

# TRANSPARENCY REPORT

**BDO Bulgaria Ltd.**

**for 2011**



# Introduction

This report is published in accordance with the requirements of Art. 40m of the Independence Financial Audit Act and applies Art. 40 of the Statutory Audit Directive 2006/43/EU.

30 March 2012

BDO Bulgaria Ltd.



Stoyanka Apostolova, CPA  
Managing Partner



Bogdanka Sokolova, CPA  
Managing Partner

# Legal Structure and ownership of the firm

BDO Bulgaria is a limited liability company registered in the Trade Register under identification number 831255576. The subject of activity includes auditing and accounting services according to the Independent Financial Audit Act and the Accountancy Act. The company is included in the list of the companies - registered auditors of the Institute of Certified Public Accountants in Bulgaria under No. 16.

The shareholders of the company are Stoyanka Apostolova, diploma for certified public accountant (CPA) No. 0046 issued in 1991, registered in the list of individuals - registered auditors at the Institute of Certified Public Accountants in Bulgaria, holding 50% of the share capital at the amount of BGN 5,000 and Bogdanka Sokolova, diploma for certified public accountant (CPA) No. 0168 issued in 1993, registered in the list of individuals - registered auditors at the Institute of Certified Public Accountants in Bulgaria, holding 50% of the share capital at the amount of BGN 5,000.

The firm has two offices in Sofia and in Plovdiv, where the seat of the subsidiary registered in 2011 BDO PLOVDIV Ltd. is located. The total number of staff is 3 partners and more than 60 employees. The total number of certified auditors is 6, including 2 Partners - registered auditors at the Institute of CPA in Bulgaria, 2 Managers - registered auditors at the Institute of CPA in Bulgaria, 1 Manager - CPA (USA), 1 Manager - IS Auditor certified by CISA.

BDO Bulgaria is a member firm of BDO International.

# Description of the network

The BDO network is an international network of public accounting firms, the BDO member firms, which perform professional services under the name and style of BDO. BDO is the brand name for the BDO network and all BDO member firms. 'BDO' and 'BDO International' are trademarks of Stichting BDO.

# Legal and structural arrangements in the network

Each BDO member firm is a member of BDO International Limited, a UK company limited by guarantee, either a voting member (one per country) or a non-voting member.

The BDO network is governed by the Council, the Policy Board and the Executive (or Global Leadership team) of BDO International Limited.

The Council comprises one representative from each voting member and comprises the members of BDO International Limited in general meeting. The Council approves budgets, appoints the Policy Board and approves any changes in the Articles and Regulations of BDO International Limited.

The Policy Board, which is the Board of Directors of BDO International Limited, currently comprises a representative of the network's five largest member firms, whose appointment, each for a three year term, is approved by the Council. The Policy Board sets policies and priorities for the network and oversees the work of the Global Leadership Team. The Policy Board meets at least four times a year and more if required.

The Global Leadership Team is tasked with coordinating the activities of the network on a day-to-day basis. It is headed by the CEO and comprises the Global Heads of Audit & Accounting, Tax, People, Client Service, Network Development and the International Secretary.

Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a Belgian limited liability company with its seat in Brussels.

BDO International Limited and Brussels Worldwide Services BVBA do not provide any professional services to clients. This is the sole preserve of the BDO member firms.

Each of BDO International Limited, Brussels Worldwide Services BVBA and the BDO member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of BDO shall constitute or imply an agency relationship or partnership between BDO International Limited, Brussels Worldwide services BVBA and/or BDO member firms.

The global aggregated turnover for BDO member firms (including their exclusive Alliances) in 119 countries for the year ended 30 September 2011 was in excess of EUR 4,06 million. Partner and staff numbers at 30 September 2011 were some 46,930.

# Governance structure of the audit firm

BDO Bulgaria OOD is represented by both shareholders who are managers. The organizational and management structure of the company includes:

- General meeting of the shareholders (partners)
- Managers
- Administrative department which comprises the sectors Human resources, Internal accounting and Marketing

Professional services:

- Audit department
- Tax department
- Accounting department
- Specialized consulting services
- Information technologies

The shareholders and the managers approve all important financial, legal and other strategic issues concerning business development.

Shareholders' meetings are usually held at least once per year to consider and decide about matters in accordance with the Articles of Association of the Company. Any questions with regard to shareholder equity issues, profit sharing and new admissions to the shareholders are also subject to approval by the shareholders.

The partners are responsible for the overall management of the professional services in the separate business streams. The departments have one or more managers who perform the operative management on the professional teams and report to the partner in charge.

# Governance structure of the audit firm - cont.

The audit stream is an integrated part of the firm and is subject to the same governance structure as all other business streams as follows:

## **Management Executive**

The Management Executive comprises the Managing Partners. It meets each week, and more frequently if required.

The Management Executive team sets business strategy and ensures its implementation. The Managing Partners also have specific areas of responsibility for operational management.

The Management Executive currently communicates to the managers the development of the business and the key objectives. The Managing Partners also make an annual presentation to all employees in every business unit: this provides insights into the firm's strategy and operations and gives individuals the opportunity to raise questions and issues directly with the Managing Partner.

## **Lead Managers**

Our offices are based in Sofia and Plovdiv. The Managing Partners meet with the Lead Managers of each office to review performance and consider upcoming issues. The Lead Managers are responsible together with the Managing Partners for the development of high quality profitable services in their own areas.

## **Risk Management**

The Management Executive has delegated the overall responsibility for the design and implementation of the risk management process to one of the Managing Partners as Head of Risk Management.

The Head of Risk Management has particular responsibility to ensure that the quality, objectivity and independence of client service is maintained through well managed client acceptance and engagement procedures, that guidance is updated regularly for all professional services, and that rigorous processes are in place to identify and resolve conflicts of interest.

All partners and staff are required to submit annual confirmations of independence.

# Internal Quality Control System and statement on the effectiveness

The firm's system of internal quality control is designed to provide reasonable assurance that the firm, its partners and staff comply with professional standards and regulatory and legal requirements, work is performed to a consistently high standard and that reports issued by the firm are appropriate.

The firm's system of internal quality control can be split into the following elements:

- leadership responsibilities for quality within the firm
- ethical requirements
- acceptance and continuance of client relationships and specific engagements
- human resources
- engagement performance
- monitoring



# Internal Quality Control System and statement on the effectiveness - cont.

## 1) Leadership responsibilities for quality within the firm

Quality control is dependent upon an organisational structure which is inherently sound and which clearly defines the responsibilities of the various levels of management.

The firm has clearly established responsibilities for the Managing Partners and other senior personnel. The Managing Partners are members of the firm's Management Executive which devises and implements the firm's business strategy and manages operational issues.

Along with the firm's management, the Head of Risk Management reinforces the appropriate "tone at the top" by instilling professional and ethical values in the firm. The Audit Stream "tone at the top" is set by the Engagement Partners and Managers.

The Audit Stream is supported by the Council of Partners and Managers. This Council is inter alia responsible for the following:

- guidance to ensure compliance with auditing standards and BDO assurance methodology;
- maintaining the firm's technical manuals and communicating developments to the firm's staff;
- helping maintain the firm's assurance practice at the highest standards prevailing in the profession, including the supervision of the Firm's auditing work;
- consulting with local office partners and other professionals seeking technical advice; and
- overseeing the firm's technical continuing professional education programmes.

The Audit Engagement Partners and Managers together with the Head of Risk Management are inter alia responsible for the following:

- monitoring of independence;
- monitoring the firm's auditing work;
- coordinating the professional performance of the offices and achieving in each of them standards that measure up to the firm's professional objectives; and
- evaluating the firm's quality controls policies and procedures.

# Internal Quality Control System and statement on the effectiveness - cont.

## 2) Ethical requirements

The firm complies with IFAC Code of Ethics. This is supplemented by Internal Rules and guidance from the BDO Manuals and complemented by a comprehensive training programme designed to ensure compliance with the Ethical Standards. The ethical conduct guidance is available to all staff on the firm's intranet. Annual declarations are made by all partners and staff to ensure compliance with relevant ethical requirements.

## 3) Acceptance and continuance of client relationships and specific engagements

Robust client and engagement acceptance procedures play a pivotal role in the firm's ability to deliver a professional and quality service.

Prior to the acceptance of any new client, certain procedures to assess the risks associated with that client must be carried out. These will include:

- consideration of the client's business including its geographical spread and the industry it operates in;
- evaluation of information concerning the client, its management and its owners including obtaining evidence of the identity of the owners and officers of the business;
- considering information regarding the character and reputation of the prospective client and key personnel;
- assessment of potential independence risks and potential conflicts of interest;
- inquiry of the previous auditor regarding the reasons for the change in auditor and if there is any reason why we should not accept the appointment;
- assessment of our ability to serve the prospective client; and
- reviewing filings of the company, including prior year financial statements.

The acceptance of all clients requires an approval process that is appropriate to the perceived risk. "High risk" assurance clients require pre-approval by both Managing Partners.

# Internal Quality Control System and statement on the effectiveness - cont.

## 4) Human resources

Human resources is a critical factor in our ability to provide professional services. In order to ensure that the firm has sufficient personnel with the capabilities, competence, and ethical standards necessary to provide quality audits in accordance with professional and legal requirements we have established clear policies and procedures addressing the following areas:

- recruitment
- performance evaluation
- capabilities and competence
- career development, promotion and compensation
- forecasting of personnel requirements.

### Recruitment

Policies and procedures for recruitment are designed to provide reasonable assurance that those employed possess the appropriate characteristics to enable them to deliver a high quality service and perform their duties with professional competence.

We seek people with high levels of intelligence, stability, maturity, integrity, motivation, aptitude and leadership qualities appropriate to the role for which they are being hired.

The Managing Partners regularly review these policies and procedures to ensure that they are appropriate and are operating effectively.

# Internal Quality Control System and statement on the effectiveness - cont.

## Performance evaluation

All staff members are subject to formal performance appraisal, review and counselling on a regular basis, in order to evaluate the level of competence, monitor training and to help them reach their full potential. Performance appraisal includes a review of each individual's contribution to the quality of services provided by the firm.

Evaluations are completed on an assignment-by-assignment basis at certain levels and also at twelve month intervals at all levels. The factors evaluated (which may vary by level) include professional and technical competence, management skills and analytical and judgement skills.

## Capabilities and competence

Policies and procedures for assigning personnel to engagements are designed to provide a reasonable assurance that only those persons having adequate technical training, proficiency and competence will perform the work.

In staffing an engagement, consideration is given to ensure that staff have the necessary technical knowledge and other skills appropriate to the size, complexity and nature of the planned work.

# Internal Quality Control System and statement on the effectiveness - cont.

## Career development and promotion

Generally there is staff progression from an introductory and junior staff level to senior level and then to manager. Staff are promoted to the next level only when they are prepared for the increased responsibilities that promotion entails.

Non-compliance with the firm's policies and professional standards is also recognised. Lack of compliance is reflected through additional training, delays in promotion or through dismissal for serious instances of non-compliance.

In order to be considered for admission to partnership, a candidate's integrity, honesty and moral character must be above reproach. While attributes of individual applicants may differ because of technical specialisation and years of experience, there are three basic attributes that all candidates must possess:

- technical competence in a chosen field of expertise;
- pride in self, the firm and the profession; and
- professional attitude in work habits.

## Forecasting of personnel requirements

We recognise that ultimately it is the quality and commitment of the partners and staff that really makes a difference and enables us to deliver a quality audit. Given this, our ability to attract the right number of high quality people is of utmost importance. We predict personnel requirements so as to continue to service the firm's clients and provide sufficient capacity to enable its partners and staff to develop the business.

# Internal Quality Control System and statement on the effectiveness - cont.

## 5) Engagement performance in the Audit Stream

### Common methodology

Our policies and procedures are designed to ensure that audits meet all applicable professional standards, regulatory requirements and that the firm issues reports that are appropriate in the circumstances. To achieve this and to ensure consistency in the approach to auditing, BDO International has developed the common BDO Audit Methodology, related software tools and other standard forms of documentation. This methodology is fully compliant with International Auditing Standards and is used by BDO in Bulgaria.

### Supervision and review

We require all professional work to be supervised by staff members who have appropriate knowledge and experience. It is the responsibility of the relevant partner or manager to ensure that related risks are identified and that decisions are taken by those with an appropriate level of authority. The relevant partner or manager must also ensure that professional work is carried out efficiently and that it meets the firm's standards in all respects.

Our review procedures are designed to ensure effective control of the audit as it progresses. At a granular level these policies are designed to ensure that:

- the work is performed in accordance with applicable standards and regulations;
- significant matters have been raised for further consideration and appropriately addressed;
- appropriate consultations have taken place;
- the planned work has where necessary been reviewed and that the objective of all planned work has been achieved;
- the work performed and evidence obtained supports the conclusions reached; and
- the documentation present on the audit file enables an experienced auditor to understand the significant matters arising on the audit as well as the nature, timing and extent of the procedures undertaken, the results of those procedures and the evidence obtained.

A concurring partner review is performed for audits of public interest entities and other high risk engagements.

# Internal Quality Control System and statement on the effectiveness - cont.

## Consultation

Our culture encourages consultation with experienced partners and other specialists where appropriate.

## 6) Monitoring of the Audit Stream

Our policies and procedures concerning monitoring activities are designed to give the firm reasonable assurance that the firm's internal quality control system is operating effectively and is being complied with in practice.

Our quality control system includes an annual review process of audit files to monitor compliance with the firm's policies, procedures and standards and to ensure that the work done to arrive at an opinion, or to support advice that has been given, is both adequate and properly documented.

The review consists of reviewing, on a sample basis, the working papers and reports of selected assurance engagements and documentation of compliance with our quality control policies and procedures in other areas.

Our audit practice is also subject to quality assurance review at least every three years by reviewer from the BDO network within the BDO International QAR programme. The last quality assurance review under this programme took place in the beginning of 2011.

# Management Executive statement on effectiveness of functioning

These policies, procedures and monitoring activities have provided the firm's Management Executive with reasonable assurance that the firm, its partners and staff have materially complied with applicable professional, regulatory and legal requirements, that work has been performed to a consistently high standard and that appropriate reports have been issued.



# Dates of the performed last quality assurance review

It was conducted quality assurance review of the firm which took place in 2007 by the reviewers of the Institute of CPA in Bulgaria.

The firm received the final copy of the quality assurance review report in November 2007.

It was conducted quality assurance review from BDO in January 2011 and the report was received in April 2011.

The last quality assurance review of SOP was conducted in November and December 2010 by the Commission for Public Oversight of Auditors-KPNRO.

The firm received the final copy of the quality assurance review report in February 2011.

The evaluation is as follows:

For the period under examination the Specialized Auditing Firm was in compliance with all material aspects of the requirements for the quality of the provided audit services by applying the procedures defined in professional auditing standards.

It is published on the web page of the CPOSA on 16.02.2011- [www.office@cposa.bg](http://www.office@cposa.bg)

# List of public interest entities for which statutory audit was carried out in 2011

Name of client	Name of client	Name of client
Auto Union Group EAD	Eurohold Bulgaria AD	Hypocapital ADSIC
Balkanstroy AD	ID Advans Invest AD	Hypocredit AD
Bulland Investments ADSIC	Investor BG AD	United Health Insurance EAD
Dogovoren Fond Advans IPO Fond	International Asset Bank AD	
Dogovoren Fond Advans Global Trends	Orgahim AD	
Dogovoren Fond Iztočna Evropa	POK Doverie AD	
Dogovoren Fond Sentinel Principal	TBI Credit EAD	
Dogovoren fond Sentinel Rapid	Tokuda Zdravnoosiguritelen Fond AD	

# The audit firm's independence practices which also confirm that an internal review of independence compliance has been conducted

In relation to independence, the firm has Internal Independence Rules and training programmes targeting the needs of the individual partners and staff.

These policies and procedures meet the requirements that are promulgated by the IFAC Code of Ethics for Professional Accountants. Compliance with the policies and procedures is ensured by a series of monitoring and review activities. These include:

- an annual declaration undertaken by all partners and staff;
- audit file quality control reviews and
- other monitoring activities targeting specific aspects of audit independence.

All of these monitoring and review activities were operational during the past financial year.

# Policy concerning the continuing education of statutory auditors

The continuing education program is comprised of training sessions organised by the firm specifically designed to meet its needs, by the BDO International network as well as external training by the Institute of CPA in Bulgaria. Certain courses are mandatory and others are optional. The CPE requirements for professional auditors in Bulgaria are also factored in to the program.

Extensive training is given to all new recruits on the BDO audit methodologies, tools and processes.

More experienced personnel and partners are encouraged to constantly update and deepen their technical knowledge. Developing management and interpersonal skills are also very important for this group.

All qualified audit staff, including managers and partners, attend regular technical update courses. These courses are complementing by on the job coaching which provides a significant aspect of their professional development.

All staff members are personally responsible for keeping up to date with the requisite knowledge, skills and professional competence which they will need to successfully carry out the roles to which they are assigned.

As part of an individual's performance appraisal, professional development needs are assessed and courses or other training opportunities are identified.

For professional staff, the firm requires participation in appropriate continuing professional development programmes and monitors the fulfilment of programme obligations.

# Policy concerning the continuing education of statutory auditors - cont.

The registered auditors in the company who are members of ICPA take part in annual training and keep the requirements of Art.22 out of the Independent Financial Audit Act regarding the minimum classes of continuing education organized by the Institute of Certified Public Accountants. Some of the training sessions visited by them in their capacity of participants and lecturers are:

- Internal BDO Audit Methodology Training - 2 days
- Internal Training for application of the Tax Acts - 1 day
- Training in BDO network (conferences) - annual conference, audit and accounting conference, tax conference, risk management - 5 days
- Participation in VII-th Congress of the ICPA - 1 day
- Training in ICPA for application of the Tax Acts - 1 day
- Courses in ICPA for preparers of case studies - 2 days
- Round table discussion on “Professional skepticism in the work of auditors and the challenges of the global financial crisis”, organized by CPOSA - 1 day
- Training jointly organized by University of library and information technology and Cyber security laboratory - 4 days
- Participation in the meeting of the chapter - ISACA Sofia - 2 days etc.
- Preparation for annual closing of accounts - 1 day

# Total turnover divided into fees from statutory audit of annual and consolidated accounts and tax advisory services and other non-audit fees

Analysis of Turnover	2011 BGN thousand	2010 BGN thousand
Audit - audit clients	1,508	2,305
Accounting services - non-audit clients	490	266
Tax - non-audit clients	137	107
Specialised advisory services and other - non-audit clients	317	47
<b>TOTAL:</b>	<b>2,452</b>	<b>2,725</b>

# Information concerning the basis for the partners' remuneration

Partner's remuneration is determined by means of management contracts according to a resolution of a General shareholders' meeting and it comprises two elements - monthly remuneration and additional performance remuneration .

The partners have the right of receiving dividends according to the Articles of association in compliance with their respective shares in the share capital upon a resolution of the General shareholders' meeting.