



**Hazem Hassan**  
Public Accountants & Consultants

Global consistency

Local delivery

**2017 Transparency Report**

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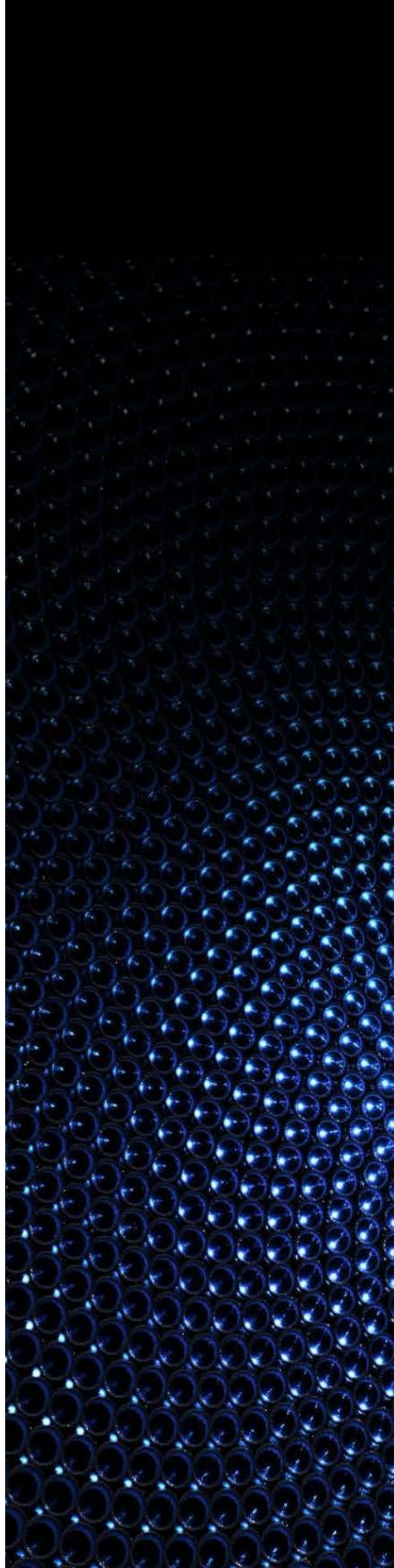
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# 1

# Message from our Chairman

I am eager to present current year Transparency Report in which we take the opportunity to share with you steps taken to execute our audit responsibilities at such a challenging and exciting time for our profession. The quality of information that is available to market must be of the highest quality and the most relevant, perhaps now as never before, in the light of continuing local post-revolutionary course of events. There is no doubt that we continue to operate in difficult times. Social and political change is happening at pace, regulation is getting ever more complex and indications are that economic conditions will remain challenging for the foreseeable future.

Our strategy and vision begins with an unwavering commitment to quality and integrity. This commitment is fundamental to meeting our responsibilities, and building a deep sense of trust with our clients, our people, the capital markets and society as a whole. Hence we vigorously address fundamental reappraisal of what investors, and other stakeholders, actually want in terms of assurance and on what information they want us to report. Auditing is of vital public interest and plays a specific role in reinforcing confidence and trust in the dysfunctional financial market. Investor confidence is volatile at the moment and that makes our job ever more meaningful.

The major investment, is the investment in our people with their hard work and with the support of our clients have enabled us to nourish our business. Being the Egyptian audit-leading firm is not just about size, It's about how an organization behaves, and how this behavior translates into the way our firm is perceived across the market, now and into the future. In other words, it's about our reputation legacy and integrity.

Our ambition to continue as the number one multi-disciplinary firm in Egypt can only be achieved if integrity and trust are at the core of what we do. They are an integral part of how we behave, how we challenge ourselves and our clients and how we make a positive contribution to the economy, the businesses that we work with and the communities that we are part of.

I believe that strong governance is vital to well-functioning capital markets and in a drive to 'practice what we preach' have taken steps to enhance our governance structure, that will set a tone of openness, trust and integrity, encouraging engagement and enhancing quality. Within such a culture I believe that we will be even better placed to challenge in pursuit of quality, improvement, innovation and a long term vision.

This report is firm's commitment to transparency and to making a substantial and meaningful contribution to the evolution of audit quality. If you would like to discuss any aspect of this report or have any questions or feedback, I would very much welcome your comments.



**Hazem Hassan**  
Chairman  
KPMG Egypt

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## Who we are?

### Our business

KPMG Hazem Hassan is a professional services firm that delivers Audit, Tax and Advisory services. We operate out of two offices across Egypt and had an average of 839 personnel in the year to 31 December 2017 (2016: 833 ).

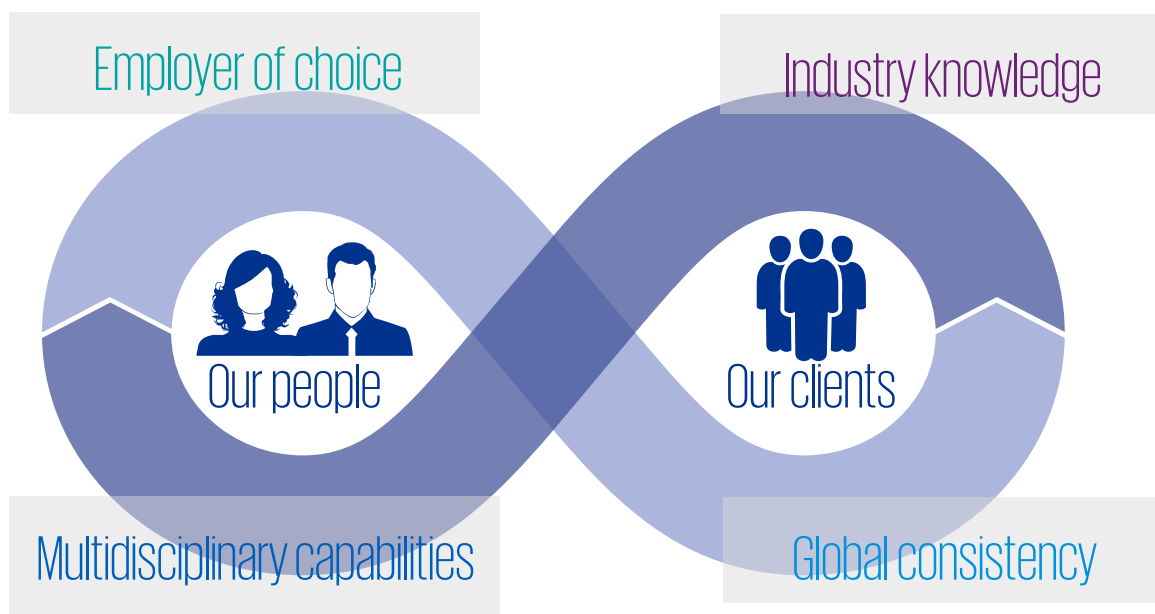
Our audit services in Egypt are delivered through KPMG Hazem Hassan Public accountants and Consultants. Full details of the services offered by KPMG Hazem Hassan can be found on our website:

<https://home.kpmg.com/eg/en/home/about/overview/transparency-report.html>

The KPMG Hazem Hassan management Board has determined that a commitment to quality is one of the most important priorities in our strategy. We recognize that if we do not get the quality of our service and deliverables right then each and every one of the other objectives in our business plan may be jeopardized. Each of the priorities in our strategy is underpinned by an enabling programme– including a dedicated project to monitor how we continually reinforce the importance of quality across our firm.

### Our strategy

Our strategy is set by the KPMG Hazem Hassan management Board and has remained consistent for some time. Our overall ambition remains to be the number one multi-disciplinary professional services firm in Egypt as well as sustaining our reputation as the best firm to work with by ensuring that our people, clients and community achieve their full potential.



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# Our structure and governance

## Legal structure

### *Legal structure and ownership*

KPMG Hazem Hassan Public Accountants & Consultants is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated. Further details about KPMG International and its business activities, including our relationship with it, are available in the Appendix 1 to the KPMG International Transparency Report.

<https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/12/transparency-report-2017.pdf>

KPMG Hazem Hassan is part of a global network of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organizations. KPMG International’s structure is designed to support consistency of service quality and adherence to agreed values wherever its member firms operate.

KPMG Egypt is a limited liability partnership. It is wholly owned by its Partners and is governed by Egyptian law. Our structure is designed to support consistency of service quality and adherence to agreed values that apply with KPMG International.

During the year to 31 December 2017, there were an average of 40 partners in KPMG Hazem Hassan (2016: 34 partners).

A list of key entities, together with details of their legal structure, regulatory status, the nature of their business and area of operation is set out in Appendix A.1

KPMG International's structure is designed to support consistency of service, quality and adherence to agreed values wherever in the world member firms operate.

One of the main purposes of KPMG International is to facilitate the provision by the member firms of high quality Audit, Tax and Advisory services to their clients.

For example, KPMG International establishes and facilitates the implementation and maintenance of, uniform policies and standards of work and conduct by member firms and protects and enhances the use of the KPMG name and brand. KPMG International is an entity which is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.



### **Name, ownership and legal relationships**

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

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

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

# Our structure and governance

## **Responsibilities and obligations of member firms**

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively.

This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work.

Member firms commit to a common set of KPMG Values ( see " Culture and tone at the top " section )

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

## **Governance structure**

KPMG Hazem Hassan applies high standards of corporate governance.

### ***The Council***

The Council consists of all equity partners, It focuses on high-level governance tasks and provides a forum for open discussion. Among other things, the Council approves the Firm's strategy, annual business plan, budget and financial statements and elects the Firm's Managing partner, Heads of functions and the key positions , members of the Executive Committee and the board, and elects 6 additional partners to the management board.

### ***The Board***

The senior Partner is responsible for leading the Board ensuring that the Board members receive accurate, timely and clear information and ensuring effective communication and relationships with the members at large. The senior Partner also meets with the Non-Executive members without the Executive Management Team present at least annually.

The principal governance and oversight body of KPMG Hazem Hassan is the Board which provides leadership to the organization and is responsible for our long term growth and sustainability, setting our strategy for final approval of the Council and overseeing its implementation, monitoring performance against our business plan and protecting and enhancing the KPMG brand.



# Our structure and governance

The Board consists of 11 members chaired by Hazem Hassan, including the senior partner, Head of audit, Head of tax, Head of advisory and a board member elected by the board and additional six partners elected by the Council. The constitution of the Board is as determined by the Council. The Board meets from time to time to undertake certain statutory duties for KPMG Egypt (including approving the annual accounts and the transparency report). The Board met five times in the year to 31 December 2017. Full details of those charged with governance for KPMG Egypt, including their biographies and attendance at meetings are set out in Appendix A.2.

In addition, the Executive Committee is another main body that deals with key aspects of governance within the firm that reports into the Board. Details about the role, responsibilities and composition is set out below.

## **The Executive Committee**

The Executive Committee is responsible for management of the day-to-day activities of the KPMG Hazem Hassan, recommending policies to the Board and developing the business plan within the overall strategy set by the Board, together with its subsequent implementation. It deals with operational matters affecting the firm including monitoring operating and financial performance, budgets, new business proposals, marketing, technology development, recruitment, retention and general remuneration, prioritization and allocation of resources and investment and managing the risk profile of KPMG Hazem Hassan. The Executive Committee members are all KPMG Hazem Hassan Partners and are appointed by the board. As at 1 January 2017, in addition to the Senior Partner, the Executive Committee included Head of functions and a board member elected by the board and the RMP. The Executive Committee aims to meet at least monthly and during the year to 31 December 2017 it met formally 10 times either face-to face or via video link/conference call supplemented by frequent additional telephone calls and ad hoc meetings.

The Executive Committee oversees the reporting of the following committees:

- Audit Steering Committee;
- Tax Steering Committee;
- Advisory Steering Committee;
- Quality, Risk Management & ethics Steering Committee
- The Compensation and Nomination Committee
- Infrastructure departments
- Industries Steering Groups

## **Quality, Risk Management & ethics Steering Committee**

The principal role of the Quality, Risk Management & ethics Steering Committees to provide oversight of quality & risk management matters across the firm. As part of its role it oversees that a culture of quality and integrity is maintained within the firm and, where required, it will act as a sounding board to the Risk Management Partner on the policies and procedures relating to professional risk management, ethics and independence, quality control and compliance. The Committee also considers the impact of the key findings from our compliance quality monitoring programs and the adequacy of proposed remedial actions. Our Ethics Committee provide oversight of policies and procedures in relation to ethical standards and of breaches of their requirements in relation to personal financial independence, general trends in disciplinary, grievance, human resource appeals and whistle-blowing processes to consider what these might imply for members/employees underlying ethical behavior; and other ethical issues facing KPMG Hazem Hassan. During the year ended 31 December 2017, The Quality, Risk Management & ethics Committee consisted of 6 members being Senior Partner, Risk Management Partner, Quality Performance liaison Partner and Functional Risk Management & quality performance Partners.



# Our structure and governance

The Quality , Risk Management & Ethics Committee met 6 times in the year to 31 December 2017.

## **The Compensation and Nomination Committee**

This Committee is responsible for determining the Compensation and Nomination of the Senior partner and making recommendations on policies for partners' Compensation and Nomination. It also sets the pay allocation for the individual partner based on the agreed policy by the board.

As part of its activities, the Executive Committee receives and considers a report from the Head of Quality & Risk management on (i) the approach to ensuring that quality issues are appropriately considered in partner counseling and (ii) whether or not there are any quality concerns about specific partners.

The Compensation and Nomination Committee comprises of HR Partner, Heads of functions and the senior partner. The Compensation and Nomination Committee met 4 times in the year ended 31 December 2017 and has held 1 meeting to discuss 2017 partner pay of which occurred after the year-end . Further information regarding partner Compensation and Nomination is set out in the "Partner Compensation and Nomination" section.



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# System of quality control

## Overview

A robust and consistent system of quality control is an essential requirement in performing high quality services. Our firm implements international policies of quality control that apply to all member firms. Accordingly, KPMG International has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual (Global Q&RM Manual) available to all personnel. These policies and associated procedures are designed to assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances, as well as help member firm personnel act with integrity and objectivity and perform their work with diligence. These policies & procedures are based on the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both of these are relevant to member firms that perform statutory audits and other assurance and related services engagements.

KPMG Hazem Hassan adopts a system of quality controls that are designed to address rules and standards issued by the Egyptian Financial Supervisory Authority (EFSA) and other relevant regulators as well as applicable legal and regulatory requirements of law No.133 of 1951 and its amendments by law 457 of 1954 in addition to those stipulated by companies law 159 of 1981. At engagement level, risk management and quality control are ultimately the responsibility of each and every partner and employee. This responsibility requires them to understand and adhere to our firm's policies and associated procedures in carrying out their day-to-day activities.

Amendments to risk and quality policies , including ethics and independence policies ,are included in quality and risk management alerts and are communicated by email.

KPMG Hazem Hassan is required to implement changes specified in the email alerts and this is checked through internal monitoring.

Quality control and risk management are the responsibility of all KPMG Hazem Hassan personnel. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities. . The system of quality control applies to KPMG personnel wherever they are based.

While many KPMG's quality control processes are cross-functional, and apply equally to tax and advisory work, the remainder of this section focuses on the delivery quality audits.

## Audit Quality framework

At KPMG Hazem Hassan audit quality is not just about reaching the right opinion, but how we reach that opinion is reached. It is about the processes, thought, and integrity behind the auditor's report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with the relevant professional standards and legal and regulatory requirements. To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG international developed the Audit Quality Framework. This Framework uses a common language that is adapted by all KPMG member firms, including KPMG Hazem Hassan to describe what the KPMG network believes drives audit quality, and to highlight how every audit professional at each KPMG member firm contributes to the delivery of audit quality.

# System of quality control

'Tone at the top' sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviors permeate across the entire KPMG network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven key drivers is described in more detail in the following sections of this report.



## Tone at the top

The culture of KPMG international and KPMG member firms is underpinned by a strong set of values and supporting policies and processes and enables the right attitudes and behaviors to permeate throughout the KPMG network.

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

Tone at the top means that KPMG Hazem Hassan leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stockholders, and society at large.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Value: "Above all, we act with Integrity". Integrity means constantly striving to uphold the highest professional standards, providing sound good-quality advice to our clients and rigorously maintaining independence. Our values, which have been explicitly codified for a number of years, are embedded into the working practices and values-based compliance culture at KPMG Hazem Hassan. Our values form the foundation of our culture and set the tone at the top. They also form the foundation of our approach to audit and shape how we work together.

We communicate our Values clearly to our people and embed them into our people processes — induction, performance development and reward. Specific consideration is given to our KPMG Values for senior promotions (including promotion to partner).

# System of quality control

## Code of Conduct

Building on the KPMG Values is the KPMG International Global Code of Conduct. Member firms, including KPMG Hazem Hassan are required to adopt, as a minimum, the Global Code of Conduct.

The KPMG Hazem Hassan Code of Conduct incorporates the KPMG values and defines the standards of ethical conduct that is required from all KPMG people. It sets out our ethical principals and helps partners and employees at KPMG Hazem Hassan to understand and uphold those principals. In Addition, the code of conduct emphasizes that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. The code of conduct provisions that require KPMG personnel to:

- Comply with all applicable laws, regulations and KPMG Hazem Hassan policies.
- Report any illegal acts, whether committed by KPMG Hazem Hassan personnel, clients, or other third parties.
- Report breaches of KPMG policies.
- Uphold the highest levels of client confidentiality.
- Not offer ,promise, make, solicit or accept bribes ( whether directly or through an intermediary).

All KPMG Hazem Hassan personnel are required to:

- confirm their understanding of, and compliance with, the Code of Conduct upon joining the firm, and annually thereafter; and
- complete training on the Code of Conduct upon joining the firm and on a biennial basis thereafter.

Our personnel are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our Values or professional responsibilities and required to do so when they see breaches of KPMG policies, laws and regulations, and professional standards.

We have procedures and established channels of communication so that our personnel can report ethical and quality issues and individuals who report in good faith will not suffer any adverse impact regardless of whether the concern is ultimately substantiated.

In addition, the KPMG International hotline is a mechanism for KPMG partners, employees, clients and other external parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, KPMG member firms or the senior leadership or employees of a KPMG member firm.

At KPMG Hazem Hassan, we regularly monitor the extent to which our people feel we live our Values through the Global People Survey (refer to “Insights from our people – Global People Survey (GPS)” section).

Our Code also incorporates our core values and addresses the commitments that we make as well as the responsibilities of our personnel at all levels across the firm. Our core values are:

# System of quality control

Value	Description
<b>We lead by example.</b>	At all levels we act in a way that exemplifies what we expect of each other and our clients.
<b>We work together.</b>	We bring out the best in each other and create strong and successful working relationships.
<b>We respect the individual.</b>	We respect people for who they are and for their knowledge, skills and experience as individuals and team members.
<b>We seek the facts and provide insight.</b>	By challenging assumptions and pursuing facts, we strengthen our reputation to provide insight as trusted and objective business advisers.
<b>We are open and honest in our communication.</b>	We share information, insight and advice frequently and constructively and manage tough situations with courage and candor.
<b>We are committed to our communities.</b>	We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment .
<b>Above all, we act with integrity.</b>	We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

We understand that trustworthiness is a critical characteristic that clients expect and rely upon. This commitment underlies our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our values or professional responsibilities.

A KPMG International hotline is available for KPMG personnel, clients, and other parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, those who work for KPMG International, or the senior leadership of a KPMG member firm.

We operate a whistle-blowing hotline which is available for our personnel to confidentially report concerns they have relating to how others are behaving (both internally and externally). Our people can raise matters anonymously and without fear of retaliation.

Matters reported to the hotline are investigated and reported ultimately to the firm's Risk Management Steering Committee that reports to the firm's senior partner. This report covers matters reported to the hotlines, how the investigations were conducted, findings from the investigations and the implications for our policies and procedures.



# System of quality control

## **Our governance structure and leadership responsibilities for quality**

Our governance structure is set out in detail in the “Our structure and governance ” section and those within leadership who have a responsibility for quality are described in the “Leadership responsibilities for quality and risk management” section below .

## **Leadership responsibilities for quality and risk management**

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

Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions-written and video communications, presentations to teams and one-to-one discussions.

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

### **Senior Partner**

In accordance with the principles in ISQC 1, our Senior Partner Hatem Montasser (who is also a member of the management board) has assumed ultimate responsibility for KPMG Hazem Hassan’s system of quality control. Details of some of the measures that he and the rest of the Board have taken to ensure that a culture of quality prevails within KPMG Hazem Hassan are set out in the “System Of Quality Control ” section.

## **National Risk Management Ethics and Independence Partner**

Operational responsibility for the system of quality control, risk management, compliance, the direction and execution of ethics and independence policies and procedures has been delegated to Mohamed Tarek, National Risk Management Ethics and Independence (RMP) who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm. The RMP has a seat on the board and the executive committee and has a direct reporting line to the Senior Partner. The RMP consults with the appointed Area Quality and Risk Management leaders.

# System of quality control

The fact that the role is a board position, and seniority of the reporting lines, underlines the importance that the firm places on risk and quality issues. The RMP is supported by a team of partners and professionals in each of the functions.

## **The Audit, Tax and Advisory functions – Function Heads**

The three heads of the client service functions (Audit, Tax and Advisory) are accountable to the Senior Partner for the quality of service delivered in their respective functions. Between them, they determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by The National Risk Management Partner. These procedures make it clear that at the engagement level, risk management and quality control is ultimately the responsibility of all professionals.

KPMG Hazem Hassan Head of Audit is responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG personnel.

This includes:

- setting the right ‘tone at the top’ by demonstrating an unwavering commitment to the highest standards of professional excellence, including skepticism, objectivity, and independence
- developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities.
- working with the Risk Management partner to monitor and address audit quality and risk matters as they relate to the audit practice including an annual evaluation of activities considered to be key to audit quality

## **Audit Quality committee**

In addition to these regular meetings, within the Audit function our Audit Quality Council considered matters relating to maintaining and improving audit quality. During the year, the Audit Quality Council comprised 4 people. The Audit Quality Council met 8 times during the year (2016 : 8 ), and considered the detailed findings (and related actions) from the internal Quality Performance Review program and other quality control programs, as well as papers on a range of issues designed to allow us to challenge ourselves in various aspects of audit quality and improvement.

## **Association with the right clients**



## **Acceptance and continuance of clients and engagements**

Rigorous client and engagement acceptance and continuance policies and processes help protect KPMG’s reputation, support our brand and are an important part to our ability to provide high-quality professional Services.

# System of quality control

Accordingly, KPMG International has established policies and procedures which all member firms are required to implement in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client.

With every potential new client, the partner responsible for the relationship conducts an evaluation of the client's principals, business and other service-related matters. This evaluation includes completion of a standard questionnaire that assesses the risk profile.

## *Client and engagement acceptance process*

### **Client evaluation**

KPMG Hazem Hassan undertakes an evaluation of every prospective client. This involves an assessment of the prospective client's principals, its business, and other service related matters. This also involves obtaining and analyzing 'know your client information' on the prospective client, its key management and significant beneficial owners.

A key focus is on the integrity of management at a prospective client and the evaluation considers breaches of law and regulation, anti-bribery and corruption and ethical business practices, including human rights among the factors to consider, in practice this may be completed at the same time as the client evaluation, particularly in respect of audit appointments. A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be 'high risk' the Risk Management Partner or experienced delegate is involved in approving the evaluation.

### **Engagement evaluation**

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system) as well as a range of factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior member firm personnel and includes review by quality and risk management leadership as required.

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

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

# System of quality control

We follow specific procedures (detailed further in “ Independence clearance process” section ) to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

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

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

## **Continuance process**

KPMG Hazem Hassan undertakes an annual re-evaluation of all its audit clients.

The re-evaluation identifies any issues in relation to continuing association and Mitigating procedures that need to be put in place (this may include the assignment of additional professionals such as an Engagement Quality Control (EQC) reviewer or the need to involve additional specialists on the audit).

Recurring or long running non-audit engagements are also subject to re-evaluation.

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile.

## **Withdrawal**

Where we obtain information that indicates that we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal and regulatory steps. We also communicate as necessary with those charged with governance and any other appropriate authority.

## **Client portfolio management**

Our leadership appoints engagement partners that have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

Our firm is organized into specialized industry groups and the Managing Partner assigns engagements to groups in accordance with the nature of the client industry and other requirements for reporting including accreditation requirements.

The head of functions ensures that the partners assigned to the engagements possess the appropriate capabilities, time availability, competencies and adequate recourse to perform the engagement by considering all these issues. Each partner’s client portfolio is regularly reviewed to ensure that they have sufficient time to manage the portfolio and to ensure that the risks are being appropriately managed

## **Clear standards and robust audit tools**

All KPMG Hazem Hassan professionals are expected to adhere to KPMG International and KPMG Hazem Hassan policies and procedures including independence policies, and are provided with a range of tools and guidance to support them in meeting these expectations.

The policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations represented in the provisions of the companies law 159 of 1981, law no. 8 of 1997 and Central Bank of Egypt regulations.



# System of quality control



The global audit methodology is supported by eAudit, KPMG international 's electronic audit tool, which provides KPMG Hazem Hassan auditors with the methodology, guidance, and industry knowledge needed to perform high - quality audits.

eAudit's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing efficiency and delivering value to stakeholders.

## *Audit methodology and tools*

Significant resources are dedicated to keeping our standards and tools complete and up to date. The global audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of International Standards on Auditing (ISAs). The global methodology is set out in the in KPMG International's Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhance the quality of the audit. KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements.

The audit process is structured to require significant involvement and leadership from the audit engagement partner/ director.

They are responsible for ensuring that the engagement is appropriately planned; that all significant risks are identified; and that appropriate judgments and conclusions have been reached. This will involve leading the planning meetings; reviewing key audit documentation, especially audit work papers that cover significant risks and key audit judgments; and being responsible for the final audit report.



# System of quality control

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

The global audit methodology encourages use of specialists when appropriate and also requires involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

KAM includes the implementation of quality control procedures at the engagement level that provide us with reasonable assurance that engagements comply with the relevant professional, legal, regulatory and KPMG International policy requirements.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Q&RM Manual that is applicable to all KPMG member firms, functions and personnel and is tailored by KPMG Hazem Hassan for any local policies and procedures.

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

KPMG Hazem Hassan has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Hazem Hassan.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications. Member firms are required to implement changes as specified in the email alerts, and this is checked the internal monitoring programs described in "Internal monitoring and compliance programs" section

KPMG Hazem Hassan personnel are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual.

## *Independence, integrity, ethics and objectivity*

### **Overview**

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's Global Q&RM Manual. Automated tools facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards accredited by Accountability State Authority. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

# System of quality control

## **Personal financial independence**

KPMG International policies require that each KPMG member firm and its professionals are free from prohibited financial interests in, and prohibited relationships with, KPMG's audit clients, their management, directors, and significant owners. The policies also extend the IESBA Code of Ethics restrictions on ownership of audit client securities to every KPMG member firm partner in respect of any audit client of any member firm.

KPMG Hazem Hassan professionals are responsible for making appropriate inquiries and taking other appropriate actions on an ongoing basis to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes.

In common with other KPMG member firms, we use a web-based independence compliance system (KICS) to assist our professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments.

Partners and all client-facing staff who are manager grade or above are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if their investments subsequently become restricted and they must dispose of that investment within 5 business days of the notification. We monitor Partner and manager compliance with this requirement as part of our program of independence compliance audits of a sample of professionals.

[In 2017 over [22] of KPMG Hazem Hassan personnel were subject to these audits (this included approximately [10%] of our partners).]

## **Employment relationships**

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

Former members of the audit team or former partners of KPMG Hazem Hassan are prohibited from joining an audit client in certain roles unless they have disassociated from KPMG Hazem Hassan financially and have ceased participating in KPMG Hazem Hassan business and professional activities.

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

We communicate and monitor requirements in relation to employment of KPMG Hazem Hassan professionals by audit clients.

## **Firm financial independence**

KPMG Hazem Hassan also uses KICS to record their own investments in SEC entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

Additionally, KPMG Hazem Hassan is required to record in the system all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, KPMG Hazem Hassan confirms compliance with independence requirements as part of the Risk Compliance Program.

# System of quality control

## ***Business relationships/suppliers***

KPMG Hazem Hassan has policies and procedures in place that are designed to ensure its business relationships are maintained in accordance with the IESBA Code of Ethics and Financial Supervisory Authority (EFSA) requirements. Detailed guidance is maintained covering, business alliances and joint working arrangements, procurement relationships, and marketing and public affairs activities. Consultation with our ethics and independence professionals is required in any case of uncertainty to ensure that no relationship is entered into with an audit client or its management which is not permitted for independence purposes.

## ***Independence clearance process***

KPMG Hazem Hassan follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the independence clearance process,' must be completed prior to accepting an audit engagement for these entities.

Engagement partners are responsible for evaluating and accepting a new engagements which includes any , considerations of compliance with independence. The EP also required to identify threats to independence through evaluation process , evaluate the significance of the threats identified; and apply safeguards, when necessary, to eliminate the threats or reduce it to an acceptable level. Engagement team is required to document conclusions regarding compliance with independence requirements and any safeguards applied in engagement acceptance form along with maintaining communications required with risk management ethics and independence partner

## ***Independence training and confirmations***

KPMG Hazem Hassan provides all relevant personnel (including all partners and client service professionals) with independence training that is appropriate to their grade and Function on an annual basis.

New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Hazem Hassan or (b) before providing any services to, or becoming a member of the chain of command for, any audit client, including any of its related entities or affiliates.

We also provide all personnel with relevant training on the Code of Conduct and ethical behavior, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards, and reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG's policies on a biennial basis. New personnel are required to complete this training within three months of joining the firm.

In addition, certain non-client-facing personnel who work in finance, procurement or sales and marketing departments, and who are at the manager level and above, are also required to undertake anti-bribery training.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by applicable ethics and independence rules and policies. Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the- year covered by the confirmation as well as their understanding of, and compliance with, the applicable Code of Conduct. This confirmation is used to evidence the individual's compliance with and understanding of KPMG's independence policies.

# System of quality control

## **Non-audit services**

We have policies, that are consistent with IESBA principles and applicable laws and regulations, which address the scope of services that can be provided to audit clients.

We are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Hazem Hassan. KPMG Hazem Hassan's EIP is involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed which are intended to be delivered to audit or assurance clients in more than one jurisdiction.

In addition to identifying potential conflicts of interest, Sentinel™, facilitates compliance with these policies. Certain information on all prospective engagements including service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Using Sentinel™, lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their affiliates, and identify and evaluate any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. Sentinel™ enables lead audit engagement partners for those entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

In accordance with applicable auditor independence rules, none of our audit partners are compensated on their success in selling non-audit services to their audit clients

## **Fee dependency**

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. In particular, KPMG International's policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years :

- This would be disclosed to those charged with governance at the audit entity; and
- A Senior Partner from another KPMG member firm would be appointed as the (EQC) reviewer.

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

## **Conflicts of interest**

Conflicts of interest can arise in situations where KPMG personnel have a personal connection with the client which may interfere or be perceived to interfere, with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the RMP or the EIP is required in these situations. Any potential conflict matters that raise important points of principle for our firm are referred to our E&I partner for resolution; in cases of difficulty a panel of partners may be convened to resolve the matter.

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest , which are circumstances or situations that have, or may be perceived by a fully informed, reasonable observer, to have an impact on a member firm or its personnel in their ability to be objective or otherwise act without bias.

All KPMG member firms must use sentinel for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

KPMG Hazem Hassan has risk management resource/s ('Resolver/s') who are/is responsible for reviewing an identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which must be documented. it may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

# System of quality control

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

## **Breaches of independence policy**

All KPMG Hazem Hassan personnel are required to report an independence breach as soon as they become aware of it. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy.

KPMG Hazem Hassan has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. [Our Ethics Committee oversees policies and procedures in relation to ethical matters and breaches of requirements]. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them.

[Matters arising are factored into our promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics.]

## **Compliance with laws, regulations, and anti-bribery and corruption**

Compliance with laws, regulation and standards is a key aspect for all KPMG Hazem Hassan personnel. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery — even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third-parties, including by our clients, suppliers or public officials.

Further information on KPMG International anti-bribery and corruption can be found on the anti-bribery and corruption site.

## **Partner and firm rotation**

KPMG International partner rotation policies are consistent with the IESBA Code of Ethics and require all member firms to comply with any stricter applicable rotation requirements.

KPMG Hazem Hassan partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide statutory audit services to a client, followed by a 'time-out' period during which time these partners may not participate in the audit, provide quality control for the audit, consult with the engagement team or the client regarding technical or industry-specific issues or in any way influence the outcome of the audit.

KPMG Hazem Hassan monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and EOC Reviewer, where there is a rotation requirement) and develops transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients. The partner rotation monitoring is subject to compliance testing.

The Egyptian Financial Supervisory Authority (EFSA), the regulatory body in Egypt, recently announced the new rotation requirements: for Banks –10 years for the Firm and 5 years for the partner within one firm, not to exceed the 10 years. as a transition at the date of commencing the rotation rule, a partner completed his/her five years term may continue the remaining period of his/her five years term even if his/her firm exceeded 10 years.



# System of quality control

KPMG Hazem Hassan rotated all banking partners after 2015 to maximize their tenure and mitigate any short-term impact.

Financial institutions other than banks subject to EFSA - 6 years rotation for partners with no limit on the firm.

Other Companies (Non-banks and Financial institutions) Subject to EFSA rotation rules – 5 years rotation for partners, with no limit on the firm. With no Specific date for application.



## Recruitment, development and assignment of appropriately qualified people

### Recruitment

KPMG Hazem Hassan strives to be an employer of choice by creating an environment where our people can fulfill their potential and feel proud and motivated to give their best

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, passion and purpose, to deliver the highest quality in audit. This requires appropriate recruitment, development, promotion, retention and assignment of professionals KPMG global behaviors, which are linked to the KPMG Values, are designed to articulate what is required for success – both individually and collectively. One of KPMG’s global behaviors is ‘Delivering Quality’.

[Our recruiting strategies are focused on drawing entry-level talent from a broad talent base, including working with established universities and colleges, helping build relationships with a younger, diverse talent pool at an early age.]

KPMG Hazem Hassan also recruits significant numbers at an experienced hire.

All candidates submit an application and are employed following a variety of selection processes, which may include [application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks].

KPMG Hazem Hassan recruited over [100] new graduates in the year ended 30 December 2017 (2016: approximately 185).

Where individuals are recruited for senior grades. A formal independence discussion is conducted with them by the Ethics and Independence Partner or a delegate. KPMG Hazem Hassan does not accept any confidential information belonging to the candidate’s former firm/employer.

The Partner hire process is rigorous and thorough, involving appropriate members of leadership. Our criteria for Partner hires are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG’s behavioral capabilities and are based on consistent principles.

### Personal development

It is important that all our professionals have the necessary business and leadership skills in addition to technical skills to be able to perform quality work (see “Professional Training” section).

In relation to audit opportunities are provided for professionals to develop the skills, behaviors and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills.

# System of quality control

KPMG Hazem Hassan professionals are also developed for high performance through access to coaching and mentoring on the job, stretch assignments, and country rotational and global mobility opportunities.

Talent and development is at the very top of our people agenda and there is a significant investment of time, money and other resources to build professional capability, leadership and business skills and technical expertise.

All staff are encouraged to think about their careers and personal development needs via regular performance conversations with ongoing feedback and support. The Career Paths portal ( MY PD ) provides information about roles and career options across the network, along with learning paths and tools to help individuals and their managers progress their careers. To support career and professional development there is a range of core skills programs covering skills and behaviors that provide performance improvement and ensure that individuals reach their full potential. The KPMG network uses a model for learning and development which focuses learning on critical and stretching experiences, learning through others and informal learning with more formal learning for the development of key technical, leadership and business skills. Talent management programme helps to identify high performers who also have the potential to take on more senior or more complex roles. We also have long-term development programs to support the journey to manager for more junior grades, and for those in the promotion pipeline for identified director and Partner roles. In recognition that some of our professionals are unable to always attend training courses in person, to complement the mix between education, collaboration and experience, and to provide training accessible at the right time in a flexible and interactive approach, we also provide training via online learning and virtual classrooms.

In relation to Audit we provide specific opportunities from graduate upwards for professionals to develop and maintain the skills, behaviors and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. We further develop our personnel for high performance through coaching and mentoring on the job, country rotational and global mobility opportunities and client secondments.

In the Audit function the technical training is mandatory and is delivered through annual courses, eLearning and briefings that reinforce the need for quality throughout our audits. The training also includes tests that are required to be completed by all audit professionals.

If the pass mark is not achieved, the test needs to be completed again. The completion of the training and the tests is monitored rigorously to ensure compliance. The contents of the courses are regularly reviewed and updated to reflect the ongoing technical competency needs of the professionals and the feedback received from course participants.

In addition to structured training, there is a coaching culture that encourages consultation, on-the-job training and mentoring.

## ***Inclusion and Diversity programs***

KPMG Hazem Hassan works hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

Our leadership and management teams also need to reflect the diversity within our firm and the diversity of our clients.

We believe that the established Global Inclusion and Diversity strategy of KPMG International provides the framework to drive the actions that are necessary to promote inclusive leadership at KPMG Hazem Hassan and across the KPMG network.

# System of quality control

## *Performance and reward*

### **Evaluation process including quality and compliance metrics**

KPMG Hazem Hassan professionals, including partners, have annual goal-setting and performance reviews. Each professional is evaluated on their agreed-upon goals, demonstration of our global behaviors, technical capabilities and market knowledge.

A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers. Feedback gathered forms an integral part of performance reviews.

Going beyond performance reviews and compensation, the KPMG Global Behaviors are designed to extend across all our people processes, including recruitment methodologies, recognition approaches and development planning. The behaviors are a constant reference point, articulating to our people what is required for success individually and collectively.

KPMG Hazem Hassan monitors quality and compliance incidents and maintain quality metrics in assessing overall evaluation, promotion and remuneration of partner and certain personnel. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

KPMG Hazem Hassan's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

As part of the year-end counselling process our Partners discuss achievement of agreed goals, strengths and development areas with particular focus on the delivery and personal development of the Partner attributes. They are required to provide objective evidence to demonstrate this, which includes their individual quality and risk metrics. These standardized quality and risk metrics (which are issued to all engagement leaders) are one of the inputs to the annual counselling process.

The quality and risk metrics include a number of parameters, such as the results of external regulatory reviews, timely completion of training and the outcome of internal monitoring programmes. The action taken in respect of any Partner with low quality and risk metrics is dependent upon the cause of the low metric initially. The range of actions that can be taken includes remediation of the initial deficiency giving rise to the low adverse metric, remedial training, one-to-one counselling with functional leadership and/or Quality and Risk Partners on the issue arising, or, ultimately, the suspension of signing rights, low risk metrics for Quality and Ethics related matters generally result in a reduction in the overall compensation paid to the Partner concerned.

### **Reward**

We have compensation and promotion policies that are clear, simple, and linked to the performance review process, which for partners includes the achievement of key audit quality and compliance metrics. This helps our partners and employees know what is expected of them, and what they can expect to receive in return.

Reward decisions are based on consideration of both individual and organizational (member firm) performance. The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed accordingly (refer to "Insights from our people – Global People Survey (GPS)" section).

# System of quality control

## **Promotion**

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

## **Partner admissions**

The KPMG Hazem Hassan process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the KPMG Hazem Hassan partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles.

All recommendations for admission to membership of KPMG Hazem Hassan need to be approved by the firm's council.

## **Assignment of professionals**

KPMG Hazem Hassan has procedures in place to assign both the engagement partners and professionals to a specific engagement on the basis of their skill sets, and relevant professional and industry experience, and the nature of the assignment or engagement

Our firm is organized into specialized industry groups and the Managing Partner assigns engagements to groups in accordance with the nature of the client industry and other requirements for reporting including accreditation requirements and the nature of the assignment or engagement.

Function heads are responsible for the partner assignment process. Key considerations include partner experience, and capacity, based on an annual partner portfolio review, to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement). Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities - including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements.

This may include involving KPMG's local and global specialists.

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

- an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- an understanding of professional standards and legal and regulatory requirements
- appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing
- *knowledge* of relevant industries in which the client operates
- ability to apply professional judgment
- an understanding of KPMG Hazem Hassan quality control policies and procedures.
- QPR results and results of regulatory inspections.

# System of quality control

As an additional control in Audit (where the services are of more of a recurring nature than across much of the rest of our business), our Heads of Audit and Quality & Risk together perform an annual review of the portfolio of all of our audit engagement partners.

The purpose of this portfolio review is to look at the complexity and risk of each audit and then to consider whether or not taken as a whole the specific engagement partner has the appropriate time and the right support to enable them to perform a high quality audit for each client in their portfolio.

Annually KPMG Hazem Hassan invites all its people to participate in an independent Global People Survey which measures their overall level of engagement with the firm. The GPS provides an overall Employee Engagement Index (EEI) and Performance Excellence Index (PEI) as well as insights into areas driving engagement which may be strengths or opportunities. The survey also identifies opportunities to strengthen those levels of engagement. Results can be analyzed by functional or geographic area, grade, role, gender to provide additional insight. Additional insight is provided on how we are faring on categories known to impact employee engagement.

The survey also specifically provide leadership with information on employee and partner attitudes to quality, leadership and tone at the top, KPMG Hazem Hassan participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey.

This includes monitoring GPS results including those related to audit quality and tone at the top, referred to in the GPS as 'leadership behavior', and employee engagement through the EEI, and employee performance through PEI.

The results of the GPS are also aggregated for the KPMG network and are presented to the Global Board each year and appropriate follow-up actions agreed.

## ***Commitment to technical excellence and quality service delivery***

All KPMG Hazem Hassan professionals are provided with the technical training and support they need, including access to specialists and the professional practice department or equivalent which are made up of senior professionals with



extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG Hazem Hassan, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

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

## ***Lifetime learning strategy***

In addition to personal development discussed at in the section above, our lifetime learning strategy is underpinned by policies requiring all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

## ***Formal training***

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and, where applicable, KPMG Hazem Hassan. Training is delivered using a blend of classroom, digital learning and performance support to assist auditors on the job. Audit Learning and Development teams work with subject matter experts and leaders from the GSC, the ISG and member firm Department of Professional Practice (DPP) as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job and is delivered on a timely basis.



# System of quality control

## Mentoring and on the job training

Learning is not confined to the classroom, rich learning experiences are available at when needed through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

In relation to audit, KPMG Hazem Hassan:

- deploys a variety of learning solutions that are designed to reinforce our values and ensure our professionals get the fundamentals right, and develop the necessary skills and attitudes to make judgments, and apply professional skepticism that enhance audit quality and the value of audit
- provide instructor-led and virtual classroom training, performance support tools and just-in-time learning. Guidance is available on judgmental audit topics – this is used by audit teams and this guidance is embedded across audit learning solutions
- provide courses to enhance personal effectiveness and develop leadership and business skills. Our personnel are developed further for high performance through coaching and mentoring on the job, stretch assignments and country rotational and global mobility opportunities

## ***Licensing and mandatory requirements for IFRS and U.S. GAAP engagements***

### Licensing

All KPMG Hazem Hassan professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice. Policies and procedures are designed to facilitate compliance with license requirements.

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

### Mandatory requirements – IFRS and U.S.GAAP engagements

In addition, we have specific requirements for partners and managers working on IFRS engagements, in countries where IFRS is not the predominant financial reporting framework. Similar policies to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). . These require that the partner, manager, and EQC reviewer have completed relevant training and that the engagement team, collectively , has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

### ***Access to specialist networks***

KPMG Hazem Hassan engagement teams have access to a network of local and global specialists as well as specialists in other KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (e.g. Information Technology, Tax, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process. Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

# System of quality control

## **Consultation**

KPMG Hazem Hassan promotes a culture in which consultation is recognized as a strength and that encourages personnel to consult on difficult or contentious matters. To assist audit engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, our Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity. Appropriate consultation support is provided to audit engagement professionals through our professional practice resources.

Across KPMG Hazem Hassan, the Role of Audit technical committee is crucial in terms of the support that it provides to the Audit Function. It provides technical guidance to client service professionals on specific engagement related matters, develops and disseminates specific topic related guidance on emerging local technical and professional issues and disseminates international guidance on IFRS and ISAs.

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

Auditing and technical accounting support is available to all member firms and their professionals through the GSC and the ISG as well as U.S. Capital Markets Group for SEC foreign registrants

## **Global Services Centre (GSC)**

The GSC develops, maintains and deploys KPMG's global audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits.

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

The ISG works with Global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues and develop global guidance on a timely basis.

The ISG has a network of contacts and holds regular calls both in relation to auditing and IFRS to update country professional practice representatives.

Further details about the GSC and ISG and its activities are available in the KPMG International Transparency Report

<https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/12/transparency-report-2017.pdf>

## **Developing business understanding and industry knowledge**

A key part of quality is having a detailed understanding of the client's business and industry.

For significant industries global audit sector leads are appointed to support the development of relevant industry information to audit professionals.

A key element of this industry information is the provision of industry knowledge within eAudit. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries as well as a summary of the industry knowledge provided in eAudit.

# System of quality control

## **Performance of effective and efficient audits**

How an audit is conducted is as important as the final result. KPMG Hazem Hassan personnel are expected to demonstrate certain key behaviors and follow certain policies and procedures in the performance of effective and efficient audits.



## **KPMG Audit Process**

Our audit workflow is enabled through eAudit. KPMG International's activity based workflow and electronic audit file. eAudit integrates the KPMG audit methodology, guidance and industry knowledge, and the tools needed to manage audits consistently. The KPMG high-quality audit process includes:

- timely partner and manager involvement
- timely access to the right knowledge – specialists, accredited individuals and relevant industry expertise
- critical assessment of audit evidence— exercise of professional judgment and professional skepticism
- ongoing mentoring, supervision and review
- appropriately supported and documented conclusions
- robust challenge and review, including EQC review

## **Timely partner and manager involvement**

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates.

The engagement partner is responsible for the direction, supervision and performance of the engagement and therefore responsible for the overall quality of the audit engagement.

Involvement and leadership from the engagement partner during the planning process helps set the appropriate scope and tone for the audit and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment, and significant risks.

The engagement partner is a key participant in the planning meetings, reviews key audit documentation. In particular documentation relating to significant matters arising during the audit and conclusions reached – and is responsible for the final audit opinion. The engagement manager assists the partner in meeting these responsibilities and in the day- to -day liaison with the client and team, building a deep business understanding that helps the partner and team deliver valued insights.

## **Critical assessment of audit evidence with emphasis on professional skepticism**

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence.

The nature and extent of the audit evidence we gather is responsive to the assessed risks. We recognize that audit evidence obtained from external sources tends to be more persuasive.

For the purpose of obtaining sufficient appropriate audit evidence each team member is required to exercise professional judgment and maintain professional skepticism throughout the audit engagement.

Professional skepticism involves a questioning mind and alertness to Contradictions or inconsistencies in audit evidence. Professional skepticism features prominently throughout auditing standards and receives significant focus from regulators. The KPMG Audit Quality Framework emphasizes the importance of maintaining an attitude of professional skepticism throughout the audit.

# System of quality control

The KPMG professional judgment process facilitates good judgment by introducing a structured approach to auditing areas that require significant judgment. It also reinforces the importance of independence and objectivity and emphasizes the importance of having the right mindset - the need to apply professional skepticism. Our professional judgment process recognizes the need to be aware of, and alert to biases which may pose threats to good judgment. The structured approach to auditing areas that require significant judgment involves:

- considering alternatives
- critically assessing audit evidence by challenging management's assumptions and following up contradictory or inconsistent information,
- documenting the rationale for conclusions reached on a timely basis as a means of evaluating their completeness and appropriateness.

The use of the professional judgment process and the application of professional skepticism is reinforced through coaching and training, acknowledging that judgment is a skill developed over time and with different experiences.

Professional judgment training has been embedded in our core Audit Technical training program for junior professionals as well as being included in our periodic and annual update training for qualified and experienced professionals and partners

## ***Ongoing mentoring, supervision and review***

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of KPMG professionals, without compromising on quality, KPMG Hazem Hassan promotes a continuous learning environment and supports a coaching culture.

The engagement partner, supported by the engagement manager, is responsible for driving a culture of coaching and continuous learning throughout the audit process and setting an example in the performance of the audit to drive a culture of continuous audit quality improvement.

Ongoing mentoring, coaching and supervision during an audit involves :

- engagement partner participation in planning discussions
- tracking the progress of the audit engagement
- considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement.
- helping engagement team members address any significant matters arising during the audit, and modifying the planned approach appropriately
- identifying matters for consultation with more experienced team members during the engagement.

A key part of effective mentoring and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

# System of quality control

## ***Appropriately supported and documented conclusions***

KPMG Hazem Hassan uses the KAM and KPMG International's electronic audit tool, eAudIT, to provide guidance, mechanisms for and documentation of, the supervision and control of the audit engagement.

Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on each audit engagement.

KPMG policies require review of documentation by more experienced engagement team members.

KAM recognizes that documentation prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before our report is finalized. Engagement teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the auditors' report but may be more restrictive under certain applicable regulations.

The key principle that engagement team members are required to consider when preparing audit documentation is whether an experienced auditor, having no previous connection with the engagement, reviewing the audit documentation sometime in the future will understand

- the nature, timing, and extent of audit procedures performed to comply with the ISAs, KAM and
- other requirements applicable legal and regulatory requirements
- the results of the procedures performed, and the audit evidence obtained
- significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained
- the basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.

## ***Appropriate involvement of the EQC Reviewer***

EQC reviewers are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

An EQC reviewer is required to be appointed for audits, including any related review(s) of interim financial information of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the risk management partner or country head of audit.

The EQC review takes place before the date of the auditor's report and includes, among other matters:

- Review of selected audit documentation
- Relating to the significant judgments the engagement team made and the conclusions it reached
- review of the financial statements and proposed auditor's report
- evaluation of the conclusions reached in formulating the auditors' report and consideration of whether the proposed report is appropriate.

Although the engagement partner is ultimately responsible for the resolution of financial reporting and auditing matters, the EQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered complete.

KPMG Hazem Hassan is continually seeking to strengthen and improve the role that the EQC reviewer plays in audits, as this is a fundamental part of the system of audit quality control. In recent years, a number of actions have been taken to reinforce this, including:

- issuing leading practice guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers
- incorporating specific procedures in eAudIT to facilitate effective reviews.

# System of quality control

- implementing policies relating to recognition, nomination and development of EQC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement.

Also ensuring that the role performed by EQCRs is taken into account when performing the Partner Portfolio Review process to ensure adequacy of time and appropriate skill set for the role and reallocation if needed; and assessing, as part of our Quality Performance Reviews, the work performed by the EQCR and the adequacy of involvement including discussion with the EQC Reviewer.

## **Reporting**

Auditing standards and the regulations of the Egyptian Financial Supervisory Authority (EFSA) and the Central Bank of Egypt largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement partners form all audit opinions based on the audit performed.

In preparing auditors' reports, engagement partners have access to extensive reporting guidance and technical support to audit through consultations with Audit technical committee.

We provide extensive reporting guidance and technical support through consultations with Audit technical committee. In preparing audit reports, where there are significant matters to be reported to users of the auditors' report (e.g. a modification to the opinion or through the inclusion of an 'emphasis of matter' or 'other matter' paragraph as well as key audit matters to be communicated).

Effective for December 2016 year ends onward in compliance with the new IAASB requirements, we have enhanced auditor reporting for those auditors' reports prepared under the ISAs. The changes in auditors' Reporting give users more insight into the audit and improve transparency. The revision of the Egyptian Auditing Standards are currently under development .

## ***Insightful, open and honest two-way communication***

Two-way communication with those charged with governance, often identified as the audit committee, at our clients , is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG Hazem Hassan we stress the importance of keeping those charged with governance informed of issues arising throughout the audit and the need to listen to and understand their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing informal discussions with management and members of the audit committee.

Communications with audit committees include:

- an overview of the planned scope and timing of the audit, which includes communicating significant risks identified.
- significant findings from the audit which may include control deficiencies and audit misstatements.
- an annual written communication that states the engagement team and KPMG Hazem Hassan have complied with relevant independence requirements; describes all relationships and other matters between KPMG Hazem Hassan and the audit client that, in our professional judgment, may reasonably be thought to bear on independence; and states related safeguards we have applied to eliminate (or reduce to an acceptable level) identified threats to independence.

We ensure such communications meet the requirements of professional standards



# System of quality control

## ***Focus on effectiveness of group audits***

The KPMG audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component Auditors, which is a key to audit quality.

The group audit engagement partner is required to evaluate the competence of component auditors, irrespective of whether they are KPMG member firms, as part of the engagement acceptance process

Consistent methodology and tools are used across the KPMG network. Lead audit engagement partners are provided with information on component auditors within the KPMG network to help them evaluate their competence and capabilities. In addition, for PCAOB engagements, the results of relevant inspections related to the KPMG component member firms are made available to the lead audit engagement partner.

Lead audit engagement partners may review component auditor engagement documentation in person or obtain electronic access.

eAudit includes guidance and functionality based on revised ISA 600 for group audit engagement and heightened attention currently being given to key risk areas for group audits, for example, emerging markets and business environments that may be subject to heightened fraud risk. Training for partners and managers in 2016 reinforced key principles and requirements about the responsibility of the group auditor for the work undertaken by component auditors.

## ***Client confidentiality, information security and data privacy***

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the Code of Conduct, training, and the annual affidavit/confirmation process, that all KPMG professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, standards and regulations.

We have clear policies on information security that cover a wide range of areas. Data Privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG Hazem Hassan personnel.

We are committed to provide a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our clients, service providers and other third parties through an updated Global security policy which is applied and published in KPMG Hazem Hassan intranet as well as an acceptable use policy which is updated to be in line with the global policy also applied and published in KPMG Hazem Hassan intranet.

# System of quality control

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including through regular communications on the topic, the Code of Conduct, Online independence training which is required by all employees. Moreover, the annual independence/confirmation process, which all of our professionals are required to complete. The Code of conduct and independence confirmation process are signed by all new hires during hiring process. Induction training held every three months to the new hires including security awareness, which includes topics related to confidentiality, data classification, policies, email usage ...etc.) and data privacy

We believe that everyone has a role to play in protecting client and confidential information. Policies and practices are communicated to all personnel and, as appropriate, reinforced through guidance, awareness and training. Our personnel are required to comply with our Acceptable Use Policy – this policy encourages effective and appropriate use of KPMG Hazem Hassan information technology resources, and highlights the protection requirements of all employee, KPMG and client confidential information. Data privacy and Information Management policies are also in place governing the handling of personal and confidential information.

IT Internal audit review is done on yearly basis on the IT environment the review is done by professional employees in IT, security and controls. The IT internal audit review report is reviewed and approved by NITSO. The IT internal audit review topics are complied with ISO domain.

NITSO and data privacy partner have experience and certified.

## *Commitment to continuous improvement*



We commit to continually improve the quality, consistency and efficiency of our audits. Integrated quality monitoring and compliance programs enable member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans both in respect of individual audit engagements and the member firm's system of quality control. KPMG International's integrated quality and monitoring programs include the Quality Performance Review (QPR) program, the Risk Compliance Program (RCP) and the Global Compliance Review (GCR) program.

The quality monitoring and compliance programs are globally administered and consistent in their approach across member firms, including the nature and extent of testing and reporting. KPMG Hazem Hassan compares the results of its internal monitoring programs with the results of those of any external inspection programs and take appropriate action

# System of quality control

## **Internal monitoring and compliance programs**

Our monitoring programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International policies and procedures
- KPMG Hazem Hassan compliance with KPMG International policies and procedures and the relevance, adequacy, and effective operation of key quality control policies and procedures.

The results and lessons from integrated monitoring the programs are communicated internally, and the overall results and lessons from the programs are considered and appropriate action is taken at local regional and global levels. Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Two KPMG International developed and administered inspection programs are conducted annually across the Audit, Tax, and Advisory functions: QPR and RCP.

Additionally all member firms are covered at least every three years by the cross - functional GCR program. Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.

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

The QPR program assesses engagement level performance and identifies opportunities to improve engagement quality.

## **Risk-based approach**

Each engagement leader is reviewed at least once in a three year cycle. A risk-based approach is used to select engagements.

KPMG Hazem Hassan conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG Hazem Hassan level and are monitored regionally and globally. Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

## **Reviewer selection, preparation and process**

There are robust criteria for selection of reviewers. Review teams include senior experienced lead reviewers that are independent of the member firm under review. Training is provided to review teams and others overseeing the process, with a focus on topics of concern identified by audit oversight regulators and the need to be as rigorous as external reviewers.

## **Evaluations from Audit QPR**

Consistent criteria are used to determine engagement ratings and member firm Audit practice evaluations. Audit engagements selected for review are rated as 'Satisfactory', 'Performance Improvement Needed' or 'Unsatisfactory'.

## **Reporting**

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

These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement. Lead audit engagement partners are notified of less than satisfactory (defined as 'Performance Improvement Needed' or 'Unsatisfactory') engagement ratings on their respective cross-border engagements and/or global audit accounts and subsidiaries. Additionally lead audit engagement partners of global audit accounts are notified where a subsidiary of their client group is audited by a member firm where quality issues have been identified during the QPR.

# System of quality control

For the 2016 our QP program did not identify any issues considered to have a material effect on the conduct of our professional services (including statutory audit services).

## **Risk Compliance Program (RCP)**

KPMG International develops and maintains quality control policies and processes that apply to all member firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, we perform a robust assessment program consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to :

- Monitor, document and assess the extent of compliance of KPMG Hazem Hassan system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services.
- provide the basis for KPMG Hazem Hassan to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements

Where deficiencies are identified, we are required to develop appropriate action plans

## **Global Compliance Review (GCR) programs**

Each member firm is subject to a GCR conducted by KPMG International's GCR team, independent of the member firm, at least once in a 3 year cycle.

The GCR provides independent oversight of our assessment of our system of quality control, including:

- our commitment to quality and risk management (tone at the top) and the extent to which the overall structure, governance and financing support and reinforce this commitment
- the completeness and robustness of our RCP.

The GCR team performing the reviews is independent of KPMG Hazem Hassan, objective and knowledgeable of Global Quality and Risk Management policies.

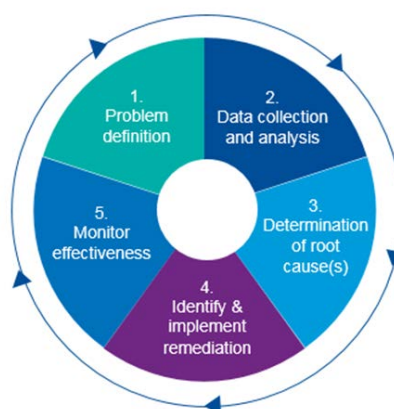
We develop action plans respond to all GCR findings and agree these with the GCR team. Our progress on action plans is monitored by a the GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQRMSG) and, where necessary, to help appropriate KPMG International and regional leadership, to ensure timely remedial actions taken by the member firm.

## **Root Cause Analysis (RCA)**

KPMG Hazem Hassan performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identifies good practices as part of continuous improvement.

In 2017, RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG Hazem Hassan who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

The Global RCA 5 Step Principles are as follows:



# System of quality control

It is the responsibility of member firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified. KPMG Hazem Hassan Head of Audit is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners. The Risk Management Partner monitors their implementation.

## **Recommendations for improvements**

At a global level, through the GAQIC and the GQRMSG, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global actions as required.

The GAQIC considers network-wide issues arising from internal quality control reviews and external inspections, monitors progress being made in addressing audit quality issues and makes recommendations to the Global Audit Steering Group (GASG) on audit quality issues.

To date, Global remediation plans developed by KPMG International have been aimed at changing culture and behavior across the KPMG network and at driving consistent engagement team performance within KPMG member firms.

The remediation plans have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the network.

## **External feedback and dialogue**

### **Regulators**

In Egypt the Egyptian Financial Supervisory Authority (EFSA) has been established to carry out independent inspections for the coming years. The firm has not yet been reviewed.

KPMG Hazem Hassan is also registered with the UK Professional Oversight Board "FRC" as a third country auditor (registration number EG 2014). The FRC has been provided with details of the firm's quality controls as a part of the registration requirements. The firm also completes an annual questionnaire to update our data for the FRC.

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues at a network level.

### **Client feedback**

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

### **Monitoring of complaints**

We have procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are detailed on our operating firms' websites as well as in our general terms of business.



# 5

# Financial information

Although there is no local legislation that requires disclosure of financial information that shows the importance of statutory audit work to the overall results, we prepared such data to give a 'transparent' view to comply with the European Union (EU) 8th Company Law Directive.

The financial information represents information on our all operations that are: Audit, Tax and Advisory. Certain Advisory services are provided through separate legal entities in most cases to comply with local laws requirements.

**Total firm revenues can be analyzed on the following basis:**

Total firm revenues for years 2016 & 2017 "EGP"	31/12/2017	31/12/2016
Audit of annual and consolidated financial statements	195,269,963	170,191,698
Non-audit service for audit clients	36,530,888	33,586,725
Non-audit service for none audit clients	86,436,942	52,484,174
<b>Total</b>	<b>318,237,793</b>	<b>256,262,597</b>

Total firm audit revenues for years 2016 & 2017 "EGP"	31/12/2017	31/12/2016
Audit services of Public-interest entities "PIEs"	57,840,782	52,582,528
Audit services of non Public-interest entities "Non-PIEs"	137,429,181	117,609,170
<b>Total</b>	<b>195,269,963</b>	<b>170,191,698</b>





# 6

# Partner remuneration

## Partner remuneration

### Partners' profit share

Partners are remunerated out of the distributable profits of the KPMG Hazem Hassan (such profits being determined by KPMG Hazem Hassan management Board) and are personally responsible for funding pensions and most other benefits. The final allocation of profits to partners is made by the executive committee after assessing each partner's contribution for the year. The KPMG Hazem Hassan Board's Compensation and Nomination Committee] (comprising partners of the Board) approves this process and oversees its application.

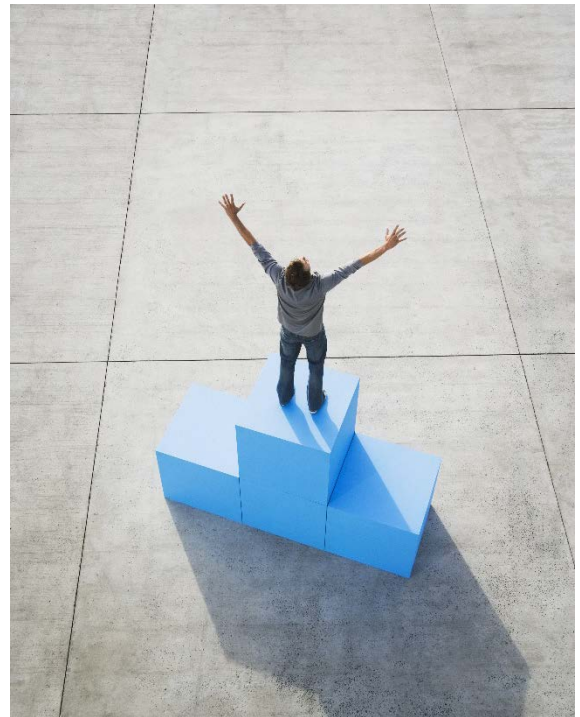
There are two elements to partner remuneration:

- base component – a proportion of the KPMG Hazem Hassan budgeted profits are allocated to members as base component; this is effectively member salary. The amount of base component reflects the role and seniority of each partner. In the year to 31 December 2017, the total base component was approximately 50% of the profits allocated to individual members (2016: 50%); and
- profit related performance component – rewards performance in the year by each partner against individual objectives previously agreed and the overall profits of their part of the KPMG Hazem Hassan and the KPMG Hazem Hassan as a whole. Our policies for this variable element of partner remuneration take into account a number of factors including quality of work, excellence in client service, growth in revenue and profitability, leadership and living the Values of the KPMG Hazem Hassan. Audit partners are not permitted to have objectives related to, or receive any remuneration from, selling non-audit services to their audit clients. In addition, a part of their performance-related component is based on an assessment of their ability to deliver audit quality

### Drawings

During the year, members working within KPMG Hazem Hassan received monthly drawings, and from time to time, additional profit distributions. The level and timing of the additional distributions are decided by the executive committee taking into account cash requirements for operating and investing activities. All such drawings and profit distributions to members represent payments on account of current year profits and are reclaimable from members until profits have been allocated.

Any over-distribution of profits during the year is also recoverable from members.



# 7

# Network arrangements

## Network arrangements

### Legal Structure

The independent member firms of the network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by its member firms.

One of the main purposes of KPMG International is to facilitate the provision by member firms of high quality Audit, Tax, Advisory services to their clients.

For example, KPMG International establishes, and facilitates the implementation and maintenance of, uniform policies, standards of work and conduct by member firms and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity which is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or partnership with each other.

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

### Responsibilities and obligations of member firms

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

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPM Values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

### Professional Indemnity Insurance

A substantial level of insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.

### Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team.

### Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and only has members, not shareholders).

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sublicenses are generally indirectly represented by a member.

# Network arrangements

## The Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms.

The Global Board includes the Global Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms

It is led by the Global Chairman, who is supported by the Executive Committee, consisting of the Global Chairman, the Chairman of each of the regions and currently four other senior partners of member firms. The list of Global Board members, as at 1 October 2017 is available in the International Annual Review

<https://home.kpmg.com/xx/en/home/campaigns/2017/12/international-annual-review.html#introduction>

One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board ("non-executive" members). A key role of the lead director is to act as liaison between the Global Chairman and the "non-executive" Global Board members

## Global Management Team

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments.

It is led by the Global Chairman and includes the Global Chief Operating Officer, Global Chief administrative Officer, global function and infrastructure heads, and the General Counsel. The list of Global Management Team members as at October 2017 is available in the International Annual Review.

<https://home.kpmg.com/xx/en/home/campaigns/2017/12/international-annual-review.html#introduction>

## Global Steering Groups

The Global Steering Groups work closely with regional and member firm leadership to:

- establish and communicate appropriate audit and quality/risk management policies;
- enable effective and efficient risk processes to promote audit quality;
- proactively identify and mitigate critical risks to the network.

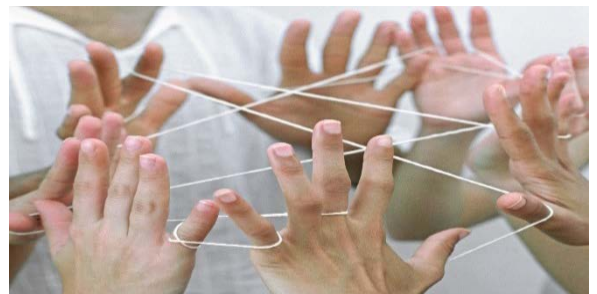
The Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in Appendix 2 to the KPMG International Transparency Report

<https://home.kpmg.com/xx/en/home/campaigns/2017/12/2017-transparency-report.html>

Each member firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating or executive officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International's policies and processes within the region.

Further details about KPMG International including the governance arrangements, can be found in Appendix 2 to the KPMG International Transparency Report.

<https://home.kpmg.com/xx/en/home/campaigns/2017/12/2017-transparency-report.html>



# 8

## Statement by the Board of KPMG Hazem Hassan on the effectiveness of quality controls and independence

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

### **The Board of KPMG Hazem Hassan has considered:**

- the design and operation of the quality control systems as described in this report
- the findings from the various compliance programs operated by our firm (including the KPMG International Review Programs as described in the "Internal monitoring and compliance programs" section and our local compliance monitoring programs); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Board of KPMG Hazem Hassan confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 31 December 2017.

Further, the Board of KPMG Hazem Hassan confirms that an internal review of independence compliance within our firm has been conducted in the year to 31 December 2017.

**Cairo, March 2018**  
**Hatem Montasser**



# Appendices

## A.1 Key Legal Entities and areas of operation

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
<p>Hazem Hassan (Public Accountants and Consultants) Owned by the local partners</p>	Partnership	Egyptian Financial Supervisory Authority (EFSA) / Ministry of Finance ( MOF)	Audit, Tax, Advisory, Payroll, Corporate Secretarial, Legal: , Temporary Resourcing (Seconded Employees), Training	MESA / Egypt
<p>Hazem Hassan Human Resources Ltd. – Under Liquidation 100% owned by KPMG Hazem Hassan Public Accountants and Consultants.</p>	Limited Liability Company	None	Executive Recruiting: Recruitment (Human Resources).	MESA / Egypt
<p>The Egyptian Company for professional support services- S.A.E. previously named KPMG Hazem Hassan IT Systems Implementation -S.A.E. 75% owned KPMG Hazem Hassan Public Accountants and Consultants</p>	Joint Stock Company	None	IT Consulting	MESA / Egypt
<p>KPMG Hazem Hassan Consulting (S.A.E.) – Dormant 100% owned by KPMG Hazem Hassan Public Accountants and Consultants.</p>	Joint Stock Company	None	Advisory: Corporate Finance, Actuarial, Compensation or Benefit Consulting: No actuarial services., IT Consulting	MESA / Egypt
<p>KPMG Hazem Hassan Consulting for Securities (S.A.E.) 100% owned by KPMG Hazem Hassan Public Accountants and Consultants.</p>	Joint Stock Company	None	Advisory: Corporate Finance: Valuation services	MESA / Egypt



## A. 2 Details of those charged with governance at KPMG Hazem Hassan



### **Hazem Hassan Chairman**

With over 40 years in the public practice, Hazem Hassan has tremendous experience in Audit, Tax and Advisory work. He is the President of the Egyptian Society of Accountants and Auditors, General Secretary and Board Member of the Egyptian Center for Economic Studies (Egypt Think Tank), Board Member of The Egyptian Institute of Directors, Chairman of the British Egyptian Business Association “BEBA”, Chairman of the Confederation of Egyptian European Business Associations “CEEBA”, Member of the Board and Council of FCM ( Federation Experts Comptables Mediterraneens ) in Rome. He was also the Chairman of The Audit Committee of The International Monetary Fund (IMF) in Washington, Board Member of the Central Bank of Egypt , and Board Member of The Capital Market Authority , Member of the Board and The Executive Committee of KPMG International, President of FCM ( Federation des Experts Comptables Mediterraneens ) in Rome, Chairman of the Board of Trustees of The Investment Authority and Free Zones, Board Member of Egypt’s New Cities Authority.



### **Hatem Montasser Senior Partner**

Hatem is the firm senior partner, with extensive thirty two years working for KPMG Hazem Hassan. Hatem in his capacity as managing partner for the firm he has the responsibility of being the client relationship partner for large groups and clients with vast experience in managing sophisticated engagements. He is a Fellow of the Egyptian Society of Accountants and Auditors (ESAA).



### **Mohamed Alaam Partner – Head of Tax**

Alaam has served in the field of taxation for more than 30 years and specializes in providing consultations to international clients as well as key local clients. Specializes in taxation, companies & Business Law.



## A. 2 Details of those charged with governance at KPMG Hazem Hassan (Cont.)



### **Ehab Abouelmagd** **Partner – Head of Audit / Non Financial Institutions**

The 22 years of experience in this specialized industry gives a lot of support to the performance of the engagement. Ehab has provided audit and accounting services to those clients in addition to special engagements such as due diligence.

Ehab has excellent experience in Egyptian accounting standards, in addition to he is IFRS accredited and has a good experience in US GAAP and Sox requirements and a member of the American Institute of certified public accountants (AICPA).



### **Aziz Maher** **Partner – Head of Audit / Banks and Financial Institutions**

Aziz has over than 26 years of experience specialized in banking and financial institutions audits. With the last 14 years in the capacity of a “Financial Services Partner”. He has served in a senior capacity in providing audit and advisory services including Transactions and Restructuring and securitization transaction to a number of financial services clients. He works with large-scale institutions and clients, at both national and group level, in the analysis and improvement of accounting standards, governance frameworks and controls. He is a Member of the American Institute of Certified Public Accountants (AICPA), Fellow of the Egyptian Society of Accountants and Auditors (ESAA).



### **Haytham El Mansy** **Partner**

Haytham is specialised in commercial valuations and feasibility studies. He has diversified experience in commercial valuations in the context of fairness opinions, mergers and acquisitions, divestiture, regulatory reporting and reorganisations. Haytham also has experience of working on international assignments and with multi-jurisdiction teams having worked on engagements in Egypt, Gulf, the UK, Europe and Libya. Prior to joining the Corporate Finance services practice in KPMG Egypt in 2007 Haytham worked for KPMG LLP in the UK. He is a certified public accountant,USA and a certified fraud examiner,USA.



### **Ahmed Raafat** **Partner**

Ahmed has extensive experience for 24 years in different industries. He has provided audit, consulting and transaction services to a variety of clients specially in the oil & gas sector. Ahmed is a member of the Energy & Natural Resources Committee of Egyptian practice and Fellow of the American Institute of Certified Public Accountants (CPA)-USA.

**A. 2 Details of those charged with governance at KPMG Hazem Hassan (Cont.)**



**Samy Abdel Hafiz**  
**Partner**

Samy has been working for KPMG over twenty years. He is currently the partner in charge for a number of International clients and Key national clients working in a variety of business segments such as; communications, industrial markets, and consumer markets. Samy also participated in carrying out major transaction service assignments including Public Offering and Due Diligence Assistance. He is also a Fellow of the Egyptian Society of Accountants and Auditors (ESAA) and Member of Egyptian Accounting and auditing Standards Board.



**Mohamed Tarek**  
**Partner**

Mohamed has been working for the biggest international professional firms for more than twenty three years. Mohamed's experience in auditing covers a variety of international and major local clients working in different business segments such as; Energy, industrial, communications, financial institutions, and consumer markets. He is also the partner in charge for the professional risk management and independence department in the firm. Mohamed participated in carrying out major transaction service assignments including Due Diligence Assistance and other advisory engagements . He is also a Fellow of the American Institute of Certified Public Accountants (CPA.)



**Ahmed Helmy**  
**Partner**

Ahmed Helmy has more than 24 years experience. He is the Head of Marketing and the Head of Consumer Markets LOB in Egypt with over twenty-five years with KPMG Hazem Hassan and other biggest international professional firms. He is member of the American Institute of Certified Public Accountants (CPA)-USA, Member of the Egyptian Society of Accountants and Auditors (ESAA)



**Hassan Basyouni**  
**Partner**

Hassan has been working for KPMG for more than 22 years . He is a Fellow of the American Institute of Certified Public Accountants- USA & the Egyptian Society of Accountants and Auditors.

**A. 2 Details of those charged with governance at KPMG Hazem Hassan (Cont.)**



**Aly Helmy**  
**Partner**

Aly has been working for KPMG for 24 years. He is currently the partner in charge for Global, International and Key national clients working in a variety of business segments such as; industrial markets, and consumer markets. He is Fellow of the American Institute of Certified Public Accountants (CPA) and Fellow of the Egyptian Society of Accountants and Auditors (FESAA).

## A. 2 Details of those charged with governance at KPMG Hazem Hassan (Cont.)

Number of meetings attended during the year ended 31 December 2017

Board Member	No. meetings available	No. attended
Hazem Hassan	5	5
Hatem Montasser	5	5
Ehab Abouelmagd	5	5
Aziz Maher	5	5
Mohamed Alaam	5	5
Haytham El Mansy	5	5
Mohamed Tarek	5	5
Samy Abdelhafiz	5	5
Ali Helmy	5	5
Ahmed Helmy	5	5
Ahmed Raafat	5	5
Hassan Basyoni	5	5

### A. 3 Public Interest Entities

The list of public interest entity audit clients for which KPMG Hazem Hassan has signed an audit opinion in the year ended 31 December 2017 is given below. In the absence of specific definition by local law the definition of public interest entities for this purpose are listed entities as defined by the IESBA Code of Ethics (an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body) together with entities regulated by the following local regulatory bodies where enhanced independence requirements are required:

**The Egyptian Financial Supervisory Authority (EFSA)** is a public Authority, having a legal status, established in accordance with law 10 of the year 2009 responsible for supervising and regulating non-banking financial markets and instruments,

**I. Central Bank of Egypt (CBE)** , supervising the banking sector.



### A. 3 Public Interest Entities

Abu Dhabi Brokerage Egypt
Al- Ahli Capital Holding company S.A.E
Al Ezz Ceramic and Porcelain (GEMMA)
Al Ezz Flat Steel Company
Al Ezz Group Holding Co. for Industry & Investment
Alder Burke Investments Ltd
Alied Corporation - Egypt
Alwafa Foundation
American University in Cairo
Andalusia Trading Investment Ltd
Arab Administrative Development Organization
Arab African International Bank Fourth Fund
Arab african International bank money market fund - juman
Arab African International Bank Mutual Fund for Investing in Fixed Incom Instruments
Arab African International Securities
Arab African Investment Managment company
Arab Banking Corporation Egyptian Pound Cash Mutual Fund - Mazaya
Arab Banking Corporation Egyptian Pound Cumulative
Arab Company for Financial Investment
Arab Fund and Portofolio Management
Arab Office for Youth&Environment "AOYE"
Arabeya Online Bokerage Company
Ayady for Microfinance Company
Bank Audi Monetary Market Fund
Bank of Alexandria Fixed Income Fund
Beltone Gems Equity Fund Limited
Blom Bank Egypt
Cairo Financial Investments Co.
Cairo Funds Management co.
Cairo Poultry Company
Cardinal Vine Investment ltd
Chicago House Epigraphic Survey
CI Assets Management
CI capital Holding
CI Capital Investment Banking
CIB's Foundation



### A. 3 Public Interest Entities – cont.

Egyptian Abroad for Investment Co.
Egyptian Banks Co. for Technological Advancement
Egyptian Bussiness Association
Egyptian exporter association
Egyptian Fund management Group
Egyptian Hotel Association
Egyptian Liver Care Society
Egyptian Portfolio Management Group
Egyptian Saudi Insurance House
Egyptian Telecom for Information Systems
Egyptian Union for Mortgage Finance
El Ahly for Development And Investment Company
El ezz Organization for the development of local society
EL Sewedy Electric
El Taamir Finance Leasing Co.
El Taamir For Real Estate Development
El Taamir Mortgage Finance
Ezz El Arab / Contact Financial
Ezzsteel
Fedration of Egyptian Banks
Financial Brokerage Group
Financial unlimited for financial consulting
Fincorp Investment holding
Flemming CIIC Securities
Flemming CIIC Corporate Financne
Flemming CIIC Holding
Flemming El Mansour Securities
Friends of children with cancer Association
fund sons association
GB Auto Co
GB Capital Holding for Financial Investment
GB Lease Finance
HC Brokerage Compny
HC Investment & Securities Company
Hermes Corporate Finance
Hermes Fund Management
Hermes Securities Brokerage

### A. 3 Public Interest Entities – cont.

I The Egyptian
Insurance Federation of Egypt
JOINT ARAB INVESTMENT CORP.
Juhayna Food Industries
Kafr El Zayat Pesticides and Chemicals Company
Karnak Investments Limited
Libano swiss Takaful Egypt
Lotus Alliance Ltd Co.
Loyalty and Belongs fund for telecom Egypt employees
magdi Yacoub Foundation
Majid Al Futtaim Properties Egypt
MAS FOR PLASTIC INDUSTRY
MC Egypt
Mercedes - Benz Egypt
Misr Iran Developmment Bank Mutual Fund (Second)
Misr Refrigeration and Air Conditioning Co. (Miraco)
MOTHERS ASSOCIATION
National Automotive co. (NATCO)
National Bank of Egypt for Exchange company(AI-Ahly Exchange )
National Steel Fabrication Co.
OCI Fertilizer Finance Limited
OCI N.V.
Onex Holding
Orange One
Orascom Construction Industries Company
Orasqualia Construction S.A.E
Orient Investment Properties Ltd
ORIX Leasing Egypt
Pharos Mutual Fund 1
RGI Investment S.A.E
Ring Co.for Construction and development - Icon
Rooya insurance brokerage company
Rowad Tourism Co. (Pioneers)
Sakan Finance
Sarwa Asset Management
Sarwa Capital for Financial Consultation
Sarwa for Securtization

### A. 3 Public Interest Entities – cont.

Sarwa promotion
Sawiris Foundation for sosial development
Shefaa association
Social cultural and sports care fund for employees of sales tax authority
Social Fund for Development
Star Auto Credit
Star Insurance Brokerage
T E Investment holding
T. E. Data
Tahia Masr Fund
Tanmeyah Micro Enterprises Services S.A.E
Tasahel for Microfinance
Telecom Egypt
The United Bank
Toki Marine Egypt Family Takaful
Toki Marine Egypt General Takaful
University Educational Endowment
Valencia Regional Investments Ltd
Wafaa L Misr Foundation
World Organisation of the Scout Movement - Arab Region
Zewail City of Science and Technology

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