



KPMG Baltics SIA

Transparency Report 2017

KPMG Baltics SIA
January 2018
This report contains 45 pages



Contents

1	Message from the local Senior Partner	1
2	Who we are	2
2.1	Our business	2
2.2	Our strategy	2
3	Our structure and governance	3
3.1	Legal structure	3
3.2	Name, ownership and legal relationships	3
3.3	Responsibilities and obligations of member firms	3
3.4	Organizational and management structure	4
4	System of quality control	5
4.1	Overview	5
4.2	Culture and tone at the top	6
4.2.1	Leadership responsibilities for quality and risk management	8
4.3	Association with the right clients	9
4.3.1	Acceptance and continuance of clients and engagements	9
4.3.2	Prospective client and engagement evaluation process	9
4.3.3	Continuance process	10
4.3.4	Withdrawal	10
4.3.5	Client portfolio management	10
4.4	Clear standards and robust audit tools	10
4.4.1	Audit methodology and tools	11
4.4.2	Data & Analytics (D&A) and Clara	11
4.4.3	Independence, integrity, ethics and objectivity	12
4.5	Recruitment, development and assignment of appropriately qualified personnel	16
4.5.1	Recruitment	17
4.5.2	Personal development	17
4.5.3	Inclusion and Diversity programs	17
4.5.4	Performance & Reward	17
4.5.5	Assignment of professionals	18
4.5.6	Insights from our people – Global People Survey (GPS)	19
4.6	Commitment to technical excellence and quality service delivery	19
4.6.1	Lifetime learning strategy	20
4.6.2	Licensing	20
4.6.3	Access to specialist networks	20
4.6.4	Consultation	21
4.6.5	Developing business understanding and industry knowledge	21
4.7	Performance of effective and efficient audits	22



4.7.1	KPMG Audit Process	22
4.7.2	Client confidentiality, information security, and data privacy	26
4.8	Commitment to continuous improvement	26
4.8.1	Internal monitoring and compliance programs	27
4.8.2	External feedback and dialogue	30
5	Financial information	31
6	Partner and Certified Auditor remuneration	32
7	Network arrangements	33
7.1	Legal Structure	33
7.2	Responsibilities and obligations of member firms	33
7.3	Professional Indemnity Insurance	34
7.4	Governance structure	34
7.5	Area Quality & Risk Management Leaders	35
8	Statement by the Board of KPMG Baltics SIA on the effectiveness of quality controls and independence	36
9	Details of those charged with governance at KPMG Baltics SIA	37
10	Public Interest Entities	38
11	KPMG values	39
12	KPMG audit firms in EU/EEA countries	40



1 Message from the local Senior Partner

Welcome to the 2017 KPMG Baltics SIA (KPMG, KPMG in Latvia or we¹) Transparency Report, covering the financial year to 30 September 2017.

KPMG has an unwavering commitment to quality and integrity. It begins with the extraordinary people we recruit and the values we instill in developing professionals committed to meeting our responsibilities to clients, capital markets, regulators, communities and the public. Our culture of 'doing the right thing' means the way we work is just as important as the work itself. KPMG is committed to quality and service excellence in every project, bringing our best to clients across geographies and sectors. Each KPMG person has a part to play in delivering quality to clients, and appreciates their critical role and purpose in building trust with the public. We aspire to make KPMG the standard of trust in our profession based on one central tenet: trust is not a given — it must be earned. In this Transparency Report, we take the opportunity to provide our stakeholders with a succinct description of how we implement KPMG International's system of quality control and audit quality initiatives, including our focus on continuous improvement and, notably, how KPMG is:

- **Building public trust** and inspiring confidence in capital markets by bringing to life our commitment to quality, ethics and integrity through our culture and values.
- **Ensuring that our people are extraordinary** by finding and nurturing talent, creating high-performing teams and deploying talented, well-trained personnel globally to help deliver insights and innovative ideas.
- **Supporting a relentless focus on quality and excellence** in client engagements, and providing valued insights, so that clients see a difference in us.
- **Driving continuous improvement** through robust quality monitoring, with an increased focus on getting to the root cause of quality issues and effective remediation.

We are committed to working closely with regulators, audit committees, investors and businesses to meet the expectations of stakeholders and welcome ongoing dialogue as we strive for continuous improvement.

This Transparency Report for KPMG Baltics SIA is produced in accordance with the requirements set by Article 33¹ of the Law on Audit Services effective in the Republic of Latvia.

Riga, 31 January 2018

Armine Movsisjana
Senior Partner
KPMG Baltics SIA

¹ Throughout this document, "KPMG" ("we," "our," and "us") refers to KPMG Baltics SIA. KPMG Baltics SIA is a member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"). KPMG International, a Swiss entity, provides no client services.



KPMG Baltics SIA
Transparency Report 2017
January 2018

2 Who we are

2.1 Our business

KPMG Baltics SIA is a professional services firm that delivers audit, tax and advisory services. We operate out of one office in Riga, Latvia and had an average of 131 personnel in the year to 30 September 2017 (2016: 124).

Our audit services in Latvia are delivered through KPMG Baltics SIA. Full details of the services offered by KPMG Baltics SIA can be found on our website kpmg.com/lv.

2.2 Our strategy

Our strategy is set by the Board of KPMG Baltics SIA and has remained consistent for some time. It has determined that our overall ambition remains to be the number one multi-disciplinary professional services firm in Latvia.



3 Our structure and governance

3.1 Legal structure

KPMG Baltics SIA 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 Appendix 1 to the [KPMG International Transparency Report](#).

KPMG Baltics SIA 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 Baltics SIA is a Latvian Limited Liability Company, with its registered head office in Riga, Vesetas iela 7. It is owned by KPMG CEE Holdings Limited (50.01%) and KPMG KS (49.99%). KPMG Baltics SIA is governed by the legislation of the Republic of Latvia and it is a registered audit firm. During the year to 30 September 2017, the firm had an average of 7 certified auditors (2016: 7).

Also, there is KPMG Law Firm operating in Latvia from its registered head office in Riga, Vesetas iela 7, providing legal services.

3.2 Name, ownership and legal relationships

KPMG is the registered trademark of KPMG International and 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.

3.3 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 KPMG Values (Refer to [Section 11](#)).



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.

3.4 Organizational and management structure

The Board

The Board in Latvia met four times during the year ended 30 September 2017. A schedule of matters to be monitored regularly by the Board includes matters of fundamental importance to the company such as its commitment to quality, operating and financial performance, annual business plans and budgets, new business proposals (considered individually), marketing, technology development, recruitment and retention, remuneration and risk management policies.

Appointments to the Board are made by the Chairman after consultation with KPMG CEE Holdings Ltd. The members of the Board as at the date of this report were:

- Armine Movsisjana (Chairman)
- Inga Lipšāne
- Irēna Sarma
- Valda Užāne

Governance

The networks appoints partners that are responsible for governance of the member firm. During the year to 30 September 2017, there were 3 partners in KPMG Baltics SIA (2016: 3 partners).

- Armine Movsisjana (Senior Partner)
- Ondrej Fikrle
- Steve Austwick

The partners meet on a regular basis and are responsible for compliance of the strategy, operations, quality of service and financial performance of KPMG Baltics SIA with the Board's decisions and the goals and values of the KPMG network.

4 System of quality control

4.1 Overview

A robust and consistent system of quality control is an essential requirement in performing high quality services.

Accordingly, KPMG International has quality control policies that apply to all member firms.

These are included in KPMG's Global Quality & Risk Management 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 and 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 Baltics SIA implements KPMG International policies and procedures and adopts additional policies and procedures that are designed to address rules and standards issued by Latvian Association of Certified Auditors and other relevant regulators as well as applicable legal and regulatory requirements.²

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 Baltics SIA is required to implement changes specified in the e-mail alerts and this is checked through internal monitoring.

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

The system of quality control applies to KPMG personnel. 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 of quality audits.

Audit quality framework

At KPMG Baltics SIA audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought, and integrity behind the auditors' report. The outcome of a quality audit is the delivery of an appropriate and

² All the references to 'KPMG policies' or 'our policies' refer to the KPMG International policies and to the additional KPMG Baltics SIA policies together.

independent opinion in compliance with the relevant professional standards and applicable 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 adopted by all KPMG member firms, including KPMG Baltics SIA 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.

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 drivers is described in more detail in the following sections of this report.



4.2 Culture and 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 Baltics SIA we promote a culture in which consultation is encouraged and recognized as a strength.



KPMG Baltics SIA

Transparency Report 2017
January 2018

Tone at the top means that KPMG Baltics SIA leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, 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 Baltics SIA. 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.

Our Values are set out in [Section 11](#).

Code of conduct

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

KPMG International’s 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 principles, and helps partners and employees at KPMG Baltics SIA to understand and uphold those principles. 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 includes provisions that require KPMG personnel to:

- comply with all applicable laws, regulations and KPMG Baltics SIA policies;
- report any illegal acts, whether committed by KPMG Baltics SIA personnel, clients or other third parties;
- report breaches of KPMG policies;
- uphold the highest levels of client confidentiality; and
- not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

All KPMG Baltics SIA 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.

In addition, the KPMG International hotline is a mechanism for KPMG partners, employees, clients and other external parties to confidentially report concerns they have



KPMG Baltics SIA

Transparency Report 2017
January 2018

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 Baltics SIA, we regularly monitor the extent to which our people feel we live our Values through the Global People Survey.

4.2.1 Leadership responsibilities for quality and risk management

KPMG Baltics SIA 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 Baltics SIA.

Senior Partner

In accordance with the principles in ISQC 1, our Senior Partner Armine Movsisjana has assumed ultimate responsibility for the system of quality control at KPMG Baltics SIA. She is responsible for firm-wide risk management, all professional practice matters, regulatory relationships, approval of all new service offerings and development of all methodologies and tools.

Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG Baltics SIA has been delegated to the Risk Management Partner (RMP) Steve Austwick who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for firm. RMP has a direct reporting line to the Senior Partner. RMP consults with the appointed Area Quality and Risk Management Leaders.

Ethics and Independence Partner (EIP)

The Ethics and Independence Partner Steve Austwick has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Baltics SIA and reports on ethics and independence issues to the Senior Partner or member firm leadership.

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 Baltics SIA 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; and
- 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.

4.3 Association with the right clients

4.3.1 Acceptance and continuance of clients and engagements

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

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.

4.3.2 Prospective client and engagement evaluation process

KPMG Baltics SIA 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. A second partner, as well as the client service partner, approves each prospective client evaluation. Where the client is considered to be ‘high risk’ the Risk Management Partner or an experienced delegate is involved in approving the evaluation.

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors is 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 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 KPMG Baltics SIA 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.

We follow specific procedures 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.

4.3.3 Continuation process

KPMG Baltics SIA undertakes an annual re-evaluation of all its audit clients. The re-evaluation identifies any issues in relation to continuing association and any 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.

4.3.4 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.

4.3.5 Client portfolio management

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

4.4 Clear standards and robust audit tools

All professionals of KPMG Baltics SIA are expected to adhere to KPMG International and KPMG Baltics SIA 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.

4.4.1 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 the International Standards on Auditing (ISAs). The global audit methodology is set out 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 global audit methodology is supported by eAudit, KPMG International's electronic audit tool, which provides KPMG Baltics SIA 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 effectiveness and efficiency and delivering value to stakeholders.

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 Quality & Risk Management Manual that is applicable to all KPMG member firms, functions and personnel.

4.4.2 Data & Analytics (D&A) and Clara

Technology and innovation are changing the way we execute our audit engagements, empowering our people to deliver greater quality and value. Making data and analytics (D&A) a core part of the KPMG audit is critical to our mission of driving audit quality.

KPMG Clara, the KPMG smart audit platform, was launched in mid-2017. It puts technology and D&A right at the heart of our approach, bringing advanced capabilities and knowledge together in one environment.

KPMG Clara will integrate all of KPMG's advanced capabilities and knowledge, and empower our people to work in smarter ways, unlocking the power of innovation to help deliver a robust and leading-edge audit. It is our gateway to continued audit innovation, and incremental additions will be made over time.

Further details on innovation in audit tools and technology are set out in the [KPMG International Annual Review](#).

4.4.3 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 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.

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 Baltics SIA has a designated Ethics and Independence Partner who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Baltics SIA.

Amendments to KPMG International's ethics and independence policies in the course of the year are communicated in regular quality and risk communications. Member firms are required to implement changes as specified in the email alerts, and this is checked through the internal monitoring programs described in [Section 4.8.1](#).

The personnel of KPMG Baltics SIA are required to consult with the EIP on certain matters as defined in the Global Quality & Risk Management Manual.

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.

The professionals of KPMG Baltics SIA are responsible for making appropriate inquiries and taking other appropriate actions on an on-going 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 personnel 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 five business days of the



notification. We monitor partner and manager compliance with this requirement as part of our programme of independence compliance audits of a sample of professionals.

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 Baltics SIA are prohibited from joining an audit client in certain roles unless they have disassociated from KPMG Baltics SIA financially and have ceased participating in the business and professional activities of KPMG Baltics SIA.

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 '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 Baltics SIA professionals by audit clients.

Firm financial independence

KICS is used by all KPMG member firms, including KPMG Baltics SIA, to record own investments in locally listed companies and funds, direct and material indirect investments held in pension and employee benefit plans (including non-public entities and funds), and investments in SEC entities and affiliates (including funds), if relevant.

Additionally, KPMG Baltics SIA 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 Baltics SIA confirms compliance with independence requirements as part of the Risk Compliance Program.

Business relationships/suppliers

KPMG Baltics SIA 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 other applicable independence requirements.

Independence clearance process

KPMG Baltics SIA 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.

Independence training and confirmations

KPMG Baltics SIA provides all relevant personnel (including all partners and client service professionals) with independence training that is appropriate to their grade and



KPMG Baltics SIA

Transparency Report 2017

January 2018

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 Baltics SIA 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 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.

Non-audit services

We have policies as to the scope of services that can be provided to audit clients that are consistent with both IESBA principles and rules and regulation of the Latvian Association of Certified Auditors, which address the scope of services that can be provided to audit clients.

We have established and maintain a process to review and approve all new and modified services that are developed by the KPMG Baltics SIA or adopted from another member firm. The 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. Lead audit engagement partners are required to maintain group structures for their publicly traded and certain other audit clients and their affiliates in the system and to 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. The system 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.

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 Engagement Quality Control (EQC) reviewer.

No audit client accounted for more than 10 percent of the total fees received by KPMG Baltics SIA 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 Risk Management Partner or the Ethics and Independence Partner is required in these situations.

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 has risk management resources who are 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.

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 Baltics SIA 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 Baltics SIA 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. 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 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 Baltics SIA 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.

Audit Partner and Certified Auditor 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.

Our audit engagement partners and certified auditors 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 and certified auditors in certain roles may provide statutory audit services to a client, followed by a “time-out” period during which time these partners and certified auditors 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 Baltics SIA monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and EQC Reviewer and Certified Auditor, 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 and certified auditor rotation monitoring is subject to compliance testing.

4.5 Recruitment, development and assignment of appropriately qualified personnel

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’.



4.5.1 Recruitment

KPMG Baltics SIA 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.

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 Baltics SIA recruited over 54 new people in the year ended 30 September 2017 (2016: approximately 50).

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 Baltics SIA does not accept any confidential information belonging to the candidate's former firm/employer.

4.5.2 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 in addition to technical skills.

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.

Our 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.

4.5.3 Inclusion and Diversity programs

KPMG Baltics SIA 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 Baltics SIA and across the KPMG network.

4.5.4 Performance & Reward

Evaluation process including quality and compliance metrics

Our 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 Baltics SIA 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 Baltics SIA policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

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.

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.

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 process of KPMG Baltics SIA for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the KPMG Baltics SIA 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.

4.5.5 Assignment of professionals

KPMG Baltics SIA has procedures in place to assign both the engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, 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 specialists from our own firm or other KPMG member firms.

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 Baltics SIA's quality control policies and procedures; and
- QPR results and results of regulatory inspections.

4.5.6 **Insights from our people – Global People Survey (GPS)**

Annually KPMG Baltics SIA 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 Baltics SIA 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.

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

All professionals of KPMG Baltics SIA are provided with the technical training and support they need. This includes access to specialists and the professional practice department (DPP), 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 Baltics SIA, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

At the same time audit policies require professionals to have the appropriate knowledge and experience for their assigned engagements. KPMG Baltics SIA structure enables our engagement teams to apply their business understanding and industry knowledge to maintain audit quality and deliver valued insights.

4.6.1 [Lifetime learning strategy](#)

In addition to personal development discussed 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 Baltics SIA. 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.

Mentoring and on the job training

Learning is not confined to the classroom — rich learning experiences are available 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.

4.6.2 [Licensing](#)

All professionals of KPMG Baltics SIA are required to comply with applicable professional license rules and satisfy the Continuing Professional Development (CPD) requirements in Latvia. 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 financial reporting framework of the Republic of Latvia.

4.6.3 [Access to specialist networks](#)

KPMG Baltics SIA engagement teams have access to a network of local KPMG 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, Treasury, Actuarial, Forensic, 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.

4.6.4 Consultation

KPMG Baltics SIA 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.

Auditing and technical accounting support is available to all member firms and their professionals through the GSC and the ISG as well as the US 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 ISAs 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.

Further details about the GSC and ISG and its activities are available in the [KPMG International Transparency Report](#).

4.6.5 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, which is made available to audit professionals 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.

4.7 Performance of effective and efficient audits

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

4.7.1 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, manager and certified auditor 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; and
- robust challenge and review, including EQC review.

Timely partner, manager and certified auditor 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 and certified auditor 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 and certified auditor 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 and certified auditor is responsible for the final audit opinion and reviews key audit documentation. In particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaison with the client and team, building 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 critically assess audit evidence obtained from all sources. 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.

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; and
- 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.

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 Baltics SIA 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 that arise during the audit and modifying the planned approach appropriately; and

- 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.

Appropriately supported and documented conclusions

KPMG Baltics SIA 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 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, 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); and
- the basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.

Appropriate involvement of the Engagement Quality Control (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 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 Baltics SIA is continually seeking to strengthen and improve the role that the EQC review 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 practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers;
- incorporating specific procedures in eAudit to facilitate effective reviews; and
- 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.

Reporting

Auditing standards and the Law on Audit Services effective in Latvia 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. All audit opinions are formed by experienced engagement partners and certified auditors based on the audit performed.

In preparing auditors' reports, engagement partners have access to extensive reporting guidance and technical support through consultations with Departments of Professional Practice, especially 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. All audit opinions are signed by certified auditors on behalf of the firm.

Effective for December 2016 year-ends onwards 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.

Insightful, open, and honest two-way communication

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

At KPMG Baltics SIA 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; and
- an annual written communication that states the engagement team and KPMG Baltics SIA have complied with relevant independence requirements, describes all relationships and other matters between KPMG Baltics SIA and the audit client that, in our professional judgment, may reasonably be thought to bear on independence, and 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.

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.

4.7.2 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 applicable laws, standards and regulations valid in the Republic of Latvia.

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 personnel of KPMG Baltics SIA.

4.8 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 Baltics SIA compares the results of its internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

4.8.1 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; and
- KPMG Baltics SIA 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 the integrated monitoring programs are communicated internally, and the overall results and lessons from the programs are considered and appropriate action 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 Baltics SIA conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG Baltics SIA 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 engagement (defined as 'Performance Improvement Needed' or 'Unsatisfactory') ratings on their respective cross-border engagements. Additionally, lead audit engagement partners of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR.

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 Baltics SIA system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services; and
- Provide the basis for KPMG Baltics SIA 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 actions plan.

Global Compliance Review (GCR) program

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

The GCR provides external validation 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; and
- The completeness and robustness of our RCP.

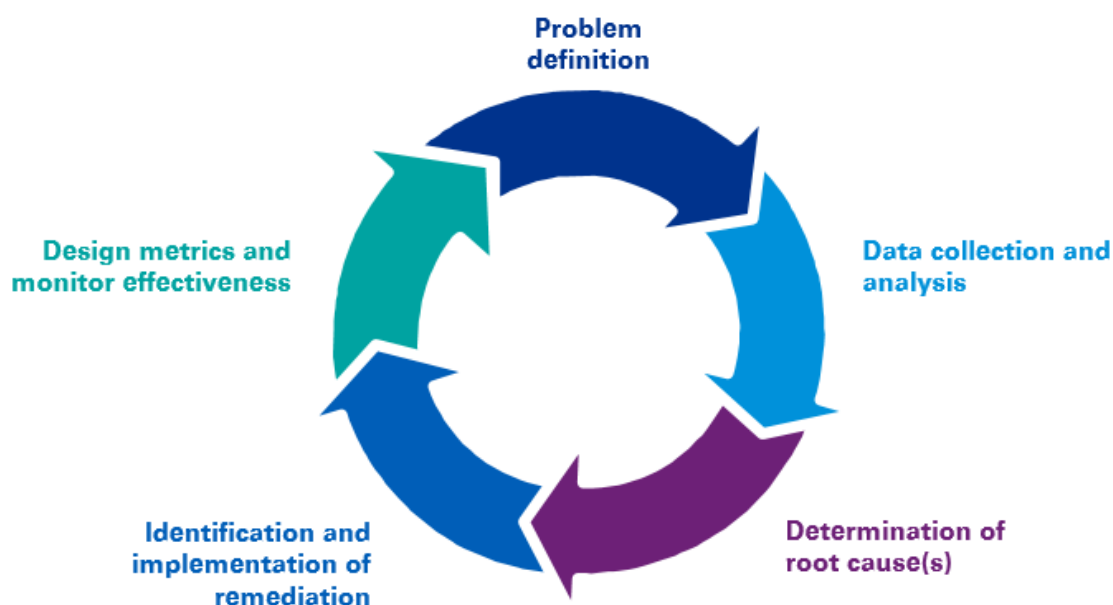
The GCR team performing the reviews is independent of KPMG Baltics SIA, objective and knowledgeable of Global Quality and Risk Management policies.

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

Root Cause Analysis (RCA)

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

The Global RCA 5 step principles are as follows:



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.

The Head of Audit at KPMG Baltics SIA 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 review the results of the quality monitoring programs, analyze member firm root causes and action plans and develop 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.

4.8.2 External feedback and dialogue

Regulators

The Ministry of Finance in cooperation with the Latvian Association of Certified Auditors has been carrying out independent inspections for a number of years. They completed their work on the 2016 inspection of KPMG Baltics SIA on 25 October 2016. The external inspections did not identify any issues that have a material impact on the conduct of our statutory audit business.

At an international level, 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 third party surveys to monitor their satisfaction with services delivered. We endeavor to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients' needs.

We have effective procedures in place for handling complaints received from clients relating to the quality of our work. In most other cases, the Senior Partner of KPMG Baltics SIA is responsible for handling complaints and concerns.



5 Financial information

Revenues of KPMG Baltics SIA in the financial year ended 30 September 2017. The table below presents audited revenues for the above reporting period:

EUR'000	30-Sep-2017
Statutory audit of public interest entities and entities belonging to a group of undertakings whose parent undertaking is a PIE	1,787
Statutory audit of other entities	1,550
Permitted non-audit service to entities audited by KPMG Baltics SIA	733
Non-audit services to other entities	3,873
Total	7,943



6 Partner and Certified Auditor remuneration

Partner remuneration

Partners are remunerated out of the distributable earnings of the firm and are personally responsible for funding pensions and most other benefits. The Senior Partner monitors the allocation of earnings between partners of KPMG Baltics SIA to ensure that a consistent approach is adopted and that remuneration is determined by objectives set for each partner on a number of matters relevant to their role in the group. These include quality of work, performance in client service, growth in revenue and profitability, leadership and living the values of the firm. Audit partner remuneration setting takes no account of the level of non-audit services provided to the partner's audit clients. The Senior Partner reports to the Chairman of the KPMG CEE region in all respects and in respect of all remuneration allocations to partners of KPMG Baltics SIA.

Certified auditor remuneration

Certified auditors who are not partners are remunerated on a salary basis. The salary consists of a fixed amount defined on an annual basis and benefits that are paid upon meeting certain objectives. These include financial results of the audit department, performance in client service, quality of work, leadership and living the values of the firm. The remuneration of certified auditors takes no account of the level of non-audit services provided to audit clients.

7 Network arrangements

7.1 Legal Structure

The independent member firms of the KPMG 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 member firms.

One of the main purposes of KPMG International is to facilitate the provision by 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, 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 that 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.

The name of each audit firm that is a member of the network and the EU/EEA countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available in [Section 12](#).

Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements³

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.7 billion during the year ending 30 September 2017. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2017.

7.2 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.

³ The financial information set forth represents combined information of the separate KPMG member firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.



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

7.3 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.

7.4 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 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. Sub-licensees are generally indirectly represented by a member.

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 and ratifies the Global Chairman's appointment of the Global Deputy Chairman.

The Global Board includes the Global Chairman, 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.

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 1 October 2017 is available in the International Annual Review.

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; and
- 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 [KPMG International Transparency Report](#).

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 [KPMG International Transparency Report](#).

7.5 Area Quality & Risk Management Leaders

The Global Vice Chair — Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders who:

- assess the effectiveness of a member firm’s quality and risk management efforts to identify and mitigate significant risks to the member firm and network, actively monitor alignment with global quality and risk management strategies and priorities;
- share leading best practices in quality and risk management; and
- report to Global Vice Chair – Quality, Risk and Regulatory.

8 Statement by the Board of KPMG Baltics SIA 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 Baltics SIA 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 Baltics SIA 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 [Section 4.7.1](#) 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 Baltics SIA confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 September 2017.

Further, the Board of KPMG Baltics SIA confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2017.

Riga, 31 January 2018

Armine Movsisjana

Valda Užāne

Inga Lipšāne

Irēna Sarma

9 Details of those charged with governance at KPMG Baltics SIA



Armine Movsisjana

National Senior Partner

Armine Movsisjana is National Senior Partner of KPMG Baltics SIA and Head of Audit in Latvia.



Steve Austwick

Partner

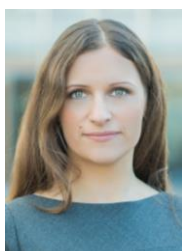
Steve Austwick is Partner of KPMG Baltics SIA and he leads the practice of tax and legal services in Latvia.



Ondrej Fikrle

Partner

Ondrej Fikrle is Partner of KPMG Baltics SIA responsible for the provision of audit services to clients of the financial sector and for matters relating to people, performance and culture.



Evija Miezite

Partner, from 1 October 2017

Evija Miezite is Partner of KPMG Baltics SIA and she leads the advisory services in Latvia.

10 Public Interest Entities

In accordance with the Latvian Law on Audit Services, KPMG Baltics SIA has provided audit services to the following public interest entities in the year ended 30 September 2017 are as follows:

- ABLV Bank AS
- ABLV Asset Management IPAS
- Balcia Insurance SE
- Balta AAS
- Baltic International Bank AS
- Blue Orange Bank AS
- BTA Baltic Insurance Company AAS
- Citadele Banka AS
- CBL Asset Management IPAS
- CBL Atklātais pensiju fonds AS
- CBL Life AAS
- Indexo IPAS
- Gjensidige Baltic AAS
- Latvijas Kuģniecība AS
- Latvijas Jūras Medicīnas Centrs AS
- New Hanza Capital AS
- Meridian Trade Bank AS
- Pirmais Slēgtais Pensiju Fonds
- PrivatBank AS
- Rietumu Banka AS
- Rietumu Asset management IPAS
- Signet Bank AS
- Singet Asset Management IPAS



11 KPMG values

KPMG people work together to deliver value to clients. We believe strongly in a common set of shared values which guide our behavior when dealing with both clients and each other:

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

12 KPMG audit firms in EU/EEA countries

Location	Firm Name
Austria	KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Wien)
Austria	KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Linz)
Austria	KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Wien)
Austria	KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Linz)
Austria	KPMG Niederösterreich GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
Austria	Plan Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Linz)
Austria	Plan Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Wien)
Austria	Securitas Revisions- und Treuhandgesellschaft m.b.H.
Austria	T&A Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH
Austria	Treuhand - Salzburg GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
Austria	K 17 Wirtschaftsprüfungs GmbH
Austria	K 41 Wirtschaftsprüfungs GmbH
Austria	KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH
Austria	KPMG Burgenland Wirtschaftstreuhand GmbH
Austria	SKP Schüßling, Kofler & Partner GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
Austria	THS Wirtschaftsprüfungs- und Steuerberatungsgesellschaft m.b.H.
Belgium	KPMG Bedrijfsrevisoren/KPMG Réviseurs d'Entreprises
Bulgaria	KPMG Bulgaria OOD
Croatia	KPMG Croatia d.o.o. za reviziju
Cyprus	KPMG Limited
Czech Republic	KPMG Ceska republika Audit, s.r.o.
Denmark	KPMG P/S
Estonia	KPMG Baltics OÜ
Finland	KPMG Oy Ab
Finland	KPMG Julkishallinnon Palvelut Oy
France	Avignon Experts Comptables
France	CEGEST
France	FUTIN Associés
France	KPMG Audit DFA S.A.S.
France	KPMG Audit Est S.A.S.
France	KPMG Audit FS I S.A.S.
France	KPMG Audit ID S.A.S.
France	KPMG Audit IS S.A.S.
France	KPMG Audit Nord S.A.S.
France	KPMG Audit Normandie S.A.S.
France	KPMG Audit Ouest S.A.S.
France	KPMG Audit Paris et Centre S.A.S.
France	KPMG Audit Rhône Alpes Auvergne S.A.S.
France	KPMG Audit Sud-Est S.A.S.



KPMG Baltics SIA

Transparency Report 2017

January 2018

Location	Firm Name
France	KPMG Audit Sud-Ouest S.A.S.
France	KPMG SA
France	KPMG Tartaroli
France	SALUSTRO REYDEL S.A.
France	SAS de Commissaires aux Comptes Berthoud Coldefy Chabaliér
France	SEGEC
France	SGADG
Germany	KPMG AG Wirtschaftsprüfungsgesellschaft
Germany	ATH Allgemeine Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft
Germany	EUREVISIO GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft
Germany	KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft
Germany	KPMG Prüfungs- und Beratungsgesellschaft für den Öffentlichen Sektor Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Gibraltar	KPMG Limited
Greece	KPMG Certified Auditors AE
Hungary	KPMG Hungária Kft./KPMG Hungary Ltd.
Iceland	KPMG ehf.
Ireland	KPMG
Italy	KPMG S.p.A.
Italy	KPMG Audit S.p.A.
Latvia	KPMG Baltics SIA
Liechtenstein	KPMG (Liechtenstein) AG
Lithuania	'KPMG Baltics' UAB
Luxembourg	KPMG Luxembourg
Malta	KPMG
Netherlands	KPMG Accountants N.V.
Norway	KPMG Holding AS
Norway	KPMG AS
Poland	KPMG Audyt Sp. z.o.o.
Poland	KPMG Audyt Sp. z.o.o. Sp. Komandytowa
Portugal	KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
Romania	KPMG Audit SRL
Slovakia	KPMG Slovensko spol. s r.o.
Slovenia	KPMG Slovenija, podjetje za reviziranje, d.o.o.
Spain	KPMG Auditores, S.L.
Sweden	KPMG AB
United Kingdom	KPMG LLP
United Kingdom	KPMG Audit Holdings Limited
United Kingdom	KPMG Audit Plc
United Kingdom	KPMG Holdings Limited
United Kingdom	KPMG Overseas Services Limited



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