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Deloitte Audit OOD
Transparency Report
Bulgaria
2015



Deloitte Audit OOD Transparency Report for the year ending 31 December 2015

Introduction

As an audit company that carries out statutory audits of the annual accounts of public - interest entities, Deloitte Audit OOD (hereinafter: “The Company” and/or “Deloitte Audit”) is publishing this annual transparency report in compliance with Article 40I of the Independent Financial Audit Act (IFAA).

All information provided in this report relates to the situation of the Company as of 31 December 2015, except if indicated otherwise.

1. Legal, governance and ownership structure

Legal and governance 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 main 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.

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:

The Company 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. The Deloitte network

About Deloitte

“Deloitte” is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management, tax and legal services to selected clients. These firms are members of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”). Each DTTL member firm provides services in particular geographic areas and is subject to the laws and professional regulations of the particular country or countries in which it operates. Each DTTL member firm is structured in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in its territory through subsidiaries, affiliates, and other related entities. Not every DTTL member firm provides all services, and certain services may not be available to attest clients under the rules and regulations of public accounting. DTTL and each DTTL member firm are legally separate and independent entities, which cannot obligate each other. DTTL and each DTTL member firm are liable only for their own acts and omissions, and not those of each other. DTTL (also referred to as “Deloitte Global”) does not provide services to clients.

See www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member Firms.

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. Services are provided by the subsidiaries and affiliates of Deloitte Central Europe Holdings Limited, which are separate and independent legal entities.

Deloitte in Bulgaria

In Bulgaria, the services are provided by Deloitte Bulgaria EOOD, Deloitte Audit OOD, Deloitte Tax EOOD and Deloitte Legal Law Firm (jointly referred to as “Deloitte Bulgaria”). Deloitte Bulgaria is part of or shares the professional values of Deloitte Central Europe Holdings Limited.

Deloitte 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 237 national and specialized expatriate professionals.

3. Description of the management structure of the Company

The Company 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. Internal quality control system

The Company 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 internal quality control within Deloitte Audit, 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 practice review.

Engagement quality control review

An engagement quality control review is performed for all audit and related assurance services, with limited exceptions. The review is performed by a partner or a manager who is not directly involved in the engagement and who has the appropriate experience and knowledge about applicable accounting and auditing standards and regulations. Appropriate experience and knowledge include experience and knowledge of the entity's industry, economic environment, and accounting principles. For all public interest entities and all high-risk engagements, the review is performed by a partner with sufficient and appropriate experience and professional qualifications to act as an engagement partner on these types of audits.

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.

Special Reviews

For engagements that have been identified as having a higher 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.

Practice review

Company is subject to a quality assurance review, commonly referred to as a “practice review”, at intervals not to exceed three years.

Normally, the performance of every audit partner is assessed during the three-year cycle, and at least one engagement for each partner is selected to achieve this goal. Consideration is also given to assessing the performance of managers, particularly those managers who are partner candidates in a short term.

The Company is responsible for the practice review. DTTL and DCE provide guidance and oversight regarding the practice review plans and procedures. The general coordination and administration of the practice review program is the responsibility of the practice review director.

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 practice review director in overseeing and challenging 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 Company or practice office are considered.

Scope of Practice Reviews

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 Company's policies and procedures contained in the policy manuals,
- Monitor compliance with applicable local laws;
- Assess the overall quality of service provided to clients.

The overall risk management and quality control policies and procedures of practice offices within the Company 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 Company's experts
- Consultation with outside experts
- Engagement quality control reviews

Results of Practice Reviews

The findings and recommendations resulting from the practice reviews are included in a practice review report and management letter and presented to the Company's and DCE leadership. The purpose of the management letter is to provide suggestions for improvement in response to findings noted and to drive audit quality within the Company overall. The Company addresses findings 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.

In addition, the Company communicates deficiencies noted as a result of the practice review (if any) and recommendations for appropriate remedial action to the relevant partner and other appropriate personnel. The Company also 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.

Management Statement

The management of the Company is satisfied that the internal control system as described above is effective in providing reasonable assurance that the Company 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.

The last quality control inspection by the Bulgarian Commission for Public Oversight of Statutory Auditors was performed in the period November 2014 – January 2015 and the final report of the inspection was issued on February 16, 2015. In 2015 CPOSA also performed two thematic inspections covering the quality of performance of certain audits of public-interest entities. These inspections were finalized with reports dated June 17, 2015 and August 13, 2015.

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 Company's independence practices which also confirms that an internal review of independence compliance has been conducted during the last financial year

DCE maintains written independence policies and procedures, which include the performing of certain independence compliance checks on an annual basis and which are applicable to the Company as a part of DCE:

- Each professional should sign an individual independence confirm each year. In addition, similar independence confirmations are obtained from new employees and employees leaving the Company.
- All managerial personnel and above should 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 should complete an e-learning on independence 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.

An internal confirmation of independence compliance by employees of the Company was performed as of 31 May 2015 and an internal Independence compliance Testing and Inspection for selected employees was finalized by 30 November 2015.

8. Statement on the policy followed by the Company concerning the continuing education of registered statutory auditors carrying out audits in the name and on behalf of the audit Company

All registered auditors in the Company 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. The Company complies with these legal requirements.

Continuing education

Continuing education is a key policy of the Company, as this is an important means of developing knowledge and maintaining and improving the quality of our services. A learning intranet provides a starting point, including technical training, 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, most 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 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 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 Company.

9. Financial information

Independent Financial Audit Services	BGN	8,257 thousands
Other Audit related Services	BGN	1,276 thousands
Enterprise Risk Services	BGN	587 thousands
Advisory services	BGN	130 thousands
Other services	BGN	67 thousands
Other incomes	BGN	127 thousands
Total income 2015	BGN	10,444 thousands

10. Partner remuneration

Partners are evaluated on a yearly basis and depending on the outcome of the evaluation, the remuneration of partners may increase or decrease. Partner evaluation takes into account the following factors: quality, expertise, integrity, professionalism, entrepreneurship, independence and compliance.

11. Licensing requirement for statutory compliance

According to the Bulgarian Independent Financial Audit Act registered statutory auditors (individuals) and registered specialized audit entities shall receive an individual number after their registration in the register of registered statutory auditors established and maintained by the Bulgarian Institute of the Certified Public Accountants. Deloitte Audit OOD is included in the list of registered specialized audit entities under No 0033.

Silvia Peneva
Statutory Manager and Registered Auditor

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL” or “Deloitte Global”), its network of member firms, and their related entities (collectively “Deloitte Network”). DTTL and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/bg/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 approximately 225,000 professionals are committed to making an impact that matters.

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Appendix

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

Agroenergy ADSIP
Agroenergy Invest ADSIP
Advance Terrafund ADSIP
ALICO Bulgaria Life Insurance Company EAD
Asenovgrad Tabac AD (in liquidation)
Bulgartabac Holding AD
VGE 1 EOOD
VGE 2 EOOD
VEZ Svoghe AD
GEN-I Sofia - trade and sales of electricity EOOD
Group Trans Energy OOD
Deven AD
UBB Balanced Fund
UBB Global Pharm Invest Fund
UBB Euro Money Fund
UBB Patrimonium Land Fund
UBB Platinum Bonds Fund
UBB Premium Equity Fund
Dubovo Energy EOOD
Euroins Insurance Group AD
Euroins Health Insurance ZEAD
Eco Vetro Energy EOOD
EMR Kaolinovo EAD
Energo Pro Varna EOOD
Energo Pro Energy Services EOOD
Energo Pro Mreji AD
Energo Pro Prodajbi AD
ERG Capital - 3 ADSIP
JZD OZK-Insurance AD
ZD Euroins Life EAD
ZD Euroins AD
ZD OZOK Ins AD
Kadijtsa EOOD
Credissimo AD
Mobiltel EAD
Monbat AD
Neochim AD

Nick Energy EOOD
UBB - ALICO Life Insurance Company AD
United Bulgarian Bank AD
PVB Power Bulgaria AD
Runo Kazanlak EAD
Solar Plana EOOD
Solar Park Hadjidimovo 2 EOOD
Societe Generale Expressbank AD
Teximbank AD
Tokuda Bank AD
Wind Energy OOD
Wind Power 2 OOD
Wind Systems OOD
Wind Stream OOD
UniCredit Bulbank AD
FEEI ADSIP
Chaos Invest AD
Haskovo Tabac AD (in liquidation)
Hydroenergetica Rodopi EOOD
Hydroenergy Construction EOOD
Central Cooperative Bank AD
Shabla Energy EOOD
Shumen Tabac AD (in liquidation)