

Transparency Report

For the year ended 30 September 2014

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Foreword

This transparency report has been prepared in accordance with the clause 33.1 of the Act on Certified Auditors of the Republic of Latvia and this is our third report of such kind.

This transparency report is a public statement to clients, audit committees, regulators and the wider public of our commitment and ability to provide quality audit services. It briefly explains how the firm is run, how we ensure that we perform audits of the highest quality and describes the expertise of our firm.

This transparency report describes policies and procedures which are effective as at 30 September 2014.

Riga, 11 December 2014



Edvards Merhels
Managing partner

Non-financial information

Value proposition

We offer personal and technically sound services at fees competitive with those of Big 4. For audit services this means that we:

- dig deep into the issues
- take additional mile or two to address issues which matter to clients
- keep our teams compact and experienced
- are strict about business ethics, independence and objectivity, by putting reputation first.

We do not perceive audit as a commodity. On the contrary, we perceive each engagement as unique and requiring bespoke approach.

Legal structure and ownership

Merhels Revidenti Konsultanti SIA (hereafter Merhels or the Firm) is a limited liability company incorporated on 10 August 1998 under the laws of the Republic of Latvia. The Firm is licensed by the Latvian Association of Certified Auditors (LACA) to carry on with the audit business.

The Firm's ownership structure is as follows:

- 80% of shares are held by Edvards Merhels
- 20% of shares are held by Dace Merhele.

Edvards Merhels and Dace Merhele are Latvian certified auditors and they are members of the Firm's Board.

Governance and management

The Firm's daily activities are managed by the Board.

Service lines are managed by service lines leaders:

- Audit and advisory services - by Edvards Merhels, simultaneously the managing partner
- Tax advisory services - by Dace Merhele, senior partner
- Financial outsourcing and tax compliance services - by Marija Smirnova, financial outsourcing partner
- Business risk services (BRS) - by Deniss Vološins, BRS partner.

Quality control

Our quality control system rests upon the following standards issued by the International Federation of Accountants (IFAC):

- International Standard on Quality Control 1: Quality Control for Firms that Perform Audits and Review of Historical Financial Information, and Other Assurance and Related Services Engagements.
- International Standard on Auditing 220: Quality Control for Audits of Historical Financial Information.
- International Ethics Standards Board for Accountants Code of Ethics.

The Firm's quality control practices are documented in the Ethics and Quality Control Manual. This manual describes procedures for:

- Ethical requirements
- Acceptance and continuance of client relationships and engagements
- Human resources, assignment of engagement teams, engagement performance
- Consultation, difference of opinion, complaints and allegations
- Engagement quality control review
- Monitoring.

International affiliation

Merhels is a correspondent firm of the RSM International, the seventh largest network of independent audit, tax and advisory firms in the world. RSM International, known more commonly as RSM, was formed in 1964, adopting its current name worldwide on 1 January 1993.

RSM exists to connect member firms through commonly agreed and applied quality standards in order to provide comfort to every RSM member firm partner that the quality of service and advice to referred clients will be to a consistently high standard – everywhere in the world.

Correspondent firms are not themselves members of the RSM network but, as a correspondent agree to provide services and advice to clients of members of the RSM network in locations where the RSM network does not have any member firm representation. Merhels as a correspondent firm is expected to meet all legal and regulatory standards of an independent accounting and advisory firm in Latvia and to conduct its audit and accounting practice in accordance with, at a minimum, the International Standards on Auditing and the International Standards on Quality Control and to comply with the IFAC Code of Ethics for professional accountants. Correspondent firms are not subject to globally coordinated internal quality assurance reviews. Further, they are not obliged to comply with the RSM policies and meet member firm criteria for size, location and branding.

External monitoring

The Firm is obliged to submit itself to an inspection of its audit practice by the LACA. Such inspections as a minimum are carried out once in 5 years. The inspection process includes high level evaluation of policies and procedures applicable to the firm's audit practice. The inspection team reviews select financial statements, audit reports and engagement files. The inspection team also interviews partners in-charge for select audit engagements. Upon

completion of work inspectors may attribute the following grades to a firm:

- A - no significant issues noted or up to 5 insignificant issues noted
- B – one significant and up to 9 insignificant issues noted or up to 12 insignificant issues noted
- C – 2 or more significant issues noted or one significant and more than 9 insignificant issues noted.

The Firm has been subject to LACA's inspections in 2008 and 2013. In both cases the Firm was assigned grade "A".

Independence practices

Maintaining the independence of the Firm, audit teams and other professionals is critical to sustaining public confidence in the audit profession. Merhels is committed to ensuring that its independence policies and procedures are robust and provide clients and other users of audit reports with confidence that the Firm and their professionals are independent and objective.

Our independence policies and procedures are based on the IFAC Code of Ethics. The key elements thereof are:

- providing staff with relevant training
- obtaining annual confirmations from staff as to their independence from audit clients
- maintaining robust client acceptance and reacceptance policies.

Continued professional education

Professional education needs are determined by means of self-assessments, appraisals performed by the Firm's leadership team and monitoring changes in regulations which affect our operations. Education needs are addressed via structured, unstructured and on the job training. Structured training is comprised of attending external or internal courses, seminars and workshops. It may as well include preparing courses and/ or articles to professional

magazines. Unstructured learning is comprised of reading professional magazines, books and other professional literature. The Firm requires that staff documents learning activities.

Our people hold such professional qualifications as:

- LCA: Latvian Certified Auditor
- FCCA: Fellow of Association of Chartered Certified Accountants (UK)
- CIA: Certified Internal Auditor by the Institute of Internal Auditors (USA)
- CISA: Certified Information Systems Auditor by the Information Systems Audit and Control Association (USA)
- CCSA: Certified in Control Self-Assessment by the Institute of Internal Auditors (USA).

Partner remuneration

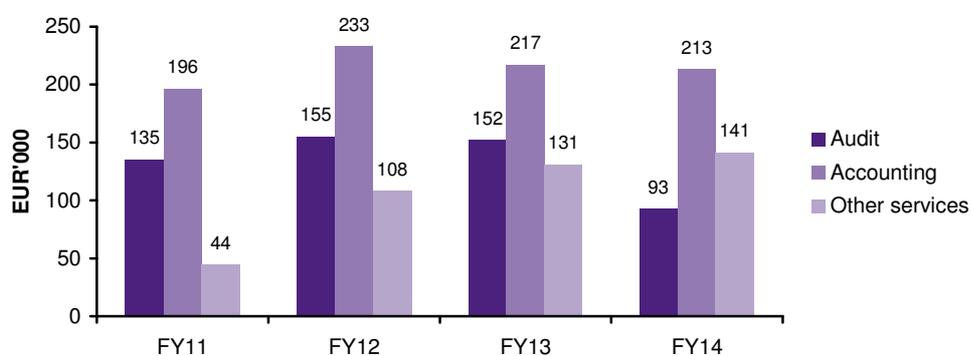
Senior partners principally are remunerated with reference to their share of the Firm's profits. Other partners principally are remunerated with reference to profits contributed by service lines under their supervision.

Public interest companies

For the year ended 30 September 2014 we have audited the financial statements of Acme Corporation SIA. The bonds issued by Acme Corporation SIA are traded on the OMX NASDAQ Riga.

Financial information

Revenues



Revenues within *Other services* are primarily comprised of fees generated from tax and financial advisory services.

The Firm's financial year ends on 30 September.

Other select information

	30.09.2014 EUR' 000	30.09.2013 EUR' 000	30.09.2012 EUR' 000	30.09.2011 EUR' 000
Net assets	127	189	178	152
Total assets	242	283	295	239
Number of partners	4	4	4	4
Number of staff	5	6	6	5

TALK TO US
DISCOVER HOW WE CAN GROW TOGETHER

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