

Transparency Report 2018

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Introduction

Audit quality and transparency is a fundamental goal of BDO's audit service locally and globally. We believe that transparency and quality of our audit processes and practices will contribute to a high level of confidence and public trust.

We continue to focus on enhancing quality and public trust by investing in people and systems. The mindset and skills of auditors are essential to the quality of audits and the tools facilitate and support the workflow for our employees.

We trust our Transparency Report for 2018 will provide useful insights to our audit commitments to quality and transparency.

Thank you for taking the time to engage and share your view with us.

Legal requirement

BDO Albania sh.p.k. (hereinafter: "the Company") is publishing this annual transparency report as an audit firm that carries out statutory audits of public-interest entities.

This transparency report has been drawn up in terms of article 45 of Law no. 10091, dated March 5, 2009 amended by law no. 47/2016, dated April 28, 2016 "On Statutory Audit and of the Organisation of the Statutory Auditor and Approved Auditor".

All information provided in this report relates to the situation on 31 December 2018, except if indicated otherwise.

BDO Network

BDO Albania is a Member Firm of BDO International Limited.

Description of the network:

The BDO network is an international network of independent public accounting, tax and advisory firms which are members of BDO International Limited and perform professional services under the name and style of BDO (hereafter: 'BDO Member Firms'). BDO is the brand name for the BDO network and all BDO Member Firms.

Legal and structural arrangements in the network:

Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee, as either a voting member (one per country) or a non-voting member. BDO International Limited is the governing entity of the BDO network and sets the membership obligations of the BDO Member Firms in the Regulations.

The BDO network is governed by the Council, the Global Board and the 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 the network's central budget, appoints the Global Board and approves any changes in the Articles and Regulations of BDO International Limited.

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

The Global Leadership Team is tasked with coordinating the activities of the BDO network. It is headed by the CEO and comprises the COO (currently also acting as Global Head of Advisory), Global Heads of Audit & Assurance, Tax, HR & Development, Business Development & Marketing, IT, Transformation, the CEO EMEA, the CEO Americas, the CEO Asia Pacific and the International Secretary.

The Global Leadership Team is supported by the Global Office at Brussels Worldwide Services BVBA. Brussels Worldwide Services BVBA, a Belgian limited liability company, provides services to assist in the coordination of the BDO network.

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 a partnership between BDO International Limited, Brussels Worldwide services BVBA and/or the BDO Member Firms.

BDO Albania

Legal, organisational and ownership structure

The Company operates as a limited liability company with the following shareholders structure:

■ BDO Croatia	51%
■ Limos Malaj	20%
■ Guy Sadeh	19%
■ Besjana Doda	10%

Managing structure of the Company

The Company is managed by the following Partners and Directors:

- Limos Malaj
- Besjana Doda
- Guy Sadeh
- Ervin spirollari

The above partners act as administrators of the Company in compliance with the Statute of the Company in accordance with law nr. 9901 date April 14, 2008, "On entrepreneurs and commercial companies".

Ethical requirements

The firm's code of conduct contains the principles and rules relating to ethical conduct, including integrity, independence and objectivity, professional competence and due care, confidentiality and professional behaviour. This is complemented by a comprehensive training programme designed to ensure compliance with both International and Albanian Ethical Standards. The ethical conduct guidance is available to all staff on the firm's intranet.

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 and consideration of continuance with that 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;
- if relevant, 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 and continuation of all clients requires an approval process that is appropriate to the perceived risk. "High risk" assurance clients require pre-approval by the Managing Partner and in certain circumstances by the Lead Partner (i.e. BDO Croatia).

BDO Albania

Human resources and development

The firm encourages continuing education as an important means of developing knowledge and maintaining and improving the quality of its services and of motivating and retaining its personnel.

For audit partners and professional staff, the firm requires partners and staff members to participate in appropriate continuing professional development programmes and monitors the fulfilment of programme obligations.

The continuing education program is comprised of training sessions organised by the firm, BDO connect platform as well as external training by relevant professional bodies or other training organisations that are accredited by the local professional body. Certain courses are mandatory and others are optional. The education requirements for professional auditors in Albania are also factored in to the programme.

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

More experienced personnel and partners are encouraged to update and deepen their technical knowledge.

Developing management and interpersonal skills are also very important for this group.

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 policies and procedures addressing the following areas:

- Clear and consistent policies and procedures
- Clear job description: tasks, responsibilities and expectations
- Recruitment procedure
- Workforce planning, succession management
- Continuous performance appraisal and engagement surveys
- Development plan and training policy

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 promote consistency in the approach to auditing and related fundamental application of professional scepticism throughout the BDO network, 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.

APT, BDO International's in-house state of the art audit software, remains the single largest global project of its kind and its evolution continues. With further substantial audit methodology and IT investment, the next generation of APT is already under development. By designing APT to take advantage of recent technological advances, we will be able to:

- safeguard the structural integrity of the tool for the future;
- provide us with a fully-integrated tool that reflects the latest interpretations of the auditing standards; and
- enable teams to work efficiently on both large and small engagements.

BDO Advantage is our new data analytics audit tool. It works by combining smart technology with our knowledge and understanding of our clients' business to deliver information for in-depth interpretation. These include graphics that aid the exploration and understanding of data and make it easier to spot patterns and trends and crucially to identify anomalies. BDO Advantage will improve our awareness, provide valuable insights and deliver improvements to audit quality. Journal Analyser is the first step in the BDO Advantage journey. Audit journal adjustments are a key part of the audit and are often difficult to cover. Advantage makes it easier for the audit team to identify the journals that are large or unusual and support the process of auditing them.

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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, principal or director to ensure that related risks are identified and that decisions are taken by those with an appropriate level of authority. The relevant partner, principal or director must also ensure that professional work is carried out with appropriate professional scepticism, 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. 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.

An engagement quality control review is performed for audits of public interest entities and other high risk engagements. The engagement quality control reviewer will be familiar with the auditing and reporting practices used during the engagement, and be knowledgeable and familiar with the client's industry, but is not part of the audit engagement team. They will be an experienced audit partner and not likely to be unduly influenced by the views of a particular engagement partner. The engagement quality control reviewer will not be actively involved in making ongoing decisions relating to the engagement and will not be involved in performing the engagement. Engagement quality control reviewers are selected from lead partner BDO Croatia.

Practice Review

The Company is subject to a quality assurance review, or "practice review" as it is commonly referred to, at intervals that do not exceed three years. The actual frequency and extent of the review depends on the results of previous reviews, feedback on the firm and/or a risk assessment by the Global Office (GO) of that firm.

Firms are notified in advance by the Global Office that a QAR is scheduled and are asked to agree dates for the reviews. These are likely to be outside the 'busy season', where possible.

Except for IFRS reviews, the reviews are conducted by a team of dedicated reviewers including current experienced partners and/or directors of member firms. Where required the dedicated reviewers and other reviewers are assisted by partners and directors/senior managers of firms who are not the subject of the review. Apart from their professional experience the assistant reviewers are chosen to accommodate the language requirements of the firms visited. Firms may be asked to provide local translators. (BDO Albania prepares most of the working papers in English).

IFRS reviews are carried out by members of the IFRS working party or other resource as identified by the Global Head of IFRS.

Prior to the reviews, firms are sent a list of information and documentation to be made available during the review as well as a set of self-assessment questionnaires which should be completed and provided to the Global Office before the start of the review.

Usually a list of firm partners and staff to be met by the reviewers is provided to the firm by the reviewer in advance or at the start of the review. While the review mainly consists of the review of selected engagements and the policies and procedures of the member firm, it also includes a number of meetings.

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The review

During a review the reviewers will require to meet those with overall responsibility for:

- (a) management of the firm
- (b) services of the firm
- (c) risk management and regulatory matters
- (d) claims and professional indemnity insurance
- (e) finance
- (f) human resources and recruitment
- (g) training
- (h) IT and Data Privacy Policy

The output of the various reviews of each firm is a set of reports, one for every review carried out (member firm review, audit review and tax review) which include findings and recommendations and which is subjected to an internal quality review by the Global Office. Subsequently the reports are submitted to the managing partner of the firm reviewed for comments. Based on the comments received the Global Office may make modifications and adoptions to the report and submit its final version to the firm.

Before leaving the firm under review a closing meeting is organized with the key management of the firm. The primary objective of this meeting is to present, orally and in writing (power point presentation), the results of the QAR that have been agreed upon with the respective engagement partners and that will be included in the review reports so that any significant matters noted during the review and consequent recommended actions can be discussed in full and agreed before the reviewer departs.

Latest independent review

BDO Albania has been subject of quality control by the Institute of Authorised Chartered Auditors of Albania (IEKA) and Public Oversight Board. (POB) during December 2018. The last quality assurance review was carried out on December 2018 by the Albanian Public Oversight Board.

BDO Independence Procedures

BDO maintains written independence policies and procedures which include the following checks of compliance with independence rules:

- BDO Albania at the company level should sign an independence statement on annual basis transmitted to BDO International;
- BDO Albania at the company level should sign an independence statement for each engagement;
- BDO Albania at the group level before taking over an engagement should ensure that independence between member firms. In this regard, it communicates to group members via the Independence Champion platform.
- Each professional must sign an individual declaration of independence for each engagement;
- Customer acceptance and engagement procedures and processes are used to verify that independence is not compromised.

BDO Albania

List of public interest entities audited during the last year

- First Investment Bank sh.a.
- International Comertial Bank sh.a.
- Credit Bank of Albania sh.a.
- Uzina Mekanike Gramsh

Financial information 2018 (in ALL):

Audit fees	11,703,400
Consultancy services	11,686,397
Other services	6,744,118
Total	30,133,915

Partner remuneration

Partners remuneration are based on quality, expertise, integrity, professionalism, entrepreneurship, independence and compliance and are evaluated on a yearly basis.