



# Transparency Report 2019

**KPMG Albania Shpk**

[kpmg.com/al](http://kpmg.com/al)



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# Message from our Managing Director



Welcome to the Transparency Report of KPMG in Albania for the year ended 31 December 2019 prepared in accordance with the provisions of the Law On the Statutory Audit and the Organization of the Statutory Auditors and Chartered Accountants Professions.

Our Transparency report will give you a clear picture of our structure and governance, our culture and values, as well as the key processes and robust programmes we employ to continuously advance quality, maintain independence and safeguard the integrity and reliability of our services. We also highlight an important change in our business strategy going forward.

To us, quality is the cornerstone of our business and we recognize the importance of being transparent about how we stay relevant in the dynamic business environment with increasing public expectations.

Please contact us if you wish to elaborate on any matter set out in this report. We would be delighted to discuss our approach and views with you.

**Alba Papparisto**  
**Managing Director**



# Who we are

## Section 1

KPMG IN ALBANIA IS  
A LEADING PROFESSIONAL  
SERVICES FIRM IN  
THE COUNTRY.

### 1.1 Our business



KPMG Albania Shpk<sup>1</sup> is a professional services firm.

KPMG Albania is a specialized audit firm and a member of the Institute of Chartered Accountants in Albania (“IEKA” or “the Institute”), registered under license No 52 dated 7 May 2003.

Effective 1st January 2020 KPMG Albania discontinued provision of audit services and since then delivers to clients Tax and Advisory services.

Further details of our service offerings can be found on our website at the following link: [kpmg.com/al](https://kpmg.com/al).

### 1.2 Our strategy



The strategy of KPMG Albania is based on four priorities: being market-focused, issues-led, driven by operational excellence and having a high performance culture.

Through these priorities, our overall vision is to be the clear choice. This includes being one of the leading multi-disciplinary professional services firms in Albania and being a quality service provider to all of our clients, placing quality at the heart of our agenda. As an organization we have a strong belief that by attracting extraordinary people and applying our deep expertise and sector knowledge we are able to deliver real results to the benefit of our clients and our communities.

We continue to build our capabilities to meet client needs in the digital age, particularly in digital transformation and data and analytics.

<sup>1</sup> Throughout this document, “KPMG” refers to the network of independent member firms operating under the KPMG name and affiliated with KPMG International Cooperative (“KPMG International”) or to one or more of these firms or to KPMG International. KPMG International, a Swiss entity, provides no client services. Throughout this document, “KPMG” (“KPMG Albania”, the “Firm”, the “Company”, “we,” “our,” and “us”) refers to KPMG Albania Shpk. KPMG Albania Shpk is a member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative (“KPMG International”). 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.



# Our structure and governance

## Section 2

Our structure ensures continuity and stability and we commit to KPMG's set of values.

### 2.1 Legal structure



KPMG Albania Shpk 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, including our relationship with it, are available in the 'Governance and leadership' section of the [KPMG International Transparency Report](#).

KPMG Albania 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. The KPMG organization structure is designed to support consistency of service quality and adherence to agreed values wherever the member firms operate.

KPMG Albania is a limited liability company incorporated in 1999 under the Law on Commercial Companies in Albania. The Firm is registered with the Commercial Register of the Republic of Albania with a registered office and business address: Abdi Toptani Street, Torre Drin, floor 3, 32/1, Tirana, Albania. KPMG Albania is solely owned by KPMG CEE Holding a.s., Czech Republic.

The registered administrators of KPMG Albania are Alba Papparisto and Kalin Hadjidimov, who represent the Company individually.

The information with regard to the ownership structure of the Company, its management bodies and any other circumstances which are subject to entry pursuant to the law have been duly registered and are publicly available in the National Business Center.

KPMG Albania has a branch in Kosovo registered in 2005 with Kosovo Agency of Registration of Businesses with address at 84/3 Fehmi Agani Str., Pristina, Kosovo.

### 2.2 Name, ownership and legal relationships



KPMG is the registered trademark of KPMG International and is the name by which the member firms, including KPMG Albania, 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.

### 2.3 Responsibilities and obligations of member firms



Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International's policies, procedures 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, 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](#).

KPMG International's activities are funded by a levy paid to it 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, procedures and regulations set by KPMG International or any of its other obligations owed to KPMG International.



# System of quality control

## Section 3

At KPMG, audit quality is not just about reaching the right opinion, but how we reach that opinion.

### 3.1 Overview

A Tone at the top, leadership, and a clear set of values and conduct are essential to set the framework for quality. However, these must be backed up by a system of quality control that ensures our performance meets the highest professional standards. To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG has developed the Audit Quality Framework, based on International Standards on Quality Control (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), which apply to professional services firms that perform audits of financial statements.

KPMG international has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual (Global Q&RM Manual) which applies to all KPMG partners and employees. KPMG Albania is required to establish and maintain a system of quality control and design, implement, and test the operating effectiveness of quality controls.

KPMG Albania is required to implement KPMG International policies and procedures and also adopts additional policies and procedures that are designed to address rules and standards issued by the Institute of Chartered Accountants and Public Oversight Board ("the Board") in Albania, and other relevant regulators as well as applicable legal and regulatory requirements<sup>2</sup>. Integrating key policies and procedures, this system also facilitates compliance with relevant rules and regulations of the Board.

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

While this Transparency Report summarizes KPMG's approach to audit quality, it may also be useful for stakeholders interested in member firms' Tax and Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

### 3.2 Audit quality framework

At KPMG Albania 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 independent opinion in compliance with 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 has developed the Audit Quality Framework.

KPMG's audit quality framework introduces a common language that is used by all KPMG firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to its delivery.

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 all KPMG firms. All of the other drivers create a virtuous circle

<sup>2</sup> All the references to 'KPMG policies and procedures' or 'our policies and procedures' refer to the KPMG International policies and to the additional KPMG Albania policies together.



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.



### 3.3 Tone at the top



KPMG global leadership, working with regional and member firm leaderships, plays a critical role in establishing our commitment to quality and the highest standards of professional excellence. A culture based on quality, integrity and ethics is essential in an organization that carries out audits and other services on which stakeholders and investors rely.

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

Tone at the top means that KPMG Albania leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large to earn public trust.

The KPMG values are set out [here](#).

#### KPMG Global Code of Conduct

KPMG's commitment to integrity and quality is enshrined in the KPMG values that lie at the heart of the way we do things. They define KPMG's diverse and inclusive culture and our commitment to the right personal and professional conduct. Emphasizing that, above all, KPMG people act with

integrity. The KPMG values are communicated clearly to all people and are embedded into member firms' people processes - induction, performance development and reward.

Building on the KPMG values is the [KPMG Global Code of Conduct](#). Member firms, including KPMG Albania, are required to adopt, as a minimum standard, the Global Code of Conduct.

In addition, the KPMG Global Code of Conduct lays out the expectations of ethical behavior for all partners and employees at KPMG Albania and is built on the foundation of the KPMG values, The KPMG Global 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 KPMG Global Code of Conduct sets out our commitments and includes provisions that require KPMG Albania partners and employees in summary to:

- Comply with all applicable laws, regulations, professional standards and KPMG Albania policies
- Work with the right clients and third parties
- Focus on quality
- Maintain our objectivity and independence
- Not tolerate any illegal or unethical acts, committed within KPMG Albania, by clients or suppliers, or public officials with whom we deal
- Protect information
- Compete fairly
- Help our people to be extraordinary
- Be responsible corporate citizens
- Build public trust

All KPMG Albania partners and employees are required to:

- Comply with the Global Code of Conduct and confirm their compliance with, the Code of Conduct; and
- Complete regular training covering the Code. Individuals are encouraged to speak up when they see something that makes them uncomfortable or that is inconsistent with the KPMG values.





Moreover, everyone at KPMG is responsible for reporting, and is required to report, any activity that could potentially be illegal or in violation of the KPMG values, KPMG policies, applicable laws, regulations, or professional standards.

We have procedures and established channels of communication so that our people can report ethical and quality issues. Retaliation is prohibited against individuals who 'raise their hand' and speak up in good faith.

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

At KPMG Albania, we regularly monitor the extent to which our people feel that the firm lives the KPMG values through the Global People Survey (refer to [3.7.7 Insights from our people – Global People Survey \(GPS\)](#)).

### 3.4 Leadership responsibilities for quality and risk management



KPMG Albania demonstrates commitment to quality, ethics and integrity, and communicates its 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 Albania.

#### 3.4.1 Balkan Cluster Managing Partner

In accordance with the principles in ISQC 1, our Balkan Cluster Managing Partner has assumed ultimate responsibility for KPMG Albania's system of quality control.

#### 3.4.2 Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG Albania has been delegated to the Risk Management Partner who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the Firm. The Risk Management Partner has a direct reporting line to the Managing Partner. She consults with the appointed Area Quality and Risk Management Leader. The seniority of the reporting lines underlines the importance that the Firm places on risk and quality issues. The Risk Management Partner is supported by a central quality and risk management team and by a team of partners and professionals in each of the functions.

#### 3.4.3 Ethics and Independence Partner

The Ethics and Independence Partner has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Albania and reports on ethics and independence issues to the Cluster Managing Partner and to the Risk Management Partner.

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

The Heads of the client service functions (Audit, Tax and Advisory) are accountable to the Cluster Managing 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 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 in the firm.

Our Head of Audit is responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG partner and employees. This includes:

- Setting the right 'tone at the top' by demonstrating an unwavering commitment to the highest standards of professional excellence, including skepticism, objectivity, and independence



- Developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities
- Working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice, including an annual evaluation of activities considered to be key to audit quality.

### 3.4.5 Audit Leadership Team

The Audit Leadership Team held regular discussions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources. These were debated, other observations collected from client-facing teams were considered and actions agreed. Typically, most of these actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the entire Audit function of KPMG Albania and also, if considered of sufficient magnitude, in the next mandatory training.

For more complex issues (which might require amendments to KPMG's global audit methodology or audit tools) these will be raised with the KPMG International Global Audit groups for consideration and potential development by the Global Services Centre (GSC) and the International Standards Group (ISG). For more information about the GSC and the ISG refer to sections [Global Services Centre \(GSC\)](#) and [International Standards Group \(ISG\)](#).

### 3.4.6 Investing in continuous improvement

KPMG globally continues to invest significantly in audit quality across the Global Organization. We are building on our sound audit quality foundations, both in terms of how we manage our firms and our audit engagements.

This means significant ongoing investment in our system of quality management, global monitoring of audit quality, our professionals and enhanced support, technology and tools for engagement teams.

Our global audit quality program ensures consistent deployment of investments to enhance and support a common approach.

### What is audit quality?

Audit quality is fundamental to maintaining public trust and is the key measure on which our professional reputation stands.

We define 'audit quality' as the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls;
- And all of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

## 3.5 Association with the right clients



Rigorous global client acceptance and continuance policies are vital to being able to provide high-quality professional services.

KPMG's client and engagement acceptance and continuance systems and processes are designed to identify and evaluate any potential risks prior to accepting or continuing a client relationship, or performing a specific engagement.

### 3.5.1 Acceptance and continuance of clients and engagements

KPMG firms must evaluate whether to accept or continue a client relationship, or to perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required.

### 3.5.2 Client and engagement acceptance process

#### Client evaluation

KPMG Albania undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analysing the information to be able to make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client's risk profile and obtaining background information on the client, its key management, directors and owners. In addition, we obtain



additional information required to satisfy our local legal and regulatory requirements

### Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™ KPMG's conflicts and independence checking system), intended purpose and use of engagement deliverables, public perception 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 partners and employees assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG Albania partners and employees 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.

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.

### 3.5.3 Continuance process

KPMG Albania 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, and as part of the continuous independence evaluation process, engagement teams are required to identify if there have been any changes to previously identified threats or if there are new threats to independence. The threats are then evaluated and, if not at an acceptable level, are eliminated or appropriate safeguards are applied to reduce the threats to an acceptable level.

### 3.5.4 Withdrawal process

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

### 3.5.5 Client portfolio management

Engagement partners and key statutory auditors who have the appropriate competence, capabilities, time and authority to perform the role are appointed for each engagement.

We review each audit partner's client portfolio at least annually in individual discussions with the audit partner. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the partner to deliver a quality audit for every client.

Each engagement partner and engagement leader's client portfolio is regularly reviewed by the Head of Audit to ensure that they have sufficient time to manage the portfolio and to ensure that the risks are being appropriately managed.



## 3.6 Clear standards and robust audit tools



All KPMG Albania professionals are expected to adhere to KPMG International and KPMG Albania policies and procedures (including independence policies) and are provided with a range of tools and guidance to support them in meeting these expectations. The KPMG Albania 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.

### 3.6.1 Our approach to audit

KPMG has been investing significantly in evolving the Global Organization's audit capabilities and will continue to do so in the coming years including a new global electronic audit workflow delivered through KPMG Clara platform – KPMG's smart, modular audit platform – capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data, automation, and visualization. Data & Analytics (D&A) is integral to the way how KPMG member firms obtain audit evidence and interact with clients in the digital era.

KPMG's high-quality audit process will continue to include:

- Timely partner and manager involvement throughout the engagement
- Access to the right knowledge including involvement of specialists, training and experience requirements and relevant industry expertise
- Critical assessment of all audit evidence obtained during the audit, exercising appropriate professional judgment
- Ongoing mentoring, supervision and review of the engagement team
- Managing and documenting the audit.

### Consistent audit methodology and tools

The KPMG audit methodology, developed by the KPMG Global Solutions Group (KGSG) (formally referred to as the Global Service Centre (GSC), is based on the requirements of the International Standards on Auditing (ISAs). The KPMG audit

methodology is set out in KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs which KPMG International believes enhance the quality of the audit. The methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence. Enhancements to the audit methodology, guidance and tools are made regularly to be in compliance with standards, emerging auditing areas of focus and audit quality results (internal and external). Key topics include risk identification, assessment and response accounting estimates, group audits and audit sampling.

KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal, or regulatory requirements.

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 KPMG audit workflow is enabled through eAudit's, an activity-based workflow and electronic audit file used by KPMG member firms. eAudit is KPMG's audit documentation workflow that allows 75,000+ professionals to complete high quality and consistent audits. eAudit integrates KPMG's audit methodology, guidance and industry knowledge, and the tools needed to execute and document the audit work performed.

eAudit can be "scaled" to present the relevant requirements and guidance, depending on the nature of the entity to be audited and in accordance with professional standards and applicable legal and regulatory requirements. It provides direct access to KPMG's audit guidance, professional standards and documentation templates.

Significant investments are underway to revise and enhance the KPMG audit methodology (KAM) and workflow tool (eAudit), with the deployment of KPMG Clara Workflow which was piloted in 2018, planned for initial deployment globally in 2019, and full deployment beginning in 2020. Refer to section [KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics \(D&A\)](#) for more details on the KPMG Clara Workflow.



### **KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics (D&A)**

KPMG International is making significant investments to improve audit quality, drive consistency in execution of audits and strengthen both the member firm and global monitoring of engagements.

#### **KPMG Clara**

The global launch of KPMG Clara created a smart audit platform that brings together KPMG's Audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and audit workflow.

#### **KPMG Clara Workflow**

Building on the launch of KPMG Clara in 2017, KPMG International is creating a new workflow tool that will be used by KPMG member firm audit teams to execute and document KPMG audits. It will be intuitive, user-friendly and modern. The new system will genuinely be a workflow – guiding audit teams through a series of steps in a logical sequence aligned to the standards, with a clear display of information and visuals, knowledge and guidance available at the moment of need, and with embedded advanced data and analytics (D&A) capabilities. The workflow and methodology will also be scalable – adjusting the requirements to the size and complexity of the audit engagement. This globally-driven project will significantly overhaul and redesign the execution of an audit by KPMG professionals and drive improvements in audit quality.

KPMG Clara Workflow incorporates monitoring capabilities (e.g. data mining) at the engagement level for use by member firms. The KPMG Clara Workflow was piloted in 2018, with initial deployment globally in 2019 and full deployment beginning in 2020. The predecessor audit workflow tool, eAudit, is expected to be decommissioned in the 2021 fiscal year.

#### **Audit data & analytics (D&A)**

KPMG's audit, powered by D&A is designed to:

- Enhance audit quality; by providing a deeper understanding of data populations, giving focus to higher risk transactions;
- Be secure; by restricting access to data both in transit and within KPMG's IT environments; and

- Be transparent; by facilitating detailed analysis to uncover the reasons behind, and root causes of, outliers and anomalies and provide increased visibility into higher risk transactions and process areas.

D&A tools and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

### **3.6.2 Independence, integrity, ethics and objectivity**

Auditor independence is a cornerstone of international professional standards and regulatory requirements.

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 Quality & Risk Management Manual, which applies to all KPMG member firms. Automated tools, which must be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards issued by IEKA and the Board and those of other applicable regulatory bodies. 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.

The 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 the firms and their personnel to comply with these requirements.

KPMG Albania has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Albania. The EIP is responsible for communicating and implementing KPMG global policies and procedures and ensuring that local policies and procedures are established and effectively implemented when they are more



stringent than the global requirements. The EIP fulfills this responsibility through:

- implementing/monitoring the ethics and independence quality control process and structure within the firm;
- approving/appointing partners responsible for ethics and independence within the firm;
- overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients;
- participating in the development and delivery of training materials,
- monitoring compliance with policies;
- implementing procedures to address non-compliance; and
- overseeing the disciplinary process for ethics and independence matters.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications with member firms. Member firms are required to implement changes as specified in the communications, and this is checked through the internal monitoring programs described in [section 3.10.1 Internal monitoring and compliance programs](#).

KPMG Albania partners and employees are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual. The EIP may also be required to consult with the Global Independence Group, depending upon the facts and circumstances.

### Personal financial independence

KPMG International policies require that KPMG member firms and KPMG professionals are free from prohibited financial interests in, and prohibited financial relationships with, KPMG member firm assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, directors, and where required significant owners. All KPMG partners – irrespective of their member firm of any audit client of any member firm.

KPMG member firms, 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 and provides a tracking mechanism for required users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (i.e., late reporting of an investment acquisition).

All partners and all manager grade and above, client-facing employees 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 publicly traded entities in KICS, which automatically notifies them if any investment subsequently become restricted. Newly restricted investments must be disposed of within five business days of the notification. KPMG monitors partner and manager compliance with this requirement as part of our program of independence compliance audits of a sample of professionals. The Global Independence Group provides guidance and suggested procedures relating to the audit and inspection by KPMG member firms of personal compliance with KPMG's independence policies. This includes sample criteria including the minimum number of professionals to be audited annually.

### Employment relationships

Any KPMG Albania 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 a member firm are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG Albania, including payments which are not fixed, and predetermined and/or would be material to KPMG Albania and ceased participating in KPMG Albania business or professional activities.

Key audit partners and members of the chain of command for an audit client that is a public interest entity are subject to time restrictions (referred to as



'cooling-off' periods) that preclude them from joining that client in certain roles until a defined period of time has passed.

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

### **Firm financial independence**

KPMG member firms must also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and where required, significant owners.

In common with other KPMG member firms, KPMG Albania uses KICS to record its own direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in pension, and employee benefit plans.

Additionally, KPMG Albania is required to record in KICS all borrowing and capital financing relationships, as well as custodial, trust and brokerage accounts that hold member firm assets.

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

### **Business relationships/suppliers**

KPMG Albania has policies and procedures in place that are designed to ensure their business relationships with audit clients are maintained in accordance with the IESBA Code of Ethics, IEKA and the Board's requirements, such as those promulgated by the SEC.

These include establishing and maintaining a process to evaluate potential third-party arrangements (for example business alliances and joint working arrangements, procurement relationships and marketing and public affairs activities) with particular regard to whether they have a bearing on auditor independence.

All prospective business relationships are evaluated to assess association risks and to identify potential auditor independence and conflicts of interest

issues. A relationship involving a third-party service provider – that a member firm will use to assist with client engagements or for other purposes – is also evaluated to determine whether the third party has the competence to provide the relevant services.

The individuals providing the services are required to confirm they understand and will comply with applicable ethics and independence requirements, and they are also required to complete ethics training. Third parties providing services to audit or assurance clients are required to complete independence training.

### **Business acquisitions, admissions and investments**

If KPMG Albania is in the process of considering the acquisition of, or investment in, a business, it is required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues prior to closing the transaction.

Specific consultations with the Global Independence Group and Global Quality & Risk Management are required to enable independence and other issues to be addressed when integrating the business into KPMG Albania and the wider Global Organization.

### **Independence clearance process**

KPMG Albania 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.

A 'KPMG Independence Checkpoint' tool was introduced to automate and standardize all the workflows that comprise the independence clearance process. This is in anticipation of the increasing number of audit tenders member firms will be participating in and the number of independence clearances that need to be completed as a result of mandatory firm rotation of statutory audits in certain parts of the world.



## Independence training and confirmations

All KPMG Albania partners and client service professionals as well as certain other individuals, must complete independence training that is appropriate to their grade and function upon joining KPMG Audit and on an annual basis thereafter.

New partners and employees who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Albania or (b) before providing any services to or becoming a member of the chain of command for, any audit client (by definition, "audit client" includes, its related entities or affiliates).

We also provide all partners and employees personnel with biennial training on the Global Code of Conduct and ethical behavior, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards, and Reporting suspected or actual noncompliance with laws, regulations, professional standards, KPMG and KPMG's policies.

New partners and employees are required to complete this training within three months of joining KPMG Albania.

All KPMG partners and employees are required to sign, upon joining KPMG Audit and thereafter, an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year.

## Non-audit services

All KPMG firms are required, at a minimum, to comply with the IESBA Code of Ethics and applicable laws and regulations, related to the scope of services that can be provided to audit clients.

KPMG Albania is required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Albania. EIP is involved in the review of potential independence issues.

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. When the engagement is for an audit client, an evaluation of potential threats and safeguards is also required

to be included in the Sentinel™ submission. Lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their related entities or affiliates in Sentinel™, and they are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats.

## 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. These policies require KPMG member firms to consult with their Area Q&RM Leader where it is expected that total fees from an audit client will exceed 10 percent of the annual fee income of the member firm for two consecutive years. 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, these policies further require that:

- This would be disclosed to those charged with governance at the audit client; 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 Albania over the last two years.

## Resolving conflicts of interest

Conflicts of interest can arise in situations where KPMG Albania partner and employees 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 (RMP) or the EIP is required in these situations.

KPMG International policies are also in place to prohibit KPMG partners and staff from accepting gifts and hospitality from audit clients, unless the value is trivial and inconsequential, is not prohibited





by relevant law or regulation and is not deemed to have been offered with the intent to improperly influence the behavior of the audit team member or the member firm. KPMG partners and staff are also precluded from offering inducements, including gifts and entertainment, which are made or perceived to be made with the intent to improperly influence the behavior of the recipient or which would cast doubt on the individual's or the member firm's integrity, independence, objectivity or judgment.

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, to have an impact on a member firm and/or its partners and employees in their ability to be objective or otherwise act without bias.

Any potential conflict matters that raise important points of principle for us are referred to our Risk Management Partner for resolution; in cases of difficulty a panel of partners may be convened to resolve the matter.

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 Albania has risk management resources who are responsible for reviewing any identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which must be documented.

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.

### Independence breaches

All KPMG Albania personnel are required to report an independence breach as soon as they become aware of it to the EIP.

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. All breaches of independence rules must be reported to those charged with governance as soon as possible except where

alternative timing for less significant breaches has been agreed to with those charged with governance.

KPMG Albania has a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations.

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

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

Compliance with laws, regulation and standards is a key aspect for everyone at KPMG Albania. 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 policies can be found on the [anti-bribery and corruption site](#).

### Partner and firm rotation

#### Partner rotation

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

KPMG Albania partners and engagement leaders are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy.

These requirements place limits on the number of consecutive years that partners in certain roles may provide audit services to a client, followed by a 'time-out' period during which time these partners may not:

- Participate in the audit
- Provide quality control for the audit



- Consult with the engagement team or the client regarding technical or industry-specific issues
- In any way influence the outcome of the audit;
- Oversee the relationship of the firm with the audit client; or
- Have any other significant or frequent interaction with senior management or those charged with governance at the client

KPMG Albania monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and Engagement Quality Control Reviewer, where there is a rotation requirement) and develops transition plans to enable allocation of partners and/or engagement leaders with the necessary competence and capability to deliver a consistent quality of service to clients.

#### *Firm rotation*

Under the Law No.9662, dated 18.12.2006 on "Banks in the Republic of Albania" and the Law 52/2014 on "Insurance and reinsurance activity", Regulation no. 2, dated 17.01.2013 of Bank of Albania on "Risk management in the activity of non-bank financial institution", and Regulation no.89, dated 27.06.2017 of Financial Supervisory Authority on "Criteria and requirements on approval of the auditor of administrating companies of collective investments enterprises and administrating companies of voluntary pension funds" KPMG Albania is required to act as an auditor for a financial (bank and non-bank financial institutions) and an insurance (insurance companies, voluntary pension funds and collective investments enterprises) public interest entity for a maximum period of respectively seven and four years and not to act as auditor for such clients for two years thereafter (referred to as the 'cooling off period'). KPMG Albania has processes in place to track and manage audit firm rotation.

### **3.7 Recruitment, development and assignment of appropriately qualified people**



One of the key drivers of quality is ensuring that all KPMG professionals have the appropriate skills and experience, passion and purpose to deliver the highest quality in audit. This requires the right recruitment, development,

reward, promotion, retention and assignment of professionals.

#### **3.7.1 Recruitment**

KPMG Albania committed s to building an extraordinary people experience for all KPMG partners and employees and prospective partners and employees.

Our recruitment strategy is focused on drawing entry-level talent from a broad talent base, including working with established universities.

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. These leverage fair and job-related criteria to ensure that candidates possess the appropriate characteristics to perform competently, are suitable and best placed for their roles.

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

#### **3.7.2 Personal development**

KPMG Albania has launched a new approach to performance development built around Everyone a Leader performance principles, Open Performance Development which includes:

- Global role profiles;
- a goal library; and
- Standardized review forms.

Open Performance Development is linked to the KPMG values and designed to articulate what is required for success — both individually and collectively. We know that by being clear and consistent about the behavior we're looking for and rewarding those who role model these behaviors, will enhance our ability to achieve quality and we have articulated this through our performance principles of seeking growth, inspiring trust and delivering impact.

At the same time, we are driving a shift in our performance-driven culture, supported by and



enacted through leading technology that allow us to embed audit quality to the assessment of performance and the decisions around reward as well as drive consistency across the Global Organization.

Partners and certain professionals are also required to be evaluated on key quality and compliance metrics. KPMG Audit monitors quality and compliance incidents and maintains quality and compliance metrics in assessing the overall evaluation, promotion and remuneration of partners and directors and managers. These evaluations are in a position to assess performance.

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

All KPMG personnel are encouraged to think about their careers and personal development needs via regular performance conversations with ongoing feedback and support. To support career and professional development there is a range of core skills programs covering skills and behaviors that provide performance improvement and ensure that individuals reach their full potential. Development centers and feedback tools enable our Firm to identify high performers who also have the potential to take on more senior or more complex roles.

We also have long-term development programs to support the journey to manager for more junior grades, and for those in the promotion pipeline for identified director and partner roles. In recognition that some KPMG professionals are unable to always attend training courses in person, to complement the mix between education, collaboration and experience, and to provide training accessible at the right time in a flexible and interactive approach, we also provide training via online learning and virtual classrooms.

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

### 3.7.3 Inclusion and Diversity programs

KPMG Albania 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 KPMG Global Inclusion and Diversity strategy provides the framework to drive the actions that are necessary to promote inclusive leadership at KPMG Albania and across all KPMG member firms.

For more about Inclusion & Diversity at KPMG International and its member firms read [here](#).

### 3.7.4 Reward and Promotion

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

#### Reward

KPMG has compensation and promotion policies that are informed by market data clear, simple, and linked to the performance review process. This helps our partners and employees know what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved through [calibration/moderation meetings] where relative performance across a peer group is discussed and used to inform reward decisions.

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 employees and, in some cases, their continued association with KPMG.

### 3.7.5 Partner admissions

The KPMG Albania process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the KPMG Albania partnership are consistent with our commitment to professionalism and integrity, quality and being an employer of choice. All recommendations for admission to



partnership of KPMG Albania need to be approved by the KPMG Central and Eastern Europe Board.

### 3.7.6 Assignment of professionals

KPMG Albania has procedures in place to assign both the engagement partners or leaders 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 or engagement leader 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 and leaders 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 or external experts.

As an additional control, our Head of Audit performs an annual review of the portfolio of all of our audit engagement partners and leaders. The purpose of this portfolio review is to look at the complexity and risk of each audit and then to consider whether taken as a whole the specific engagement partner or leader has the appropriate time and the right support to enable the engagement partner to perform a high-quality audit for each client in their portfolio.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner's or leader'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 Albania quality control policies and procedures
- Quality Performance Review (QPR) results and results of regulatory inspections.

### 3.7.7 Insights from our people – Global People Survey (GPS)

Biennially KPMG Albania 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 Engagement Index (EI) and Performance Excellence Index (PEI) as well as insights into areas driving engagement which may be strengths or opportunities. Results can be analyzed by functional or geographic area, grade, role, gender to provide additional focus for action. Additional insight is provided on how we are faring on categories known to impact engagement.

The survey also specifically provides KPMG Albania and KPMG global leadership with results related to quality and risk behaviors audit quality, upholding the KPMG values, employee and partner attitudes to quality, leadership and tone at the top.

KPMG Albania participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey.

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

## 3.8 Commitment to technical excellence and quality service delivery



All KPMG Albania professionals are provided with the technical training and support they need to perform their roles.

This includes access to internal specialists and the professional practice department, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG Albania, access is provided to



a network of highly skilled KPMG professionals in other KPMG member firms.

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

### 3.8.1 Lifetime learning strategy

#### 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, at local level. Training is delivered using a blend of classroom, e-digital learning and performance support to assist auditors on the job.

#### 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.

In relation to audit, KPMG Albania:

- Deploys a variety of learning solutions that are designed to reinforce KPMG Values and ensure our professionals get the fundamentals right, and develop the necessary skills and attitudes to make judgments, and apply professional skepticism that enhance audit quality and the value of audit
- Provides instructor-led and virtual classroom training, performance support tools, coaching guides and just-in-time learning, available on judgmental audit topics — this is used by audit teams and this guidance is embedded across audit learning solutions
- Has also developed professional judgment tools, designed to reinforce the importance of independence and objectivity, and to assist engagement teams in demonstrating professional skepticism
- Provides courses to enhance personal effectiveness and develop leadership and business skills. Our partners and employees are developed further for high performance through coaching and mentoring on the job, stretch

assignments and country rotational and global mobility opportunities.

### 3.8.2 Licensing and mandatory requirements for IFRS engagements

All KPMG Albania audit professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice.

KPMG Audit policies and procedures are designed to facilitate compliance with license requirements.

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

In addition, KPMG has specific requirements for partners, managers and EQC reviewers working on IFRS engagements, in countries where IFRS is not the predominant financial reporting framework. Similar policies apply to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR).

These require that at a minimum, all partners, managers, engagement in-charges and EQC reviewers assigned to the engagement have completed relevant training and that the engagement team collectively has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

### 3.8.3 Access to specialist networks

KPMG Albania engagement teams have access to a network of local KPMG specialists as well as specialists in other cross-border KPMG member firms.

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.

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.

### 3.8.4 Culture of Consultation

KPMG encourages a strong culture of consultation that supports member firm teams throughout their decision-making processes and is a fundamental contributor to audit quality. KPMG Albania promotes a culture in which consultation is recognized as a strength and that encourages all KPMG professionals 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, the KPMG Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

#### Technical consultation and global resources

For KPMG Albania, the role of DPP is crucial in terms of the support that it provides to the Audit Function.

It provides technical guidance to client service professionals on specific engagement related matters, develops and disseminates specific topic related guidance on emerging local technical and professional issues and disseminates international guidance on IFRS and ISAs.

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

Technical auditing and 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's mission is to drive success for KPMG's global network of Audit practices through

collaboration, innovation and technology. The GSC develops, maintains and deploys KPMG's audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits. With three global locations, one in each region, the GSC Audit team is made up of professionals with backgrounds in audit, IT, data science, mathematics, statistics, and more from around the world who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

#### 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.

#### Member firm professional practice resource

Appropriate consultation support on auditing and technical accounting matters is provided to audit engagement professionals through our professional practice resources (referred to as Department of Professional Practice or DPP). DPP also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to be escalated to senior partners for final resolution. The ISG is also available for consultation when required.

### 3.8.5 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 through the KPMG audit workflow. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes).

In addition industry overviews are available that provide general and business information in respect of particular industries as well as a summary of the industry knowledge provided in the KPMG audit workflow.



## 3.9 Performance of effective and efficient audits



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

### 3.9.1 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 Albania promotes a continuous learning environment and supports a coaching culture.

Ongoing mentoring, coaching and supervision during an audit involves:

- Engagement partner or engagement leader 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
- 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.

#### Timely engagement quality control (EQC) reviewers

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.

The EQC is an important part of KPMG's framework for quality. 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, high-risk engagements and other engagements as designated by the Risk Management Partner or country Head of Audit.

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

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

#### Reporting

Auditing standards largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement partners and engagement leaders form all audit opinions based on the audit performed.

In preparing auditors' reports, engagement partners and engagement leaders have access to extensive reporting guidance and technical support through consultations with our DPP, 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).



### 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 is a key aspect of reporting and service delivery.

At KPMG Albania 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.

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

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including through regular communications on the topic, the Global Code of Conduct, training and the annual independence/confirmation process, which all of our professionals are required to complete.

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

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

## 3.10 Commitment to continuous improvement



KPMG commits to continually improve the quality, consistency and efficiency of KPMG 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 overall system of quality control.

The quality monitoring and compliance programs (see section [3.10.1 Internal monitoring and compliance programs](#) for details) are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG Albania compares the results of its internal monitoring programs with the results of those of any external inspection programs and takes appropriate action.

### 3.10.1 Internal monitoring and compliance programs

KPMG Audit monitoring programs evaluate both:

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

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. These include:

- Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across the Audit, Tax and Advisory functions; and
- A cross functional Global Compliance review (GCR) program which is conducted at least every three years.

The results and lessons from the integrated monitoring programs are communicated internally and appropriate action is taken at local, regional and global levels.

#### Audit Quality Performance Reviews (QPRs)

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

#### Risk-based approach

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

KPMG Albania conducts the annual QPR program in accordance with KPMG International QPR





instructions. The reviews are performed at KPMG Albania 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 KPMG 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:

- Document, assess and monitor the extent of compliance of KPMG Albania 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 Albania to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified we are required to develop appropriate action plans and monitor the status of each action item.

### Global Compliance Review (GCR) program

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

The GCR team performing the reviews is independent of the KPMG member firm and is objective and knowledgeable of Global Quality and Risk Management policies. GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of:

- A member firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment
- A member firm's compliance with KPMGI policies and procedures; and
- The robustness with which the member firm performs its own compliance program (RCP).

KPMG Albania develops 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.

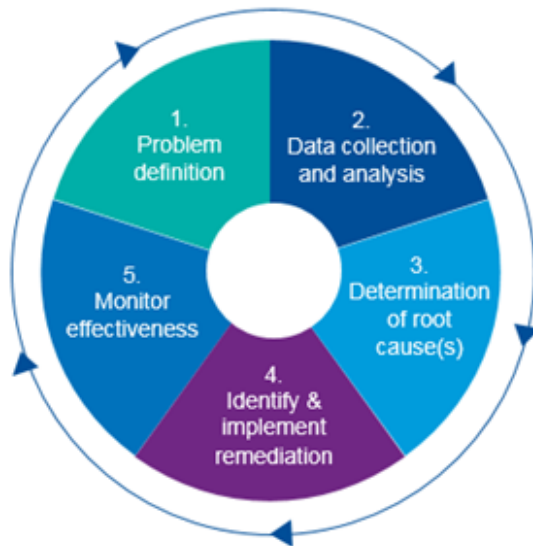


Results are reported to the Global Quality & Risk Management Steering Group, , and where necessary to appropriate KPMG International and regional leadership, to help ensure timely remedial actions taken by the member firm.

### Root Cause Analysis (RCA)

KPMG Albania 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 all KPMG member firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

KPMG Albania Head of Audit is responsible for the development and implementation of action plans as a result of RCA including identification of solution owners. Our Risk Management Partner monitors their implementation.

### 3.10.2 Recommendations for improvement

At a global level, through the Global Audit Quality Issues Council (GAQIC) and the Global Quality & Risk Management Steering Group, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global actions as required.

Global remediation plans developed by KPMG International are aimed at changing culture and

behavior across the Global Organization 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 Global Organization.

### 3.10.3 External feedback and dialogue

#### Regulators

During December 2018 the Board initiated the latest regular review of the internal quality control systems of the Audit practice of KPMG Albania. The purpose of the review was to assess implementation of the audit quality control system to the audit engagements, regulatory and statutory requirements, compliance with the ethical requirements of the IESBA Code of Ethics, and whether the reviewed audit engagements were performed and reported in conformity with applicable professional standards in all material aspects. The review covered the period 1 January 2017 – 31 December 2017. The Board have concluded that the internal control system of KPMG Albania has been suitably designed and complied with in order to provide reasonable assurance of undertaking audits in accordance with applicable professional standards in all material aspects. Selected audit engagements which were reviewed were assessed as being undertaken in conformity with applicable professional standards in all material aspects.

As part of the quality control and the requirements for transparency in the audit practice, KPMG Albania maintains a list of public interest entities it audited for the financial year ended 31 December 2019. The list is provided as [Appendix 1: Public interest entities](#) to the report.

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 across the entire organization. At a regional level, we also have regular dialogue with representatives of the Committee of European Auditing Oversight Bodies (CEAOB) — formerly known as the European Audit Inspection Group (EAIG).



### **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.

### **Monitoring of complaints**

We have procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are referred to in our general terms of business.

### **Other assessments of audit quality**

We have also adopted additional processes to assess audit quality such as pre-issuance review of client's financial statements.



# Financial information

## Section 4

Presented below is financial information regarding  
KPMG Albania total turnover broken down into categories:

	2019 Revenue ALL '000	2018 Revenue ALL '000
Statutory Audit	20,415	37,648
Other Audit Services	7,824	31,426
Tax & Advisory	79,755	91,138
<b>Total</b>	<b>107,994</b>	<b>160,212</b>



# Partner compensation

## Section 5

The partners' compensation system is based on common principles adopted by the Regional Board of KPMG in CEE and is designed to reflect individual partner's responsibilities and experience, their role in the management of the professional practices and the firm as a whole, as well as local market conditions. The objectives set to each partner cover both financial indicators and results such as growth in revenue and profitability as well as the quality of work and excellence in client service, leadership and living the values of the firm.

Partners' target compensation is set by the Managing Partner in consultation with the Chairman of KPMG CEE Board. The compensation has two elements:

- Base – This is the remuneration determined as a proportion of the firm's budgeted profits. The amount of the base component reflects the role and seniority of each partner, and
- Performance profit related component – This reflects the annual partner's performance against set individual objectives, that of the relevant function and his/her contribution to the development of the firm.

The amount of the performance profit related component awarded at the conclusion of the financial year depends on the partner's performance and is subject to availability of distributable profits.



# Network arrangements

## Section 6

KPMG INTERNATIONAL ESTABLISHES AND FACILITATES THE IMPLEMENTATION AND MAINTENANCE OF UNIFORM POLICIES AND STANDARDS OF WORK.

### 6.1 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 and standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity 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. More information about the KPMG network can be found in the [KPMG Global Review](#).

### 6.2 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.

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG values (as set out in the Appendices to this document).

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.

### 6.3 Professional Indemnity Insurance

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.



## 6.4 Governance structure



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

Further details on KPMG International's governance structure can be found in the [2019 KPMG International Transparency Report](#).

## 6.5 Area Quality & Risk Management

### Leaders



The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARL) who serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a member firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. Significant activities of the ARL, including member firm issues identified and related member firm response/ remediation, are reported to Global Quality & Risk Management (GQ&RM) leadership:

The objectives of the ARL role are to:

- assist GQ&RM leadership in the monitoring of member firms' quality and risk activities;
- work with GQ&RM leadership and the International Office of General Counsel (IOGC) when significant brand and legal risk issues occur to assist in ensuring that matters are properly handled; and
- assist in monitoring the effectiveness of member firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.



# Statement by the management of KPMG Albania on the effectiveness of quality controls and independence

## Section 7

The measures and procedures that serve as the basis for the system of quality control for KPMG Albania 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 management of KPMG Albania 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 [Internal monitoring and compliance programs](#)) and
- Findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the management of KPMG Albania confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 31 December 2019.

Further, the management of KPMG Albania confirms that an internal review of independence compliance within our firm has been conducted over the last year.

**Tirana, 31 March 2020**

**KPMG Albania**





# Appendix 1:

## Public interest entities

The definition of public interest entities is as follows:

Per the IESBA Code of Ethics, public interest entities are:

(a) all listed entities and

(b) any entity

(i) defined by regulation or legislation as a public interest entity; or

(ii) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

Per requirements of the Audit Law entities being audited and disclosed in the transparency report are:

(a) listed entities

(b) banks and non-banking financial institution licensed from Bank of Albania

(c) insurance and reinsurance companies, private pension and investment funds management.

Other public or private entities of public interest due to their size or nature as defined in Decision of Council of Ministers no.17, dated 16 January 2019 on Determination of other state and private companies of public interest due to their business nature, capacity or number of employees

The list of public interest entity audit clients audited by KPMG Albania for the financial year ended 31 December 2018 which are required to be disclosed in the Transparency Report is as follows:

- Intesa Sanpaolo Bank Albania Sh.a. Raiffeisen Bank Sha
- Banka e Shqiperise

- Raiffeisen Leasing Sh.a
- Sigal Uniqa Group Austria Sh.a
- Sigal-Life, Uniqa Group Austria Sh.a
- SH.A.FP SIGAL LIFE UNIQA GROUP Sh.a
- Raiffeisen INVEST – Shoqëri Administruese e Fondeve të Pensionit dhe Sipërmarrjeve të Investimeve Kolektive Sh.a
- Bankers Petroleum Albania Ltd – Albanian Branch
- Uji i Ftohte Tepelene Shpk
- Coca Cola Bottling Shqiperia Sh.p.k
- Huawei Technologies Albania Sh.p.k
- Phoenix Technology Services Albania
- Albania Marketing Services Sh.p.k
- BRITISH AMERICAN TOBACCO-ALBANIA Sh.p.k
- WEATHERFORD SERVICES L.T.D.
- Sherwood International Petroleum Ltd – Albanian Branch
- Mati Hydropower Sh.p.k
- ENSO HYDRO ENERGJI Sh.p.k
- LENGARICA & ENERGY Sh.p.k
- Saint-Gobain Construction Products Albania Sh.p.k
- COMELEX foreign branch



# KPMG's Values

**We lead by example** at all levels in a way that exemplifies what we expect of each other and our clients.

**We work together** to bring out the best in each other and create strong and successful working relationships.

**We respect the individual** 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, to provide insight as trusted and objective business advisers.

**We are open and honest in our communication** and share information, insight and advice frequently and constructively manage tough situations with courage and candour.

**We are committed to our communities** to act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment.

**Integrity** is a critical characteristic that stakeholders expect and rely on. Therefore, above all **we act with integrity** and are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.



Who are we

Our  
structure and  
governance

System of  
quality control

Financial  
information

Partner  
compensation

Network  
arrangements

Statement  
by the  
management

Appendix

KPMG Values

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