

**TRANSPARENCY REPORT
FOR YEAR 2019
OF AFA OOD
AUDIT FIRM**

**IN ACCORDANCE WITH THE REQUIREMENTS OF ART. 62
OF THE INDEPENDENT FINANCIAL AUDIT ACT
AND ART. 13 OF REGULATION (EU) NO 537/2014**



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DESCRIPTION OF THE LEGAL AND ORGANISATIONAL FORM AS WELL AS THE SHARES AND SHAREHOLDERS OF AFA OOD IN ACCORDANCE WITH ART. 62, PARAGRAPH 1 (1) OF THE IFAA

AFA OOD is a limited liability company originally registered by Sofia City Court Decision of 19 June 1992 under Company File No. 17022/1992. In pursuance of the Commercial Register Act requirements, in force as from 1 January 2008, the company has been duly re-registered and is at present entered in the Commercial Register at the Registry Agency with UIC 030278596. The Company has a seat and registered address at: 38, Oborishte St., Oborishte Region, Sofia. As per the registered activities, the principal activity is independent financial audit of entities' financial statements and also provides other financial and accounting services and consultations.

The scope of the services and the acceptance to perform them are in line with the requirements and limitations of the Code of Ethics for Professional Accountants (including the International Standards on Independence), adopted by the International Federation of Accountants, the Independent Financial Audit Act (IFAA) and Regulation (EU) No 537/2014 of the European Parliament and of the Council dated 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (Regulation (EU) No 537/2014).

The firm has three shareholders all of them being Certified Public Accountants and Registered Auditors: Renny Georgieva Iordanova, holding Diploma No. 006, Valia Iordanova Iordanova – Diploma No. 112 and Nadia Dimitrova Viachka – Diploma No. 206.

The shareholding structure as at 31 December 2019 is as follows:

- Renny Iordanova – 45.33%;
- Valia Iordanova – 45.33%;
- Nadia Viachka – 9.34%.

AFA OOD is governed by the General Meeting of Shareholders and is represented by both General Managers – Renny Georgieva Iordanova and Valia Iordanova Iordanova – jointly and severally.

The Company has an assigned Procurator – Nadia Dimitrova Viachka – who may represent it only jointly with one of the General Managers.

AFA OOD is a Registered Auditor – audit firm under Art. 7 paragraph 1(2) of the IFAA and has been entered under number 015 in the Registered Auditors Registry under Art. 20 of the IFAA kept by the Institute of the Certified Public Accountants in Bulgaria (ICPA).

AFA OOD is an audit firm, which has the internal potential and satisfies the criteria of the Financial Supervision Commission (FSC) for choice and appointment of a registered auditor for insurance and pension companies as well as those of the Bulgarian National Bank (BNB) – for commercial banks.

INFORMATION ABOUT THE AUDIT NETWORK IN ACCORDANCE WITH ART. 62, PARAGRAPH 1 (2) OF THE IFAA

AFA OOD does not belong to an audit network.

DESCRIPTION OF THE MANAGEMENT STRUCTURE IN ACCORDANCE WITH ART. 62, PARAGRAPH 1(3) OF THE IFAA

The following departments form the structure of AFA OOD as at 31 December 2019:

- Audit Services Department
- Information Technologies and Audit of Information Systems Department
- Administrative Department

Renny Georgieva Iordanova manages the overall activities and the strategy of the firm, and is also the partner in charge of the firm's personnel management and policies.

Valia Iordanova Iordanova is responsible for the Audit Services Department, for the accounting and audit methodology, applied by AFA OOD as an audit firm and for the Information Technologies and Audit of Information Systems Department; she is also the partner in charge of independence and training.

Nadia Dimitrova Viachka is responsible for the audit of production enterprises, she manages the Administrative Department and is also the partner in charge of the financial reporting of the firm and the quality control on the firm's activities.

The key members of the audit staff of AFA OOD (partners and managers) have acquired profound experience through the years of working with the largest international accounting firms – Deloitte & Touche, PricewaterhouseCoopers and Ernst & Young. Five of them are Registered Auditors – besides the three shareholders the following are Certified Public Accountants and Registered Auditors: Valentina Todorova Brankova – Diploma No. 0467, Yulia Marinova Ancheva – Diploma No. 0716. At the end of 2019, Hristinka Spasova Goranova – Diploma No. 0328, terminated her employment with AFA. Three ACCA Members also work at AFA: Rossen Vladimirov Manev – Identification Number 1083741, Eleonora Milchova Todorova – Identification Number 1093043/2015 and Slavka Georgieva Petrova – Identification Number 0955778/2018.

In 2019, the primary activity of AFA OOD was related to the performance of audit services – statutory and voluntary audit, agreed-upon procedures engagements and audit of financial statements. A large portion of the activities related to tax services, payroll services, accounting, consulting services are performed by another related party – AFA Consultants OOD, in order to comply with the requirements of Art. 7, Para 3 of IFAA. In 2017, in relation to the requirements of the new IFAA, AFA reorganised its activities and gradually transferred a significant portion of its operations, related to consulting and other services (beyond the scope of ISA) into the related party AFA Consultants OOD.

Renny Georgieva Iordanova, Valia Iordanova Iordanova and Dobrinka Konstantinova Shishkova are the shareholders of AFA Consultants OOD. The principal activities of AFA Consultants OOD include: accounting services and consultations, payroll processing, staff recruitment services, consulting services including in the implementation of integrated business solutions, tax services.

DESCRIPTION OF THE INTERNAL QUALITY CONTROL SYSTEM AND STATEMENT BY THE PERSONS MANAGING THE AUDIT FIRM ON THE EFFECTIVENESS OF ITS FUNCTIONING IN ACCORDANCE WITH ART. 62, PARAGRAPH 1(4) OF THE IFAA

Description of the internal quality control system

The internal quality control system of AFA OOD includes the following components:

(a) Leadership quality responsibilities within the firm

Procedures for assigning a person (CPA – Registered Auditor) in charge of the general monitoring and management of the internal system of quality control rules and procedures

In accordance with the firm's policy, the management board of the partners and the senior managers assume the ultimate responsibility for the quality control system of the firm. A rule has been adopted to assign a person entrusted with operational responsibility for the audit quality control system. The management board of the partners has designated Nadia Viachka (CPA) as a person in charge of the quality control within AFA OOD. Her activities are supported by the senior audit managers and three appointed controllers. The person in charge of the operational quality control has the powers and responsibility to: (a) monitor the individual components of the system; (b) review on an annual basis the list of individuals for independent quality review at engagement level (mainly PIE), currently contact these people at engagement level and check upon her discretion the documents issued thereby; (c) organise and follow the subsequent annual quality control inspections; (d) suggest changes in the applied audit methodology.

The general quality control oversight is performed by Valia Iordanova.

(b) Applicable ethical requirements

There are established policies and procedures with the objective to obtain reasonable assurance that the firm and its personnel comply with the applicable ethical requirements: integrity, objectivity, professional competence and due care, confidentiality, professional behaviour. Initial and updating staff training is carried out with regard to the subject and observance of major ethical rules. This is done by organising specific training courses, seminars and meetings. Special attention is paid to the independence principle, which is subject to developed specific policy and procedures. This policy and procedures are reviewed annually and are updated in case of amendments to regulatory provisions that have become effective. The policy as well as the International Code of Ethics for Professional Accountants (Including the International Standards

on Independence) of the International Federation of Accountants (Code of Ethics) are accessible by the whole staff of the company.

In addition, the company relies upon the personal example and style in the behaviour of partners, all CPAs and team leaders.

(c) Application of a special purpose procedure for client acceptance and continuance as well as for undertaking other specific engagements and tasks

For years the company has a developed and implemented special purpose procedure for preliminary study and collection of information and references upon acceptance and/or continuance of the collaboration with clients for the purpose of obtaining reasonable assurance that relationships and engagements will be accepted or continued only if:

- The company has the competence and expertise to fulfil the engagement as well as the capabilities, time and resources to do so;
- It can comply with the relevant ethical requirements and the requirements for independence and objectiveness as set out in Art. 54 and Art. 67 of the IFAA and the Code of Ethics;
- The client's integrity is assessed.

The collected information is summarised in special forms, which are subject to analysis and assessment at three levels: by the specialist in charge of the engagement, by the partner/CPA – Registered Auditor directly in charge of the engagement and by the Managing Partner jointly with a specifically designated registered auditor/director/senior manager, who reviews the Engagement Acceptance Form and the Independence Memorandum and approved/or not the respective engagement (for PIE, the documents are also reviewed by the person appointed to perform quality control). These forms represent an important and determinative part of the final decision on undertaking a particular engagement and/or work with a client.

The procedure for acceptance and continuance of the relations with clients is mandatory before each engagement as well as every year – for repeated engagements.

In case of identified circumstances that presume an engagement to be declined, the management board of the partners and the senior managers analyse and consider the way in which the decline is effected by also consulting with company's lawyers. Such circumstances include but are not limited to: cases of fraud, IFAA, ISA and Code of Ethics requirements, going concern issues, heavy and multiple reserves in previous audit reports, reputation problems or possible abuses.

(d) Human resources. Internal policy and rules for staff recruitment and professional development

The established internal policies, rules and procedures of the company have been developed so as to provide it with a reasonable assurance that it has sufficient personnel with skills, competence and compliance with ethical principles, required for:

- The performance of the engagements in line with the requirements of the professional standards and the regulatory and legal provisions;
- The partners/CPAs – Registered Auditors in charge of the engagement to issue reports that are relevant in the specific circumstances.

The human resources policy is part of the Internal Rules of the firm and is accessible to all employees. It includes: procedures for staff recruitment; performance assessment of each staff member; development of skills and competence; principles and rules for professional development and promotion in the firm's hierarchy; assessment of personnel needs and a specific remuneration scheme.

Special attention is being paid to professional education and continuing professional development. The firm has adopted a good order of mentoring by more experienced staff, transfer of knowledge and know-how and current monitoring and control in the course of each engagement.

The policy also includes a developed scheme for work assessment and general performance of each staff member through procedures of periodic and annual attestation.

The policy for assigning engagement teams includes:

- The responsibility for each engagement is assigned to a particular partner in charge of the engagement (engagement partner) and/or CPA – Registered Auditor;
- A team leader is also designated for each engagement;
- The engagement partner and/or the CPA – Registered Auditor are made known to the management of the client and to those charged with governance;
- The key factors in the choice of an engagement partner and/or CPA – Registered Auditor and a team leader are their competence and ability for conducting the respective engagement;
- The responsibilities of the engagement partner and/or the CPA – Registered Auditor and the team leader are clearly defined and are made known to them in an appropriate way.

(e) Engagement performance. Quality control procedures for work performance at engagement level

The company has a developed system of internal procedures for control on the work and performance of a particular engagement. It aims at providing reasonable assurance that the respective engagement is performed in accordance with the requirements of the professional

standards and regulatory requirements and with a view to the ultimate objective – the company, through its partners and CPA – Registered Auditors, to issue a report, which is adequate to the specific circumstances of the engagement, the work performed and the collected evidence. These policies include mainly:

- Encouraging consistency from the perspective of engagement performance quality – internal instructions are in place related to performance of the engagements;
- Exercising current control over the performance of engagements – by the team leader and the auditor in charge;
- Reforming reviews – the work of audit team members with smaller experience is reviewed by ones with bigger experience. The risk areas are subject to current monitoring, communication and follow-up by the auditor in charge, Prior to completion, a final review is carried out by the auditor in charge. Quality control review by a specially appointed registered auditor is carried out for all audits of PIE.

The quality performance procedures cover all stages of an audit engagement or respectively, of other related engagements: appropriate staff planning adequate to the risk assessment of a specific engagement; procedures for monitoring and control on the compliance with the standards applicable to the engagement; procedures for oversight, mentoring and training of the team; methods for review of the work performed and the judgments and conclusions made; high quality of the documentation and collected evidence and respectively, of the issued report; archiving and storage of the audit file.

The current control (oversight) includes procedures for: current monitoring of the progress of engagement execution through a continuous contact and reporting between the engagement team leader and the CPAs – Registered Auditors and partners in charge as well as internally within the team; assessment of work allocation and performance according to the competence of each team member including with regard to the understanding of work instructions and whether the planned time is sufficient for high quality of performance; covering and current discussion and assessment of all issues of significance for the engagement as well as timely identification of issues arising in the course of the engagement that need discussions with more experienced team members or within the company, including with external experts and consultants.

The major principle, set in the review of the work performed, is that the work of the less experienced team members shall always be observed and reviewed by more experienced ones and respectively, by the CPA – Registered Auditor and partner in charge – currently, in the course of the engagement and respectively, upon its completion and summarising for report issuance.

The company has adopted a mandatory rule for consulting on complicated and disputable issues (audit and accounting) – both with experts within the firm, from AFA Consultants departments and with colleagues of other audit firms or other specialised and consulting firms.

Special attention is being paid to the cases of differences in opinion – then the disputable issue is subject to discussions among the leading partners, manages and CPAs – Registered Auditors.

The engagement quality control review is in itself a mandatory condition for the completion and report issuance on each engagement. In addition, a CPA – Registered Auditor is appointed as a must for public-interest entities to perform a quality control review of the engagement – currently in the course of its acceptance, planning and execution, including prior to the issuance of the auditor's report and the report to the audit committee. The review covers: the procedures and assessments related to engagement acceptance and the preliminary survey of the client; the adequacy and completeness of the procedures for planning, risk assessment and the audit team assignment; the identified risk areas and their coverage by audit procedures; the maintaining of firm's independence and the independence of the engagement team, the defined materiality levels and the identified problem areas of the audit and their resolution; the unadjusted errors and other important audit issues related to the engagement; all significant conclusions and findings from the performed audit procedures that support the auditor's report, the adequacy of the draft auditor's report juxtaposed to the basic conclusions and findings and the execution of all common audit procedures, including the communication with the management and those charged with governance, the financial statements on which an opinion is expressed.

(f) Engagement performance. Current procedures for monitoring the observance of the internal quality control procedures and rules

The procedures for monitoring of the quality control system implementation are related to providing a reasonable assurance that the system is adequate, operates efficiently and is practice-relevant. They include:

- procedures for assessment of the rules themselves – review, update and adequacy;
- procedures for periodic (annual) review of specific engagement that involve all partners, key managers and CPAs – Registered Auditors. The partner responsible for quality control together with three controllers (appointed by an order) perform an annual internal review, in the period October-December, on a sample basis of selected engagements based on a special programme for checking the quality of the engagement. The results of this review are discussed in an appropriate way to ensure work improvements and reduction of the risks of errors. Such a review was performed with regard to the audit

engagements for 2018. Engagements were checked on a sample basis and the main findings were communicated to the responsible partners and/or CPAs in charge of the engagements and discussed at senior managers, CPAs – Registered Auditors and partners level.

Statement of the shareholders, including the managing partners of AFA OOD, regarding the efficiency of the internal quality control system

This transparency report describes the main components and procedures, included in the internal policies of AFA OOD, referring to the quality control system. They are described in further details and with suitable explanations in the internal rules and documents. The objective thereof is to ensure the adequate operation of the quality control system so as to provide a reasonable assurance that AFA OOD and its staff observe the requirements of the professional standards and the applicable legal and regulatory requirements and the reports, issued by the company, are appropriate for the respective engagements. The quality control system is established in line with the requirements of International Standard on Quality Control (ISQC) 1 and ISAs as well as the other relevant standards and documents of IFC and ICPA and considering the size, structure and organisation of the audit company itself.

The shareholders of AFA, including the managing partners, are of the opinion that, as per their reasonable judgement, the quality control system established in the company operated efficiently in 2019.

DATE OF THE COMMISSION DECISION ADOPTING THE RESULTS FROM THE LATEST QUALITY ASSURANCE INSPECTION UNDER ART. 85, AS WELL AS THE ASSESSMENT GIVEN BY THE COMMISSION OF THE QUALITY OF PROFESSIONAL ACTIVITY OF THE REGISTERED AUDITOR IN ACCORDANCE WITH ART. 63, PARAGRAPH 1 (5) IFAA

The latest review by a team of inspectors from the Commission for Public Oversight of Statutory Auditors (CPOSA) was carried out in April-May 2017.

A report, dated 12 May 2017, was issued stating that the audit firm AFA OOD, Registration No 015, complied in all material respects with the quality requirements for the audit services performed by applying the procedures set in the professional standards.

On the grounds of Art. 47.1 of the Rules and Procedures for Quality Control Over the Activities of Registered Auditors, the report on the results of the performed review for control over the quality of audit services was approved by CPOSA by Decision No. 84 of 6 June 2017 and confirmed the assigned grade "A".

LIST OF PUBLIC-INTEREST ENTITIES FOR WHICH IN THE PRECEDING YEAR THE REGISTERED AUDITOR PERFORMED STATUTORY AUDIT ENGAGEMENTS ACCORDANCE WITH ART. 62, PARAGRAPH 1 (6) OF THE IFAA

AFA OOD was chosen to perform audit of the financial year 2019 (year ended 31 December 2019) of the following public-interest entities as per the definition in § 1, p. 22 of the Supplementary Provisions to the Accountancy Act, effective as of 1 January 2016.

1. Aroma AD
2. Aroma Real Estate AD – on 21 January 2020 it was deleted from the register of public entities
3. Neochim AD
4. D Commerce Bank AD – a joint audit
5. Velina AD – on 26 May 2020 it was deleted from the register of public entities
6. Bulgarian Real Estate Fund REIT
7. Generali Insurance AD – a joint audit
8. GP Reinsurance EAD – a joint audit
9. Bulgarian-American Credit Bank AD – a joint audit
10. Raiffeisanbank (Bulgaria) EAD – a joint audit
11. Speedy AD
12. NN Pension Insurance Company EAD – a joint audit
13. NN Voluntary Pension Fund – a joint audit
14. NN Professional Pension Fund – a joint audit
15. NN Universal Pension Fund – a joint audit
16. DSK Bank EAD – a joint audit
17. Pension Insurance Company DSK-Rodina AD
18. Universal Pension Fund DSK-Rodina – a joint audit
19. Occupational Pension Fund DSK-Rodina – a joint audit
20. Voluntary Pension Fund DSK-Rodina – a joint audit
21. Voluntary Pension Fund under Occupational Schemes DSK-Rodina – a joint audit
22. TBI Bank EAD – a joint audit
23. CEZ Distribution Bulgaria AD
24. CEZ Electro Bulgaria AD
25. CEZ Trade Bulgaria EAD
26. Tokuda Bank AD – a joint audit
27. Expressbank AD – a joint audit

28. Bulgarian Stock Exchange AD
29. ERG Capital ADSID
30. Industrial Holding Bulgaria AD

List of public-interest entities for which AFA OOD performed statutory financial audit engagements in 2019

In 2019, AFA OOD issued auditor's reports to the following public-interest entities on financial statements for the year ended 31 December 2018:

1. Aroma AD – separate financial statements
2. Aroma Real Estate AD – separate financial statements
3. Velina AD – separate and consolidated financial statements
4. Bulgarian Real Estate Fund REIT – separate financial statements
5. Neochim AD – separate and consolidated financial statements
6. TBI Bank EAD – separate and consolidated financial statements
7. Speedy AD – separate and consolidated financial statements
8. D Commerce Bank AD – separate and consolidated financial statements
9. Generali Insurance AD – separate financial statements
10. GP Reinsurance EAD – separate financial statements
11. Bulgarian American Credit Bank AD – separate and consolidated financial statements
12. NN Pension Insurance Company EAD – separate financial statements
13. NN Voluntary Pension Fund – separate financial statements
14. NN Occupational Pension Fund – separate financial statements
15. NN Universal Pension Fund – separate financial statements
16. DSK Bank EAD – separate and consolidated financial statements
17. PSC DSK Rodina AD – separate financial statements
18. Universal Pension Fund DSK Rodina – separate financial statements
19. Occupational Pension Fund DSK Rodina – separate financial statements
20. Voluntary Pension Fund DSK Rodina – separate financial statements
21. Voluntary pension fund with Occupational pension schemes DSK Rodina – separate financial statements
22. Reiffeisen Bulgaria EAD – separate and consolidated financial statements
23. CEZ Razpredelenie Bulgaria AD – separate and consolidated financial statements
24. CEZ Electro Bulgaria AD – separate financial statements
25. CEZ Trade Bulgaria EAD – separate financial statements
26. Tokuda Bank AD – separate financial statements

**DESCRIPTION OF THE INDEPENDENCE-RELATED PRACTICES IN ACCORDANCE WITH ART. 62,
PARAGRAPH 1 (7) OF THE IFAA**

Independence is fundamental to the audit profession and is pervasive in all professional relations between the audit practice of AFA OOD (including its partners, audit and consulting staff, technical assistants and subcontractors when such are needed) and its audit, assurance and other related services clients. This requires that a firm practice be free from any interest that might be regarded as being incompatible with objectivity, integrity and impartiality principles.

The independence policy of AFA OOD has been developed in accordance with and is based on the Independent Financial Audit Act (IFAA), the International Code of Ethics for Professional Accountants (Including the International Standards on Independence) of the International Federation of Accountants (IFAC), International Standards on Auditing applicable in Bulgaria as well as the additional independence requirements stated in the Sarbanes-Oxley Law and Auditing and Related Professional Practice Standards issued by the Public Company Accounting Oversight Board (PCAOB) of USA whenever this is necessary. The independence policy is part of the Internal Rules and is mandatory for all employees of AFA. After the new Independent Financial Audit Act came into effect, the policy was supplemented in order to meet also the new requirements of the IFAA. The independence policy is easily accessible to the staff through our internal site. Further to the amendment to the Code of Ethics (2018 issue), a review and supplement was made to the independence policy so that it be compliant with the amendments.

Prior to concluding an engagement contract, a **preliminary examination for acceptance of the engagement** is performed. One of the circumstances checked is whether the nature and the conditions for accepting the engagement would not lead to threats resulting from the presence of:

- (a) self-interest;
- (b) self-check;
- (c) advocacy;
- (d) familiarity;
- (e) intimidation.

It is also checked whether the requirements of Art. 53 and Art. 54 of the IFAA, and when required – Art. 67, have been complied with. The client (new or existing) acceptance form is obligatorily checked by a specially designated person who is not a member of the engagement team and reviews the documentation collected for acceptance of the client in question. A Registered Auditor and/or ACCA member or a member of a similar professional organization may act in the capacity as such person as per our firm policy.

All partners and the members of the audit and consulting teams, the technical assistants and the subcontractors of AFA OOD sign, upon commencement of the audit season, an **Annual Independence Declaration** prepared in line with the list of clients for which an audit is planned and forthcoming. By this declaration, all employees confirm their observance of AFA OOD's independence policy and procedures. The annual declaration is signed once again upon completion of the audit season in the next year.

In addition to filling the annual declaration, every team member, when involved in an audit team and starting individual work under an engagement of a specific client, completes a **declaration stating whether he/she has knowledge of any circumstances that could compromise the independence with regard to this client** as well as that on the occurrence of new circumstances or change in circumstances relating to the application of the independence principle, he/she will inform the company, the engagement partner and the team leader. Independence declarations are also signed by team members at the date of the respective engagement completion in order to confirm that the independence requirements have been observed at the issue date of the auditor's report and there are no changes in the engagement-related circumstances.

Currently, the observance of the rules and requirements of the firm's independence policy is followed at different levels by: team leaders, engagement partners and the partner in charge of independence policy in the firm.

When defining the fees for an audit, assurance or related services engagements, the total fees generated from each client or client group for such an engagement should not represent a large proportion of firm's total fees and make it dependent on this client or client group.

Procedures have been developed on the observance of the independence requirements when providing non-audit services to clients with the objective to ensure that these services are permitted by the ISA, the Code of Ethics, the IFAA and Regulation No 537/2014. Independence assessment is made in the case of request for providing of non-audit services to audit clients and the decision whether to accept or reject a particular request is documented by a specific internal memo and approved by the partner in charge of independence. Special attention is given to providing non-audit services to public-interest entities with a view to the strict observance of the requirements set out in Art. 64 and 66 of the Independent Financial Audit Act. Prior to providing permitted services to public-interest entities, it is mandatory to request approval of the audit committee of the respective entity and to inform the CPOSA within the legally set term.

The audit teams strictly observe the established specific rules for communication with the audit committees of the public-interest entities and those charged with governance that are informed in detail about the observed independence requirements by the audit team, the Registered Auditors in charge of the audit engagements and the individuals in charge of quality control, as well as about the results of the performed audit.

The internal independence policy is reviewed annually in view of its update in line with the changes in the regulations and the Code of Ethics for Professional Accountants. Besides the current control on the observance of the rules of the firm's independence policy, the compliance with the independence rules, the existence/non-existence of threats to independence as well as the applied measures to mitigate these threats are again reviewed on the completion of an engagement. In addition, when the internal business year for AFA is closed, an overall review and assessment is performed on the actual observance and the effects of company's independence procedures to current clients and engagements at partner and manager level, and respectively, by team and individual.

Internal review of the observance of independence requirements (Art. 62, paragraph 1 (7) of IFAA)

The practice, adopted by the company, includes an annual examination of the actual compliance with the independence requirements of firm's policy, including also for the last year, namely:

- Before accepting an engagement, a review has been performed of the Client Acceptance/Continuation Form by a specially designated person who is not a member of the engagement team;
- Within the internal quality control review (on a sample basis) of particular engagements performed by an internal commission (controllers), part of the review procedures are specifically focused on the compliance with the independence requirements at engagement level. The inspection involves a review of the prepared internal documents related to independence (client acceptance, independence memorandum, declarations by the team, pricing, providing of other services, need in rotation, communication with the audit committees and those charged with governance, observance of the ethical principles, etc.);
- A separate check is performed for compliance with the independence requirements based on a sample of specific engagements by certain auditors;
- Annual examination and structural analysis are also performed with regard to the revenue earned by the company for the prior year (1 January 2019 – 31 December 2019) in two aspects: relative share of revenue from a company/group juxtaposed to the total revenue; relative share of the provided independent audit, review and related services juxtaposed to the total revenue for the respective audit client;
- The other services rendered (other than independent audit, review and related services) are examined from the perspective of their nature, existence of threats to independence and applied safeguards. The documentation prepared in relation to the other services rendered is examined. Review is made on the services provided to public-interest entities

from the perspective of complying with the requirements of Art. 64 regarding forbidden services, existence of an approval by the audit committee, existence of a notification to CPOSA;

- A check-up is performed as to the observance of the requirement for filling the annual declarations by the members of the audit and consulting teams, the technical assistants and subcontractors of AFA OOD.

For the purpose of monitoring the precise observance of the above requirements and procedures and the timely improvement and update of the independence policy, a special partner in charge has been assigned – Valia Iordanova.

The partners of AFA confirm that an internal review on the observance of the independence requirements by the firm and the audit teams.

DESCRIPTION OF THE POLICY APPLIED BY AFA OOD WITH REGARD TO TRAINING IN RELATION TO THE CONTINUING PROFESSIONAL DEVELOPMENT UNDER ART. 30 OF THE IFAA IN ACCORDANCE WITH ART. 62, PARAGRAPH 1 (8) OF THE IFAA

The policy of AFA OOD is entirely focused on providing best conditions and opportunities for professional development and growth of each employee. For this purpose, the firm stimulates all forms for improving the professional qualification and expanding the knowledge and skills of its employees. It covers the training expenses and finances the obtaining of the following qualifications:

- Certified Public Accountant;
- ACCA (Chartered Certified Accountant) – at present, six of the employees of AFA OOD are registered students under the ACCA program;
- ICAEW (The Institute of Chartered Accountants in England and Wales) - at present, eight of the employees of AFA OOD are registered students under the ACA (Associate Chartered Accountant) programme;
- CIA (Certified Internal Auditor) – one member of the AFA audit team and two members of the other departments are certified internal auditors by the Institute of Internal Auditors Bulgaria (IIA Bulgaria);
- CISA (Certified Information Systems Auditor) – one of our specialists is a Certified Information Systems Auditor and a member of the Information Systems Audit and Control Association (ISACA);
- CFA (Chartered Financial Analyst);
- Training in the International Bureau of Fiscal Documentation (IBFD);

- ACFE (Association of Certified Fraud Examiners).

AFA OOD organises and assumes the costs of training courses needed to maintain the respective qualification levels (licences).

Every year, the company prepares a staff training program intended to involve the colleagues from all levels at the Audit Department:

- At least once in a year (prior to the start of the audit season in the period September-October), a training course is organised on actual professional issues in the field of audit, accounting, taxes, trade, employment and insurance law, and other related fields and topics;
- Over the years of work, AFA OOD has established stable contacts with Intercollege, Cyprus, which is a first-class college licensed for professional training under ACCA, CIA and CPA. College lecturers trained in prior periods the employees of the firm (auditors, accountants) under a preliminary approved and coordinated program – in the area of IFRS, audit, management accounting, corporate finance and finance management. In addition, AFA has the practice to invite also other renowned international and Bulgarian lecturers for particular training sessions in different fields of knowledge and practice;
- Various additional forms of specialised training are organised in the course of the year in professional fields needed for their work;
- The audit assistants and junior specialists of the Audit Department are trained annually in the field of audit and accounting in order to systematise and expand their professional knowledge;
- CPAs/Registered Auditors attend also courses organised by ICPA with a view to meet the required hours required for training in organised seminars through ICPA;
- Various forms of foreign language training are also envisaged, if necessary, for the whole staff, including for professional terminology and translation;
- In relation to the COVID 19 pandemic, steps have been taken to organise online training and additional self-trainings.

For the purpose of enhancing the knowledge and the professional development of the staff, the following have been adopted in AFA OOD:

- A policy for training of junior specialists by more experienced specialists through the so called mentoring and coaching;

- Practice for electronic exchange of information on cases – for improvement of sharing and introducing of good practices;
- Organisation of internal informal meetings and life discussions of cases, new areas and changes mostly in audit, accounting, taxes and law;
- Functioning of a system for current electronic information of the audit department and the other departments about the changes in IFRSs, ISAs and other related standards, the accounting, tax, employment and social security legislation as well as the European legislation (directives and regulations).

Some of the training courses for 2019, organised by AFA OOD or ICPA involving the Certified Public Accountants are:

- 14.05.2019 – the new Code of Ethics (effective as from 2019) – NOKLAR, key amendments and main aspects related to auditors' independence – organized by ICPA;
- 19-20.06.2019 – IFRS review. New (IFRS 9, 15 and 16) and amended standards. Impact of the new and amended standards on the audit – organized by ICPA;
- 03.06.2019 – Business negotiations and client communication techniques – organized by ICPA;
- 18.06.2019 – the new ISA 540 *Auditing Accounting Estimates and Related Disclosures* – organized by ICPA;
- 21.06.2020/24.06.2020 – General provisions of MAMLA and the Application Regulation thereto – organized by AFA;
- 18.09.2020 – Audit software – organized by AFA;
- 30.09.2019 – Main highlights of the audit methodology – organized by AFA;
- 02.10.2019 - 3.10.2019 – Successful Manager. Successful team building and development. Performance objectives and appraisal. Team management – organized by AFA;
- 03.10.2019 – MAMLA – necessary documents – organized by AFA;
- 04.10.2019 – The new Code of Ethics for Professional Accountants, 2018 issue. Key amendments and main aspects related to auditors' independence – organized by AFA. Lecturer – the SPE Chairperson at ICPA;
- 07.10.2019 – Changes in taxation laws in 2019 – selected topics – organized by ICPA;
- 10.10.2019 – IFRS 9, 15 and 16 update – organized by AFA;
- 01.11.2019 – MAMLA – organized by AFA;

- 18.11.2019 – International Standards on Auditing – Practical Application – organized by ICPA;
- 29.11.2019 – CITA amendments in 2019 and 2020. Practical focus on CITA and accounting legislation – organized by ICPA;
- 25.11.2019 – IFRS 9, IFRS 15 and IFRS 16 – one year since their initial application in the financial statements – main highlights – organized by ICPA;
- 10.09 -11.09.2019 – Audit methodology training for new employees.

The key partners and managers of AFA OOD carry out training courses of ICPA regional organisations. In 2019 they provided such courses on IFRS to the regional organisations in Ruse and Varna. Valia Iordanova and Yulia Ancheva were involved as lecturers.

Nadia Viachka was involved in the performance of the exams on audit, held by ICPA, as a member of the respective commission.

The Certified Public Accountants, working at AFA, participated in various forms of continuing training and cover the required minimum of hours. This is additionally followed by the partner in charge of training in the company – Valia Iordanova and by the CPA in charge of quality control – Nadia Viachka. In 2018, she performed the function of Chair of the Examination Committee.

INFORMATION ABOUT THE BASIS OF PARTNERS' REMUNERATION IN ACCORDANCE WITH ART. 62, PARAGRAPH 1 (9) OF THE IFAA

The partners' remuneration is determined as follows:

- agreed monthly remuneration depending on the scope of assumed management and professional engagements;
- annual bonus based on the achieved results.

DESCRIPTION OF THE POLICY APPLIED BY AFA OOD FOR ROTATION OF THE RESPONSIBLE AUDITORS AND STAFF UNDER ART. 65 OF THE IFAA IN ACCORDANCE WITH ART. 62, PARAGRAPH 1 (10) OF THE IFAA

AFA OOD has established a policy for monitoring and compliance with the requirements of the Code of Ethics and IFAA about the rotation of the firm and the engagement partner and/or CPA –

Registered Auditor regarding public-interest entities.

Starting from 1 January 2017, the rotation policy of AFA has been amended and entirely made in line with the requirements of Art. 65 of IFAA and paragraph 6 of the Transitional and Closing Provisions of IFAA.

A special table has been introduced to follow the rotation requirements whereby the years of appointment of AFA OOD, the CPA - Registered Auditor in charge of the engagement to a public-interest entity and individual in charge of quality control are being traced.

According to the Independence Policy of AFA OOD, the maximum term for audit of a public-interest entity is seven consecutive years from the date of appointment except for the cases under paragraph 6 of the Transitional and Closing Provisions of the IFAA (in this exception the engagement should be terminated at latest beginning from 17 June 2010, respectively 2023). After the expiry of this term, AFA may not execute engagements for statutory financial audit of this entity for a period of four years. The CPA - Registered Auditor in charge of the engagement shall be rotated when completing 4 consecutive years of performing the audit engagement from the appointment date of the audit firm (pursuant to an IFAA amendment, effective as from 28 February 2020, the maximum period was increased to seven consecutive years). This Registered Auditor may not act as an auditor in charge of engagements for statutory financial audit in the said entity for a period of three years from the date of withdrawal. (pursuant to an IFAA amendment, effective as from 28 February 2020, this period has been changed to four years from the date of withdrawal). Pursuant to an IFAA amendment, effective as from 28 February 2020, in case of joint statutory audit of PIE, the period for withdrawal of the Registered Auditor may be extended from seven to a maximum of twelve years (the increase is by five years) if the Audit Committee recommended an extension and it was approved by the General Assembly of the respective company. Rotation of the individual performing independent review of work (quality control) under an engagement for audit of a public-interest entity shall be made after the expiry of the maximum term of seven consecutive years at the latest. Review is performed on an annual basis of the individuals – Registered Auditors who perform independent quality control review for PIEs to assess the need in rotation, including prior to the expiry of the maximum term. The firm internally encourages rotation of such individuals in a term of five consecutive years but the decision depends also on the nature, complexity and the specific circumstances of and about the engagement.

Rotation of senior staff (team leaders) is also made when selecting the audit team for public-interest entities after assessing the factors related to familiarity or self-interest threats or other similar (Regulation (EU) No 537/2014, Art. 17, paragraph 7).

**INFORMATION ABOUT THE NET SALES REVENUE OF AFA OOD, BROKEN DOWN BY CATEGORY
IN ACCORDANCE WITH ART. 62, PARAGRAPH 1 (11) OF THE IFAA**

The net sales revenue earned from services rendered by AFA OOD for 2019 is BGN 3,777 thousand and its break-down by category is as follows:

- statutory audit of annual financial statements, separate and consolidated, of public-interest entities and undertakings belonging to a group with a parent being a public-interest entity – BGN 882 thousand
- statutory audit of annual financial statements, separate and consolidated, of other entities – BGN 1,446 thousand
- permitted services, other than audit, provided to the audited entities – BGN 294 thousand, including:
 - *voluntary audit of annual financial statements – BGN 111 thousand*
 - *audit services to components for the purpose of group financial audit - audit of consolidation reporting packages, review of consolidation packages and work for group auditors – BGN 52 thousand*
 - *performance of engagements other than financial audit required by law from a registered auditor (agreed-upon procedures) – BGN 127 thousand*
 - *agreed-upon procedures – BGN 3 thousand*
 - *trainings – BGN 1 thousand.*
- permitted services, other than audit, provided to other entities – BGN 1,155 thousand, including
 - *revenue from performance of engagements other than financial audit required by law from a registered auditor (agreed-upon procedures for other clients) – BGN 131 thousand*

Revenue earned from audit of financial statements totals BGN 2,439 thousand (64.57%) while that from statutory audit of financial statements amounts to BGN 2,328 thousand (61.64%). The revenue from financial audit, from the performance of engagements other than financial audit required by law from a registered auditor, and the revenue from performance of audit services to components for the purposes of group financial audit amount to a total of BGN 2,749 thousand (72.78%), whereby AFA OOD complies with the requirements of Art. 7, paragraph 3 in relation to § 1, pt.13 of the Supplementary Provisions of IFAA.

Revenue provided to audited companies by the related party AFA Consultants – BGN 104 thousand, of which BGN 4 thousand to a PIE not registered for trading.

OUR MISSION AND VALUES

AFA is one of the leading audit firms in the country. Our audit approach and methodology have been developed based on the best practices and standards in the field of audit.

We are independent in our opinion, but also open, sincere and accurate towards our clients. Our team pursues the ethical standards in audits, assurance engagements and related services – to the client, to the professional community and to the general public.

Our values are:

- independence of opinion and position – we are only guided by the professional standards, ethical and statutory requirements for performing audits, assurance engagements and related services. We comply with the fundamental principles – integrity, objectivity, professional competence and due care, confidentiality, and professional conduct;
- innovation and experience – we combine the long experience of partners and leading specialists with the innovative spirit of our young colleagues;
- consistency in acquiring in-depth knowledge and expertise in the field of IFRS, NAS, audit, finance, taxation, and other areas – the systematic training of our specialists include both acquiring theoretical knowledge and practical training and sharing the experience gained in our fields of work;
- quality, efficiency and timeliness – in the dynamic economic environment that we work in, timeliness and efficiency are essential, and the quality performance of the audits performed is key to the auditor's reports issued by us;
- creativity – we generate new ideas and improve the methodology applied;
- team work and constructive communication – a guarantee for long-term collaboration;
- passing on knowledge and skills – this is the most valuable thing in our team! The professional development of each employee requires devotion and patience which we not only possess, but also apply in our day—to-day work;
- timely communication with the client's management and those charged with governance regarding all material findings and problematic issues in the audit or respective engagement.

24 July 2020

Renny Iordanova
General Manager

