



## Deloitte & Touche, Lebanon Transparency Report 2012

Deloitte & Touche, Lebanon is pleased to set out below its 2012 Transparency Report. This transparency report is in respect of the financial year ended 31 May, 2012, except if indicated otherwise.

### Legal structure and Network description

Deloitte & Touche (M.E.) conducts its business in the Middle East through a network of 26 offices in 15 countries, including Lebanon. Deloitte & Touche (M.E.) is constituted as a partnership registered in Cyprus and is wholly owned by its general partners.

Deloitte & Touche (M.E.) includes the operations of Deloitte & Touche, Lebanon which, in accordance with local regulations, provides professional services through a Lebanese owned civil partnership, Deloitte & Touche, Lebanon (the "Firm"). The Firm has three registered partners who, by law, must be of Lebanese origin and licensed by the Lebanese Association of Certified Public Accountants. The Firm is duly registered both with the Lebanese Association of Certified Public Accountants under registration # 5 and in the civil companies register under registration # 122. The head office of the Firm is situated at Arabia House, Phoenicia Street, Beirut, Lebanon. Deloitte & Touche (M.E.) is the Middle East member firm of the Deloitte Network. As of the date of this report, Deloitte & Touche (M.E.) is the Middle East member firm of the Deloitte Network. The "**Deloitte Network**" is an association of firms that are members of Deloitte Touche Tohmatsu Limited, an English company limited by guarantee ("**DTTL**").

DTTL does not provide professional services to clients, or direct, manage, control or own any interest in any member firm or any member firm's affiliated entities. Member firms in the Deloitte Network provide services to clients, either directly or through their affiliates (member firms and their affiliates are collectively referred to herein as "**Member Firms**"). Member Firms operate under the Deloitte brand and related names, including "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," and "Tohmatsu."

Member Firms provide professional services in particular geographic areas and are subject to the laws, regulations and professional requirements of the jurisdictions in which they operate. Each Member Firm is structured differently in accordance with, among others, national laws, regulations and customary practices.

Member Firms are not subsidiaries or branch offices of DTTL and do not act as agents for DTTL or other member firms. Rather, they are locally-formed entities with their own ownership structure independent of DTTL that have voluntarily become members of the Deloitte Network with a primary purpose to coordinate their approach to client service, professional standards, shared values, methodologies, and systems of quality control and risk management. DTTL has adopted certain policies and protocols in each of these areas in an effort to establish a consistently high level of quality, professional conduct and service in all member firms. This structure confers

significant strengths, combining high quality standards and methodologies with a deep understanding of local markets and a sense of responsibility and initiative among professionals who have a direct stake in the integrity and growth of their respective practices.

## **Governance structure**

The governing body of Deloitte & Touche (M.E.) consists of senior partners who are elected to the Board of Directors, one of whom serves as the CEO of Deloitte & Touche (M.E.). These appointments are voted by the general partners for renewable terms each of three years subject to a maximum of three consecutive terms. The Board of Directors is responsible for drawing up plans for the execution of partnership policy and for the follow up of its implementation. Such policy covers areas including professional and administrative matters, operating and capital budgets and the monitoring and determination of partners' roles, responsibilities, performance, quality and financial matters.

The Board of Directors of Deloitte & Touche (M.E.) has also established various committees staffed by senior partners to oversee Board remuneration and partner nomination processes and to ensure adherence to corporate governance and risk management requirements. The Board remuneration committee is elected for a three year term, reviews the performance of Board members and makes recommendations to the Board on profit sharing. The partner nomination committee is also elected for a three year term and produces a list of candidates for election to the partnership to achieve the appropriate representation and diversity.

Significant leadership roles within Deloitte & Touche (M.E.) are held by senior partners who are appointed by the Board of Directors and their responsibility areas include Ethical practices, the maintenance of appropriate Independence standards, monitoring of Reputation & Risk and Quality Control of work performed for clients. There is no fixed term for such leadership roles. These roles address the activity in each of the 26 offices of the Deloitte & Touche (M.E.) network, including the operations in Deloitte & Touche, Lebanon. The individuals appointed to these network-wide roles are supported by a team of individuals at certain of the local practice offices in each country where Deloitte & Touche (M.E.) operates. This Transparency Report describes those roles as well as other policies and procedures that are applicable throughout the 26 offices of Deloitte & Touche (M.E.), including Deloitte & Touche, Lebanon.

## **Ethics, Independence and Quality Control**

Deloitte & Touche, Lebanon provides audit and related assurance services through its engagements with clients. When taken as a whole, this Overview provides a summary of the quality control procedures related to those engagements, and is organized into the following sections:

- Leadership responsibilities for the system of quality control
- Ethical requirements
- Human resources
- Client and engagement acceptance and continuance
- Engagement performance
- Monitoring

## **LEADERSHIP RESPONSIBILITIES FOR THE SYSTEM OF QUALITY CONTROL**

Policies and procedures are maintained to promote an internal culture based on the recognition that quality is essential in planning and performing engagements. While the Board of Directors of Deloitte & Touche (M.E.) assumes ultimate responsibility for the system of quality control, the senior partners assigned with operational responsibilities for the quality control system have sufficient and appropriate experience and ability as well as the necessary authority to assume that operational responsibility.

## **ETHICAL REQUIREMENTS**

### **Ethics**

The Firm maintains policies and procedures that are designed to provide reasonable assurance that it and its partners, professional staff, and administrative staff comply with relevant ethical requirements.

The ethical requirements for audit and related assurance services provided by the Firm include Parts A and B of the Code of Ethics for Professional Accountants (“Code”) issued by the International Ethics Standards Board for Accountants (“IESBA”), a standard-setting body of the International Federation of Accountants (“IFAC”) and, in Lebanon, the Ethics requirements of the Lebanese Association of Certified Public Accountants. When national requirements are more restrictive than the Code, the Firm follows the applicable national requirements.

Deloitte & Touche (M.E.) has appointed a Chief Ethics Officer, who is an experienced partner, other than the Chief Executive Officer or Managing Partner (collectively referred to as “CEO”) of Deloitte & Touche (M.E.), who has direct access to the CEO and the Board of Directors. In addition, a code of conduct has been developed and implemented that describes, in some detail, critical professional behavior that reflects local customs, regulations, and legal requirements. The Firm reinforces its commitment to ethics and integrity through communication tools, learning programs, compliance processes, and measurement systems.

### **Independence**

The Firm has policies and procedures that are designed to provide reasonable assurance that it complies with applicable independence standards. These policies and procedures are based on the Code, and are enhanced, as appropriate, to reflect local standards or DTTL network policies that may be more restrictive.

The Firm’s systems and controls related to independence are categorized into the following areas:

- Independence policies and procedures
- Compliance systems, including the Deloitte Entity Search and Compliance system, the Global Independence Monitoring System and Confirmations
- Independence learning
- Monitoring of independence systems and controls relating to personal independence, and engagement and practice reviews
- Disciplinary measures and actions
- Assignment of responsibility for independence systems and controls
- “Tone-at-the-top” culture relating to independence

## **1: Independence Policies and Procedures**

The Firm's independence policies and procedures cover the Firm, and the Firm's partners, professional staff, administrative staff, and relatives thereof, where applicable. These policies and procedures are, in some instances, more restrictive than the independence standards in the Code and contain specific independence requirements that are applicable when the Firm is to maintain independence with respect to a client ("restricted entity") and the client's affiliates.

Partners and professional staff determine, among other things, whether an entity is a restricted entity before they, their spouse, spousal equivalent, and dependents engage in certain transactions with the entity. Partners and managerial personnel enter their financial interests and accounts into a tracking system (the "Global Independence Monitoring System" or "GIMS"). GIMS enables an electronic review of financial interests and accounts to help identify if independence restrictions may affect an individual's ability to hold such items. The Firm annually obtains confirmations from its partners, professional staff, and administrative staff that such individuals are in personal compliance with independence policies.

The Firm's independence policies and procedures are made available electronically to the Firm's partners, professional staff, and administrative staff. Updates to these policies and procedures are also made and communicated electronically to the Firm's partners, professional staff, and administrative staff. Moreover, other independence-related materials are available on an independence website. Reminders on policy and other matters are published weekly as part of routine communications including notices of changes to internationally restricted entities.

Procedures are in place at the engagement level to have the audit engagement partner considers independence matters during the course of the audit engagement and to address the completeness of communications with the audit committee or those charged with governance, where required.

## **2: Deloitte Entity Search and Compliance System ("DESC") system, the Global Independence Monitoring System ("GIMS"), and Annual Confirmations**

There are three related aspects of the Firm's systems and controls related to the Firm's independence and the personal independence of its professionals: DESC, GIMS, and the Confirmation process. These three aspects support each other in that (1) partners and professional staff search DESC, (which includes a database of publicly-held restricted entities) and/or GIMS (which has a database of financial interests and accounts), to identify if an entity or its financial interests or accounts are restricted before acquisition; (2) partners and managerial personnel record their financial interests and accounts in their portfolios in GIMS; and (3) the Firm periodically confirms to DTTL its compliance and the compliance of its partners, professional staff, and administrative staff with the Firm's independence policies.

### Deloitte Entity Search and Compliance (DESC) system

Each DTTL member firm reports the names of its clients and their affiliates that meet the definition of an international restricted entity. The definition of an international restricted entity includes public audit clients, as well as other entities that are of public interest. Such restricted entity information is recorded in the DESC system. DESC is operated by DTTL on behalf of the DTTL member firms, and the entity

information provided by the DTTL member firms is routinely monitored and updated to help ensure its accuracy and completeness, including periodic validation processes performed by engagement teams or a DTTL member firm. Updates to DESC's entity information are made daily based upon these processes. The Firm's partners and staff access DESC on-line. Changes made to entity information in DESC are circulated each week to the DTTL member firms.

DESC also has features that are used to request and document approvals related to providing services to an internationally restricted entity. In many jurisdictions, a restricted entity's audit committee must pre-approve services that will be delivered within the restricted-entity group. In other jurisdictions, similar third-party approvals are needed which may not involve the audit committee. Where such features are enabled for the restricted entity and its corporate group, DESC's features establish a standard business process among the DTTL member firms whereby service requests are submitted to the lead client service partner, who is responsible for obtaining and documenting such appropriate third-party authorizations prior to approving the service request, and prior to providing the service.

#### Global Independence Monitoring System (GIMS) for financial interests and accounts

As a part of the same business processes used for DESC, each DTTL member firm identifies and reports the publicly-available securities and certain types of accounts that are associated with an international restricted entity. Such securities and accounts are recorded in GIMS. GIMS is operated by DTTL on behalf of the DTTL member firms, and each DTTL member firm administers the related monitoring processes related to its partners and professional staff. Partners and professional staff search DESC for an entity, and/or GIMS for a security or account, before acquiring a financial interest or account to determine if restrictions apply that affect them. This includes investments for or on behalf of a spouse, spousal equivalent, and dependent. Partners and managerial personnel enter defined types of such financial interests and accounts into their individual portfolios in GIMS for monitoring purposes.

GIMS assists partners and managerial personnel by identifying situations which may be in variance with policy so that the item may either be reviewed or corrected. When such a situation is detected, the system advises the individual that an independence-impairing situation may exist, and poses questions which aid the individual to determine whether the item is permitted or not. This includes generating notices to the individual in situations where a once-permissible holding becomes restricted, so that appropriate and timely actions can be taken. The Firm monitors and follows-up on such notices until the individual resolves the item.

#### Confirmations

The Firm annually obtains confirmations from its partners, professional staff, and administrative staff. Annually, the Firm reports to DTTL that the Firm has taken appropriate steps to obtain sufficient evidence that it and its partners, professional staff and administrative staff comply with applicable independence requirements (including that the Firm itself is independent of restricted entities).

### Consultation Network

The Firm communicates with its partners and employees regarding the consultation policies for independence matters and identifies the individuals who are to be contacted. Additionally, the Firm consults with DTTL's independence group and other member firms when the Firm determines that additional input or advice is needed under the circumstances.

### **3: Independence Learning**

The Firm provides independence learning to its partners and professional staff. This learning material comprises of mandatory e-learning modules and which are made available by DTTL.

### **4: Monitoring of Independence Systems and Controls Relating to Personal Independence, Engagement and Practice Reviews**

#### Inspection of Personal Independence

On a periodic basis, the Firm inspects for compliance with the Firm's independence policies and procedures. The objective of the inspection and testing program is to determine whether the representations and information submitted by partners and managers relating to independence matters and the information contained in GIMS is accurate and complete.

#### Inspection of Firm's Compliance

The Firm is subject to a practice review at intervals not to exceed three years. Compliance with independence policies at both a firm level and at a client level is reviewed.

#### Statement on Internal Review of Independence Compliance

Based on the results of its internal practice review, the Firm is able to confirm that an internal review of independence policies and procedures has been properly conducted.

See further details of engagement and practice reviews in the Monitoring section below.

### **5: Disciplinary Measures and Actions**

The Firm has disciplinary procedures in place to address non-compliance with the Firm's independence policies and procedures. These disciplinary procedures are designed to provide an appropriate response to breaches of such policies and procedures by partners, professional staff and administrative staff.

### **6: Assignment of Responsibility for Independence Systems and Controls**

Deloitte & Touche (M.E.) has assigned a Director of Independence who has the responsibility to implement and maintain quality controls over independence at all of its offices, including Deloitte & Touche, Lebanon. More specifically, the Director of Independence is responsible for taking the lead on all significant independence issues within the Firm, including the implementation and maintenance of the Firm's business processes related to: (1) independence consultation, (2) independence learning programs, (3) restricted-entity information in DESC, (4) use and monitoring of the features of DESC, (5) use and monitoring of GIMS, (6) annual confirmations, (7) testing and inspection programs, and (8) disciplinary processes. Communication channels exist between the Deloitte &

Touche (M.E.) Director of Independence, Firm and Deloitte & Touche (M.E.) management and DTTL's independence group.

DTTL has assigned a senior leader and independence team that provide access to timely and accurate information designed to facilitate the independence function at the Firm level.

## **7: "Tone-at-the-Top" Culture Relating to Independence**

Firm leadership reinforces the importance of compliance with independence and related quality control standards, thereby setting the appropriate "tone-at-the-top" and instilling its importance into the professional values and culture of the Firm. Strategies and procedures to communicate the importance of independence to partners, professional staff, and administrative staff have been adopted, emphasizing each individual's responsibility to understand the independence requirements.

## **HUMAN RESOURCES**

### **Hiring**

The Firm has established policies and procedures designed to provide reasonable assurance that partners and professional staff have the competencies, capabilities and commitment to ethical principles necessary to:

- Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
- Enable the Firm to issue reports that are appropriate in the circumstances.

The Firm has well established recruitment programs in place for both graduates and experienced hires. Optimal HR solutions are used to identify top candidates at all levels including from the global Recruitment Management System (RMS), university relations, referral programs, job boards, social networking, agency relations, and more. Both graduate candidates and experienced hire candidates go through competency based interviewing and testing batteries as to find candidates that are the most appropriate fit for the Firm.

For graduates, the DITT program (Deloitte Invites Top Talent) is an invitation only program targeting top students from key universities in Lebanon and across the region. Aside from selecting the top talent with a minimum grade point average, DITT targets bi-lingual candidates with a gender balanced approach in the selection process and the Firm is introduced as both a Y and gender friendly environment. The program also serves as a nationalization program directed at nationals for other offices across the region.

### **Advancement**

The Firm's policies and procedures for advancement have been established to provide reasonable assurance that professional staff selected for advancement have the qualifications necessary to fulfill the responsibilities they will be called on to assume. A few of the policies and procedures are identified below.

- Various professional staff levels within the Firm and descriptions of the related competencies required to perform effectively at each level have been established.
- Advancement policies and procedures that identify the experience and performance qualifications for advancement to each level have been established and communicated to the Firm's professional staff.

- Procedures for periodic performance evaluation have been established.
- A counseling program to assist professional staff in identifying realistic career paths and developing action plans to help realize professional goals has been established.

### **Professional Development**

The purpose of the Firm's professional development program is to help partners and professional staff maintain and enhance their professional competence. To supplement on-the-job development, the Firm provides formal continuing professional development programs in relevant subject areas.

The Firm has developed a competency model, Global Excellence Model ("gEm"), specific to each function used to express the areas of personal capability for partners and professional staff. gEm has three main components: technical competencies which are functionally specific; shared competencies which are common across the functions; and competencies for specialization. The gEm model is a combination of knowledge, skills, and attitudes that are necessary to perform the various roles within the Firm. As such, this competency model forms the basis for structuring the continuing professional development program.

All partners and professional staff are encouraged to take personal responsibility to ensure that their own continuing professional development and education is appropriate to their roles, responsibilities, and professional requirements. However, the Firm establishes minimum levels of continuing professional development to be undertaken by partners and professional staff within a specific period of time. These levels include a minimum of 20 hours of structured learning per year and 120 hours of structured learning in every three-year period (i.e., an average of 40 hours per year). To achieve these levels of development, the Firm offers structured, formal learning programs such as internal or external courses, seminars, or e-learning covering all areas of the competency model (i.e., shared competencies, functionally-specific technical competencies, and competencies in areas of specialization).

### **CLIENT AND ENGAGEMENT ACCEPTANCE AND CONTINUANCE**

The Firm has rigorous policies and procedures in place for accepting prospective engagements and assessing engagement risk, regardless of the proposed services to be rendered.

Engagement risk classification associated with accepting appointment to serve a client is assessed as either "normal," "greater than normal" or "much greater than normal" and is completed prior to the commencement of work. The engagement risk assessment process includes approval by the recommending partner and concurrence by at least one other Firm partner that we may accept the client and the engagement. In addition, the decision to accept appointment is approved by the Deloitte & Touche (M.E.) Audit Risk Leader if engagement risk is assessed as "greater than normal" or "much greater than normal."

On international engagements, engagement acceptance and continuance procedures are performed at the member firm level. The Firm does not assume the acceptability of a client and/or the engagement merely because it has been referred from another member firm.

In assessing acceptability of an engagement, we consider client and professional service risks, which generally include the following factors:

- Management characteristics and integrity
- Organization and management structure
- Nature of the business
- Business environment
- Financial results
- Business relationships and related parties
- Prior knowledge and experience
- Professional competence and availability of Firm personnel.

The Firm's engagement risk assessment procedures identify related risks and provide a basis for tailoring the audit approach in order to address engagement-specific risks.

The engagement risk assessment begins during the engagement acceptance/continuation process, and is an ongoing process that continues throughout the engagement. Risk assessment tools and programs are encompassed in the audit approach and common documentation to facilitate the comprehensive risk assessment for planning the audit once the engagement is accepted.

- On an annual basis, engagements in process for more than one year are evaluated to determine if the Firm should continue the engagement. Factors discussed above are revisited to ascertain whether the relationship should continue.

In addition, any time an entity undergoes a significant change (e.g., change in ownership or management, financial condition, or nature of entity's business), continuation of the relationship is reevaluated. Decisions of engagement continuance are concurred by one other partner.

## **ENGAGEMENT PERFORMANCE**

### **Assignment of Partners and Professional Staff to Audit Engagements**

The Firm assigns responsibility for each audit engagement to an audit engagement partner. The Firm's policies define the responsibilities of the audit engagement partner and those responsibilities are communicated to that partner. As well, the identity and role of that audit engagement partner is communicated to key individuals of the client's management team and those charged with governance at the client.

The Firm also has policies and procedures in place so that partners and professional staff assigned to all audit engagements have the appropriate degree of proficiency for their role and the responsibilities to be performed.

An engagement team ordinarily includes one or more of each of the following: audit engagement partner, audit principal / manager, field senior, and staff. However, the engagement team will be developed based on the size, nature, and complexity of the entity's operations. Every audit engagement team is under the control and supervision of the audit engagement partner to whom responsibility for the conduct of all audit services on the engagement is assigned. The audit principal / manager assigned to the engagement are responsible for providing primary supervision and direction to the professional staff in the execution of the audit plan and in the performance of the audit engagement. The field senior is responsible for the day-to-day supervision of the other members of the engagement team.

The audit engagement partner considers many factors to determine that the engagement team collectively has the appropriate capabilities, competencies, and time to perform the audit engagement. Factors considered in this determination include, among others:

- The size and complexity of the entity's business
- The applicable financial reporting framework used in preparing the financial statements
- Applicable independence considerations, including any possible conflicts of interest
- The qualifications and experience of professional staff

## **Audit Approach**

The Firm utilizes a proprietary tool known as AuditSystem/2 which includes the audit approach, common documentation, and enabling software technology. The audit approach includes requirements and guidance to assist in the planning and performance of audit engagements and is based on the International Standards on Auditing issued by the International Auditing and Assurance Standards Board of IFAC. The Firm has further supplemented these requirements and guidance to reflect local requirements as applicable. The common documentation and the enabling software technology are tools that enhance the consistent implementation of the audit approach and promote effectiveness and efficiency.

The audit approach is comprised of following elements:

### Understanding of the entity and its environment

An understanding of the entity and its environment, including its internal controls, to assess the risks of material misstatement at the financial statement and assertion level is vital to performing an effective audit. The Firm's audit teams develop this understanding and assess financial statement risks in a number of ways, including analyzing financial information to identify trends and unusual balances; holding in-depth discussions with management and those charged with governance; considering the inherent nature of each financial statement component and the risks associated with that component; evaluating the reliability of internal controls; assessing the extent to which technology is used in the financial reporting process; and reviewing internal audit findings.

### Testing the operating effectiveness of controls

The audit engagement team obtains an understanding of the entity's internal controls in each audit engagement. For certain engagements, when required by local auditing standards or when included as a component of the financial statement audit procedures, engagement teams may also test the operating effectiveness of the entity's internal controls in preventing or detecting and correcting material misstatements.

### Audit procedures

Engagement teams tailor the audit plan to address the risks associated with the entity, the audit engagement, and the financial statements as a whole. As necessary, based on the complexity of the entity's information systems and the extent to which technology plays a role in financial reporting, information technology specialists may be involved in the audit engagement.

Throughout the audit, engagement teams continually assess risk and how audit findings bear on the audit procedures. AuditSystem/2's framework allows our partners and professional staff to modify the audit procedures to address issues that arise in the course of the audit.

#### Continuous improvement in performance

To improve the audit and monitor progress toward meeting the objectives established in the initial stage of the audit, engagement teams use both formal and informal means to seek feedback from those charged with governance and from management. They also assess their own performance. This process enables them to identify issues that must be addressed and areas where improvement can be achieved.

#### Use of Experts

While the engagement partner retains responsibility for all aspects of the engagement, there are instances when the engagement team utilizes an expert. In such instances, an engagement team evaluates whether the expert has the necessary competence, capabilities and objectivity.

In evaluating whether or not the expert's work constitutes appropriate audit evidence in support of the financial information, the engagement team considers:

- The source data used;
- The assumptions and methods used and, if appropriate, their consistency with those used in the prior period; and
- The results of the expert's work in light of the engagement team's overall knowledge of the business and of the results of its audit procedures.

#### Engagement Documentation

The Firm maintains policies and procedures to support the assembly and archiving of audit files whereby the audit engagement team submits the audit files for archiving within the shorter of: (1) 60 days from the date of the report; or (2) the period set out in applicable professional standards and regulatory and legal requirements. The Firm's policies and procedures address the retention of documents (in paper and electronic form), including those that address the confidentiality, safe custody, integrity, accessibility and retrievability of archived documentation.

### **Engagement Team Reviews**

A review of the audit documentation is required to be performed by a member of the engagement team who has more experience than the preparer. In some cases, elements of audit documentation may be reviewed by several team members.

### **Engagement Quality Control Reviews**

Prior to their issuance, an engagement quality control review is performed for all audit and related assurance services, with limited exceptions. The review is performed by a partner, principal 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 includes 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.

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 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.

### **Consultation Network & Differences of Opinions**

Deloitte & Touche (M.E.) has established a consultation network to assist in resolving issues identified by the engagement team. Consultations include technical accounting and auditing questions regarding the application and interpretation of applicable standards and reporting issues or on any other matter pertaining to an audit engagement that requires specialized knowledge.

To facilitate the technical consultation process, Deloitte & Touche (M.E.) has a regional accounting and auditing consultation structure. Practitioners submit topics on which they require consultation to the Audit and Accounting Technical Committee which consists of industry partners across the region with specialized skills and experience. In addition, a National Professional Practice Director with specialized technical skills and experience is supported by experts in areas such as regulatory filing requirements; technical auditing requirements; and complex accounting matters like off-balance-sheet transactions, derivatives, and consolidations.

There are also policies and procedures for the resolution of differences of opinion among partners and others who are assigned to the engagement team, including those who are in a consultative capacity.

## **MONITORING**

### **Quality Assurance Review**

The Firm's quality assurance review, or "practice review" as it is commonly referred to, covers the Firm's 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 principals and managers, particularly those who are partner candidates in the short term. The practice review program is performed on an annual basis and can include review of a number of offices within Deloitte & Touche (M.E.). The quality self-review includes a review of the system of quality control as well as a review of individual engagements.

The Firm is responsible for the practice review. DTTL provides 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 Firm's practice review director, in conjunction with the practice review director within Deloitte & Touche (M.E.) where applicable.

The practice review plan, process, and results are reviewed and approved by a partner from another member firm (the "external partner") every year. The external partner who is assigned this responsibility works closely with the Firm's practice review director and, where applicable, the practice review director within Deloitte & Touche (M.E.) in overseeing the planning and performance of the review.

#### Types of Engagements Reviewed

The engagement 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 are considered.

#### Scope of Practice Reviews

Reviewers are chosen from regional or international pools and from other practice offices within Deloitte & Touche (M.E.). 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 principal 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 of practice offices 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

#### Results of Practice Reviews

The findings and recommendations resulting from the practice reviews are presented in a practice review report and management letter to the Firm's managing partner and to Deloitte & Touche (M.E.) management. 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. Deloitte & Touche (M.E.), on at least 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.

#### **Complaints and Allegations**

The Firm's policies and procedures are designed to provide it with reasonable assurance that it deals appropriately with complaints and allegations that the work performed by the Firm failed to comply with professional standards, and regulatory and legal requirements, and allegations of noncompliance with the Firm's system of quality control. All complaints and allegations are dealt with confidentially, taken seriously and directly handled by our partners responsible for Ethics, Human Resources, Independence, Reputation and Risk or Audit Quality as appropriate.

#### **Statement on the Effectiveness of the Functioning of the Internal Quality Control System**

The Firm is satisfied that its internal quality control system operates effectively and allows for prompt identification of any areas for potential improvement or refinement.

#### **Public interest entities for which the Firm has carried out statutory audits during the preceding financial year**

Deloitte & Touche Lebanon has one applicable client for the purpose of this report. The Firm conducts the statutory audit of this client jointly with another auditor. The applicable client is the ***Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L.***

#### **Financial information**

Deloitte & Touche, Lebanon is a privately held partnership providing public accounting and auditing services. Its fees earned in fiscal year ended 31 May, 2012 from the provision of statutory audit services constituted approximately 90 % of its total revenues, with consulting services constituting approximately 10 % and tax advisory and other non-audit services constituting the remainder.

#### **Partner Remuneration**

Deloitte & Touche (M.E.) operates a hybrid remuneration model which reflects in part the number of years of service of each partner but, through a performance component, also comprehensively evaluates each partner's contribution towards the achievement of strategic goals of Deloitte & Touche (M.E.).

The performance component of each partner's remuneration reflects his or her level of contribution both at the practicing office level and at the partner performance level. It also reflects the quality and risk management qualities and capabilities of each partner and an independent assessment by the Board of Directors of Deloitte & Touche (M.E.).

Performance metrics at both the office and partner level reflect top and bottom line growth and the effective management of receivables and work in progress.

Performance metrics for risk management and the Board assessment are weighted to reflect a variety of activities undertaken by the partner, including professional training and support, implementation of HR standards, quality practices and risk management.

Partner performance remuneration is determined and approved by the Board of Directors of Deloitte & Touche (M.E.).

Board performance remuneration is determined by the Board remuneration committee, which consists of three senior partners elected from the partner group.

All general partners are equity partners and share in the profits of Deloitte & Touche (M.E.). The rate of capital contribution is determined from time to time based on financing requirements. On ceasing to be a partner, partnership interests are repaid in installments over the ensuing five year period.



**Deloitte & Touche (M.E.)**

**Beirut, Lebanon**

**January 21, 2013**

**About Deloitte:**

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

**About Deloitte & Touche (M.E.):**

Deloitte & Touche (M.E.) is a member firm of Deloitte Touche Tohmatsu Limited (DTTL) and is the first Arab professional services firm established in the Middle East region with uninterrupted presence for over 85 years. Deloitte is among the region's leading professional services firms, providing audit, tax, consulting, and financial advisory services through 26 offices in 15 countries with over 2,500 partners, directors and staff. It is a Tier 1 Tax advisor in the GCC region (International Tax Review World Tax 2010, 2011 and 2012 Rankings) and was recognized as the 2010 Best Consulting Firm of the Year in the Complinet GCC Compliance Awards. In 2011, the firm received the Middle East Training & Development Excellence Award by the Institute of Chartered Accountants in England and Wales (ICAEW).