

BDO AUDIT - Luxembourg  
Transparency report 2018



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## Introduction

BDO Audit is an approved audit firm („cabinet de révision agréé“) that carries out, among other engagements, statutory audits of public interest entities.

In accordance with the Article 13 of the Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the „Regulation“), we have established and made public on our website this transparency report for the financial year ending on 30 September 2018.

## Legal structure and ownership

BDO Audit (“the Firm”) is a joint stock company under Luxembourg law (“S.A.”) and is registered with the Luxembourg Trade and Companies register under number B 147.570. The share capital amounts to € 1.000.000.

On the balance sheet date the majority of the shares with voting rights are held by shareholders (“Partners”) who are authorized statutory auditors (“réviseur d’entreprises agréé”) whereas the non-voting shares are held by the Luxembourg private limited company (“société à responsabilité limitée”) Compagnie Fiduciaire Group registered with the Luxembourg Trade and Companies register under number B 142.417.

## Network

BDO Audit is a Member Firm of BDO International Limited. It is the only Member Firm of BDO International which operates in Luxembourg as an approved audit firm.

### *Description of the network*

The BDO network is an international network of public accounting firms, the BDO member firms, which perform professional services under the name of BDO. BDO is the brand name for the BDO network and all BDO member firms. ‘BDO’ is a registered trademark of Stichting BDO. Each member firm of the BDO Network is a separate legal entity and has no liability for another such entity’s acts or omissions.

A list of all the countries in which BDO Member Firms operate and their registered office is available at this website address: <https://www.bdo.global/en-gb/home>

### *Legal and structural arrangements in the network*

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

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

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

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

The Global Leadership Team is tasked with coordinating the activities of the network on a day-to-day basis. It is headed by the CEO and comprises the Global Heads of Audit & Assurance, Tax, HR & Development, Business Development & Marketing, IT, Transformation and Legal.

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

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

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

The global aggregated turnover for BDO member firms (including their exclusive Alliances) in 162 countries and territories for the year ended 30 September 2018 amounted to € 7,56 billion. Partner and staff headcount as at 30 September 2018 amounted approximately to 80 000.

## Governance structure of BDO Audit

BDO Audit is governed by a Board of Directors having the overall responsibility for the business. The majority of the members of the Board are approved statutory auditors („réviseur d’entreprises agréé“).

The operational management of the firm lies with Partners of BDO Audit, all of them being approved statutory auditors. The Partners of BDO Audit meet weekly and more frequently if required. With regard to a more efficient government the operational responsibilities are assigned to individual Partners.

## Internal quality control system

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

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

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

### *Leadership responsibilities for quality within the firm*

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

The Partners have the ultimate responsibility in respect of audit quality within the firm. Any changes in the firm’s audit procedures must be approved by the Partners.

The Partners are responsible for the following:

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

### ***Relevant ethical requirements***

The firm adheres to the provisions of the Code of Ethics prepared by the International Ethics Standards Board of Accountants and adopted for Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF"). The Code is supplemented by Helpsheets and complemented by a comprehensive training programme designed to ensure compliance with both International and Luxembourg Ethical Standards. The Code of Ethics as well as further guidance are available to all staff on the firm's intranet.

Annual declarations are made by all partners and staff to ensure compliance with relevant ethical requirements.

### ***Acceptance and continuance of client relationships and specific engagements***

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

Prior to the acceptance of any new client, client acceptance procedures have to be performed. The aim of these procedures is to assess the risks associated with the prospect and the services requested. These will include:

- a consideration of the client's business including its geographical spread and the industry it operates in;
- the gathering and the considering of information concerning the client, its management and its owners including obtaining evidence of the identity of the owners and officers of the business (including compliance with anti-money laundering regulations);
- a consideration of information regarding the reputation of the prospective client and his key personnel;
- an assessment of potential independence risks and potential conflicts of interest;
- if relevant, an inquiry of the previous auditor regarding the reasons for the change in auditor and if there is any reason why we should not accept the appointment;
- an assessment of our ability to serve the prospective client; and
- a review of filings of the company, including prior year financial statements.

The acceptance of all clients requires an approval process that is appropriate to the perceived risk. Acceptance and continuance of client relationships is confirmed by at least two Partners. “High risk” assurance clients require pre-approval by the Firm’s Risk Manager.

### ***Human resources***

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

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

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

### **Recruitment**

Policies and procedures for recruitment are designed to provide reasonable assurance that we have sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements.

We work actively to ensure that diversity is embedded within the firm’s culture, not just in principle but in practice. Inclusivity within the organisation, whether it is based on age, gender, ethnicity or physical capabilities, strengthens the firm’s values, makes the firm more representative and more capable of providing a quality professional service.

We are always looking for the best talents, and seek people with high levels of intelligence, stability, maturity, integrity, motivation, aptitude and leadership qualities in line with the requirements set out for the role for which they are being hired.

### Performance evaluation

All staff members are subject to regular feedbacks as well as a formal annual performance appraisal in order to assess their level of competence and performance, and identify training requirements in order to help them reach their full potential. Performance appraisal includes a review of each individual's contribution to the quality of service provided by the firm.

This formal performance appraisal is completed at least once a year at all levels. The factors taken into consideration for this appraisal (which may vary by level) include professional and technical skills and performance as well as management skills.

### Capabilities and competence

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

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

### Career development, promotion and compensation

Staff grades at BDO are those of an assistant, senior, assistant manager, manager, senior manager and director. Employees are promoted only when they are deemed to have acquired the necessary knowledge, skills and experience to be prepared for the increased responsibilities. The decision for promotion is based on the result of the annual appraisal process.

Compliance with the firm's policies and professional standards are key criteria in the appraisal. Lack of compliance is addressed through additional training, non-promotion or, in case of serious and/or repeated instances of non-compliance, through dismissal.

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

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



## Forecasting of personnel requirements

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

## ***Engagement performance***

### Common methodology

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

### Supervision and review

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

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

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

An engagement quality control review is performed for audits of public interest entities and other high-risk engagements. The engagement quality control reviewer is familiar with the auditing and reporting practices used during the engagement, and is knowledgeable and familiar with the client's industry. He will be selected among the audit partners and not likely to be unduly influenced by the views of a particular engagement partner. Engagement quality control review partners are selected by the Partners in the course of the client acceptance / reacceptance process.

### Consultation

Our culture encourages consultation with experienced partners and other specialists where appropriate. Additionally, the firm has requirements for specific consultations in certain situations.

## **Monitoring of the Audit**

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

Our internal inspection program ("IIP") includes a cold review process of audit files to monitor compliance with the firm's policies, procedures and standards and to ensure that the work done to arrive at an opinion, or to support advice that has been given, is both adequate and properly documented.

The review consists of reviewing, on a sample basis, the working papers and reports of selected assurance engagements and documentation of compliance with our quality control policies and procedures in other areas. The sample is selected to ensure that at least one assignment for each audit partner is reviewed at least every three years.

A designated partner is responsible for monitoring and documenting the implementation of and compliance with any corrective actions.

## Monitoring of Quality Control

The last quality assurance review of the firm by the Commission de Surveillance du Secteur Financier took place during the year 2016.

The last quality assurance review of the firm by BDO International took place in July/August 2018.

## Public interest entities

During the financial year ended on 30 September 2018 the following public interest entities as referred to in article 1 (20) of the Law on the Audit Profession of 23 July 2016 (hereafter “PIE”) were audited by the firm:

- Victory Fund
- Bolux
- Eleusis
- KSG Agro S.A.
- IMC S.A.
- DNXCORP SE
- Woodpecker Capital
- Société Nationale de Crédit et d’Investissement (SNCI)

## Independence

The firm has adopted the BDO Audit Manual supplemented by individual Helpsheets which is the backbone of the policies and procedures regarding independence. These are complemented by training programmes targeting the needs of the individual partners and staff.

These policies and procedures meet those that are promulgated by the Code of Ethics prepared by the International Ethics Standards Board of Accountants and adopted for Luxembourg by the CSSF. Compliance with the policies and procedures is ensured by a series of monitoring and review activities. A designated Independence Champion monitors together with the Risk Partner compliance with the applicable independence policies and procedures. These activities include:

- an annual declaration undertaken by all partners and staff;
- an independence confirmation by the audit team and experts involved on each engagement;
- non assurance services are systematically declared by the non audit partner in charge, and then assessed by the audit partner as to potential independence threats;

- an annual declaration by all audit partners in respect of financial interests and board memberships outside of the BDO Network (including those of close family members);
- audit file quality control reviews examining a selection of audit files covering all responsible individuals on a three year basis; and
- other monitoring and review activities targeting specific aspects of audit independence.

All of these monitoring and review activities were operational during the past financial year. The designated Independence Champion also maintains the restricted entity database.

BDO maintains a worldwide database of all our major firms' restricted entities, including listed companies and other public interest entities. This database can be consulted on the global web-based tool of BDO (MFS) and its objective is to prevent the performance of prohibited non-assurance services or prohibited investments. The worldwide database is updated monthly and each Independence Champion must positively affirm that their member firm's listing of restricted entities is accurate and complete. They also confirm annually that their domestic independence rules are current on the global intranet.

Prior to accepting any new client or assurance engagement, member firms perform specific safeguards to identify potential conflicts of interest and threats to auditor independence. International conflict of interest and independence checks throughout the BDO network are made through a web-based tool.

## **Continuing professional education**

The firm has a policy of facilitating and encouraging continuing education as an important means of developing knowledge and maintaining and improving the quality of its services and of motivating and retaining its personnel.

The continuing professional education ("CPE") program is comprised of training sessions organised internally by the firm (and designed specifically to meet its needs), by BDO International or by relevant professional bodies as well as e-learning trainings. Certain courses are mandatory and others are optional. The CPE requirements for professional auditors in Luxembourg are also factored in to the CPE program.

Extensive training is given to all new recruits on the BDO Audit methodology, the audit tools and processes. More experienced personnel and partners are encouraged to constantly update and deepen their technical knowledge. Developing management and interpersonal skills are also part of the training programme.

Continuing professional education is a factor taken into account for the yearly evaluation of audit staff and the assessment of their career potential within the firm.

We are committed to developing and maintaining the highest possible standards of technical competence through our own talent development programme.

All qualified audit staff, including managers and partners, attend regular technical update courses. In addition, on the job coaching provides a significant aspect of their professional development.

All staff members are personally responsible for following training programmes to enable them to have the knowledge, skills and professional competence, which they will need to successfully carry out the roles to which they are assigned.

As part of an individual's performance appraisal, professional development needs are assessed and courses or other training opportunities are identified. Completion of such courses or training programmes may be set as an objective.

## **Partner remuneration**

The partner remuneration package consists of a fixed income amount (salary) and a variable bonus. The variable bonus is defined in the Partnership agreement which include a firm component (result and development of the firm) and a personal component. The personal component includes consideration of the partner's role in the firm, and the quality of work, but is not directly related to the individual's financial performance.

Partners are not rewarded for selling non-audit services to audit clients.

## **Policy concerning the rotation of key audit partners and staff**

### ***Long Association of Senior Personnel (Including Partner Rotation) on Audit Engagements for Public Interest Entities in the meaning of the Regulation (EU) No 537/2014 ("EU PIE")***

When the audit client is an EU PIE, and an individual has been a key audit partner for a period of seven years, this individual shall not participate in the engagement until three years have elapsed.

Assessing independence of the other members than Partner of the assurance team is an important part of client acceptance and continuance procedures. When the assessment concludes that rotation of any individual is necessary, the matter must be referred to the Ethics Leader. When a matter is referred to the Ethics Leader, it is presumed that rotation of some kind is required. After reviewing the circumstances

and consulting other partners, the Ethics Leader will provide a decision in writing as soon as possible, on whether rotation is necessary. If rotation is deemed necessary, the Audit partners committee will assign the new party and specify the length of the stand-down period and any other relevant requirements.

***Long Association of Senior Personnel (Including Partner Rotation) on Audit Engagements for Public Interest Entities other than those referred to in the Regulation (EU) No 537/2014 (“non EU PIE”)***

The partners and staff must follow Section 290 of the IESBA Code as adopted in Luxembourg by the CSSF, regarding mandatory rotation of engagement partners, quality control reviewer, and any other partners on the engagement team who make key decisions or judgments on significant matters with respect to all audit engagements for public interest entities (definition of PIE according IEASB code).

In accordance with the IESBA Code (paragraph 290.149), when the audit client is a non EU PIE, and an individual has been a key audit partner for a period of seven years, this individual shall not participate in the engagement until two years have elapsed. Some degree of flexibility may be permitted in rare cases due to unforeseen circumstances outside of the firm’s control and where the individual’s continuity on the audit engagement is especially as a key audit partner important to audit quality. In these cases, equivalent safeguards will be applied to reduce any threats to an acceptable level. Such safeguards, at a minimum, will include an additional review of the work performed by another partner or alternate EQCR who has not been associated with the audit team. The circumstances under which rotation would not be recommended or required should be compelling. When a significant independence threat involving the engagement partner or EQCR is recurring, rotation would be the primary safeguard necessary to reduce the threat to an acceptable level.

Assessing independence of the assurance team is an important part of client acceptance and continuance procedures. When the assessment concludes that rotation of any individual is necessary, the matter must be referred to the Ethics Leader.

When a matter is referred to the Ethics Leader, it is presumed that rotation of some kind is required.

After reviewing the circumstances and consulting other partners, the Ethics Leader will provide a decision in writing as soon as possible, on whether rotation is necessary. If rotation is deemed necessary, the Audit partners committee will assign the new party and specify the length of the stand-down period and any other relevant requirements.

### ***Rotation of Personnel on Audit Engagements for Non Public Interest Entities***

For other entities, if rotation is deemed necessary, the Ethics Leader will identify the replacement and specify the period for which the individual shall not participate in the audit of the entity and other safeguards necessary to comply with any other relevant requirements.

BDO Audit Policy defines the following:

- “Senior personnel” includes the engagement partner, the engagement quality control reviewer and the director, the senior manager or manager responsible for the engagement
- A “long period of time” is defined as a minimum of 8 subsequent years
- Hence a familiarity threat exists if the team of engagement partner/engagement quality control reviewer („EQCR“)/manager is working together on a file for more than 8 subsequent years.

In order to reduce this threat, the following procedures are applicable:

- In case the same senior personnel is working on an engagement since 8 years: consider changing the partner and/or engagement manager;
- If not possible or considered not appropriate, a EQCR has to be considered and decided in the Audit partner Committee for the file;
- The Ethics leader of BDO Audit prepares once a year an inventory of all potential familiarity threats in order for the Audit partners committee to decide which safeguards are put in place (rotation of senior personnel, EQCR or other safeguard). The Audit partners committee will decide on the safeguards to implement before the start of the audit season (September/October).

## Financial Information

The financial statements of BDO Audit for the year ending 30 September 2018 are still in the process of being finalised. The unaudited turnover for the financial year going from 1 October 2017 until 30 September 2018 can be split as follows:

<b>Audit Clients</b>	<b>Turnover for the period from 1 October 2017 until 30 September 2018 (in € million - unaudited)</b>
Revenues from the statutory audit of annual and consolidated financial statements of PIE and entities belonging to a group of undertakings whose parent undertaking is a PIE	0,7
Revenues from the statutory audit of annual and consolidated financial statements of other entities	8,2
Revenues from permitted non-audit services to entities that are audited by BDO Audit	0,7
Revenues from non-audit services to other entities	4,4
<b>TOTAL</b>	<b>14,0</b>

The Board of Directors of BDO Audit






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