaping the future of audit at KPMG. We put quality and integrity at the core of our audit practice. Our auditors have diverse skills and capabilities to address complex problems.

## Recruiting appropriately qualified and skilled people, including specialists, with diversity of perspective and experience

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

### Recruitment

KPMG Audit has invested in understanding how we can attract the talent we need now and in the future across the organization. This requires the right recruitment, development, reward, promotion and assignment of professionals. This includes building an extraordinary people experience for all current and prospective partners and employees.

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

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

Where individuals are recruited for senior grades, a formal independence discussion is conducted with them by the Ethics and Independence Partner or a delegate. KPMG Audit does not accept any confidential information

belonging to the candidate's former firm/employer.

### Inclusion, diversity & equity programs

KPMG Audit is committed to building a diverse and equitable firm that is inclusive to all.

Inclusion, diversity, and equity (IDE) is core to our very existence – helping us build great teams with diverse views that represent the world we live in. It leads to better decision making, drives greater creativity and innovation, and encourages us to stand up, live our Values, and do what is right.

We recognize our firms' global position working with clients around the world affords us a privileged place. With that comes an opportunity and responsibility to achieve more and push for a fairer, more equitable society.

Our KPMG Global Inclusion, Diversity & Equity Collective Action Plan outlines the actions that are necessary to advance inclusion, diversity, and equity at KPMG Audit and across all KPMG firms.

For more about Inclusion, Diversity and Equity at KPMG read [here](#).

### Reward and Promotion

#### Reward

KPMG Audit has compensation and promotion policies that are informed by market data, clear, simple, fair and linked to the performance review process. This helps our partners and employees understand what is expected of them, and what they can expect to receive in return.



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The connection between performance and reward is achieved by assessing relative performance across a peer group to inform reward decisions. Reward decisions are based on consideration of both individual and firm performance.

The extent to which our people feel their performance has been reflected in their reward is measured through the annual Global People Survey, with action plans developed as required.

## Promotion

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

## Assigning an appropriately qualified team

KPMG Audit has procedures in place to assign engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. The Head of Audit is responsible for the partner assignment process. Key considerations include partner experience, and capacity – based on an annual partner portfolio review – to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement).

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

As an additional control, our Head of Audit performs an annual review of the portfolio of all of our audit engagement partners. The purpose of this portfolio review is to look at the complexity and risk of each audit and then to consider whether, taken as a whole, the specific engagement partner has the appropriate time and the right support to enable the engagement partner to perform a high-quality audit for each client in their portfolio.

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

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

## Investing in data centric skills – including data mining, analysis and visualization

KPMG is strategically investing in our talent pipeline by partnering with world-class institutions to sustain our strong leadership, while also looking forward to cultivating the skills and capabilities that will be needed in the future.



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We are recruiting and training professionals who specialize in software, cloud capabilities, and artificial intelligence and who can bring leading technology capabilities to our smart audit platform. We provide training on a wide range of technologies to ensure that field professionals not only meet the highest professional standards but are also upskilled in new technology. With this approach we are bringing together the right people with the right skills and the right technology to perform exceptional audits.

## Focused learning and development on technical expertise, professional acumen, and leadership skills

### Commitment to technical excellence and quality service delivery

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

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

### Lifetime learning strategy

#### Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development groups at global, regional, and where applicable, KPMG firm level.

Mandatory learning requirements for audit professionals across the KPMG organization are established annually. Training is delivered using a blend of learning approaches and performance support.

#### Mentoring and on the job training

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

Mentoring and on-the-job experience play key roles in developing the personal qualities important for a successful career in auditing, including professional judgment, technical excellence and instinct.

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

In relation to audit, KPMG Audit:

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



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## Licensing and mandatory requirements for IFRS® Standards

### Licensing

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

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

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

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

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

## Recognizing quality

### Personal development

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

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

Open Performance Development is linked to the KPMG Values and designed to articulate what is required for success — both individually and collectively. We know that by being clear and consistent about the behaviors we expect and rewarding those who demonstrate them, we will continue to drive a relentless focus on audit quality.

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

Partners and certain professionals are also required to be evaluated on key quality and compliance metrics. KPMG Audit considers quality and compliance metrics in assessing the overall evaluation, promotion and remuneration of partners and directors and managers. These evaluations are conducted by performance managers and partners who are able to assess performance.

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



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



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# Associating with the right clients and engagements

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

## Following the client and engagement acceptance and continuance policies

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

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

## Accepting appropriate clients and engagements

### Client evaluation

KPMG Audit undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analyzing the information to be able to make an informed acceptance decision. This evaluation includes an assessment of the client's risk profile and obtaining background information on the client, its key management, directors, and owners. If necessary, we obtain additional information required to satisfy the applicable legal and regulatory requirements.

### Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system), intended purpose and use of engagement deliverables, public perception,

whether the services would be unethical or inconsistent with our Values, as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of KPMG professionals assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG Audit personnel and includes additional reviews as required.

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

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

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

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

### Continuance process

KPMG Audit undertakes an annual re-evaluation of all its audit clients. The re-evaluation identifies any risks 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 reviewer or the need to involve additional specialists on the audit).

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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 to the risk profile and as part of the continuous independence evaluation process, engagement teams are required to identify if there have been any changes to previously identified threats or if there are new threats to independence. The threats are then evaluated and, if not at an acceptable level, are eliminated or appropriate safeguards are applied to reduce the threats to an acceptable level.

## Withdrawal process

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

## Managed portfolio of clients

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

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

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



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

## Acting with integrity and living our Values

KPMG International's detailed independence policies and procedures, incorporate the IESBA Code of Ethics (International Code of Ethics for Professional Accountants). These are set out in the KPMG GQRMM, which applies to all KPMG firms. Automated tools, which are required to be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance with these requirements.

These policies are supplemented by other policies and processes to ensure compliance with the standards issued by the Commission for Public Oversight of Statutory Auditors (CPOSA) and those of other applicable regulatory bodies. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

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

KPMG Audit has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Audit. The EIP is responsible for communicating and implementing KPMG International policies and procedures and ensuring that local independence policies and procedures are established and effectively implemented when they are more stringent than the KPMG International requirements. The EIP fulfills this responsibility through:

- Implementing/monitoring the ethics and independence quality control process and structure within the firm;
- Approving/appointing partners responsible for ethics

and independence within the firm;

- Overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients;
- Participating in the development and delivery of training materials,
- Implementing procedures to address non-compliance; and
- Overseeing the disciplinary process for ethics and independence matters.

Amendments to KPMG International's ethics and independence policies are included in regular quality and risk communications with all KPMG firms. KPMG firms are required to implement changes as specified in the communications, and this is checked through the internal monitoring programs described in section [Internal monitoring and compliance programs](#).

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

## Maintaining an objective, independent and ethical mindset, in line with the Code

### Personal financial independence

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

# Being independent and ethical

KPMG firms use a web-based independence compliance system (KICS) to assist KPMG professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments and provides a tracking mechanism for required users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (i.e. late reporting of an investment acquisition).

All partner and manager grade or above client-facing employees are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in publicly available funds and securities registered on recognized or regulated exchanges in KICS, which automatically notifies them if any investment subsequently become restricted. Newly restricted investments are required to be disposed of within five business days of the notification. KPMG monitors partner and manager compliance with this requirement as part of our program of independence compliance audits of professionals. The Global Independence Group provides guidance and required procedures relating to the audit and inspection by KPMG member firms of personal compliance with the KPMG independence policies. This includes sample criteria including the minimum number of professionals to be audited annually.

## Employment relationships

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

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

professional activities. In addition, the requirements of Article 58 of the Bulgarian Independent Financial Audit Act are complied with in relation to cooling-off period for registered auditors, engagement partners and other audit team members joining an audit client in management level positions, as members of the audit committee, a management or supervisory body.

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

We communicate and monitor requirements in relation to employment and partnership of KPMG Audit professionals by audit and assurance clients.

## Firm financial independence

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

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

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

On an annual basis, KPMG Audit confirms compliance with independence requirements as part of the KPMG Quality & Compliance Evaluation program.

## Business relationships/suppliers

KPMG Audit has policies and procedures in place that are designed to ensure its business relationships with audit and assurance clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements, such as those promulgated



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

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

## Business acquisitions, admissions and investments

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

## Independence clearance process

In addition to the standard acceptance evaluation performed for every engagement, which includes an evaluation of independence, KPMG Audit follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the independence clearance process,' are required to

be completed prior to accepting an audit engagement for these entities.

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

## Independence training and confirmations

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

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

We also provide all partners and employees with training on:

- the Global Code of Conduct; and
- bribery and compliance with laws, regulations and professional standards.

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

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

## Non-audit services

All KPMG firms are required, at a minimum, to comply with the International Code of Ethics for Professional Accountants (including International Independence standards) and applicable laws and regulations, related to the scope of services that can be provided to audit clients.



# Being independent and ethical

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with independence requirements. Certain information on all prospective engagements, including detailed service descriptions, deliverables and estimated fees are required to be entered into Sentinel™ as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential independence threats and safeguards is also required to be included in the Sentinel™ submission.

Lead audit engagement partners (LAEPs) are required to maintain group structures for their public interest entity and certain other audit clients including their related entities or affiliates in Sentinel™. They are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. For entities for which group structures are maintained, Sentinel enables LAEPs to review and request revision to approve, or deny any proposed service for those entities worldwide. For approved proposed services, Sentinel designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

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

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

## Fee dependency

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

These policies require firms to consult with their Regional Risk Management Partner where it is expected that total fees from an audit client will exceed 10 percent of the annual fee income of the member firm for two consecutive years. In addition, if the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years, these policies further require that:

- This be disclosed to those charged with governance at the audit client; and
- A partner from another KPMG member firm be appointed as the engagement quality control (EQC) reviewer.

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

## Resolving conflicts of interest

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

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

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

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



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KPMG Audit has risk management resources who are responsible for reviewing any identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which is required to be documented.

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

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

## Independence breaches

All KPMG Audit personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. All breaches of independence requirements of the IESBA Code of Ethics or other external independence requirements are required to be reported to those charged with governance as soon as possible, except where alternative timing for less significant breaches has been agreed with those charged with governance.

KPMG Audit has a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations. KPMG Audit's Senior Management oversees policies and procedures in relation to ethical matters and breaches of requirements.

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.

## Partner and firm rotation

### Partner rotation

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

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

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

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



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KPMG Audit monitors the rotation of audit engagement leaders (such as the engagement partner, the engagement quality control reviewer and any other key audit partner role, where there is a rotation requirement) and develops transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients.

## **Firm rotation**

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

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

## **Zero tolerance of bribery and corruption**

Compliance with laws, regulations and standards is a key aspect for everyone at KPMG Audit. 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. KPMG International requires KPMG firms to have appropriate internal controls in place to mitigate the risk of involvement in bribery by the firm and its partners and employees.

All KPMG firm partners and employees are required to take training covering compliance with laws, regulations and professional standards relating to anti-bribery and

corruption, including the reporting of suspected or actual non-compliance.

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



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# Performing quality engagements

How an audit is conducted is as important as the result. KPMG Audit partners and employees are expected to demonstrate behaviors consistent with our Values and follow all policies and procedures in the performance of effective and efficient audits.

## Consulting when appropriate

### Encouraging a culture of consultation

KPMG encourages a culture of consultation that supports engagement teams at KPMG firms throughout their decision-making processes and is a fundamental contributor to audit quality. KPMG Audit promotes a culture in which consultation is recognized as a strength and that encourages all KPMG professionals to consult on difficult or contentious matters.

To help with this, firms are required to have established protocols for consultation and documentation of significant matters, including procedures to facilitate resolution of differences of opinion on engagement issues. KPMG audit, assurance and reporting manuals also include required consultations. GQRMM includes mandatory consultation requirements on certain matters.

### Technical consultation and global resources

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

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

Technical accounting, auditing and assurance support is available to member firms through the Global Audit Methodology Group (GAMG), KPMG Global Solutions Group (KGSG), the International Standards Group (ISG) and the PCAOB Standards Group (PSG), all of which report directly to the Global Head of Audit.

### **Global Audit Methodology Group (GAMG)**

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

### **KPMG Global Solutions Group (KGSG)**

The KGSG is responsible for the envisioning, development and deployment of global audit solutions, including new technology and automation innovations.

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

With locations in each of the three KPMG regions (Americas, EMA and ASPAC), the KGSG and GAMG teams comprise professionals with backgrounds in audit, assurance, 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.



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## **International Standards Group (ISG)**

The KPMG ISG works with Global IFRS Standards topic teams with geographic representation from around the world, and the IFRS Standards Panel and Methodology Advisory Group (MAG) to promote consistency of interpretation of IFRS Standards and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis. The ISG recently has expanded its remit to encompass the activities of the International Sustainability Standards Board (ISSB), including providing global thought leadership and guidance as the ISSB issues standards.

## **PCAOB Standards Group (PSG)**

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

## **Member firm professional practice resources**

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

## **Critically assessing audit evidence using professional judgement and skepticism**

On all KPMG audits, the nature and extent of the audit

evidence we gather is responsive to the assessed risks. We consider all audit evidence obtained during the course of the audit including contradictory or inconsistent audit evidence. Each team member is required to exercise professional judgement and maintain professional skepticism throughout the audit engagements. Professional skepticism involves a questioning mind and alertness to contradictory or inconsistencies in the audit evidence. Professional judgement encompasses the need to be aware of and alert to biases that may pose threats to good judgements.

## **Direct, coach, supervise and review**

### **Embedding ongoing coaching, supervision and review**

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

Ongoing direction, 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 engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions;
- Whether the team understands its instructions and 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 to review and discuss with more experienced team members during the engagement.

The timely review of the work performed so that significant matters are promptly identified, discussed and addressed is also used as a coaching opportunity.



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# Performing quality engagements

## Engagement quality control (EQC) reviewers

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

An EQC review is an objective evaluation of significant judgments made by the engagement team and its related conclusions, performed by the EQC reviewer, and completed on or before the date of the report. The EQC reviewer's evaluation of significant judgments includes an evaluation of the engagement team's assessment of significant risks, including fraud risks, the related responses and whether the related conclusions are appropriate. The EQC review is completed only after the EQC reviewer is satisfied that all significant matters they raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.

EQC reviewers are required to meet training, knowledge and experience criteria to perform the EQC review for a particular engagement. Reviewers must be objective, cannot be members of the engagement team and must be independent of the audit client.

## Appropriately support and document conclusions

### Reporting

Auditing standards and the Independent Financial Audit Act largely dictate the format and content of the auditors' report which includes an opinion on the fair presentation of the reporting entity's financial statements in all material respects. Engagement leaders form all audit opinions based on the audit performed and evidence obtained.

In preparing auditors' reports, engagement partners have access to extensive reporting guidance and technical

support through consultations with our DPP, especially where there are significant matters to be reported to users of the auditors' report, (e.g. a modification to the opinion or through the inclusion of "an emphasis of matter" or "other matter" paragraph).

## Engagement Documentation

KPMG Audit audit documentation is completed and assembled according to the timeline determined by the KPMG firm in accordance with KPMG International policy and applicable auditing standards. We have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information. KPMG International adopted policies to apply to all KPMG firms to reduce the time period allowed to assemble audit documentation, which is significantly less than the time period required by the applicable auditing standards.



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# Assessing risks to quality

KPMG International reviews the results of the quality monitoring programs and develops additional global actions as needed.

Global remediation actions developed by KPMG International are aimed at changing behavior and driving quality and consistency across the global organization . Remediation actions may be implemented through the development of global policies, procedures, training, tools and guidance.



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# Communicating effectively

We recognize that another important contributor to upholding audit quality is to obtain and promptly act upon feedback from key stakeholders.

## Provide insights, and maintain open and honest two-way communication

At KPMG Audit we stress the importance of keeping those charged with governance informed of issues arising throughout the audit through guidance and supporting resources. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing discussions with management and members of the audit committee.

The role of audit committees is key in supporting quality auditing by overseeing the relationship between company and auditor and challenging what auditors do and how they do it.

## Conduct and follow-up on the Global People Survey (GPS)

Only with engaged, talented people can KPMG deliver audits in line with our audit quality expectations. Annually KPMG Audit personnel are invited to participate in KPMG's Global People Survey (GPS) to share their perception about their experience working at KPMG. The GPS provides a measure of our people's engagement and insights into areas driving engagement. Results can be analyzed by several factors, for example functional or geographic area, grade, and gender to provide additional focus for action.

Through the GPS, KPMG Audit gains additional insight on how we are faring on categories known to impact engagement. We also cover areas of focus that are directly relevant to audit quality; the survey includes specific audit quality related questions that all individuals who participated in an audit in the previous 12 months are asked to respond to, giving us a particular data set for audit quality related matters.

The survey also provides KPMG Audit leadership and KPMG International leadership with insights related to quality and risk behaviors, audit quality, upholding the

KPMG Values, employee and partner attitudes to quality, leadership and tone at the top.

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

Audit-specific analysis of GPS results is also undertaken, with a particular focus on audit quality. Results and key themes are presented to the Global Audit Steering Group on an annual basis for consideration of appropriate remedial action, if needed.



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# Monitoring and remediation

Integrated quality monitoring and compliance programs enable KPMG firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans both in respect of individual audit engagements and the overall system of quality management.

## Rigorously monitor and measure quality

### Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of KPMG firm audits. The quality monitoring and compliance programs are globally consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG Audit compares the results of its internal monitoring programs with the results of those of any external inspection programs and takes appropriate action.

### Internal monitoring and compliance programs

KPMG Audit monitoring programs are created by KPMG International and applied across KPMG firms. The programs evaluate both:

- Engagement performance in compliance with the applicable professional standards, applicable laws and regulations and KPMG International key policies and procedures; and
- KPMG Audit compliance with KPMG International policies and procedures and the relevance, adequacy, and effective operation of key quality control policies and procedures.

Our internal monitoring program also contributes to the assessment of whether our system of quality management has been appropriately designed, effectively implemented, and operates effectively. These include: Quality Performance Reviews (QPR), the KPMG Quality & Compliance Evaluation program (KQCE) and the Global Quality & Compliance Review (GQ&CR) program.

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

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

The Audit 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 four-year cycle. A risk-based approach is used to select engagements.

KPMG Audit conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG Audit level and are monitored regionally and globally.

#### *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 engagement 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.



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Audit engagements selected for review are rated as 'Compliant', 'Compliant - Improvement Needed' or 'Not Compliant'.

## Reporting

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

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

Lead audit engagement partners (LAEPs) are notified of not compliant 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 program.

## **KPMG Quality & Compliance Evaluation (KQCE) program (formerly known as Risk Compliance Program (RCP))**

KPMG International develops and maintains quality management policies and processes that apply to all KPMG firms. These policies and processes, and their related procedures, include the requirements of the GQ&RM Manual, ISQC 1, and the implementation requirements of ISQM 1 for this transition period. 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 KQCE program are to:

- Document, assess and evidence KPMG Audit's implementation of ISQM 1, extent of compliance of their system of quality management with the Global Quality & Risk Management (GQ&RM) policies and key legal and regulatory requirements; and
- Provide the basis for KPMG Audit to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and

regulatory requirements.

Where exceptions are identified, we are required to develop appropriate action plans and then monitor the status of each action item.

## **Global Quality & Compliance Review (GQ&CR) program**

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

The GQ&CR team performing the review is independent of the firm and is objective and knowledgeable of GQ&RM policies. GQ&CRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GQ&CR provides an independent assessment of:

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

KPMG Audit develops action plans to respond to all GQ&CR findings that indicate improvement is required and agree these with the GQ&CR team. Our progress on action plans is monitored by the GQ&CR central team. Results are reported to the GQ&RM Steering Group and, where necessary, to appropriate KPMG International and regional leadership.

## **Obtain, evaluate and act on stakeholder feedback**

### **Regulators**

As an audit company auditing public interest entities, KPMG Audit is subject to regular quality assurance review of the audit practice, carried out by the Bulgarian Commission for Public Oversight of Statutory Auditors at



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least every three years. The last regular review of KPMG Audit was performed by CPOSA in December 2020 - March 2021 and covered the period 1 July 2018 – 31 December 2019. The purpose of the review was to assess the design and implementation of the audit quality control system used with respect to audit engagements; the performance of the audit engagements in compliance with professional standards, regulatory and statutory requirements; compliance with the ethics requirements of the IESBA Code of Ethics for Professional Accountants; appropriate and adequate evidence in the audit work papers; appropriateness of time and human resources allocated to the reviewed audit engagements; and fees received. The report of the Commission as a result of the examination states that the activities of KPMG Audit as an audit firm for the period under review were in compliance, in all material aspects, with the audit service quality requirements and the procedures stipulated by auditing standards. The report on the quality control review performed was formally accepted by CPOSA in Decision no. 76/23.03.2021 with which the “A” grade provided to KPMG Audit was confirmed.

In addition, as at 31 December 2022, KPMG Audit has been subject to an extraordinary review by the Bulgarian Commission for Public Oversight of Statutory Auditors. The period under review was 1 January 2022 – 31 December 2022. The purpose of the review was to assess the design and implementation of the audit quality control system used with respect to audit engagements; the performance of the audit engagements in compliance with professional standards, regulatory and statutory requirements; compliance with the ethics requirements of the IESBA Code of Ethics for Professional Accountants; appropriate and adequate evidence in the audit work papers; appropriateness of time and human resources allocated to the reviewed audit engagements; and fees received. The report of the Commission as a result of the examination states that the activities of KPMG Audit as an audit firm for the period under review were in compliance, in all material aspects, with the audit service quality requirements and the procedures stipulated by auditing standards. The report on the quality control review performed was formally accepted by CPOSA in Decision no. 207/11.04.2023 with which the “A” grade provided to KPMG Audit was confirmed.

As part of the quality control and the requirements for transparency in the audit practice KPMG Audit maintains a list of public interest entities audited by the Company during 2022. The list is provided as [Appendix 1: Public Interest Entities to the report](#).

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR), principally through IFIAR’s Global Audit Quality Working Group (GAQ WG), to discuss thematic audit quality issues along with targeted strategies for improvement. We value the open, honest and transparent dialogue that IFIAR facilitates on global audit quality issues. At a regional level, we also have regular dialogue with representatives of the Committee of European Auditing Oversight Bodies (CEAOB) — formerly known as the European Audit Inspection Group (EAIG).

Every KPMG firm is expected to maintain professional and respectful relationships with regulators, including proactively engaging, responding to questions in a timely manner and taking appropriate remedial actions.

## Client feedback

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

## Monitoring of complaints

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

## Other assessments of audit quality

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



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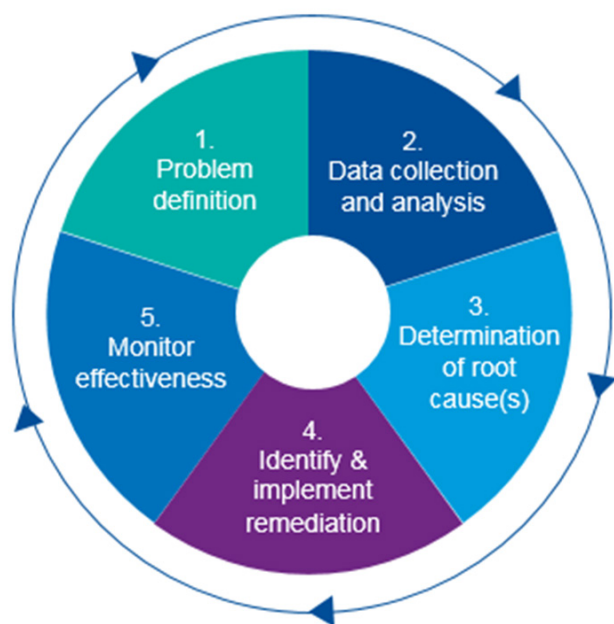
# Monitoring and remediation

## Perform root cause analysis

KPMG Audit conducts Root Cause Analysis (RCA) in respect of audit quality issues.

RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG Audit who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

The Global RCA 5 Step Principles are as follows:



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

KPMG Audit Head of Audit audit quality including the remediation of audit quality issues. The firm's Risk Management Partner monitors the remediation plan(s) implementation.



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

Services	2022 Revenue BGN '000 (generated by KPMG Audit)
Revenues from compulsory audit of annual financial statements (individual and consolidated) of PIEs and of entities which are part of a group and the parent company of which is a PIE in Bulgaria	698
Revenues from compulsory audit of annual financial statements (individual and consolidated) of other entities	4 916
Revenues from permitted services, other than statutory audit, provided to the audited entities	2 374
Revenues from services, other than audit, provided to other clients	349
<b>Total</b>	<b>8 337</b>

The overall combined revenue of the KPMG member firms in Bulgaria for the year ended 31 December 2022 is BGN 71,843 thousand (2021: BGN 57,469 thousand). The revenue includes services provided across the KPMG network (while eliminating the revenues generated between KPMG member firms in Bulgaria) as well as direct costs invoiced to clients.

Presented below is financial information regarding the net revenue of all KPMG member firms in Bulgaria for the year ended 31 December 2022 broken down into the following categories (as per Art. 62, par. 1, p.12 of the Bulgarian Independent Financial Audit Act):

Services	2022 Revenue BGN '000
Revenues from services, provided to PIEs, that are audited by KPMG and to entities which are part of a group and the parent company of which is a PIE in Bulgaria, that are audited by KPMG	1 385
Revenues services provided to other entities, that are audited by KPMG	7 019
<b>Total</b>	<b>8 404</b>

# Partner remuneration

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

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

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

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

The actual (final) partner remuneration is determined by the Managing Partner in consultation with the KPMG CEE Chairman after assessing each partner's individual performance and contribution for the year, as well as the quality and compliance metrics adopted by the firm.

Audit partners are not permitted to have objectives related to, or receive any remuneration from, selling non-audit services to their audit clients.



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## Legal structure

KPMG Audit and all other KPMG firms are party to membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization are members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee.

KPMG International Limited has been the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

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

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

KPMG International Limited and the KPMG member firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International Limited or any of its related entities have any such authority to obligate or bind any member firm.

Further detail on the revised legal and governance arrangements for the KPMG global organization can be found in section 'Governance and leadership' of the 2022 KPMG International Transparency Report.

The name of each audit firm that is a member of the organization and the EU/EEA countries in which each firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available here: <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<sup>3</sup>

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 2.2 billion during the year ended 30th September 2022. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2022.

### Responsibilities and obligations of member firms

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

<sup>3</sup> 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.

# Network arrangements

Each KPMG 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 KPMG International Global Board and consistently applied to the firms. A firm's status as a KPMG member firm and its participation in the KPMG global organization may be terminated if, among other things, it has not complied with the policies set by KPMG International or any of its other obligations owed to KPMG International.

## Professional Indemnity Insurance

Insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis.

## Governance structure

The key governance bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team. Further details on KPMG International's governance structure can be found in the [2022 KPMG International Transparency Report](#).



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

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

The Managing Directors of KPMG Audit have considered:

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

Taking all of this evidence together, the Managing Directors of KPMG Audit confirm with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 31 December 2022.

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

**Sofia, 28 April 2023**

**The Managing Directors of KPMG Audit**

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## Public Interest Entities

The Public Interest Entities for which KPMG Audit has carried out statutory audits and has issued audit opinions during the year 2022 are as follows:

Pension Assurance Company Doverie AD

Doverie General Pension Fund

Doverie Professional Pension Fund

Doverie Voluntary Pension Fund

Doverie Life-long Pension Payments Fund

Doverie Fund for Deferred Payments

Generali Insurance AD

GP Reinsurance EAD

Eurobank Bulgaria AD

Sofiyiska Voda AD

ProCredit Bank Bulgaria EAD



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