

Transparency Report  
Deloitte Audit OOD  
Bulgaria  
2014



## Introduction

As an audit firm that carries out statutory audits of the annual accounts of public - interest entities, Deloitte Audit OOD (hereinafter: "The Company", "The Firm") is publishing this annual transparency report in compliance with Article 40I of the Independent Financial Audit Act (IFAA) regarding the statutory audit of the annual separate and consolidated financial statements.

All information provided in this report relates to the situation of the Company as of 31 December 2014, except if indicated otherwise.

### 1. Description of the legal, organizational and ownership structure of the registered auditor

#### Legal and organizational structure:

Deloitte Audit OOD is a Bulgarian limited liability company, with UIC 121145199 at the Commercial Register under the Registry Agency, with its registered seat and management address at 103 Alexander Stambolijski Blvd., 1303 Sofia, Bulgaria. Deloitte Audit's scope of corporate activity is: independent financial audit of financial statements of enterprises, other services related to the independent financial audit, bookkeeping and drawing out annual, intermediate and other financial reports, mediator for employment of Bulgarian citizens on the territory of the country.

The Company has a registered branch in the City of Varna with the following details:

Deloitte Audit OOD – Varna Branch

UIC 1211451990011

Seat and management address: 15 Rousse Str., 9000 Varna, Bulgaria

#### Ownership Structure:

Deloitte Audit OOD has a registered capital of BGN 5,000 which is divided in 500 shares, each amounting to BGN 10, distributed between its shareholders as follows:

- 248 shares representing 49.6% of the share capital belong to Deloitte Central Europe Holdings Limited, a company registered under the Law of Cyprus;
- 126 shares representing 25.2% of the share capital belong to Ms. Silvia Peneva;
- 126 shares representing 25.2% of the share capital belong to Mr. Assen Dimov.

## 2. Where the registered auditor belongs to a network, a description of the network and the legal and structural arrangements in the network

### About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Each of the member firms operates under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu", or other related names. Each DTTL member firm is structured differently in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in their territories through subsidiaries, affiliates, and/or other entities. Please visit [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms. Deloitte provides audit, tax, consulting, financial advisory and legal services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 200,000 professionals are committed to becoming the standard of excellence.

### About Deloitte Central Europe

Deloitte Central Europe (DCE) is a regional organization of entities organized under the umbrella of Deloitte Central Europe Holdings Limited, the member firm in Central Europe of Deloitte Touche Tohmatsu Limited (DTTL). Services are provided by the subsidiaries and affiliates of Deloitte Central Europe Holdings Limited, which are separate and independent legal entities.

The subsidiaries and affiliates of Deloitte Central Europe Holdings Limited are among the region's leading professional services firms, providing services through more than 4,700 people in 17 countries.

### Deloitte in Bulgaria

In Bulgaria, the services are provided by Deloitte Bulgaria EOOD, Deloitte Audit OOD and Deloitte Legal Law Firm (jointly referred to as "Deloitte Bulgaria"). Deloitte in Bulgaria is part of or shares the professional values of Deloitte Central Europe Holdings Limited. Deloitte in Bulgaria is one of the leading professional services organizations in the country providing services in audit, consulting, financial advisory, risk management, tax and legal services through over 192 national and specialized expatriate professionals.

## 3. Description of the management structure of Deloitte Audit OOD

Deloitte Audit OOD is represented by its Statutory Managers Ms. Silvia Gueorguieva Peneva and Mr. Assen Georgiev Dimov, both registered auditors, jointly and separately and only jointly in the following cases: a) opening and closing of Company's bank accounts in Bulgaria and abroad; b) issuance of promissory note, bill of exchange and endorsement thereof; c) signing of loan agreements; d) guarantee of third parties obligations.

Deloitte Audit OOD – Varna Branch is represented by Ms. Silvia Peneva whereas she is authorized to execute any and all activities and shall sign all documents which are deemed to be necessary for the management of the commercial activity of Deloitte Audit OOD – branch Varna, with the exception of: opening and closing of Branch's bank accounts in Bulgaria and abroad; issuance of promissory note, bill of exchange and endorsement thereof; signing of loan agreements; guarantee of third parties obligations; purchase of real estate; signing of employment contracts.

#### **4. Description of the internal quality control system of Deloitte Audit OOD and a statement by the administrative or management body on the effectiveness of its functioning internal quality control system**

Deloitte Audit OOD maintains policies and procedures to promote an internal culture based on the recognition that quality is our number one priority and it is set out in the Deloitte Policies Manual (Audit). The Company focuses on professional excellence as the foundation for achieving outstanding audit quality on a consistent basis. This manual includes policies and procedures addressing leadership responsibilities for the system of quality control within Deloitte Audit OOD, ethical requirements, client and engagement acceptance and continuance, human resources, engagement performance and monitoring.

This internal quality control system has two monitoring systems:

- the engagement quality control review; and
- the member firm practice review.

##### Engagement quality control review

All statutory audit reports on the annual accounts or consolidated accounts relating to a public interest entity, among others, are subject to an engagement quality control review by a partner or director of Deloitte Audit OOD with sufficient and appropriate experience and professional qualifications, prior to issuance of the report. The engagement quality control reviewer is not part of the engagement team and is not portrayed in fact or appearance as a member of the engagement team.

The reviewer is appropriately briefed by the engagement team and conducts the review in such a manner that sufficient knowledge and understanding is obtained in order to reach conclusions. The reviewer's responsibility is to perform an objective review of significant auditing, accounting, and financial reporting matters, to document the procedures the reviewer performed, and to conclude, based on all the relevant facts and circumstances of which the reviewer has knowledge, that no matters that have come to his or her attention would cause the reviewer to believe that the significant judgments made and the conclusions reached were not appropriate in the circumstances.

For engagements that have been identified as having much greater than normal engagement risk, a special review partner is assigned to provide an additional level of competence and objectivity in planning and performing the engagement. The special review partner is independent of the engagement. Normally, this partner possesses specialized industry and technical skills applicable to the engagement and, in certain situations, is independent of the practice unit to enhance objectivity or to provide specialized resources.

The audit report may only be issued if the reviewer is satisfied that the engagement team has made appropriate judgments and conclusions, and has complied with the International Standards on Auditing and other relevant rules and regulations.

##### Deloitte Member Firm practice review

Deloitte Audit OOD practice review covers the audit practice and is designed to assess the performance of every audit partner at least once over a three-year period. During that three-year period, at least one engagement for each partner is selected for review. Consideration is also given to assessing the performance of managers, particularly those managers who are partner candidates in the short term. As indicated, Deloitte Audit OOD is an affiliate of DCE which administers its own practice review programs annually and designs such programs to cover a number of practice offices each year. The Audit Firm is subject to a practice review at least once every three years.

Deloitte Audit OOD is responsible for the practice review. DTTL provides guidance and oversight regarding the practice review plan and procedures. The general coordination and administration of the practice review program is the responsibility of the Audit Firm's practice review director, in conjunction with the regional practice review director, where applicable.

The practice review plan, process, and results are reviewed and concurred by a partner from another member firm (the "concurring partner") every year. The concurring partner who is assigned this responsibility works closely with the Firm's practice review director and the regional practice review director in overseeing the planning and performance of the practice review.

#### Types of Engagements Reviewed

The engagements selected for review include national engagements and inbound/outbound transnational engagements (audits of financial statements that are or may be used across national borders), including public interest entities, as well as a number of high risk audit engagements. Some sensitive and complex engagements (e.g., first-year engagements, situations where there is a change in control or deteriorating financial condition) are also selected. All major industries served by the Firm or practice office are considered.

#### Scope of Practice Reviews

Reviewers are chosen from regional or international pools or from other practice offices within our Firm. The assignment of reviewers is based on skill level, industry knowledge, and experience on transnational engagements.

The reviews of individual engagements consist of discussions with the partner and/or manager responsible for the engagement and a review of related reports, working papers, and, where appropriate, correspondence files.

Engagements are reviewed to:

- Determine whether quality control procedures have been properly applied to such engagements,
- Assess the adequacy of implementation of the audit approach, including compliance with the policies and procedures contained in the Firm's policy manuals,
- Monitor compliance with applicable local laws, and
- Assess the overall quality of service provided to clients.

The overall risk management and quality control policies and procedures within our Firm are also reviewed, including the following:

- Risk management program, including engagement acceptance and continuance
- Independence
- Recruitment and advancement
- Professional development
- Public filings in other countries
- Information technology specialist reviews
- Assignment of professional staff to audit engagements
- Consultation with Firm experts
- Consultation with outside experts
- Engagement quality control reviews

The findings and recommendations resulting from the practice reviews are presented in a practice review report and management letter to the audit Firm's leadership. The purpose of the management letter is to provide suggestions for improvement in response to findings noted. The Firm addresses findings in the practice review report by drawing up a detailed action plan setting out the action to be taken, the person(s) responsible, and the timing to implement the recommendations contained in the practice review management letter, where applicable.

In addition, the Firm communicates to the relevant partner and other appropriate personnel deficiencies (if any) noted as a result of the practice review and recommendations for appropriate remedial action. The Firm also on an annual basis communicates the results of the practice review and ongoing consideration and evaluation of its system of quality control to its partners and other appropriate individuals within the audit Firm.

#### Management Committee statement

The Management Committee of "Deloitte Audit" OOD is satisfied that the internal control system as described above is effective in providing reasonable assurance that Deloitte Audit OOD and its personnel comply with applicable professional standards and regulatory and legal requirements and that audit reports issued are appropriate in the circumstances.

#### **5. Indication of the date when the last independent quality assurance review took place**

The last internal independent quality review was performed in May 2013, in accordance with the D TTL Quality Assurance Program.

In addition, an inspection by the Bulgarian Commission for Public Oversight of Statutory Auditors was performed in November-December 2014.

#### **6. List of public-interest entities audited by the registered auditor during the last financial year**

Enclosed as an Appendix to this report.

#### **7. Statement concerning Deloitte Audit OOD's independence practices which also confirms that an internal review of independence compliance has been conducted during the last financial year**

Deloitte Audit OOD itself maintains written independence policies and procedures, which include the performing of certain independence compliance checks on an annual basis:

- Each professional must sign an individual independence confirmation each year. It is performed as of 31 May. In addition, similar independence confirmations are obtained from new employees and employees leaving the Company;
- All managerial personnel and above must enter their financial interests to Global Independence Monitoring System. Each person's portfolio is checked against an electronic list of audit clients to check whether this ownership is allowed under the relevant independence rules;
- All professionals have to complete an e-learning on independence and confidentiality rules; and
- Client and engagement acceptance processes are used to verify that independence is not impaired.

In addition to the continuous monitoring of compliance with independence policies, independence inspection and testing procedures are performed annually on a sample of professionals and senior officers.

## **8. Statement on the policy followed by Deloitte Audit OOD concerning the continuing education of registered statutory auditors carrying out audits in the name and on behalf of the audit firm**

All registered auditors in Deloitte Audit OOD maintain their continuous professional qualification through a mixture of internal courses as well as educational courses organized by the Bulgarian Institute of Chartered Accountants pursuant to Article 22 of the Independent Financial Audit Act. Deloitte Audit OOD complies with these legal requirements.

### Continuing education

Continuing education is a key policy of the Deloitte Audit OOD, as this is an important means of developing knowledge and maintaining and improving the quality of our services. The Deloitte Learning intranet provides a starting point, including technical training (GAAP, GAAS, professional rules, tax, IT), management and interpersonal skills, business economics and industry-specific courses.

The continuing education program is comprised of both - Deloitte organised training sessions as well as external training, among others by the Bulgarian Institute of Certified Public Accountants. Certain courses are mandatory and others are optional, such that each auditor or trainee auditor can personalise their learning programme.

During the first years, significant part of the training is comprised of mandatory courses on technical topics including Deloitte methodologies and processes but afterwards the optional part increases given that individual needs become more diverse. An individual learning programme is required as from senior 2-nd level (approximately four years' experience).

More experienced auditors are expected to update and deepen their technical knowledge. Developing management and interpersonal skills are also very important for this group. There is also the possibility to follow longer term education, such as MBA programmes. There is also a system of accreditation for SEC registrants whereby a training course needs to be completed before an auditor may perform certain tasks.

Through an automated monitoring system it is possible to check the status of internal and external courses followed by an individual auditor. Continuing education is also a factor taken into account for the yearly evaluation of audit staff and the assessment of their growth potential within the Firm.

## 9. Total amount of the registered auditor's incomes, including divided by respective amounts of services rendered and related to independent financial audits, tax advices and other services not mentioned hereto

Independent Financial Audit Services	BGN	7,779 thousands
Other Audit related Services	BGN	1,163 thousands
Enterprise Risk Services	BGN	956 thousands
Advisory services	BGN	548 thousands
Other services	BGN	10 thousands
Other incomes	BGN	25 thousands
Total income 2014	BGN	10,481 thousands

## 10. Information concerning the basis for the partners' remuneration

The remuneration of each partner in the Audit Firm comprises two elements – role compensation and performance compensation – both of which are related to the contributions made in their respective roles. Their role compensation is dependent on the scope and impact of their responsibilities. Their performance compensation is related to the achievement of goals set each year.

Partners are evaluated once annually and their role and performance compensation is adjusted upwards or downwards on the basis of their past and planned contributions.

## 11. Licensing requirement for statutory compliance

According to the Bulgarian Independent Financial Audit Act registered auditors and registered specialized audit entities shall receive an individual number after their registration in the register of registered auditors. The Bulgarian Institute of the Certified Public Accountants has established and maintains the register of the registered auditors and registered specialized audit entities. Deloitte Audit OOD is included in the list of registered specialized audit entities under No 33.

**Silvia Peneva**  
**Statutory Manager**



# List of public-interest entities audited by the registered auditor during the last financial year

Advance Equity Holding AD  
Advance Terrafund ADSIP  
Agroenergy ADSIP  
Agroenergy Invest ADSIP  
ALICO Bulgaria Life Insurance Company EAD  
Asenovgrad Tabac AD (in liquidation)  
Balkan Frigo EOOD  
Billboard AD  
Bulgarian-American Credit Bank AD  
Bulgartabac Holding AD  
Central Cooperative Bank AD  
Chaos Invest AD  
Credissimo AD  
Deven AD  
Enemona AD  
ERG Capital - 3 ADSIP  
Euroins Health Insurance ZEAD  
FEEI ADSIP  
Geovid EOOD  
Hanovo 2 Solar EOOD  
Haskovo Tabac AD (in liquidation)  
Hydroenergetica Rodopi EOOD  
Hydroenergy Construction EOOD  
Imoti Direct ADSIP  
Intersol AD  
JZD OZK-Insurance AD  
Kadjitsa EOOD  
Karavelovo Solar EOOD  
Kukorevo 1 Solar EOOD  
Meden Kladenets Solar EOOD  
Mobiltel EAD  
Monbat AD  
Neochim AD  
Nick Energy EOOD  
OZOK – Health Insurance AD  
Pension Company Toplina  
Professional Pension Fund Toplina  
PV Invest BG EOOD  
PVB Power Bulgaria AD  
Runo Kazanlak

Shumen Tabac AD (in liquidation)  
Societe Generale Expressbank AD  
Solar L System EAD  
Solar Park Hadjidimovo 1 EOOD  
Solar Park Hadjidimovo 2 EOOD  
Solar Plana EOOD  
Teximbank AD  
Tokuda Bank AD  
UBB - ALICO Life Insurance Company AD  
UBB Balanced Fund  
UBB Global Pharm Invest Fund  
UBB Patrimonium Land Fund  
UBB Platinum Bonds Fund  
UBB Platinum Euro Bonds Fund  
UBB Premium Equity Fund  
UniCredit Bulbank AD  
United Bulgarian Bank AD  
Universal Pension Fund Toplina  
VEZ Svoghe  
Voluntary Pension Fund Toplina  
ZD Euroins AD  
ZD Euroins Life EAD

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