

# Transparency report 2013

EY Albania



Building a better  
working world

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More information about EY can be found at [www.EY.com](http://www.EY.com)

## Country managing partner's letter



Welcome to EY Albania 2013 Transparency Report. The past year has been a significant one for EY globally and in Albania. In January we launched Vision 2020, which sets out EY's purpose, ambition, strategy and positioning.

As we worked to create Vision 2020, we spent time looking keenly at the world around us - speaking with people inside and outside of EY: leading thinkers, clients and our people. In the process, we realized that our purpose is clear - to build a better working world. It is present in:


- ▶ Our services that build trust and confidence in the capital markets - helping investors make informed decisions and helping businesses to grow sustainably.
- ▶ Our belief that every audit, every tax return, every advisory opportunity, every interaction should make the working world better than it was before.
- ▶ Our relationships with our people, our clients, with governments and not-for-profit organizations - through what we say and do and the conversations we convene about the challenges facing economies and the capital markets.

At the heart of building a better working world is our public interest role as an auditor of public companies. Auditors play a vital role in the efficient functioning of our capital markets through promoting transparency and supporting investor confidence. Our clients, regulators and other stakeholders count on us to deliver quality and excellence, and executing audits in a high-quality manner remains central to our role in serving the public interest and growing EY successfully.

As part of Vision 2020, we are investing in tools to improve the audit, creating the highest-performing teams, and focusing on building trust and confidence in the audits we perform in Albania and around the world. My colleagues and I in Albania are excited about playing our part to make Vision 2020 a reality. We look forward to working with you and sharing our progress. Regular dialogue with our stakeholders is a priority for us and what we hear helps inform our views and actions.

In this spirit, we continue to embrace the transparency objectives of the European Union's 8th Company Law Directive and Article 45 of Law No 10091 Dated 05.03.2009 on "Statutory Audits and the organization of the profession for the Certified Auditors and Certified Accountants", which require Albania statutory auditors of public interest entities to publish annual transparency reports. This EY Albania Transparency Report 2013 complies with the Directive and Article 45 of Law No 10091 Dated 05.03.2009 on "Statutory Audits and the organization of the profession for the Certified Auditors and Certified Accountants", and covers the calendar year ending on 31 December 2013.

In this report, you can read more about our internal quality-control system - how we instill professional values; how we perform an audit; our review and consultation process and our process for audit quality reviews. For the first time in this report, you can also read more about EY's approach to stakeholder engagement globally and in Albania. Thank you to all of you who have taken the time to share your views with us in 2013. I encourage investors, audit committee members, companies, regulators and all our stakeholders to continue to engage with us, and would welcome your views on the matters covered in this report.



Alexandros Karakitis  
Country & Tax Managing Partner  
EY Albania

## Message from the Assurance leader



EY Albania provides an important public interest role as an auditor of public interest companies. This role is central to our values, processes and management. EY Albania's reputation is based on providing high-quality, professional audit services objectively and ethically to each and every client.

2013 has been a very successful year for EY Albania where we increased the number of clients we served. Together with success, comes the responsibility of providing quality of service to the standards expected from our clients, regulators and the user of the financial statements.

For that purpose, we have continued investing in our people through EY training programs and professional education like ACCA, acknowledging that our people are the foundation of our success.

During the financial year ending on 31 December 2013, we had a quality assurance review carried out by the Public Supervisory Board of the Institute of Certified Chartered Auditors, covering the adequacy and compliance of our firm's control system of quality assurance. In addition, one assurance engagement for the year ended December 31, 2013 carried with one of our Public Interest clients was selected for review by the Public Supervisory board. The Public Supervisory Board inspector's team concluded that there were no findings for both subject areas covered during their inspection, with a "very good" rating. Learning from regulatory inspections and reviews helps us improve the quality of our audits.

EY is committed to relentless improvement in all of the member firms to improve the quality of our audits. We are working to introduce our new audit tool that will increase the quality of our audits; we are investing in technology and tools that will make our audit more efficient and in the same time making the audit process easier for our clients.

In thanking our clients for the trust given to us, we look forward to another year where we can work together with our clients to meet our goal of becoming the professional services organization of choice for our clients, stakeholders and communities.

A handwritten signature in black ink, appearing to read 'M. Vangjeli', written over a horizontal line.

Mario Vangjeli  
Assurance Leader  
EY Albania

## About us

### Legal structure, ownership and governance

EY in Albania operates through two legal entities Ernst & Young Certified Auditors Skopje d.o.o. - Tirana Branch's and Ernst & Young Albania sh.p.k (jointly referred to as "EY Albania").

Ernst & Young Certified Auditors Skopje d.o.o. - Branch in Albania, which provides assurance services, is a branch of a foreign company, incorporated in Albania and is a member firm of Ernst & Young Global Limited, a UK company limited by guarantee. In this report we refer to ourselves as EY Certified Auditors Skopje d.o.o. - Branch in Albania, "we" or "us" or "our". EY refers collectively to the global organization of member firms of Ernst & Young Global Limited (EYG).

EY Certified Auditors Skopje d.o.o. - Branch in Albania is a branch of Ernst & Young Certified Auditors Skopje d.o.o., a company controlled by Ernst & Young & Southeast Europe Public Limited.

Tax services in Albania are provided by Ernst and Young Albania sh.p.k, a limited liability company, incorporated in Albania which is controlled Ernst & Young & Southeast Europe Public Limited.

EY member firms are grouped into four geographic Areas: Americas, Asia-Pacific, EMEIA (Europe, Middle East, India and Africa) and Japan. The Areas comprise a number of Regions, which consist of member firms or sections of those firms.

Our EMEIA Area comprises EYG member firms in 98 countries in Europe, Middle East, India and Africa.

Ernst & Young (EMEIA) Limited (EMEIA Limited), an English company limited by guarantee, is the principal governance entity for the EYG member firms in the EMEIA Area. EMEIA Limited facilitates the coordination of these firms and cooperation between them, but it does not control them. EMEIA Limited is a member firm of EYG.

In Europe, a holding entity, Ernst & Young Europe LLP (EY Europe) was formed in conjunction with the EMEIA Area. EY Europe is an English limited liability partnership, owned by partners of EYG member firms in Europe. It is an audit firm registered with the ICAEW (the Institute of Chartered Accountants in England and Wales) but it does not carry out audits or provide any professional services. To the extent permitted by local legal and regulatory requirements, EY Europe has acquired or will acquire control of the EYG member firms in the European countries in the EMEIA Area. EY Europe is a member firm of both EYG and EMEIA Limited.

EY Europe acquired control of EY Albania as of 1 October 2005.

EY Europe's principal bodies are:

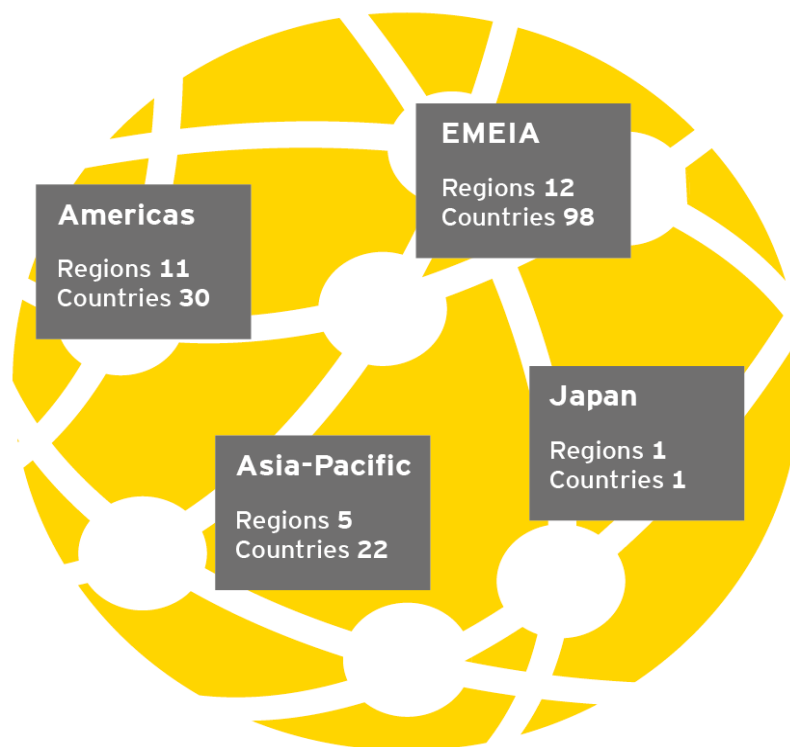
#### **Europe Executive**

The Europe Executive effectively operates as the board of EY Europe. It has authority and accountability for strategy execution and management of its operations under four dimensions: people, quality, growth and operational excellence. It comprises the Europe Managing Partner; the Europe Deputy Managing Partner, the leaders for Accounts, Talent, Risk Management, the service-line leaders for Assurance, Advisory, Transaction Advisory Services and Tax and all European Regional Managing Partners.

#### **Europe Advisory Council**

EY Europe has an elected Europe Advisory Council, which comprises a number of partners of the EYG member firms in Europe. It serves in an advisory role to the Europe Executive on policies, strategies and other matters and its approval is required for a number of significant matters, e.g. appointment of the Europe Managing Partner, approval of the financial reports of EY Europe, and material transactions.

## Network arrangements



EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, 175,000 people in more than 150 countries share a commitment to building a better working world and are united by shared values and an unwavering commitment to quality, integrity and professional skepticism. In today's global market, EY's integrated approach is particularly important in the delivery of high-quality multinational audits, which can span multiple jurisdictions.

EY's central entity, EYG, coordinates the member firms and promotes cooperation among them. EYG does not provide services, and its objectives include the promotion by member firms of exceptional, high-quality client service, worldwide. Each member firm is a legally distinct entity. The member firms' obligations and responsibilities are governed by the regulations of EYG and various other agreements.

The structure and principle global bodies of the global organization during the year ending 31 December 2013 are described below. They reflect the principles that governance and management roles be separated and that EY, as a global organization, has one shared strategy.

Beginning in July 2013, EY is streamlining its operating model into the Executive and the Regions. The Executive will include the Global Executive (GE), its committees and teams, and the four geographic Areas, and will sit across the 29 Regions (formerly called Sub-Areas). This streamlined structure will allow EY to further enhance its global scale and the delivery of consistent exceptional client service worldwide, with the Executive responsible for one global approach to strategy, quality, risk management, business planning, investments and priorities. At the same time, the new operating model will allow for greater stakeholder focus in the Regions, ensuring that EY can build stronger relationships with our clients and other stakeholders in each country and be more responsive to local needs.

### Global Advisory Council

The Global Advisory Council is EY's main advisory body. It comprises a number of member firm partner-level professionals (referred to as partners) drawn from across the four Areas and includes independent non-executive representatives (INEs). The partners, who otherwise do not hold senior management roles, are elected by their peers for a three-year term, with provisions for one successive re-appointment. The INEs are nominated by a dedicated committee. The Global Advisory Council advises EYG on policies, strategies and the public interest aspects of their decision-making. The

approval of the Global Advisory Council is required for a number of significant matters that could affect EY.

### **Independent non-executive representatives**

Independent non-executive representatives (INEs) are appointed from outside of EY and bring the global organization, and the Global Advisory Council, the significant benefit of their outside perspectives and views. More information on EY's INEs can be found in the next section.

### **Global Executive**

The Global Executive brings together EY's leadership functions, services and geographies. It is chaired by the Chairman and Chief Executive Officer of EYG, and includes its Chief Operating Officer; the Global Managing Partners of Client Service and Business Enablement; the Area Managing Partners; the global functional leaders for Talent, Risk Management and Finance and Corporate Development; and the leaders of the global service lines – Assurance, Advisory, Tax and Transaction Advisory Services, as well as the Global leader for Public Policy. The Global Executive also includes the Chair of the Global Accounts Committee and the Chair of the Emerging Markets Committee as well as a representative from the emerging markets practices.

The Global Executive and the Global Advisory Council approve nominations for the Chairman, Chief Executive Officer and the Chief Operating Officer of EYG and ratify appointments of Global Managing Partners. The Global Executive also ratifies appointments of Global Vice Chairs. The Global Advisory Council ratifies the appointments of any Global Vice Chair who serves as a member of the Global Executive. Furthermore, the Global Executive approves appointments of Area Managing Partners. Such appointments are subject to ratification by the Global Advisory Council.

The Global Executive's terms of reference include the promotion of global objectives and the development, approval and, where relevant, implementation of:

- ▶ Global strategies and plans
- ▶ Common standards, methodologies and policies to be promoted within member firms
- ▶ People initiatives, including criteria and processes for admission, evaluation, development, reward and retirement of partners
- ▶ Quality improvement and protection programs
- ▶ Proposals regarding regulatory matters and public policy

- ▶ Policies and guidance relating to member firms' service of international clients, business development, markets and branding
- ▶ EY's business plans, development funds and investment priorities
- ▶ EYG's annual financial reports and budgets
- ▶ Global Advisory Council recommendations
- ▶ Any other proposal that supports the global objectives

It also has the power to mediate and adjudicate disputes between member firms.

### **Global Executive Committees**

Chaired by members of the Global Executive and bringing together representatives from the four Areas, the Global Executive Committees are responsible for making recommendations to the Global Executive. There are committees for Global Markets and Investments, Talent, Risk Management, Assurance, Advisory, Tax, and Transaction Advisory Services.

### **Global Practice Group**

This group brings together the members of the Global Executive, Global Executive Committees and Regional leaders. The Global Practice Group seeks to ensure common understanding across member firms of EY's strategic objectives and consistency of execution across the organization.

### **EYG member firms**

Under the regulations of EYG, member firms commit themselves to pursue EY's objectives, such as the provision of high-quality service, worldwide. To that end, the member firms undertake to implement the global strategies and plans and to maintain the minimum scope of service capability. They are required to comply with common standards, methodologies and policies, including those regarding audit methodology, quality and risk management, independence, knowledge sharing, human resources and technology.

Above all, EYG member firms commit themselves to conducting their professional practices in accordance with the applicable professional and ethical standards, and all applicable requirements of law. This commitment to integrity and doing the right thing is underpinned by EY's Global Code of Conduct and EY's Values.

Besides adopting the regulations of EYG, member firms enter into several other agreements covering aspects of their membership in the EY organization such as the right and obligation to use the EY name and the sharing of knowledge.

Member firms are subject to reviews that evaluate their adherence to EYG requirements and policies governing issues such as independence, quality and risk management, audit methodology and human resources. As necessary, special focus reviews are

performed to address situations or concerns as they arise. Member firms unable to meet the quality commitments and other EYG membership requirements are subject to separation from the EY organization.

## Independent non-executive representatives

EY has invited world-class leaders in related fields to serve as independent non-executive representatives (INEs). They provide an independent voice to the highest levels of management, offer insight into the interests of EY's key stakeholders and further objectivity within its governance structures. EY follows the UK Audit Firm Governance Code model for INEs by selecting individuals who command respect and collectively enhance shareholder confidence by virtue of their independence, stature, experience and expertise.

### Appointment

The INEs are nominated by the INE Nominating Committee comprising the Chairman/CEO of EYG, the presiding partner of the Global Advisory Council and other persons as the Chairman/CEO and the presiding partner in their discretion deem appropriate. The nominations require approval by the Global Executive and ratification by the Global Advisory Council.

### Support

INEs are entitled to receive information about global affairs. To ensure the effectiveness of each INE, they receive administrative support, and the cost of any independent professional advice that may be required is met.

### Term

The term of an INE is three years with provision for one successive re-appointment at the request of the INE Nominating Committee and the Global Executive.

### Disagreements

Any disagreement with an INE would be resolved by mediation by the Chairman/CEO of EYG through a defined process of notification and consultation. In the event of an unresolved disagreement, the INE has the right to resign from the position.

### Independence

EY has considered the auditor independence standards as they apply to INEs in their role as members of the Global Advisory Council, and are satisfied these standards have been met.

### EY's INEs

#### *Lim Hwee Hua*

Lim Hwee Hua is a former Minister of State of Singapore for Finance and Transport. As well as being the first woman to be appointed Minister in the history of Singapore, she is also the former *Straits Times* "World woman of the year". Before entering politics Lim Hwee Hua worked for Jardine Fleming and subsequently became a Managing Director of Temasek Holdings.

#### *Shyamala Gopinath*

Shyamala Gopinath is the former deputy governor of the Reserve Bank of India (RBI), a post she held from September 2004 to June 2011. She joined the RBI in 1972 and worked in different capacities, including as Executive Director from June 2003 until her elevation to deputy governor. She also served for two years on deputation to the International Monetary Fund.

#### *Sir Richard Lambert*

Sir Richard Lambert is the Chancellor of the University of Warwick, a member of the Supervisory Board for the Foreign and Commonwealth Office (UK), former Director-General of the Confederation of British Industry and former editor of the *Financial Times*. Sir Richard was knighted for services to business in the 2011 New Year Honors.

#### *Klaus Mangold*

Klaus Mangold serves as a director at many companies, including Alstom S.A., Continental AG, TUI AG, Metro AG and Rothschild GmbH. His former directorships include DaimlerChrysler Services AG and he has been the Chairman of the East-West Committee of German Industry. He is Commander of the Legion of Honour (France) and Professor of the European Business School.

#### *Mark Olson*

Mark Olson's former positions include Federal Reserve Board Governor, Chairman of the US PCAOB, Staff Director of the US Senate Securities Sub-committee of the Banking, Housing, and Urban Affairs Committee, Chairman of the American Bankers Association, bank president and CEO. He was a partner at EY from 1988 to 1999.





## Commitment to quality

### Infrastructure supporting quality

The Global Managing Partner –Risk Management (GMP RM) is responsible for overseeing organization-wide quality initiatives across EY's four service line quality functions Assurance, Advisory, Tax and Transaction Advisory Services.

The GMP – RM is overseen by the Chairman and Chief Executive Officer and the Chief Operating Officer of EYG and is a member of the Global Executive. Member firm partners are appointed to lead Risk Management initiatives in the service lines and member firms, supported by other staff and professionals. The GMP –RM is also responsible for establishing globally consistent RM execution priorities. These priorities are cascaded to member firms, and their execution is monitored through a formal Enterprise Risk Management program.

The Global Vice Chair – Assurance coordinates member firms' compliance with and implementation of EY's policies and procedures for assurance services.

The Global Vice Chair – Professional Practice, referred to as the Professional Practice Director (PPD), is overseen by both the GMP –RM and Global Vice Chair – Assurance and works directly with the Area PPDs to establish global audit quality-control policies and procedures. The Area PPDs are overseen by the Global PPD, the Area RM Leader and the Area Assurance Leader. This helps provide greater assurance as to the objectivity of audit quality and consultation processes.

The Global PPD and Area PPDs also lead and oversee the Professional Practice group, a Global and Area network of technical subject-matter specialists in accounting and auditing standards who consult on accounting, auditing and financial reporting matters and perform various practice monitoring and risk management activities.

The Global PPD oversees the development of the EY Global Audit Methodology (EY GAM) and related technologies to be consistent with relevant professional standards and regulatory requirements. The Professional Practice group also oversees the development of the guidance, training, and monitoring programs, and processes used by member firm professionals to consistently

and effectively execute audits. The PPDs, together with other professionals who work with them in each member firm, are knowledgeable about EY people, clients and processes and are readily accessible for consultations with audit engagement teams.

There is often the need for additional resources to augment the resources in the Professional Practice group, including networks of professionals focused on:

- ▶ Internal-control reporting and related aspects of our audit methodology
- ▶ Accounting, auditing and risk issues for specific industries and sectors
- ▶ Event-specific issues such as the financial crisis; areas of civil and political unrest; and sovereign debt and related accounting, auditing, and financial reporting and disclosure implications
- ▶ General engagement issues and how to work effectively with audit committees

EY Albania's infrastructure supports quality and is built in line with the global infrastructure.

In the following sections, we describe the principal components of our audit quality-control program:

- ▶ Instilling professional values
- ▶ Internal quality-control system
- ▶ Client acceptance and continuance
- ▶ Performing audits
- ▶ Review and consultation
- ▶ Audit partner rotation
- ▶ Audit quality reviews
- ▶ External quality-assurance reviews
- ▶ Compliance with legal requirements

## Instilling professional values

### Tone at the top

Our senior leadership team is responsible for setting the right tone at the top and demonstrating through its behavior and actions, EY's commitment to building a better working world. We also communicate to our people that quality and professional responsibility start with them. Our shared values, which inspire our people and guide them to do the right thing, and our commitment to quality, are embedded in who we are and in everything we do.

Our approach to business ethics and integrity is embedded in our culture of consultation, our training programs and our internal communications. Senior management regularly reinforce the importance of performing quality work and complying with professional standards and our policies, leading by example and through various communications. Also, our quality review programs assess the quality of professional service as a key metric in evaluating and rewarding all professionals.

Our culture strongly supports collaboration and places special emphasis on the importance of consultation in dealing with complex or subjective accounting, auditing, reporting, regulatory and independence matters. We believe it is important to determine that engagement teams and clients correctly follow consultation advice and we emphasize this when necessary.

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**Our stance consistently has been that no single client is more important than professional reputation - the reputation of EY Albania and the reputation of each of our professionals.**

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### Code of conduct

We promote a culture of integrity, as well as the performance of high-quality audits, among of our professionals. The Global Code of Conduct provides a clear set of the standards that guide our actions and our business conduct. It is organized into five categories containing principles that are to be followed by everyone within EY Albania to guide behavior across all areas of activity:

- ▶ Working with one another
- ▶ Working with clients and others
- ▶ Acting with professional integrity
- ▶ Maintaining our objectivity and independence

- ▶ Respecting intellectual capital

Through our procedures to monitor compliance with the Global Code of Conduct, and through frequent communications, we strive to create an environment that encourages all personnel to act responsibly, including reporting misconduct without fear of retaliation.

The EY/Ethics Hotline provides our people, clients and others outside of the organization with a means to confidentially report activity that may involve unethical or improper behavior, and that may be in violation of professional standards or otherwise inconsistent with the Global Code of Conduct. The hotline is operated by an external organization that provides confidential and, if desired, anonymous, hotline reporting services for companies worldwide.

When a report comes into the EY/Ethics Hotline, either by phone or internet, it receives immediate attention. Depending on the content of the report, appropriate individuals from Risk Management, Human Resources, Legal or other functions are involved to address the report. All matters are handled by experienced individuals, with oversight from the global Risk Management function. For those matters that are reported outside of the EY/Ethics Hotline, the same procedures are followed.

## Our values *Who we are*

**People who demonstrate integrity, respect and teaming**

**People with energy, enthusiasm and the courage to lead**

**People who build relationships based on doing the right thing**

## Internal quality-control system

EY Albania's reputation for providing high-quality professional audit services independently, objectively and ethically is fundamental to our success as independent auditors. We continue to invest in initiatives to promote enhanced objectivity, independence and professional skepticism. These are fundamental attributes of a high-quality audit.

At EY Albania, our role as auditors is to provide assurance on the fair presentation of the financial reports of the company we audit. We bring together qualified teams to provide our services, drawing on our expertise across industry sectors and services. We strive continually to improve our quality and risk management processes, so that the quality of our service is at a consistently high level.

We recognize that in today's environment – characterized by continuing globalization and the rapid movement of capital – the quality of our audit services has never been more important. EY continues to invest heavily in developing the audit methodology, tools and other resources needed to support quality service delivery. This reflects the strength of our commitment to building a better working world and specifically to building trust and confidence in the capital markets and in economies world over.

While the market and stakeholders continue to demand high-quality audits, they also demand increasingly efficient and effective delivery of audit services. EY continues to seek ways to improve the effectiveness and the efficiency of the audit methodology and processes, while maintaining audit quality. We work to understand where our audit quality may not be up to our own expectations and those of stakeholders, including external audit firm regulators. We seek to learn from external and internal inspection activities and to identify root causes of quality occurrences for continuous improvement in audit quality, and we believe that an important part of the audit

inspections process is to effectively take appropriate quality improvement actions.

### **Effectiveness of quality-control system**

EY has designed and implemented a comprehensive set of global audit quality-control policies and practices. These meet the requirements of the International Standards on Quality Control issued by the International Auditing and Assurance Standards Board (IAASB). EY Albania has adopted these global policies and procedures, and has supplemented them as necessary to comply with local laws and professional guidelines and to address specific business needs.

We also execute the EY Audit Quality Review (AQR) program and evaluate annually whether our system of audit quality-control has operated effectively in a manner so as to provide reasonable assurance that EY Albania and our people comply with applicable professional and internal standards, and regulatory requirements.

The results of the AQR program and external inspections are evaluated and communicated within EY Albania to provide the basis for continuous improvement in audit quality, consistent with the highest standards in the profession.

The Global Executive is responsible for implementing quality improvement and protection programs. As such, it reviews the results of our internal AQR program and external regulatory reviews, as well as any key actions designed to address areas for improvement.

The recent results of such monitoring, together with the recent feedback from independent regulatory inspection visits, provide EY Albania with a basis to conclude that our internal control systems are designed appropriately and are operating effectively.

## Client acceptance and continuance

### EY policy

EY's global Client Acceptance and Continuance Policy sets out principles to determine whether to either accept a new client or a new engagement or to continue an existing client or engagement. These principles are fundamental to maintaining quality, managing risk, protecting our people and meeting regulatory requirements. The objectives of the policy are to:

- ▶ Establish a rigorous process for evaluating risk and making decisions to accept/continue clients or engagements
- ▶ Meet applicable independence requirements
- ▶ Identify and deal appropriately with any conflicts of interest
- ▶ Identify and decline clients that pose excessive risk
- ▶ Require consultation with designated professionals to identify additional risk-management procedures for specific high-risk factors
- ▶ Comply with legal, regulatory and professional requirements

In addition, EY's global Conflicts of Interest Policy defines global standards for categories of conflicts of interest and a process for identifying potential conflicts of interest. It also includes provisions for managing conflicts of interest as quickly and efficiently as possible through the use of appropriate safeguards. Such safeguards range from obtaining the relevant client's consent to act for two or more clients to member firms declining an engagement, in order to avoid an identified conflict.

### Putting policy into practice

We use the Global Tool for Acceptance and Continuance (GTAC), an intranet-based system for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line and member firm policies. GTAC

takes users through the acceptance and continuance requirements and identifies the policies and references to professional standards needed to assess both business opportunities and associated risks.

As part of this process, we carefully consider the risk characteristics of a prospective client and several due diligence procedures. Before we take on a new engagement or client, we determine if we can commit sufficient resources to deliver quality service, especially in highly technical areas, and if the services the client wants are appropriate for us to provide. The approval process is rigorous, and no new audit engagement may be accepted without the approval of our PPD.

In our annual client continuance process, we review our service delivery and ability to continue to provide quality service and confirm that clients share EY Albania's commitment to quality and transparency in financial reporting. The partner in charge of each audit, together with our Assurance leadership, annually reviews our relationship with the audit client to determine whether continuance is appropriate.

### Close monitoring

As a result of this review, certain audit engagements are identified as requiring, and are then subjected to, additional oversight procedures during the audit, and some audit clients are discontinued. As with the client acceptance process, our PPD is involved in the client continuance process and must agree with the continuance decisions.

Both client acceptance and client continuance decisions consider the engagement team's assessment of whether the company's management could pressure us to accept inappropriate accounting, auditing and reporting conclusions to undermine quality. Considerations and conclusions on the integrity of management are essential to acceptance and continuance decisions.

## Performing audits

### Audit methodology

EY's Global Audit Methodology (EY GAM) provides a global framework for delivering high-quality audit services through the consistent application of thought processes, judgments and procedures in all audit engagements. Making risk assessments, reconsidering and modifying them as appropriate, and using these assessments to determine the nature, timing and extent of audit procedures are fundamental to EY GAM. EY GAM also emphasizes applying appropriate professional skepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented in EY Albania to comply with the local Albanian auditing standards and regulatory or statutory requirements.

EY GAM represents our comprehensive methodology and is organized into interdependent phases designed to focus on the client's business and financial statement risks and on how those risks affect our audit of the financial statements. EY GAM consists of three key components: requirements; supplemental guidance; and supporting forms, templates and examples. The requirements reflect the typical flow of how EY Albania executes an audit. The supplements provide the requirements and guidance for specific situations and circumstances that may arise during an audit. The forms, templates and examples include leading practice illustrations and assist in performing and documenting audit procedures.

Enhancements to the audit methodology are made regularly as a result of new standards, emerging auditing issues and matters, implementation experiences, and external and internal inspection results. For example, EY GAM has been updated following the issuance of ISA 610, *Using the Work of Internal Auditors*. We also recently issued a new audit approach tailored for the private middle market that meets the requirements of the ISAs.

In addition, we monitor current and emerging developments continually and issue timely audit planning and other reminders. These reminders emphasize areas noted during inspections as well as key topics of interest to the International Forum of Independent Audit Regulators (IFIAR). These include professional skepticism, group audits, revenue recognition and engagement quality reviews.

EY GAM requires compliance with relevant ethical requirements, including independence from the company we audit.

### Technology

Our audit engagement teams use technology to assist in executing and documenting the work performed in accordance with EY GAM. Our primary audit support tool, GAMx, drives uniform execution of EY GAM and appropriate audit documentation, strengthening our ability to deliver consistent, high-quality audits. It provides linked access to knowledge databases (audit guidance and interpretations), professional standards, documentation templates and other tools necessary to execute and document a risk-based audit effectively. GAMx facilitates engagement team collaboration through the sharing of information and the documentation of procedures and conclusions. GAMx also enables secure peer-to-peer communications, so our people can work together as if they were in the same physical location. Audit engagement teams use other software applications, forms and templates during various phases of an audit to assist in making and documenting audit considerations, sourcing data and analysis.

EY has a number of data analysis tools for use in audits. These assist our engagement teams in analyzing a client's data, enhancing our risk assessment processes and enabling the investigation of higher-risk transactions for further investigation.

### Formation of audit engagement teams

EY Albania policies require an annual review of partner assignments by our Assurance leadership and PPD to make sure that the professionals leading listed-company audits possess the appropriate competencies (i.e., the knowledge, skills and abilities) to fulfill their engagement responsibilities, and are in compliance with applicable auditor rotation regulations.

The assignment of people to an audit engagement is also made under the direction of our Assurance leadership. Factors considered when assigning people to audit teams include competence, engagement size and complexity, specialized industry knowledge and experience, timing of work, continuity, and opportunities for on-the-job training. For more complex engagements, consideration is given to whether specialized or additional expertise is needed to supplement or enhance the audit engagement team.

In many situations, internal experts are assigned as part of the audit engagement team to assist in performing audit procedures and obtaining appropriate audit evidence. These professionals are used in situations requiring special skills or knowledge, such as information systems, asset valuation and actuarial analysis.

## Review and consultation

### Reviews of audit work

Our policies describe the requirements for timely and direct executive participation on audits and the level of reviews of the work performed. Supervisory members of the audit engagement team perform a detailed review of the audit documentation for accuracy and completeness. Engagement executives perform a second-level review to determine adequacy of the audit work as a whole and the related accounting and financial statement presentation. A tax representative reviews the significant tax and other relevant working papers. For listed and certain other companies, an engagement quality reviewer (described below) reviews important areas of accounting, financial reporting and audit execution, as well as the financial statements of the company we audit and our report. The nature, timing and extent of the reviews of audit work depend on many factors, including:

- ▶ The risk, materiality, subjectivity and complexity of the subject matter
- ▶ The ability and experience of the audit team members preparing the audit documentation
- ▶ The level of the reviewer's direct participation in the audit work
- ▶ The extent of consultation employed

Our policies also describe the roles and responsibilities of each audit engagement team member for managing, directing and supervising the audit, as well as the requirements for documenting their work and conclusions.

### Consultation requirements

Our consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues. Consultation requirements and related policies are designed to involve the right resources, so that audit teams reach appropriate conclusions.

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**Consultation is built into the decision-making process; it is not just a process to provide advice.**

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For complex and sensitive matters, we have a formal process requiring consultation outside of the audit engagement team with other personnel who have more experience or specialized knowledge, primarily Professional Practice and Independence personnel. In the interest of objectivity and professional skepticism, our policies require members of Professional Practice,

Independence and certain others to withdraw from a consultation if they currently serve, or have served, within a specified period of time, the client to which the consultation relates.

Our consultation policies also include a requirement that consultations are documented, including written concurrence from the person or persons consulted, in order to demonstrate their understanding of the matter and its resolution.

### Engagement quality reviews

Engagement quality reviews are performed by audit partners in compliance with professional standards for audits of all listed companies and those considered higher risk. Engagement quality reviewers are experienced professionals with significant subject matter knowledge. They are independent of the engagement team and able to provide objective evaluation of significant accounting, auditing and reporting matters. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual. The engagement quality review generally spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. It is not limited to a review of the financial statements and conclusions at the time of issuance of our audit report. Policies and procedures for the performance and documentation of engagement quality reviews provide specific guidelines on the nature, timing and extent of the procedures to be performed and the required documentation evidencing their completion. Our PPD reviews and approves all engagement quality review assignments for listed companies and those considered higher risk.

### Audit engagement team disagreement-resolution process

EY has a collaborative culture that encourages and expects people to speak up, without fear of reprisal, if a professional disagreement arises or they are uncomfortable about a matter relating to a client engagement. Policies and procedures are designed to empower members of an audit engagement team by requiring them to raise any disagreements relating to significant accounting, auditing or reporting matters.

These policies are made clear to people as they join EY, and we continue to promote a culture that reinforces a person's responsibility and authority to make that person's own views heard and canvas the views of others.

Differences of professional opinion that arise during an audit generally are resolved at the audit engagement team level. However, if any person involved in the discussion of an issue is not satisfied with the decision, he or she has both the

right and the obligation to see that the issue is referred to the next level of authority until agreement is reached or a final decision is made. Until such time, the parties to the discussion do not withdraw, step aside or otherwise extract themselves from the process. If the engagement quality reviewer makes recommendations that the engagement partner does not accept or the matter is not resolved to the reviewer's satisfaction, the audit report is not issued until the matter is

resolved by following consultation processes for resolution of professional differences. Our documentation requirements for disagreements and their resolution are the same as for other consultations. Anyone involved in the process may separately document his or her personal position in an attachment to the documentation of the final decision.

## Audit partner rotation

EY supports mandatory audit partner rotation to help strengthen auditor independence. We comply with the audit partner rotation requirements of the code of the International Ethics Standards Board for Accountants (IESBA) and law No 10091 Dated 05.03.2009 on "Statutory Audits and the organization of the profession for the Certified Auditors and Certified Accountants, as well as the US Securities and Exchange Commission (SEC) where required. EY Albania supports audit partner rotation because it provides a fresh perspective and promotes independence from company management while retaining expertise and knowledge of the business. Audit partner rotation, combined with independence requirements, enhanced systems of internal quality controls, and independent audit oversight help strengthen independence and objectivity and are important safeguards of audit quality.

For public interest entities where rotation of the audit partner is not mandated by local

independence regulation, or is less restrictive than the IESBA requirements, the EYG Independence Policy requires the lead engagement partner and the engagement quality reviewer to be rotated after seven years. For a newly public interest entity (including a newly listed company) client, the lead engagement partner and the engagement quality reviewer may remain in place for an additional two years before rotating off the team, regardless of the time they served prior to the listing. Following rotation, the partner may not resume the lead or engagement quality review role until at least two years has elapsed.

We have tools to track partner rotation that enable effective monitoring of requirements. We have also implemented a process for partner-rotation planning and decision-making that involves consultation with, and approvals by, our Professional Practice and Independence professionals.



## Audit quality reviews

The global Audit Quality Review (AQR) program is the cornerstone to EY's efforts to maintain and improve audit quality. EY Albania executes the global AQR program, reports results and develops responsive actions plans. The primary goal of the program is to determine whether systems of quality controls, including those of EY Albania, are appropriately designed and followed in the execution of audit engagements to provide reasonable assurance of compliance with policies and procedures, professional standards and regulatory requirements. The global AQR program complies with guidelines in the International Standard on Quality Control No. 1, as amended (ISQC No.1) and is supplemented where necessary to comply with Albania professional standards and regulatory requirements. It also aids EY Albania's continual efforts to identify areas where we can improve our performance or enhance our policies and procedures.

The global AQR program is implemented annually and is coordinated and monitored by representatives of the PPD network, with oversight by the global Risk Management network.

The engagements reviewed each year are selected on a risk-based approach emphasizing audit clients that are large, complex or of significant public interest. The global AQR program includes detailed, risk-focused file reviews covering a large sample of listed and non-listed audit engagements to measure compliance with internal policies and procedures, EY GAM requirements, and relevant local professional standards and regulatory requirements. It also includes reviews of a sample of non-audit engagements. These measure

compliance with the relevant professional standards and internal policies and procedures that should be applied in executing non-audit services. In addition, practice-level reviews are performed to assess compliance with quality-control policies and procedures in the functional areas set out in ISQC No. 1. The global AQR program complements external practice monitoring and inspection activities, such as regulatory inspection programs and external peer reviews.

AQR reviewers and team leaders are selected for their skills and professional competence in accounting and auditing, as well as their industry specialization; they often work in the global AQR program for a number of years and are highly skilled in the execution of the program. Team leaders and reviewers are assigned to inspections outside of their home location and are independent of the audit teams reviewed.

The results of the global AQR program and external practice-monitoring and inspection activities are evaluated and communicated to improve quality. Any quality improvement plans describe the follow-up actions to be taken, the people responsible, the timetable and deadlines, and sign-off on completed actions. Measures to resolve audit quality issues noted from the global AQR program, regulatory inspections and peer reviews are addressed by our Assurance leadership and our PPD with input from Risk Management groups. The actions are monitored by our PPD and Risk Management groups. These programs provide important practice monitoring feedback for our continuing quality improvement efforts.

## External quality-assurance review

EY Albania's audit practice is subject to annual inspection by the Albanian Institute of Chartered Certified Accountants (IEKA) and Public Supervisory Board (BMP) (as per art.3/1-2 and art. 5/1.d of Law No 10091 Dated 05.03.2009 on "Statutory Audits and the organization of the profession for the Certified Auditors and Certified Accountants"). As part of its inspections, the Institute of the Chartered Certified Auditors evaluates quality-control systems at a firm level and reviews selected engagements.

The last quality assurance inspection by the Public Supervisory Board of the Albanian Institute of the Chartered Certified Auditors took place in December 2013. The final report on the inspection was issued on 20 January 2014.

We respect and benefit from the Public Supervisory Board of the Albanian Institute of the Chartered Certified Auditors inspection process. We thoroughly evaluate points raised during the inspection in order to identify areas where we can improve audit quality. Together with our AQR process, external inspections aid us in making our audits and related control processes of the highest quality in the interests of investors and other stakeholders.

The most recent review of the Public Supervisory Board on Quality Assurance at a firm level for the quality controls system in place was performed in November 2013 and the report of the inspectors' team was issued on January 20, 2014. The conclusion of the inspectors of the Public

Supervisory Board was that EY Albania's Quality control systems were effective and adequate to provide reasonable assurance that our firm performs and reports with quality and in compliance with the applicable professional standards, in all material respect. The evaluation issued from the report contained no findings, with a "very good" rating.

The same inspection team also performed a Quality Assurance at an engagement level, on audits of public entities financial statements for the year ended 2011. The inspectors selected 1 out of 3 Public Interest Entity audit engagement for financial statements for the year ended 31 December 2011. The conclusion of the inspectors of the Public Supervisory Board was that the selected audit engagement was performed and reported in compliance with applicable professional standards, in all material respects. The evaluation issued from the report contained no findings, with a "very good" rating.

As compared to the prior periods, there have been no findings, and the firm has always been evaluated with the highest ratings possible. High quality has continually been commended.

Information on the above-mentioned regulator can be found on its website  
<http://www.ieka.org.al/bordi-i-mbikqyrjes-publike.aspx>.

## Compliance with legal requirements

The Global Code of Conduct provides a clear set of standards that guide our actions and business conduct. EY Albania complies with applicable laws and regulations and the EY Values underpin our commitment to doing the right thing. This important commitment is supported by a number of policies and procedures, including:

### **Anti-bribery**

EY's global Anti-bribery Policy provides our people with direction around certain unethical and illegal activities. It emphasizes the obligation of our people to comply with anti-bribery laws and provides greater definition of what constitutes bribery. It also identifies reporting responsibilities when bribery is discovered.

### **Insider trading**

EY's global Insider Trading Policy reaffirms the obligation of our people not to trade in securities with insider information, provides detail on what constitutes insider information and identifies with whom our people should consult if they have questions regarding their responsibilities.

### **Data privacy**

The global Personal Data Privacy Policy sets out the principles to be applied to the use and protection of personal data, including that relating to current, past and prospective personnel, clients, suppliers and business associates. This policy is consistent with applicable laws and regulations concerning data protection and privacy when processing personal data. It provides a foundation for maintaining the privacy of all personal data used by EY Albania. Furthermore, we have a policy to address our specific EY Albania data privacy requirements and business needs.

### **Document retention**

EY Albania's record retention policy applies to all engagements and personnel. This policy emphasizes that all documents must be preserved whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving us or one of our clients that may relate to our work. It also addresses EY Albania legal requirements applicable to the creation and maintenance of working papers relevant to the work performed.



## Independence practices

EY's independence practices are designed to enable EY Albania and our people to comply with the independence standards applicable to specific engagements, including, for example, the independence standards of the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC) and Albania's independence standards. All professionals and certain other employees are required to participate in annual independence learning, to help maintain our independence when performing services for audit clients.

We consider and evaluate independence from several perspectives, including: our financial relationships and those of our people; employment relationships; business relationships; the permissibility of non-audit services we provide to audit clients; partner rotation; fee arrangements; audit committee preapproval, where applicable; and partner remuneration and compensation.

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**Failure to comply with applicable professional independence requirements will factor into a person's promotion and compensation decisions, and may lead to other disciplinary measures.**

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We have implemented EY's global applications, tools and processes to support us, our professionals and other employees in complying with independence policies.

### **EYG Independence Policy**

The EYG Independence Policy contains the independence requirements for member firms, professionals and other employees. It is a robust policy predicated on the IESBA independence code, with more stringent requirements where prescribed by a given regulator. The policy also contains guidance to help people apply the independence rules. The EYG Independence Policy is readily accessible and easily searchable through EY's intranet.

### **Global Independence System**

The Global Independence System (GIS) is an intranet-based tool that helps determine the listed entities from which independence is required and the independence restrictions that apply to each.

Most often these are listed audit clients and their affiliates, but they can be other types of attest or assurance clients. The tool includes family-tree data relating to affiliates of listed audit clients and is updated by client-serving engagement teams. The entity data includes notations that indicate the independence rules that apply to each entity, helping our people to determine the type of services that can be provided.

### **Global Monitoring System**

The Global Monitoring System (GMS) is another important global tool that assists in identifying proscribed securities and other impermissible financial interests. People ranked as manager and above are required to enter any securities they hold, or those held by their immediate family, into the GMS. When a person enters a proscribed security, they receive a notice and are required to dispose of the security. Identified exceptions are reported through the Global Independence Incident Reporting System (GIIRS) for regulatory matters.

GMS also facilitates annual and quarterly confirmation of compliance with independence policies, as described below.

### **Independence compliance**

EY has established a number of processes and programs aimed at monitoring the compliance with independence requirements of EY's member firms and our people. These include the following activities, programs and processes:

#### **Independence confirmations**

Timely and accurate completion of annual and quarterly independence confirmations is a high priority for the responsible leadership teams.

Annually, EY Albania is included in an Area-wide process to confirm compliance with the EYG Independence Policy and requirements and to report identified exceptions, if any.

All of EY's professionals, and certain others based on their role or function, are required to confirm compliance with independence policies and procedures at least once a year. All partners are required to confirm compliance quarterly.

## **Global Independence Compliance Reviews**

EY conducts a number of testing and member firm visits to assess compliance with independence matters. These include reviewing for non-audit services, business relationships with the companies we audit and financial relationships of member firms.

Each year, EY's global Independence team establishes a program for testing compliance with personal independence confirmation requirements and with reporting of information into GMS.

All professionals, from managers and above, are fully compliant with their mandatory annual global independence declarations as at the end of the financial year 2013. Additionally, all audit staff is compliant in completing their annual learning update of the global independence rules and regulations through EY web based learning tool.

## **Non-audit services**

Compliance with professional standards governing the provision of non-audit services to audit clients is designed to be achieved through a variety of mechanisms. These include the use of tools (e.g., GTAC - and Service Offering Reference Tool (SORT) - see below), training, and required procedures completed during the performance of audits and internal inspection processes.

## **Global independence learning**

EY develops and deploys a variety of independence learning programs. All professionals and certain other employees are required to participate in annual independence learning to help maintain our independence from the companies we audit.

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**The goal is to help our people understand their responsibility and to enable each of them, and EY, to be free from interests that might be regarded as being incompatible with objectivity, integrity and impartiality in serving an audit client.**

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The annual independence learning program covers independence requirements focusing on recent

changes to policy, as well as recurring themes and topics of importance. Timely completion of annual independence learning is required and is monitored closely.

In addition to the annual learning program, independence is promoted through a number of events and materials, including the new-hire program, milestone programs and core service-line curricula.

## **Service Offering Reference Tool (SORT)**

We assess and monitor our portfolio of services on an ongoing basis, confirming that they are permitted by law and professional standards, and to make sure that we have the right methodologies, procedures and processes in place as new service offerings are developed. When appropriate, we exit or restrict services that could present undue independence or other risks. SORT provides our people with information about our service offerings. SORT includes guidance around which services can be delivered to audit and non-audit clients, as well as independence and other risk management issues.

## **Business Relationship Evaluation Tool (BRET)**

BRET helps to ensure our business relationships comply with independence requirements. Our people are required to use BRET to evaluate and obtain advance approval of any potential business relationship with an audit client.

## **Audit committees and corporate governance**

EY recognizes the important role audit committees and similar corporate governance bodies play in the oversight of auditor independence. Empowered and independent audit committees play a vital role on behalf of shareholders in protecting independence and preventing conflicts of interest. We are committed to robust and regular communication with audit committees or those charged with governance. Through our quality review programs, we monitor and test compliance with our standards for audit committee communications, as well as the pre-approval of services, where applicable.



## Creating high-performing teams

EY is building a better working world for its people by recruiting, managing and retaining top talent and developing the highest-performing teams and outstanding leaders.

A strategic objective is to attract and build life-long relationships with a diverse group of talented assurance professionals.

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**We are proud of our inclusive people culture, and we are committed to doing even more to advance our people's development.**

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### Recruitment and hiring

Recruiting for the audit practice is performed primarily on university campuses and supplemented, when necessary, by hiring people with prior work experience. Candidates are evaluated based on the following competencies:

- ▶ Intellectual competence
- ▶ Leadership skills
- ▶ Team/personal skills

- ▶ Motivation
- ▶ Communication skills

EY aspires to have a leading people culture everywhere in the world. We believe that creating a culture that attracts, retains and develops outstanding people leads to higher quality service.

### Valuing diversity and inclusiveness

The global workforce is becoming more diverse - a trend to be celebrated and encouraged. For global organizations such as EY, an important aspect of creating the right working environment is a focus on inclusiveness.

Inclusiveness is essential to making the diverse mix work. It is about equity and opportunity - making sure that differences are celebrated so that talented people from any background can rise to the top, and ensuring that opportunities to develop and advance are available for all from day one.

It is a source of pride for us that EY is regularly cited by external organizations as being a leader in diversity practices and for providing an excellent working environment.

## Continuing education of statutory auditors

### Professional development

The EY career development framework, EYU, provides our people with opportunities for the right experiences, learning and coaching to help them grow and achieve their potential.

The learning component of EYU is based on an extensive and globally consistent learning curriculum that helps all of our people develop the right technical and personal leadership skills wherever they are located around the world. Core audit training courses are supplemented by learning programs that are developed in response to changes in accounting and reporting standards, independence and professional standards, and emerging practice issues. We require our audit professionals to obtain at least 20 hours of continuing professional education each year and at least 120 hours over a three-year period. Of these hours, 40 % (16 hours in any one year, and 48 hours every three years) must cover technical subjects related to accounting and auditing.

In addition to formal learning, professional development occurs through coaching and experiences our professionals receive on the job.

Coaching helps to transform knowledge and experience into practice. Experienced professionals are expected to coach and develop less experienced personnel to create a continual learning environment.

### Performance management

A comprehensive performance management process requires our people to set goals, have clear work expectations, receive feedback and talk about their performance. The Performance Management and Development Process (PMDP) is designed to help our people grow and succeed in their careers. Under the PMDP, periodic job performance reviews are combined with annual self-appraisal and annual reviews. As part of the annual review process, each professional, in conjunction with his or her counselor (an assigned, more experienced professional), identifies opportunities for further development. Professionals and their counselors are guided by a set of expectations that articulate the knowledge, skills and behaviors that should be maintained and developed for the respective rank. These expectations derive from, and align with, EY's global strategy and values.

## Knowledge and internal communications

We understand the importance providing client engagement teams with up-to-date information to help them perform their professional responsibilities.

EY has made significant investments in knowledge and communication networks to enable rapid dissemination of information, built around intranet and email applications. These systems provide access to hundreds of knowledge databases. Examples include:

- ▶ Global Accounting & Auditing Information Tool (GAAIT) is EY's standard accounting and auditing research tool. It includes local and international accounting and auditing standards and interpretative guidance.
- ▶ *Global Accounting and Auditing News* is a weekly newsletter providing coverage of global Assurance and Independence policies and procedures, news from the International Accounting Standards Board and International Federation of Accounts (IFAC), and internal commentary and guidance regarding international accounting, auditing and independence developments.
- ▶ *Your EY Daily News* is a daily e-newsletter that reports on the latest news and information about EY and its services.
- ▶ *Perspectives* is a quarterly global e-magazine that provides strategic updates on all four service-lines, as well as observations and viewpoints on issues affecting EY and its clients.

- ▶ *EY Point of View and Overviews* are publications that provide perspective on current public policy and regulatory developments of importance to our profession, stakeholders and capital markets.
- ▶ Practice alerts and webcasts include a range of global and country-specific practice alerts and specific webcasts within the Assurance practice, including those highlighting inspection findings as an opportunity for practice improvement.

Quality-control policy and practice manuals and other guidance materials are included on our intranet. These promote consistency, accuracy, quality and accessibility in our internal and external communications, and functions as a risk management tool. This information, along with guidance materials from outside organizations, is updated regularly and maintained in an electronically searchable format.

### Internal surveys and continuous improvement

We regularly gather data from various quality-control processes, such as Audit Quality Reviews, consultation processes and other methods to assist in improving policies, practices and training further. We supplement this data with surveys of our people. The Global People Survey gauges what people think about EY's culture and how member firms conduct business, one of the best indicators of their focus on quality. Results from these and other feedback tools help identify where member firms are doing well and where improvements can be made. The results also guide us in establishing action plans and initiatives.



## Revenue and remuneration

### Financial information

The financial information presented below for EY Albania represents combined, not consolidated, revenues and includes expenses billed to clients and revenues related to billings to other EYG member firms. Also, revenue amounts disclosed in this report include revenues from both audit and non-audit clients.

Revenue is presented in accordance with the applicable Albanian national accounting standards. 'Other assurance services' revenue includes accounting and financing services; certain due diligence services; and risk-related services including internal controls, internal audits, technology and security, Sarbanes-Oxley (SOX) compliance, actuarial, fraud and forensics, and other attestation services. 'Other non-audit services' revenue includes transaction, valuation, performance improvement, restructuring and other advisory-related services.

#### Financial information for the period ending 31 December 2013

Service	Revenue (LEK)	Percent
Statutory audit	22,140,801	12%
Other assurance services	66,025,919	38%
Tax advisory	76,501,072	44%
Other non-audit services	10,386,523	6%
<b>Total</b>	<b>175,054,315</b>	<b>100%</b>

#### Financial information for the period ending 31 December 2012

Service	Revenue (LEK)	Percent
Statutory audit	21,690,858	16%
Other assurance services	36,562,611	26%
Tax advisory	73,300,566	52%
Other non-audit services	8,954,999	6%
<b>Total</b>	<b>140,509,034</b>	<b>100%</b>

## Partner remuneration

Quality is at the center of our business strategy and a key component of our performance management systems. Our partners and other professionals are evaluated and compensated based on criteria that include specific quality and risk management indicators, covering both actions and results.

The Global Partner Performance Management (GPPM) process is a globally consistent evaluation process for all partners in EY's member firms around the world. It reinforces the global business agenda by linking their performance to wider goals and values. GPPM is an ongoing, cyclical process that includes goal setting, personal development planning, performance review and recognition and reward. It is the cornerstone of the evaluation process to document partners' goals and performance. A partner's goals are required to reflect various global priorities, one of which is quality.

We prohibit evaluating and compensating lead audit engagement partners and other key audit partners on an engagement based on the sale of non-assurance services to their audit clients. This reinforces to our partners their professional obligation to maintain our independence and objectivity.

Specific quality and risk management performance measures have been developed to take account of:

- ▶ Technical excellence
- ▶ Living the EY Values as demonstrated by behaviors and attitude
- ▶ Demonstrating knowledge of, and leadership in, quality and risk management
- ▶ Compliance with policies and procedures

- ▶ Compliance with laws, regulations and professional duties
- ▶ Contributing to protecting and enhancing the EY brand

Our partner compensation philosophy calls for meaningfully differentiated rewards based on a partner's level of performance, as measured by the GPPM process. Partners are assessed annually on their performance in quality service delivery, leading people, operational excellence and market leadership and growth.

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**We operate a cap system so that a partner's overall year-end rating is always aligned with the partner's rating on the quality metric.**

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To recognize different market values for different skills and roles, and to attract and retain high-performing individuals, the following factors are also considered when calculating total reward:

- ▶ Seniority
- ▶ Role and responsibility
- ▶ Long-term potential
- ▶ Mobility

Instances of non-compliance with quality standards result in remedial actions, which may include compensation adjustment, additional training, additional supervision, or reassignment. A pattern of non-compliance or particularly serious non-compliance may result in actions that include separation from EY.



## Working with our stakeholders and communities

### Stakeholder dialogue

As an auditor of listed companies and other public interest entities, EY Albania is acutely aware of the important public interest role we play in promoting trust and confidence in business, capital markets and economies.

We take our public interest responsibilities seriously, and work hard to maintain an open and frank dialogue with our stakeholders as part of our broader commitment to building a better working world.

Our environment is shaped by a wide range of policy makers, including governments, regulators, standard setters and international organizations. When meeting with our stakeholders, we provide our perspective and seek to better understand their point of view.

We encourage improvements in corporate governance, financial reporting and other matters that affect our capital markets more broadly.

EY is engaging increasingly with global organizations like the Financial Stability Board, the International Forum of Independent Audit Regulators, and the Basel Committee on Banking Supervision. EY also participates in global forums, such as the World Economic Forum, that bring together thought leaders on issues important to us and our stakeholders.

#### **Selected stakeholder engagement globally in 2013**

During the past year, international organizations and policy makers around the world have focused on a number of issues affecting our profession, including the independence of auditors, the quality of audits, and the usefulness of financial reporting. Policy options such as enhanced auditor reporting; more meaningful corporate disclosure; mandatory audit firm rotation or tendering; and increased transparency of audit committee auditor oversight are being debated in a number of jurisdictions. These options are critical to the continuing relevance of audit, the attractiveness and sustainability of the audit profession, and our ongoing ability to fulfill our public interest role.

EY has met regularly with investors, regulators, legislators and other policy makers in 2013 to discuss these issues. These conversations have highlighted the importance of strong corporate governance, with active and engaged audit committees who are transparent with shareholders about their oversight of the external auditor. There is a strong desire for meaningful change to increase the usefulness and informational value of the auditor's report, and we believe that auditors should be required to highlight matters that, in the auditor's judgment, are most significant in the audit.

Investors are among our key stakeholders.

This past year EY has continued to increase its investor engagement around the world to make sure EY understands investor perspectives on auditing, financial reporting, corporate governance and other capital market issues. For example, during 2013, EY held three dialogue dinners with investors and other stakeholders from around the globe. These are the latest in a series of dinners convened since 2011 to foster discussion about ways to improve corporate governance. Some of these discussions have covered a range of topical governance matters, while others have focused on governance in particular geographic markets or sectors of the economy. These dinners are independently moderated and held on a Chatham House or off-the-record basis to encourage frank discussion.

EY continues to participate in the Global Auditor Investor Dialogue, an informal network of leading global institutional investors, and major global auditing networks to exchange views on current financial reporting and auditing issues. EY has also become a member of the Asian Corporate Governance Association and continues to be an active member and sponsor of the International Corporate Governance Network. These organizations enhance EY's ability to hear the perspectives of a wide variety of investors and others and better understand their views.

Selected stakeholder engagement in EY Albania during the past year:

- Workshop delivered to Albanian Central Bank, with regards to Recovery and Resolution Planning (July 2013)
- Workshop delivered to Albanian Central Bank, on Basel II implementation (June 2013)
- Co-organization and Participation in the 2<sup>nd</sup> ACCA Albanian Technical conference for ACCA members and students (November 2013)

- EY Tax Symposium: The recent fiscal developments and challenges ahead (January 2014)

**For more about our views**

A selection of recent thought leadership is available on the EY Insights application for mobile and tablet devices and EY Albania & Kosovo Careers on Facebook.

## Commitment to our communities

Our commitment to building a better working world begins with our people and extends to the work we do with clients and other stakeholders in the marketplace. The net effect is the benefit this generates for communities around the world. The most significant impact we have on society is by our support of global and local economic stability and growth, which addresses some of the major issues that the world is facing.

EY supports organizations and activities that contribute to building a better working world at the global, regional and local level. EY is proud to be part of the UN Global Compact and has pledged to uphold its ten universally accepted principles in the areas of human rights, labor, the environment and anti-corruption. EY reports its progress every year.

### Supporting communities through charitable giving

We contribute to not-for-profit organizations that are aligned with our corporate responsibility strategy, as well as those that address the most pressing needs of the communities in which we live and work.

### Demonstrating environmental stewardship

We believe that any commitment to a greener world starts with us. As such, we're challenging ourselves to work in an environmentally responsible manner and to find new ways to reduce our carbon footprint and waste.

EY continues to build out its greenhouse gas measurement and reporting. Working with in-house Climate Change and Sustainability Services professionals, EY has established a global methodology for calculating environmental impacts. EY is looking for ways to evolve and employ leading practices to make sure it has a credible global footprint.

#### The UN Global Compact's ten principles

##### *Human rights*

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. Make sure that they are not complicit in human rights abuses.

##### *Labor*

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. The elimination of all forms of forced and

compulsory labor;

5. The effective abolition of child labor; and
6. The elimination of discrimination in respect of employment and occupation.

##### *Environment*

7. Businesses should support a precautionary approach to environmental challenges;
8. Undertake initiatives to promote greater environmental responsibility; and
9. Encourage the development and diffusion of environmentally friendly technologies.

##### *Anti-Corruption*

10. Businesses should work against all forms of corruption, including extortion and bribery.



## Appendix: EY Albania public interest entity audit clients

In the financial year ended on 31 December 2013, EY Albania performed statutory audits of the following public interest entities:

- Banka Credins Sha
- Credit Agricole Bank Albania Sha



## **EY | Assurance | Tax | Transactions | Advisory**

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