

# Deloitte.



**Transparency report 2017**  
Deloitte & Touche, Lebanon

**Deloitte & Touche, Lebanon is pleased to set out below its 2017 Transparency Report. This transparency report is in respect of the financial year ended 31 May, 2017, except if indicated otherwise.**

## **DELOITTE NETWORK DESCRIPTION**

Deloitte & Touche Lebanon (referred to as the "Firm" or "DTL") is a civil partnership formed under framework of regulations applicable in Lebanon that regulates certified public accounting firms practicing in Lebanon. The Lebanese firm is clustered under Deloitte & Touche Middle East (DME) which has the territorial rights for the Middle East region. Deloitte & Touche Lebanon carries the Deloitte brand name by virtue of a sub-license and technical agreements for technical assistance and oversight signed with DME.

The Firm has six registered national partners who, by law, must be licensed by the Lebanese Association of Certified Public Accountants. The Firm is duly registered both with the Lebanese Association of Certified Public Accountants under registration # 5 and in the civil companies register under registration # 122. The head office of Deloitte & Touche, Lebanon is situated at Arabia House, Phoenicia Street, Beirut, Lebanon. Deloitte & Touche (M.E.) is the Middle East Member Firm of the Deloitte Network.

Deloitte & Touche (M.E.) carries the brand in the Middle East and covers the market through a network of offices and member firms in 14 countries, including Lebanon.

Deloitte & Touche (M. E.) along with its affiliated entities is the Middle East member firm of the Deloitte Network. The "Deloitte Network" is comprised of firms that are members of Deloitte Touche Tohmatsu Limited, an English company limited by guarantee ("DTTL"). The Deloitte Network is comprised of firms that are members of Deloitte Touche Tohmatsu Limited, an English company limited by guarantee ("DTTL").

DTTL does not provide services to clients, or direct, manage, control or own any interest in any member firm or any member firm's affiliated entities. Member firms in the Deloitte network provide services to clients, either directly or through their affiliates (member firms and their affiliates are collectively referred to herein as "Member Firms"). Member firms operate under the Deloitte brand and related names, including "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," and "Tohmatsu."

Member Firms, including their affiliated entities, provide professional services in particular geographic areas and are subject to the laws, regulations and professional requirements of the jurisdictions in which they operate. Each Member Firm is structured differently in accordance with, among others, national laws, regulations and customary practices.

Member Firms are not subsidiaries or branch offices of DTTL and do not act as agents for DTTL or other member firms. Rather they are locally-formed entities with their own ownership structure independent of DTTL that have voluntarily become members of the Deloitte Network with a primary purpose to coordinate their approach to client service, professional standards, shared values, methodologies, and systems of quality control and risk management. DTTL has adopted certain policies and protocols in each of these areas in an effort to establish a consistently high level of quality, professional conduct and service in all member firms. This structure confers significant strengths, combining high quality standards and methodologies with a deep understanding of local markets and a sense of responsibility and initiative among professionals who have a direct stake in the integrity and growth of their respective practices.

## **MANAGEMENT STRUCTURE OF DELOITTE & TOUCHE - Lebanon**

The governing body of Deloitte & Touche consists of partners one of whom serves as managing partner. The leadership of the firm is responsible for drawing up plans for the execution of group policies and for the follow up of their implementation. Such policies cover areas including professional and administrative matters applicable to the clustered member firms, operating and capital budgets and the monitoring of performance, quality and financial matters.

Leadership roles within Deloitte & Touche are held by senior professionals who are appointed by the Firm leadership and their responsibility areas include Ethical practices, the maintenance of appropriate Independence standards, monitoring of Reputation & Risk and Quality Control of work performed for clients. There is no fixed term for such leadership roles. These oversight roles exercised by DME address the compliance of the members firms with the set policies and procedures. The individuals appointed by DME to observe compliance are supported by a team of individuals assigned at the national practice.. This Transparency Report describes those roles as well as other policies and procedures that are applicable throughout the network including Deloitte & Touche, Lebanon.

## **OVERVIEW OF QUALITY CONTROL PROCEDURES**

Deloitte & Touche, Lebanon provides audit and related assurance services through its engagements with clients. When taken as a whole, this overview provides a summary of the Firm's quality control policies and procedures related to those engagements, and are organized into the following sections:

- Leadership responsibilities for the system of quality control
- Ethical requirements
- Human resources
- Client and engagement acceptance and continuance
- Engagement performance
- Monitoring

## **LEADERSHIP RESPONSIBILITIES FOR THE SYSTEM OF QUALITY CONTROL**

The Firm maintains policies and procedures to promote an internal culture based on the recognition that quality is our number one priority. The Firm focuses on professional excellence as the foundation for achieving outstanding audit quality on a consistent basis. While Deloitte & Touche (M.E.) assumes the responsibility of observing compliance with the system of quality control, the partners and senior professionals assigned with operational responsibilities for the Firm's quality control system have sufficient and appropriate experience and ability as well as the necessary authority to assume that operational responsibility.

## **ETHICAL REQUIREMENTS**

### **Ethics**

The Firm maintains policies and procedures that are designed to provide reasonable assurance that it and its partners, professional staff, and support staff comply with relevant ethical requirements.

The ethical requirements for audit and related assurance services provided by the Firm comply with the DTTL policies and procedures which align with the requirements and guidance set out in Parts A and B of the Code of Ethics for Professional Accountants (the "Code") issued by the International Ethics Standards Board for Accountants, a standard-setting body of the International Federation of

Accountants (IFAC) and, in Lebanon, the Ethics requirements of the Lebanese Association of Certified Public Accountants. When national requirements are more restrictive than the DTTL policies and procedures, the Firm follows the applicable national requirements.

The Firm has appointed an Ethics Officer who is an experienced partner who has direct access to the Firm's leadership and the Firm's governing body. In addition, the Firm has developed and implemented its own code of conduct, which incorporates Deloitte's Global Principles of Business Conduct and describes, in some detail, critical professional behavior that reflects local customs, regulations, and legal requirements.

Confidentiality is a key consideration to be fully adhered to either in relation to the professional Code of Ethics or strict confidentiality requirements by local laws and regulations.

The Firm provides communication channels through which partners, professional staff and support staff can consult on and report ethical issues and situations. The Firm reinforces its commitment to ethics and integrity through communication tools, learning programs, compliance processes, and measurement systems.

The Firm requires all partners, professional staff, and support staff to confirm annually that they have read and understood the code of conduct and understand that it is their responsibility to comply with it.

## **Independence**

The Firm has policies and procedures that are designed to provide reasonable assurance that it complies with applicable professional standards that relate to independence. These policies and procedures are based on the Code, and are enhanced, as appropriate, to reflect local standards or DTTL policies that may be more restrictive.

The Firm's system of quality control related to independence includes the following:

- Independence policies and procedures
- Compliance business process tools, including the Deloitte Entity Search and Compliance (DESC) system, the Global Independence Monitoring System (GIMS), Confirmations, and Consultation
- Business relationship assessments and monitoring
- Independence learning
- Monitoring of independence systems and controls relating to personal independence, and engagement and practice reviews
- Disciplinary measures and actions
- Assignment of responsibility for independence systems and controls
- "Tone-at-the-top" culture relating to independence

### **1: Independence Policies and Procedures**

The Firm's independence policies and procedures cover the Firm, and the Firm's partners, professional staff and support staff, and certain relatives thereof, where applicable. These policies and procedures are, in some instances, more restrictive than the independence standards in the Code and contain specific independence requirements that are applicable when the Firm is to maintain independence with respect to an audit client ("restricted entity") and its affiliates.

Policies require that the Firm, its partners and professional staff, determine, among other things, whether an entity is a restricted entity before the Firm, a partner or professional staff member (including their spouse, spousal equivalent, and dependents) engage in certain transactions with the entity. The Firm, partners and managerial personnel enter their financial interests and securities accounts into a tracking system (GIMS). GIMS enables an electronic review of financial interests and

securities accounts to help identify if independence restrictions may affect the ability to hold such items. The Firm annually obtains confirmations from its partners, professional staff, and support staff upon joining the Firm, as well as ongoing confirmations on an annual basis, that such individuals are in personal compliance with the Firm's independence policies.

The Firm's independence policies and procedures are made available electronically to the Firm's partners, professional staff, and support staff. Updates to these policies and procedures are also made and communicated electronically to the Firm's partners, professional staff, and support staff. Moreover, other independence-related materials are available on an independence website. Reminders on policy and other matters are routinely published as part of communications to strengthen awareness and understanding of the independence policies and to highlight changes to entities that are internationally restricted, as relevant.

Policies and procedures are in place at the engagement level to require the audit engagement partner to consider independence matters during the course of an audit engagement and to conduct communications with the audit committee or those charged with governance, where required.

## **2: DESC System, GIMS, Confirmations and Consultations**

There are three related aspects of the Firm's systems and controls related to the Firm's independence and the personal independence of its partners, professional staff and support staff: DESC system, GIMS, and the confirmation process. These three aspects support each other in that (1) partners and professional staff search DESC system, (which includes a database of internationally restricted entities) and/or GIMS (which has a database of financial interests and securities accounts), to identify if an entity or its financial interests or securities accounts are restricted; (2) partners and managerial personnel record their financial interests and securities accounts in their portfolios in GIMS; and (3) the Firm periodically obtains confirmations from its personnel as to their compliance with the Firm's independence policies and also confirms to DTTL its compliance and the compliance of its personnel with the Firm's independence policies.

### DESC system

DESC is operated by DTTL on behalf of the DTTL member firms. At a minimum, each DTTL member firm reports the names of its audit clients and their affiliates that meet the definition of an international restricted entity. The policy definition of an international restricted entity includes public audit clients, as well as other audit clients that may be of public interest. Such restricted entity information is recorded in the DESC system. The entity information provided by the Firm to DTTL is continuously updated to help ensure its accuracy and completeness, including periodic validation processes performed by engagement teams and/or the DTTL member firms. Updates to DESC system's entity information are made daily based upon these processes. The Firm's partners and professional staff access DESC system online.

DESC system also has features that are used to request and document approvals related to providing services to an entity. In many jurisdictions, a restricted entity's audit committee or others charged with governance must preapprove services that will be delivered within the restricted entity group. Where such features are enabled, DESC system's features establish a standard business process among the DTTL member firms whereby service requests are submitted to the lead client service partner, who is responsible for obtaining and documenting appropriate authorizations prior to approving the service request.

### GIMS for financial interests and securities accounts

Each DTTL member firm also identifies and reports the publicly-available securities at financial institutions that are associated with an international restricted entity. Such securities and financial



institutions are recorded in GIMS. GIMS is operated by DTTL on behalf of the DTTL member firms, and each DTTL member firm administers the related monitoring processes related to its partners and professional staff. Partners and professional staff search DESC, and/or GIMS before acquiring a financial interest or establishing a securities account, to determine if restrictions apply that affect them. This includes investments and securities accounts of a spouse, spousal equivalent, and dependent. Partners and managerial personnel enter defined types of such financial interests and accounts into their individual portfolios in GIMS for monitoring purposes.

In addition, GIMS assists partners and managerial personnel by identifying situations which may not comply with the Firm's policies so that the item may either be reviewed or corrected. When such a situation is detected, the system advises the individual that an independence-impairing situation may exist, and poses questions which aid the individual to determine whether the item is permitted in the particular circumstances or not. This includes generating notices to the individual in situations where a once-permissible holding becomes newly restricted, so that appropriate and timely actions can be taken. The Firm monitors and follows-up on such notices until the individual resolves the item.

#### Confirmations

The Firm obtains confirmations from its professional staff and support staff upon joining the Firm, partners before being admitted to the partnership and existing partners when a change in location or role may change their independence requirements. Ongoing confirmations are also obtained on an annual basis from all individuals. Annually, the Firm reports to DTTL that the Firm has taken appropriate steps to obtain sufficient evidence that it and its partners, professional staff and support staff comply with applicable independence requirements (including that the Firm itself is independent of restricted entities).

#### Consultation Network

The Firm communicates with its partners and employees regarding the consultation policies for independence matters and identifies the individuals who are to be contacted. Additionally, the Firm consults with DME and DTTL's independence group and other member firms when the Firm determines that additional input or advice is needed under the circumstances.

### **3: Business Relationship Assessments and Monitoring**

The Firm has a business relationships assessment and monitoring process. The objective of such process is to ensure that, prior to entering into any business relationship with a restricted entity or its management or substantial stockholders, a determination is made to ensure such a relationship does not impair independence with respect to that restricted entity.

Each office and service line maintains a business relationships register categorizing contractual arrangements with its 3rd and related parties and which is analyzed between marketplace relationships and vendor relationships. For those relationships where the other party or parties are clients of the Firm, an analysis and consideration of the facts surrounding such relationships is regularly undertaken and documented to ensure that no breach of independence rules has or is likely to take place, either by the Firm or by its personnel.

### **4: Independence Learning**

The Firm provides independence learning to its partners and professional staff. This learning is e-based and contains the DTTL independence e-learning curriculum covering, inter alia, independence awareness, financial interests, insider trading, business relationships and training on the DTTL DESC and GIMS tools.

## **5: Monitoring of Independence Systems and Controls Relating to Personal Independence, Engagement and Practice Reviews**

### Inspection of Personal Independence

On a periodic basis, the Firm inspects for compliance with the Firm's independence policies and procedures. The objective of the inspection and testing program is to determine whether the representations and information submitted by partners and professional staff relating to independence matters and the information contained in GIMS are accurate and complete.

### Inspection of Firm's Compliance

The Firm is subject to a practice review at intervals not to exceed three years. Compliance with independence policies at both a firm level and at a client level is reviewed.

See further details of engagement and practice reviews in the Monitoring section below.

## **6: Disciplinary Measures and Actions**

The Firm has disciplinary procedures in place to address noncompliance with the Firm's independence policies and procedures. These disciplinary procedures are designed to provide an appropriate response to breaches of such policies and procedures by partners, professional staff, and support staff.

## **7: Assignment of Responsibility for Independence Systems and Controls**

The Firm has assigned a Director of Independence who has the responsibility to implement and maintain quality controls over its independence. More specifically, the Director of Independence is responsible for taking the lead on all significant independence issues within the Firm, including the implementation and maintenance of the Firm's business processes related to: (1) independence consultation, (2) independence learning programs, (3) restricted-entity information in DESC system, (4) use and monitoring of the features of DESC system, (5) use and monitoring of GIMS, (6) annual confirmations, (7) testing and inspection programs, and (8) disciplinary processes. Communication channels exist between the Head of Independence, the Director of Independence at DME level, Firm management and DTTL's independence group. Further, the Director of Independence provides an update to the Firm's leadership at least annually about the significant independence matters that are relevant to the Firm.

DTTL has assigned a senior leader and DTTL independence team members who provide access to timely and accurate information designed to facilitate the independence function at the Firm level.

## **8: "Tone-at-the-Top" Culture Relating to Independence**

Firm leadership reinforces the importance of compliance with independence and related quality control standards, thereby setting the appropriate "tone-at-the-top" and instilling its importance into the professional values and culture of the Firm. Strategies and procedures to communicate the importance of independence to partners, professional staff, and support staff have been adopted, emphasizing each individual's responsibility to understand the independence requirements.

## **Conflicts of Interest**

Potential conflicts of interest are considered on all prospective engagements and prior to the Firm entering into a financial or business relationship with a third party. The Firm has policies and procedures in place to identify potential conflicts of interest in connection with the Firm either (i) accepting a prospective engagement or (ii) entering into certain business or financial relationships with another entity.

The Deloitte Conflict Checking System (DCCS) is designed to support the Firm's conflict checking business process to identify and manage potential conflicts relating to prospective engagements, business or financial relationships. For each new engagement or relationship opportunity, DCCS captures the principal parties to the engagement, the scope of work, engagement team, and specific questions which are driven by the proposed service offering. As part of each conflict check recorded in DCCS there is an automated search of DESC system to identify any potential audit/attest relationships. DCCS also provides an automated means of cross-border conflict checking. Overall DCCS provides a record of existing engagement, business, and financial relationships which is automatically searched when proposing for new engagements or relationships.

## **CLIENT AND ENGAGEMENT ACCEPTANCE AND CONTINUANCE**

The Firm has rigorous policies and procedures in place for accepting prospective engagements and assessing engagement risk, regardless of the proposed services to be rendered.

These policies and procedures are designed to provide the Firm with reasonable assurance that it will only accept engagements where it:

- Is competent to perform the engagement and has the capabilities, including time and resources, to do so
- Can comply with relevant ethical requirements, including independence and conflicts of interest assessments and considerations
- Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity.

Engagement risk classification associated with accepting an engagement is assessed as "normal," "greater than normal" or "much greater than normal" and is completed prior to accepting a client and engagement. The engagement risk assessment process includes approval by the recommending partner and concurrence by at least one other Firm partner that the Firm may accept the client and the engagement. In addition, the decision to accept appointment is approved by the Firm's Audit Risk Leader if engagement risk is assessed as "greater than normal" or "much greater than normal."

On international engagements, engagement acceptance and continuance procedures are performed at the member firm level. The Firm does not assume the acceptability of a client and/or the engagement merely because it has been referred from another member firm.

In assessing acceptability of an engagement, client and professional service risks are considered, which generally include the following factors:

- Management characteristics and integrity
- Organization and management structure
- Nature of the business
- Business environment
- Financial results
- Business relationships and related parties
- Prior knowledge and experience

The Firm's engagement risk assessment procedures identify related risks and provide a basis for tailoring the audit approach in order to address engagement-specific risks.

The engagement risk assessment begins during the engagement acceptance/continuation process, and is an ongoing process that continues throughout the engagement. Risk assessment tools and programs are encompassed in the audit approach and common documentation to facilitate the comprehensive risk assessment for planning the audit once the engagement is accepted.



On an annual basis, engagements in process for more than one year are evaluated to determine if the Firm should continue the engagement. Factors discussed above are revisited to ascertain whether the relationship should continue.

In addition, any time an entity undergoes a significant change (e.g., change in ownership or management, financial condition, or nature of entity's business), continuation of the relationship is reevaluated. Decisions of engagement continuance are concurred by one other partner.

## **ENGAGEMENT PERFORMANCE**

### **Audit Approach**

The Firm's audit approach includes requirements and guidance to assist in the planning and performance of audit engagements and is based on the International Standards on Auditing issued by the International Auditing and Assurance Standards Board of IFAC. The Firm has further supplemented these requirements and guidance to reflect local requirements as applicable. The Common documentation and the enabling software technology are tools that enhance the consistent implementation of the Firm's audit approach and promote effectiveness and efficiency.

The following are the main elements of the Firm's audit approach:

#### Understanding of the entity and its environment

An understanding of the entity and its environment, including its internal control, to assess the risks of material misstatement at the financial statement and assertion level is vital to performing an effective audit. The Firm's engagement teams develop this understanding and assess risks of material misstatement in a number of ways, including analyzing financial information to identify trends and unusual balances; holding in-depth discussions with management and those charged with governance; considering the inherent nature of each financial statement component and the risks associated with that component; evaluating the design of relevant internal controls and determining if they have been implemented; assessing the extent to which technology is used in the financial reporting process; and, if applicable, reviewing internal audit findings.

As necessary, based on the nature of the entity's information systems and the extent to which technology plays a role in the transaction processing and financial reporting processes, information technology specialists may be involved in the audit engagement.

#### Audit procedures

Engagement teams develop the audit plan to address the risks associated with the entity, the audit engagement, and the financial statements as a whole.

Throughout the audit, engagement teams continually assess risk and how audit findings bear on the audit procedures. The Firm's audit approach allows partners and professional staff to modify the audit procedures to address issues that arise in the course of the audit.

Audit procedures to address risks of material misstatement include substantive procedures, which comprises tests of details and substantive analytical procedures, and tests of the operating effectiveness of controls.

#### Use of experts

While the engagement partner retains responsibility for all aspects of the engagement, there are instances when the engagement team utilizes an expert. In such instances, an engagement team evaluates whether the expert has the necessary competence, capabilities and objectivity.

In evaluating whether or not the expert's work constitutes appropriate audit evidence in support of the financial information, the engagement team considers:

- The source data used
- The assumptions and methods used and, if appropriate, their consistency with those used in the prior period
- The results of the expert's work in light of the engagement team's overall knowledge of the business and of the results of its audit procedures.

#### Engagement documentation

The Firm maintains policies and procedures to support the assembly and archiving of audit files whereby the audit engagement team submits the audit files for archiving within the shorter of: (1) 60 days from the date of the report; or (2) the period set out in applicable professional standards and regulatory and legal requirements. The Firm's policies and procedures address the retention of documents (in paper and electronic form), including those that address the confidentiality, safe custody, integrity, accessibility and retrievability of archived documentation.

#### **Engagement Team Reviews**

A review of the audit documentation is required to be performed by a member of the engagement team who has more experience than the preparer does. In some cases, elements of audit documentation may be reviewed by several team members.

#### **Engagement Quality Control Reviews**

An engagement quality control review is performed for all audit and related assurance services, with limited exceptions. The review is performed by a partner, or experienced manager who is not directly involved in the engagement and who has the appropriate experience and knowledge about applicable accounting and auditing standards and regulations. The engagement quality control reviewer is not part of the engagement team and is not portrayed in fact or in appearance as a member of the engagement team. Appropriate experience and knowledge includes experience and knowledge of the entity's industry, economic environment, and accounting principles. For all public interest entities and all high risk engagements, the review is performed by a partner with sufficient and appropriate experience and professional qualifications to act as an engagement partner on these types of audits.

The reviewer is appropriately briefed by the engagement team and conducts the review in such a manner that sufficient knowledge and understanding is obtained in order to reach conclusions. The reviewer's responsibility is to perform an objective review of significant auditing, accounting, and financial reporting matters, to document the procedures the reviewer performed, and to conclude, based on all the relevant facts and circumstances of which the reviewer has knowledge, that no matters that have come to his or her attention would cause the reviewer to believe that the significant judgments made and the conclusions reached were not appropriate in the circumstances.

#### **Special Reviews**

For engagements that have been identified as having much greater than normal engagement risk, a special review partner is assigned to provide an additional level of competence and objectivity in planning and performing the engagement. The special review partner is independent of the engagement. Normally this partner possesses specialized industry and technical skills applicable to the engagement and, in certain situations, is independent of the practice unit to enhance objectivity or to provide specialized resources.

## **Consultation Network and Differences of Opinions**

The Firm has established a consultation network to assist in resolving issues identified by the engagement team. Consultations include technical accounting and auditing questions regarding the application and interpretation of applicable standards and reporting issues or on any other matter pertaining to an audit engagement that requires specialized knowledge.

To facilitate the technical consultation process, the Firm has a national accounting and auditing consultation structure. A Member Firm Professional Practice Director with specialized technical skills and experience is supported by a Firm Accounting Technical Center headed by technical partners and subject matter resources in various areas, for example, such as regulatory filing requirements, technical auditing requirements, complex accounting matters, etc.

The Firm maintains policies and procedures for the resolution of differences of opinion among partners and others who are assigned to the engagement team, including those who are in a consultative capacity.

## **HUMAN RESOURCES**

### **Hiring**

The Firm has established policies and procedures designed to provide reasonable assurance that it has sufficient partners and professional staff with the competencies, capabilities and commitment to ethical principles necessary to:

- Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
- Enable the Firm to issue reports that are appropriate in the circumstances.

A centralized Human Resources department for Deloitte & Touche (M.E.) headed by a Partner is responsible for maintaining and updating relevant policies and procedures in the light of market conditions and developments and these are communicated to each office via the HR website link, e-Room and the DME personnel policies website, My Daleel, which is freely accessible by all Firm personnel.

Included in My Daleel, the Firm's Talent Attraction Program (TAP) tools and the Firm's HR e-Room contain policies and procedures concerning:

- **Recruitment**
- **Performance Management**
- **Capabilities**
- **Competencies**
- **Career development**
- **Promotion**
- **Compensation**
- **Resource planning**

By implementing such policies and procedures at the local office level, this enables the Firm to ascertain the number and characteristics of the individuals required for each engagement. Our Firm recruitment processes include screening procedures such as cognitive, and psychometric testing and competency and behavioral based assessments that help us select individuals with the capacity to develop the capabilities and competence necessary to perform our work.

Appointments at the level of Principal or Director goes through a screening and approval process. Appointments at the level of Partner, including direct entry hires, are subject to a screening process by a steering committee established at the level of DME consisting of partners from various service lines and backgrounds who make their final recommendation to the partnership for final approval.

Capabilities and competence are developed through a variety of methods, including:

- Professional education
- Continuing professional development, including training
- Work experience
- Mentoring
- Coaching by more experienced staff, for example, other members of the engagement team

### **Advancement**

The Firm's policies and procedures for advancement have been established to provide reasonable assurance that professional staff selected for advancement have the qualifications necessary to fulfill the responsibilities they will be called on to assume. A few of the policies and procedures are identified below.

- Various professional staff levels within the Firm and descriptions of the related competencies required to perform effectively at each level have been established.
- Advancement policies and procedures that identify the experience and performance qualifications for advancement to each level have been established and communicated to the Firm's professional staff.
- Procedures for periodic performance evaluation have been established.
- A counseling program to assist professional staff in identifying realistic career paths and developing action plans to help realize professional goals has been established.

### **Performance Evaluation**

The Firm has an approved policies and procedures for Performance evaluation and remuneration aligned with DTTL standards. Partners and Staff goals are set in iMAP (the firm's goal setting and review system) for meeting set key performance indicators (KPI's) as well as Deloitte's competency framework. At the end of the cycle the review results as well as financial KPI's and input from key regional functional partners are determined for reward. Quality is one of the evaluation criteria which supersedes other criteria if an issue exists, not only determining bonuses and rating but also driving leadership deliberations for possible disciplinary action.

### **Professional Development**

The purpose of the Firm's professional development program is to help partners and professional staff maintain and enhance their professional competence. To supplement on-the-job development, the Firm provides formal continuing professional development programs in relevant subject areas.

The Firm has developed a competency model, I Manage my Performance ("iMAP"), specific to each function used to express the areas of personal capability for partners and professional staff. iMAP has three main components: technical competencies which are functionally specific; core competencies which are common across the functions; and competencies for specialization. The iMAP model is a combination of knowledge, skills, and attitudes that are necessary to perform the various roles within the Firm. As such, this competency model and its related key performance indicators for each level form the basis for structuring the continuing professional development program.

Partners and professional staff take personal responsibility to ensure that their own continuing professional development and education is appropriate to their roles, responsibilities and professional requirements. However, the Firm establishes minimum levels of continuing professional development to be undertaken by partners and professional staff within a specific period of time. These levels include a minimum of 20 hours of structured learning per year and 120 hours of structured learning in every three-year period (i.e., an average of 40 hours per year). To achieve these levels of development, the Firm offers structured, formal learning programs such as internal or external courses, seminars, or e-learning covering all areas of the competency model (e.g., shared competencies, function-specific technical competencies, and competencies in areas of specialization). Other than over 50,000 on line material and eLearning, professional staff benefit from workshops conducted annually in the Middle East as well as in satellite leadership training centers like Deloitte University in Belgium, France and the USA.

For those personnel working on client engagements which are subject to SEC/PCAOB oversight, specific SEC Accreditation training is provided by the Firm on an annual basis. The Firm's personnel already meet the DTTL IFRS Accreditation requirements and criteria through their day to day work, as IFRS is commonly adopted in the countries where the Firm practices.

Our Learning program is under the supervision of a Partner responsible for learning matters and emphasizes the need for continuing training for all levels of Firm personnel, while providing the necessary training resources and assistance to enable personnel to develop and maintain the required capabilities and competence. Where internal technical and training resources are unavailable, the Firm may use suitably qualified third party providers for that purpose.

### **Assignment of Partners and Professional Staff to Audit Engagements**

The Firm assigns responsibility for each audit engagement to an audit engagement partner from the licensed partners. The Firm's policies define the responsibilities of the audit engagement partner and those responsibilities are communicated to partners. The identity and role of the audit engagement partner is communicated to key individuals of the client's management team and those charged with governance at the client.

The Firm also has policies and procedures in place so that partners and professional staff assigned to all audit engagements have the appropriate degree of proficiency for their role and the responsibilities to be performed.

An engagement team restricted to Deloitte & Touche Lebanon staff who are bound by local laws and regulations governing confidentiality, ordinarily includes one or more of each of the following: audit engagement partner, audit director/principal / manager, field senior, and staff. However, the engagement team will be developed based on the size, nature, and complexity of the entity's operations. Every audit engagement team is under the control and supervision of the audit engagement partner to whom responsibility for the conduct of all audit services on the engagement is assigned. The audit manager assigned to the engagement is responsible for providing primary supervision and direction to the professional staff in the execution of the audit plan and in the performance of the audit engagement. The field senior is responsible for the day-to-day supervision of the other members of the engagement team. Specialists and other experts are also involved as needed.

The audit engagement partner considers many factors to determine that the engagement team collectively has the appropriate capabilities, competencies, and time to perform the audit engagement. Factors considered in this determination include, among others:

- The size and complexity of the entity's business
- The applicable financial reporting framework used in preparing the financial statements



- Applicable independence considerations, including any possible conflicts of interest
- The qualifications and experience of professional staff

## MONITORING

### Annual Quality Assurance Review

In accordance with DTTL policies, the audit practice of the Firm is subject to a quality assurance review process governed by DME under supervision of DTTL, commonly referred to as a "practice review". The annual practice review program covers the Firm's audit practice and is designed to assess the performance of every audit partner at least once over a three-year period. During that three-year period, at least one engagement for each partner is selected for review. Consideration is also given to assessing the performance of managers, particularly those managers who are partner candidates in the short term. The Firm performs its practice review program on an annual basis, and this annually includes review of a number of offices within the Firm. Our quality self-review includes a review of our system of quality control as well as a review of individual engagements. .

DME is responsible for the practice review performed over the practicing firms and offices with the region. DTTL provides guidance and oversight regarding the practice review plans and procedures. The general coordination and administration of the practice review program is the responsibility of the Firm's practice review director, in conjunction with the regional practice review director.

The practice review plan, process, and results are reviewed and approved by a partner from another member firm (the "external partner") every year. The external partner who is assigned this responsibility works closely with the Firm's practice review director and the regional practice review director in overseeing and challenging the planning and performance of the practice review.

#### Types of Engagements Reviewed

The engagement selected for review include national engagements and inbound/outbound transnational engagements (audits of financial statements that are or may be used across national borders), including public interest entities, as well as a number of high risk audit engagements. Some sensitive and complex engagements (e.g., first-year engagements, situations where there is a change in control or deteriorating financial condition) are also selected. All major industries served by the Firm or practice office are considered.

#### Scope of Practice Reviews

Reviewers are chosen from regional or international pools and from other practice offices within DME network. The assignment of reviewers is based on skill level, industry knowledge, and experience on transnational engagements.

The reviews of individual engagements consist of discussions with the partner and/or manager responsible for the engagement and a review of related reports, working papers, and, where appropriate, correspondence files.

Engagements are reviewed to:

- Determine whether quality control procedures have been properly applied to such engagements
- Assess the adequacy of implementation of the audit approach, including compliance with the policies and procedures contained in the Firm's policy manuals
- Monitor compliance with applicable local laws
- Assess the overall quality of service provided to clients

The overall risk management and quality control policies and procedures of practice offices within the Firm are also reviewed, including the following:

- Risk management program, including client and engagement acceptance and continuance
- Independence
- Recruitment and advancement
- Professional development
- Public filings in other countries
- Information technology specialist reviews
- Consultation with Firm experts
- Consultation with outside experts
- Engagement quality control reviews

In addition to the Firm internal practice reviews, certain of our offices are also subject to periodic external regulatory reviews which also cover the Firm's overall system of quality control as well as the quality of audit work performed on specific, selected engagements. Such regulatory bodies include the Dubai Financial Page 13 of 16, Services Authority (DFSA), the Saudi Organization for Certified Public Accountants (SOCPA) and the United States Public Company Accounting Oversight Board (PCAOB).

#### Results of Practice Reviews

The findings and recommendations resulting from the practice reviews are included in the Firm's audit quality plan and presented to the Firm's CEO and other appropriate leaders as well as members of DTTL regional and global leadership. The purpose of the audit quality plan is to provide suggestions for improvement in response to findings noted and to drive audit quality within the Firm overall. The Firm addresses findings by conducting a root cause analysis and drawing up a detailed action plan setting out the action to be taken, the person(s) responsible, and the timing to implement the recommendations.

In addition, the Firm communicates deficiencies noted as a result of the practice review (if any) and recommendations for appropriate remedial action to the relevant partner and other appropriate personnel. The Firm also communicates on an annual basis the results of the practice review and ongoing consideration and evaluation of its system of quality control to its partners and other appropriate individuals within the Firm.

#### **Complaints and Allegations**

The Firm's policies and procedures are designed to provide it with reasonable assurance that it deals appropriately with complaints and allegations that the work performed by the Firm failed to comply with professional standards, and regulatory and legal requirements, and allegations of noncompliance with the Firm's system of quality control.

Complaints and allegations, other than those that are clearly frivolous, may originate from within or outside the Firm. They may be made by Firm personnel, clients, or other third parties. They may be received by engagement team members or other Firm personnel.

As part of this process, the Firm has clearly defined channels for personnel to raise any concerns in a manner that enables them to come forward without fear of reprisal. These channels are discussed in the Firm Publication Code of Ethics and Professional Conduct. For assistance with ethics and compliance matters, and to report potential violations, staff should contact their supervisor or office or regional function leader. Should they be unable to resolve the issue (or if the staff person is uncomfortable discussing the issue with them and would like confidential assistance on ethics and compliance issues), he / she should seek assistance from the Ethics Officer of the Firm. Staff may also

send their reports, named or anonymous, to the Ethics Officer. All personnel should be aware that there will be no reprisals against anyone because he or she, in good faith, reports an ethics or compliance concern. Other potential sources of assistance and guidance, depending on the nature of the complaint or allegation, are the Firm's Human Resources, Reputation and Risk Leadership and Independence functions.

The Firm is obligated to investigate any complaints and allegations in accordance with its established policies and procedures. The investigation is supervised by the Reputation and Risk Leader unless the complaint or allegation relates to the Reputation and Risk Leader or a client served by the Reputation and Risk Leader. The Reputation and Risk Leader involves legal counsel and consults with the Global Risk Management Group as considered necessary.

All complaints, allegations, and the responses to such complaints and allegations are fully documented.

Where the results of the investigation indicate deficiencies in the design or operation of DTTL's or the Firm's quality control policies and procedures, or non-compliance with the Firm's system of quality control by an individual or individuals, then the Firm will take appropriate action as discussed in the practice review section of this Statement, that is by:

- Taking appropriate remedial action in relation to an individual engagement or a member of the engagement team to the relevant Engagement
- Communication of the findings to those responsible for training and professional development
- Changes to the quality control policies and procedures
- Disciplinary action against those who fail to comply with the policies and procedures of the Firm, especially those who do so repeatedly

### **Documentation - General**

As discussed elsewhere in this Statement of Compliance, the Firm has established policies and procedures to document the operation of the system of quality control that provides evidence of the operation of each element of such system. The nature and scope of the documentation is a matter of judgment based on the size of the Firm and the number of offices, the degree of authority delegated to both personnel and offices and the nature and complexity of the Firm's practice and organization.

The Firm retains documentation of the operation of the system of quality control for a period of time sufficient to permit those performing the practice review procedures to evaluate the Firm's compliance with its system of quality control, or for a longer period if required by local law or regulation.

### **Statement on the Effectiveness of the Functioning of the Internal Quality Control System**

The Firm is satisfied that its internal quality control system operates effectively and allows for prompt identification of any areas for potential improvement or refinement.

### **Public interest entities for which Deloitte & Touche, Lebanon has carried out statutory audits during the preceding financial year**

Deloitte & Touche Lebanon has one applicable client for the purpose of this report. The Firm conducts the statutory audit of this client jointly with another auditor. The applicable client is the ***Lebanese Company for the Development and Reconstruction of Beirut Central District S.A.L.***

## **Financial information**

Deloitte & Touche, Lebanon is a privately held partnership providing public accounting and auditing services. Its fees earned in fiscal year ended 31 May, 2017 from the provision of statutory audit services constituted over 92% of its total revenues, with consulting services, tax advisory and other non-audit services constituting the remainder 8%.

## **Partner Remuneration**

The Firm operates a hybrid remuneration model which reflects in part the number of years of service of each partner in addition to a performance component that comprehensively evaluates each partner's contribution towards the achievement of the strategic goals of the Firm. Partner evaluations, remuneration, and reward are managed through proper governance with input from supervising partners, ethics, risk, independence, quality, and other responsible leaders in the Firm.

The performance component of each partner's remuneration reflects his or her performance in alignment with set KPI's and level of contribution at the practicing office and regional levels. Important criteria for evaluation are quality and risk management conducted through an independent assessment by the Firm.

Performance metrics for risk management and overall assessment are weighed to reflect a variety of activities undertaken by the partner, including professional training and support, implementation of HR standards, risk management quality practices and client assessments.

Performance remuneration of leadership is determined by a special remuneration committee formed from senior partners.

Partners are of 2 categories equity and non-equity. Equity partners share in the profits of the Firm whereas non-equity partners are remunerated through a performance measurement scheme. The rate of capital contribution for equity partners is determined from time to time based on financing requirements. On ceasing to be a partner, partnership interests are repaid in deferred installments.



**Deloitte & Touche**  
**Beirut, Lebanon**  
**August 2017**

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