

SIA BDO AUDIT

TRANSPARENCY REPORT

2 January, 2017

INTRODUCTION

A Message from our Audit Partner



Gunta Darkevica
SIA BDO Audit
Audit Partner

We are pleased to introduce the 2015/2016 transparency report for the SIA BDO Audit in Latvia (License No. 176).

This Transparency Report is published in accordance with the requirement set forth in Article 45 (5)(e) of the European Union's Directive on Statutory Audit 2006/43/EC. All information provided in this report relates to the situation of the Firm on 31 August 2016, except if indicated otherwise.

This report is published in accordance with the requirements of Article 33.1 of the Republic of Latvia Law on Certified Auditors and Article 40 of the European Union 43rd Directive on Statutory audits of annual accounts and consolidated accounts (the Audit Directive).



LEGAL STRUCTURE AND OWNERSHIP

SIA BDO Audit is registered in Commercial register of the Republic of Latvia under the registration number 40103888857, with the registered office in 15 Kaļķu Str., Riga LV1050, Latvia.

The Firm operates as a limited liability company and is owned by:

- AS BDO Latvia - 49%;
- Gunta Darkevica - 51%



GOVERNANCE STRUCTURE

The Company is represented by the Management Board, which consists of Gunta Darkevica who is certified auditor. The board has the right to represent the Firm with full power.

The Firm is committed to the implementation and application of the highest standards of corporate governance. The audit governance is an integrated part of BDO Latvia and is subject to the same governance structure as all other business segments of the Firm.

The Firm is led by the Audit Partner. The Audit Partner is responsible for developing and implementing the policies and strategies of the Firm and for its direction and management, as well as:

- risk management, compliance and internal quality assurance matters;
- setting and monitoring adherence to the firm's financial budgets;
- HR policy and procedures;
- business development initiatives.



THE BDO NETWORK

Description of the Network

SIA BDO Audit is a Member Firm of BDO International Limited.

The BDO network is an international network of independent public accounting, tax and advisory firms which are members of BDO International Limited and perform professional services under the name and style of BDO (“BDO Member Firms”). BDO is the brand name for the BDO network and all BDO Member Firms.



THE BDO NETWORK

Legal and Structural Arrangements in the Network

Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee, as either a voting member (one per country) or a non-voting member. BDO International Limited is the governing entity of the BDO network and sets the membership obligations of the BDO Member Firms in the Regulations.

The BDO network is governed by the Council, the Global Board and the Global Leadership Team of BDO International Limited.

The Council comprises one representative from each voting member and comprises the members of BDO International Limited in general meeting. The Council approves the network's central budget, appoints the Global Board and approves any changes in the Articles and Regulations of BDO International Limited.

The Global Board, which is the Board of Directors of BDO International Limited, comprises a representative of the BDO network's seven largest member firms, whose appointment, each for a three year term, is approved by the Council. The Global Board sets priorities for the BDO network and oversees the work of the Global Leadership Team. The Global Board meets at least four times a year.



THE BDO NETWORK

Legal and Structural Arrangements in the Network

The Global Leadership Team is tasked with coordinating the activities of the BDO network. It is headed by the CEO and comprises the Global Heads of Audit & Accounting, Tax, HR & Development, Business Development & Marketing, IT, the CEO EMEA (currently also acting as Global Head of Advisory), the CEO Americas, the CEO Asia Pacific and the International Secretary.

The Global Leadership Team is supported by the Global Office at Brussels Worldwide Services BVBA. Brussels Worldwide Services BVBA, a Belgian limited liability company, provides services to assist in the coordination of the BDO network.

BDO International Limited and Brussels Worldwide Services BVBA do not provide any professional services to clients. This is the sole preserve of the BDO Member Firms.

Each of BDO International Limited, Brussels Worldwide Services BVBA and the BDO Member Firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of BDO shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide services BVBA and/or the BDO Member Firms.



INTERNAL QUALITY CONTROL SYSTEM

With regard to the provision of audit services, the Firm complies with the International Standard on Quality Control 1 (“ISQC 1”) which requires that the Firm has in place an appropriate system of quality control for audits and reviews of financial statements, and other assurance and related services engagements. The Firm’s systems reflect the Firm’s ambition to provide an unrivalled service to its clients and to meet the requirements of Law of Audit Services of the Republic of Latvia and in accordance with International Standards On Auditing adopted in the Republic of Latvia as well as of the International Standards issued by the International Auditing and Assurance Standards Board and overseas regulators, where relevant.



INTERNAL QUALITY CONTROL SYSTEM

The firm's system of internal quality control is designed to provide reasonable assurance that the firm, its partners and staff comply with professional standards and regulatory and legal requirements, work is performed to a consistently high standard and that reports issued by the firm are appropriate.

The firm's system of internal quality control can be split into the following elements:

- leadership responsibilities for quality within the firm;
- ethical requirements;
- acceptance and continuance of client relationships and specific engagements;
- human resources and development;
- engagement performance;
- monitoring and documentation of the system of quality control.



INTERNAL QUALITY CONTROL SYSTEM

Leadership Responsibilities for Quality within Firm

Quality control is dependent upon an organisational structure which is inherently sound and which clearly defines the responsibilities of the various levels of management.

The firm has clearly established responsibilities for the Audit Partner and senior personnel.

Audit Partner is inter alia responsible for the following:

- maintaining the firm's technical manuals and communicating developments to the staff;
- helping maintain the quality of the firm's assurance practice at the highest standards prevailing in the profession
- consulting with local office partners and other professionals seeking technical advice
- overseeing the firm's technical continuing professional education programmes
- ensuring that the internal quality control system operates effectively.



INTERNAL QUALITY CONTROL SYSTEM

Ethical Requirements

The firm's Conduct of internal Procedures contains the principles and rules relating to ethical conduct, including integrity, independence and objectivity, professional competence and due care, confidentiality and professional behaviour. This is complemented by a comprehensive training programme designed to ensure compliance with both International Ethics Standards Board for Accountants, Code of Ethics for Professional Accountants (IESBA code) and Law on Audit Services of the Republic of Latvia. The ethical conduct guidance is available to all staff on the firm's intranet. Annual declarations are made by all partners and staff to ensure compliance with relevant ethical requirements and policies have been implemented for resolution of issues.

INTERNAL QUALITY CONTROL SYSTEM

Acceptance and Continuance of Client Relationships

Robust client and engagement acceptance procedures play a pivotal role in the firm's ability to deliver a professional and quality service. Prior to the acceptance of any new client and consideration of continuance with that client, certain procedures to assess the risks associated with that client must be carried out. These will include:

- consideration of the client's business incl. its geographical spread and the industry it operates in;
- evaluation of information concerning the client, its management and its owners including obtaining evidence of the identity of the owners and officers of the business;
- considering information regarding the character and reputation of the prospective client and key personnel;
- assessment of potential independence risks and potential conflicts of interest;
- inquiry of the previous auditor regarding the reasons for the change in auditor and if there is any reason why we should not accept the appointment;
- assessment of our ability to serve the prospective client; and
- reviewing filings of the company, including prior year financial statements.

The acceptance and continuation of all clients requires an approval process that is appropriate to the perceived risk. "High risk" assurance clients require pre-approval by the Audit Partner and in certain circumstances by the Risk Manager.



INTERNAL QUALITY CONTROL SYSTEM

Human Resources and Development

Human resources is a critical factor in our ability to provide professional services. In order to ensure that the firm has sufficient personnel with the capabilities, competence, and ethical standards necessary to provide quality audits in accordance with professional and legal requirements we have established policies and procedures addressing the following areas:

- clear and consistent policies and procedures;
- clear job description: tasks, responsibilities and expectations;
- recruitment procedure;
- grades and levels: explanation and theoretical timeline, career path (specialism or upward);
- workforce planning, succession management;
- continuous performance appraisal and engagement surveys;
- development plan and training policy.

INTERNAL QUALITY CONTROL SYSTEM

Engagement Performance in the Audit Stream

Our policies and procedures are designed to ensure that audits meet all applicable professional standards, regulatory requirements and that the firm issues reports that are appropriate in the circumstances. To achieve this and to promote consistency in the approach to auditing and related fundamental application of professional skepticism throughout the BDO network, BDO International has developed the common BDO Audit Methodology, related software tools and other standard forms of documentation. This methodology is fully compliant with International Auditing Standards.

APT, BDO International's in-house state of the art audit software, remains the single largest global project of its kind and its evolution continues. With further substantial audit methodology and IT investment, the next generation of APT is already under development. By designing APT to take advantage of recent technological advances, we will be able to:

- safeguard the structural integrity of the tool for the future;
- provide us with a fully-integrated tool that reflects the latest interpretations of the auditing standards; and
- enable teams to work efficiently on both large and small engagements.

INTERNAL QUALITY CONTROL SYSTEM

Supervision and Review

We require all professional work to be supervised by staff members who have appropriate knowledge and experience. It is the responsibility of the relevant partner to ensure that related risks are identified and that decisions are taken by those with an appropriate level of authority. The Audit partner must also ensure that professional work is carried out with appropriate professional scepticism, and that it meets the firm's standards in all respects.

Our review procedures are designed to ensure effective control of the audit as it progresses. These policies are designed to ensure that:

- the work is performed in accordance with applicable standards and regulations;
- significant matters have been raised for further consideration and appropriately addressed;
- appropriate consultations have taken place;
- the planned work has where necessary been reviewed and that the objective of all planned work has been achieved;
- the work performed and evidence obtained supports the conclusions reached; and
- the documentation present on the audit file enables an experienced auditor to understand the significant matters arising on the audit as well as the nature, timing and extent of the procedures undertaken, the results of those procedures and the evidence obtained.



INTERNAL QUALITY CONTROL SYSTEM

Supervision and Review

An engagement quality control review is performed for audits of public interest entities and other high risk engagements. The engagement quality control reviewer is familiar with the auditing and reporting practices used during the engagement, and knowledgeable and familiar with the client's industry, but is not part of the audit engagement team. They are an experienced professionals and not likely to be unduly influenced by the views of a particular engagement partner. The engagement quality control reviewer will not be actively involved in making ongoing decisions relating to the engagement and will not be involved in performing the engagement. Engagement quality control reviewers are selected from a list of approved reviewers, as determined by the Audit Partner.

Consultation

Our culture encourages consultation with experienced specialists where appropriate. The firm has a process in place for audit team to follow when consulting and seeking a 'firm' opinion, support on a client issue, judgement or risk.



INTERNAL QUALITY CONTROL SYSTEM

Monitoring of the System of Quality Control

Our policies and procedures concerning monitoring activities are designed to give the firm reasonable assurance that the firm's internal quality control system is operating effectively and is being complied with in practice.

Our quality control system includes an annual review process of audit files to monitor compliance with the firm's policies, procedures and standards and to ensure that the audit work carried out in order to arrive at a proper opinion is properly documented and of high quality.

The review consists of reviewing, on a sample basis, the working papers and reports of selected assurance engagements and documentation of compliance with our quality control policies and procedures in other areas.

Each review team is headed by an experienced auditor. Where the sample includes a client in a specialised industry, appropriate internal specialists are involved in the review.



INTERNAL QUALITY CONTROL SYSTEM

Monitoring of the System of Quality Control

Instructions are issued to the reviewers in advance of the review setting out the objectives of the process, a checklist, appropriate guidance and reporting templates.

A conclusion is drawn on each audit reviewed as to whether the audit work was acceptable or required significant improvement.

The Risk Manager is responsible for monitoring and documenting the implementation of, and compliance with, any corrective actions. The Risk Manager is also responsible for ensuring appropriate documentation of the operation of each element of the firm's quality control system.



QUALITY ASSURANCE REVIEW

At the moment of issuing this Transparency Report there had been no external inspections of the firm.



PUBLIC INTEREST ENTITIES

A list of public interest entities as at 2 January 2017 is set out below.

1. AS «Grindeks»
2. Ieguldījumu pārvaldes AS «Hipo Fondi aktīvu pārvalde»



INDEPENDENCE PRACTICES AND PROCEDURES

Our independence and objectivity on assurance clients is achieved through policies and procedures designed to ensure compliance with the independence standards of the International Federation of Accountants and the respective national regulatory organisations (LZRA). The relevant ethics and independence rules for each member firm are posted on our intranet, which is accessible by all partners and professionals.

We also maintain a database of all our firm's restricted entities, including listed companies and other public interest entities. This is available on our intranet and its objective is to prevent the performance of prohibited non-assurance services or investment in these entities. The database is continuously updated.

Prior to accepting any new client or assurance engagement, our engagement teams must perform specific procedures to identify potential conflicts of interest and threats to our independence. Procedures include a custom-made web-based tool to facilitate international conflict of interest and independence checks throughout the BDO network.

There is also an independence declaration per audit engagement signed by all partners and staff members that have been involved in the performance of the audit engagement.



CONTINUING PROFESSIONAL DEVELOPMENT

The firm has a policy of facilitating and encouraging continuing education as an important means of developing knowledge and maintaining and improving the quality of its services and of motivating and retaining its personnel.

For audit partners and professional staff, the firm requires partners and staff members to participate in appropriate continuing professional development programmes and monitors the fulfilment of programme obligations.

The continuing education program is comprised of training sessions organised by the firm specifically designed to meet its needs, as well as external training by relevant professional bodies or other training organisations. Certain courses are mandatory and others are optional. The CPE requirements for professional auditors in Latvia are also factored in to the programme.

CONTINUING PROFESSIONAL DEVELOPMENT

Extensive training is given to all new recruits on the BDO audit methodologies, tools and processes. More experienced personnel and partners are encouraged to update and deepen their technical knowledge.

Developing management and interpersonal skills are also very important for this group.

Continuing professional education is a factor taken into account for the yearly evaluation of audit staff and the assessment of their career potential within the firm. We are committed to developing and maintaining the highest possible standards of technical competence through our own development programmes. As part of an individual's performance appraisal, professional development needs are assessed and courses or other training opportunities are identified.

We have developed a curriculum providing technical training for our professionals throughout their careers. For all new audit professionals, there is an orientation programme covering the firm's audit approach and procedures and its organisational structure.

All audit staff, including managers and partners, attend regular technical update courses. These courses are complemented by on the job coaching which provides a significant aspect of their professional development.

All audit staff are personally responsible for keeping up to date with the requisite knowledge, skills and professional competence which they will need to successfully carry out the roles to which they are assigned.



PARTNER REMUNERATION

Partner evaluations take the following factors into account: technical expertise (including findings from internal and external inspections of audit engagements), independence, integrity, professionalism, and entrepreneurship.

FINANCIAL INFORMATION

The following turnover information, excluding Valued Added Tax, for the period from 13 April 2015 - 31 August 2016 has been extracted from the Firm's books and records:

Statutory audit	Revenues in 2016 €
PIEs and their subsidiaries	43,700

Statutory audit	Revenues in 2016, €
Other entities than the above	235,100

Permitted NASs	Revenues in 2016 €m
Entities audited by the audit firm	n/a

NASs	Revenues in 2016 €m
Other entities	11,450

[\[1\]](#) Public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO to discuss these matters in the context of your particular circumstances. BDO, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

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BDO is the brand name for the BDO International network and for each of the BDO Member Firms.

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