

MERHELS
EXCELLENCE FOCUSED MINDSET

Transparency Report

For the year ended 30 September 2021



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Foreword

Whilst our focus is on advisory and financial outsourcing and for some time we go only for audits of non-public interest entities and hence are not under obligation to issue mandatory transparency report, nevertheless we choose to prepare one.

Our aim to articulate that relevance and importance of audits is not conditional upon certain attributes, and audit is not a commodity. Different auditors organise and execute their work differently. Our choice is to perform thorough and client centred audits. In this report we describe benefits of such approach. And not only!

This transparency report describes policies and procedures as they were in place as of 30 September 2021.

Riga, 4 February 2022

Edvards Merhels

Managing partner



Our audit practice

Value proposition

We, Merhels Revidenti Konsultanti SIA (hereafter Merhels or the Firm) offer personal and technically sound services at fees competitively priced with those of Big 4. It is very important for us that audit work that we perform is useful and meaningful to key stakeholders.

For audit services this means that:

- we undertake engagements where there is real demand, for example, a bank wants to obtain comfort that numbers reported by a borrower are accurate
- we apply lower materiality thresholds in comparison with peers, thus digging deeper into issues
- we keep our teams experienced, which facilitates productive real time dialogue between the client and auditors
- clients have direct access to audit partner, which facilitates quick decision-making process
- we take a close look at tax issues to unlock potential savings.

We do not perceive audit as a commodity. On the contrary, we perceive each engagement as unique and requiring bespoke approach. Thus, our offering is targeted at organisations who look for thorough audits.

Our approach aims to ensure that:

- audit clients issue high quality financial statements, which bring clarity to users
- client's total audit costs are lower than our audit fees, for example, by virtue of tax savings or process improvements stemming from our audit work.

Our value proposition is of most appeal to successful private sector SME organisations, who realise that audit

can deliver real value and is more than just formality and unwelcome cost item.

Key audit specialists

Contrary to Big 4, we employ reversed pyramid system in delivering our audit services. Hence you will hear frequently from and have direct dialogue with our in-charges:

- Edvards Merhels, FCCA and certified auditor, 25 years of relevant experience, Big 4 audit background
- Dace Merhele, CIA and certified auditor, 25 years of relevant experience, Big 4 audit background
- Egons Liepiņš, certified auditor, 30 years of relevant experience, Big 4 audit and tax background, including leadership positions
- Kristīne Graudiņa, FCCA, CIA and certified auditor, 15 years of relevant experience, Big 4 audit background
- Juris Lapše, certified auditor, 25 years of relevant experience, Big 4 audit background, including leadership positions in Latvia and abroad.

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 6 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, 2013 and 2019. In all cases the Firm was assigned grade "A".

Independence practices

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.

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. The Firm requires that staff documents structured and non-structured learning activities. For that we deploy time tracking and analysis software.

Quality control

Our quality control system rests upon the set of standards issued by the International Federation of Accountants. However, what truly makes the difference is our excellence focused mindset and attitude to detail.

Partner remuneration

Partners are remunerated with reference to their share of the Firm's profits.

Audit clients

We work primarily with foreign investors by auditing and reviewing financials of their Latvian business units. These engagements often include work on reporting packages and communication with principal auditors. Further we perform grant and compliance audits.

Within audit engagements we are mostly exposed to real estate, higher education, logistics and agriculture.

Audit fees

Within audit domain during the year ended 30 September 2021 we generated fees of 127 TEUR (LY: 139 TEUR).

Non-audit aspects

Legal structure and ownership

Merhels is a limited liability company incorporated in 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:

- 45% of shares are held by Edvards Merhels
- 30% of shares are held by Dace Merhele
- 25% of shares are held by Marija Smirnova.

Edvards Merhels and Dace Merhele are Latvian certified auditors. All shareholders 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.

International affiliations

During the period from 2004 until 2015 Merhels has been affiliated with international mid-tier audit networks such as Grant Thornton International and RSM International. Starting from 2015 the Firm is affiliated with business advisory network CBA Cross Border Associates.

Client work experience

Along with audit work we were engaged in:

- financial and tax due diligences,
- feasibility studies,

- financial outsourcing,
- transfer pricing,
- internal audit,
- valuation of businesses, intangibles and in-kind contributions,
- tax advisory,
- tax compliance,
- compilation of policies (e.g., valuation of equity investments; accounting manual),
- lead advisory,
- litigation support projects.

Whilst we consider ourselves as generalists, we certainly have very good grasp about real estate, private equity, education, technical trade and agriculture.

Awards

During 2021 'Finance Monthly' announced Merhels as the M&A Advisory Firm of the Year Latvia.

People

We have a team of 20 specialists ready to help you navigate though known and unknown waters.

Revenues

During the year ended 30 September 2021 we generated revenues of 851 TEUR, representing 21% YoY growth.

Tools

We deploy a host of tools to make us more efficient and effective. For example, we use Smvertime for time tracking and certain practice management aspects.

Our accountancy department primarily deploys off-the-shelf accounting software Tildes Jumis. However, we work as well with other systems, for example, Navision.

Office environment

Our office is situated in the heart of Riga at Republikas Square 3-124. Due to pandemic during the year ended 30 September 2021 we primarily worked from home.

www.merhels.lv