

PwC Israel

Transparency Report 2016

Introduction

This Transparency Report is published in accordance with Article 40(1) and 45(5)(e) of the Directive on Statutory Audit 2006/43/EC, in respect of the financial year ending June 30, 2016.

This Transparency Report is signed on behalf of PwC Israel.

Legal structure and ownership of the firm (Article 40(1)(a))

Kesselman & Kesselman (PwC Israel) is a partnership. It is wholly owned by the partners of the firm.

Network arrangements (Article 40(1)(b))

"PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited ("PwCIL") and/or one or more of its member firms, each of which is a separate legal entity.

PwC member firms operate locally in countries around the world. Being a member of the PwC network means firms can use the PwC name and draw on certain resources, methodologies, knowledge and expertise within the PwC network. Each member firm also agrees to abide by certain common policies and maintain the standards of the PwC network. Each PwC member firm engages in quality control and compliance monitoring activities, covering the provision of services, ethics and business conduct, and the compliance with specific, strict standards for independence monitoring and protection.

PwCIL is an English private company limited by guarantee. PwCIL does not practise accountancy, provide services to clients or do business with third parties. PwCIL acts as a co-ordinating entity for PwC member firms in the PwC network. PwCIL develops and implements standards and policies and initiatives that create a common approach for member firms. PwCIL focuses on key areas like strategy, brand and risk and quality, including compliance with independence processes.

A member firm of PwCIL cannot act as agent of PwCIL or any other member firm, and it is only liable for its own acts or omissions and not those of PwCIL or any other member firm. PwCIL has no right or ability to control any member firm's exercise of professional judgment. The governance bodies of PwCIL are:

Global Board, which is responsible for the governance of PwCIL and for the oversight of the Network Leadership Team. The Board does not have an external role. Board members are elected by partners from all PwC member firms around the world every four years.

Network Leadership team, which is responsible for setting the overall strategy for the PwC network and the standards to which the member firms agree to adhere.

Strategy Council, which is made up of the leaders of the largest member firms of the network, agrees changes to the strategic direction of the network, in order to facilitate their consistent implementation.

Network Executive Team, which reports to the network Leadership Team, coordinates the service lines and the key functional areas (such as Risk & Quality, Human Capital, Operations, Brand & Communication) across the network.

Governance structure of the firm (Article 40(1)(c))

The firm's senior partner, together with the executive forum, is responsible for managing and supervising the management of the business and affairs of the firm.

The responsibilities of the senior partner and the executive forum include establishing and determining the effectiveness of the firm's system of internal control, including those related to the quality of the firm's audit services.

Appointment of members to the executive forum is determined by the senior partner. The senior partner is elected by a partner vote every five years.

The firm has an Oversight Body (supervisory board) which represents the firm's partners in ensuring that the firm's senior partner and the executive forum are held accountable to the partners for their conduct of the firm's affairs.

Internal quality control system (Article 40(1)(d))

The following is a summary of the system of quality control that PwC Israel has adopted over its accounting and auditing practice.

Introduction

Firms of the PwC network are members of, or otherwise connected to PricewaterhouseCoopers International Limited ("PwCIL"), an English private company limited by guarantee. Each member firm is a separate legal entity. All member firms are obliged to abide by certain common audit and quality control standards and policies approved by PwCIL and to conduct risk and quality reviews. PwC Israel's policies are based on these common standards and policies, which are supplemented to address local professional standards and regulatory requirements.

Quality Control Standards

Compliance with International Standards on Auditing ("ISA") requires PwC Israel to have a system of quality control over its auditing practice. These controls are embedded as part of PwC Israel's day-to-day activities.

The quality control system is in compliance with International Standards on Quality Control 1 (ISQC1), Quality Control for firms that Perform Audits and Reviews of Historical Financial Information, issued by the International Federation of Accountants (IFAC). The IFAC standards and requirements and, therefore, PwC Israel's quality control system, encompass the following six elements of quality control:

1. Leadership Responsibilities for Quality within the Firm
2. Ethical Requirements
3. Acceptance and Continuance of Client Relationships and Specific Engagements
4. Human Resources
5. Engagement Performance
6. Monitoring

1. Leadership Responsibilities for Quality within the Firm

Tone at the Top

PwC Israel's leadership is committed to taking all actions required to ensure that PwC continues to stand for quality, independence and objectivity. The same messages are contained in regular leadership communications to all staff members. Equally important is leadership's commitment to regular communications that alert our partners and staff about new standards and related guidance to assist them in providing high-quality service to our clients.

Communications from the top, whether by email, in periodical meetings of partners and managers of PwC Israel, or in the annual firm-wide gathering take every relevant opportunity to emphasize the importance of maintaining the highest quality in all we do. Quality considerations are taken into account in connection with partners' compensation as well as in promoting our staff and admitting new partners.

PwC Israel's leadership is committed to audit quality and has established a firm culture embracing high standards in independence and professional ethics. This leadership is embedded throughout the detailed policies endorsed by leadership, including ethical, human resources and engagement performance discussed below. It is also demonstrated by the dedication of resources to quality. There is a partner responsible for risk management and quality control relative to PwC Israel's client service operations who reports directly to the TSP.

2. Ethical Requirements

Integrity and Objectivity: The reputation and success of PwC Israel depends on the professionalism and integrity of each and every partner and employee. All PwC Israel partners and staff are expected to uphold and comply with the standards developed by the PwC global network and PwC Israel. PwC Israel's management monitors compliance with these obligations by PwC Israel's partners and staff.

Upon hiring or admittance, all staff and partners of PwC Israel are provided with a link to a copy of the PwC Global Code of Conduct. They are expected to live by the values expressed in the code in the course of their professional careers.

Independence: PwC Israel has adopted the PwC Global policies and related rules regarding independence and compliance, complemented when necessary by more restrictive local professional and regulatory rules. PwC Israel strictly monitors compliance with regulatory, professional, and PwC independence requirements related to financial interests in and business and service relationships with clients.

3. Acceptance and Continuance of Client Relationships and Specific Engagements

PwC Israel has implemented a process to identify acceptable clients based on the PwC global network's proprietary decision support systems for audit client acceptance and retention (called Acceptance and Continuance ("A&C")). A&C facilitates a determination by the engagement team, business management and risk management specialists of whether the risks related to an existing client or a potential client are manageable, and whether or not PwC should be associated with the particular client and its management.

4. Human Resources

PwC Israel partners and staff regularly receive a thorough orientation to the culture, values and core attributes of PwC – Quality, Trust, Teamwork, Excellence and Leadership. PwC Israel aims to recruit only high quality staff that can operate as accounting and other experts in support of audits and who share in PwC Israel's strong sense of responsibility for auditing. There is a robust assessment of the quality of those people we hire from universities.

Professional Development: Training and development is an ongoing process. Training starts when a person is hired and continues throughout his or her career. Our people participate in a variety of local and regional and international formal training courses and they will also be trained through on the job coaching and supervision.

Supervision and Direction: Each engagement partner is responsible, in consultation with others as appropriate, for staffing engagements with partners and staff who have the professional competence and experience required in the circumstances. Further, each engagement partner is ultimately responsible for determining the extent of direction, supervision and review of the work of more junior staff to whom work is delegated.

5. Engagement Performance

Consistent Global Methodology: PwC Israel uses a consistent audit methodology and process for audit engagements. The methodology is enhanced as necessary to respond to the changing environment. All audit engagement partners and staff receive ongoing training in this methodology.

Comprehensive Policies and Procedures: To complement the Global policies and procedures, PwC Israel has comprehensive policies and procedures governing local accounting and auditing practice that are constantly updated to reflect new professional developments and operating environment, and to address emerging issues, as well as the needs and concerns of the practice. These policies cover not only professional and regulatory standards, but also reflect the guidance that PwC provides to its professionals about how best to implement them. They are available in electronic files and databases, are regularly updated or supplemented for all current developments and are accessible remotely at any time.

Engagement-Specific Quality Controls: There are a number of other quality control procedures that are performed specifically with respect to a particular engagement. For example, for all PwC Israel's PIE (Public Interest Entities) clients, which include all of the Listed clients, we appoint a quality review partner (QRP), who discusses all significant issues with the engagement partner and who is responsible for independently assessing the audit plan and its execution, the resolution of significant issues, the financial statements and disclosures and the appropriateness of the Firm's report. Specific criteria are set forth in PwC's policies to ensure that the assigned QRP has the appropriate level of experience and industry expertise to perform that role.

PwC Israel's policies also require consultations with firm (or network, when appropriate)-wide technical experts and industry specialists for specified transactions and circumstances that may involve the application of significant judgment. Finally, our "consultative culture," which is discussed further below means that our engagement teams regularly have consultations with such experts and others beyond those that are formally required.

Furthermore, PwC's Global Methodology is built on the principle that work performed by each member of the engagement team is reviewed by another member of the team, of at least equal competence, to consider whether the work has been performed as intended, competently, and to ensure that the correct conclusions have been drawn.

PwC Israel has an additional level of quality assurance in that listed audit clients' annual financial statements are also subject to real-time review by a member of our Accounting Consulting Services unit, which is an independent review team. This is complementary to the QRP's involvement and monitoring described above.

Risk and Quality Group: PwC Israel's risk management, consulting and policy resources are a central function, comprising both full and part time personnel, internally referred to as Risk and Quality or R&Q. R&Q is a separate unit within our Assurance practice, headed by the Territory RM Partner who is a member of the Firm's Executive Forum. The R&Q organization includes the following key functions: Risk Management (Assurance, Tax and Advisory), Accounting Consulting Services unit, Technical Unit – Audit, QAR and Independence (Assurance, Tax and Advisory). R&Q includes five partners on a part time basis and other staff.

A key responsibility of the risk management partners is to be an integral part of the client acceptance and retention process, responsible for assessing risk on both qualitative and quantitative bases. In addition,

risk management partners are required to be integrally involved with engagement teams, where necessary, for consultations on issues and judgments, such as going concern considerations. This group of independent and experienced partners is focused on quality, prompting changes to policy and procedures when and as appropriate.

6. Monitoring

PwC Israel is responsible for monitoring the effectiveness of its quality control systems which includes carrying out, or arranging to be carried out on its behalf, independent reviews both at the leadership and management level of the Assurance practice's systems and procedures (known as Quality Management Review – QMR) and at the individual engagement level (known as Engagement Compliance Reviews) collectively referred to as the "Quality Review" process. The independent Quality Management Review are undertaken at least every three years and updated during the intervening period and Engagement Compliance Reviews are undertaken so that significant risk-based engagements are reviewed at least twice every six years. All assurance partners must have at least one of their engagements reviewed every five years. The Quality Review process also involves testing of the effectiveness of PwC Israel's quality controls in other functional areas such as hiring, training, advancement and independence.

Quality monitoring is an integral part of the PwC Israel's continuous improvement program. PwC Israel constantly evaluates inputs from formal programs such as this and a variety of informal sources in an ongoing effort to improve policies, procedures and the consistency of the quality of work. Instances of failure to meet performance standards are treated seriously and the partner responsible is counselled to improve performance and appropriate steps are taken to fully encourage improvement including, where appropriate, the imposition of financial penalties.

On the basis of the reviews performed as outlined above, the Executive Forum is satisfied that PwC Israel's internal quality control system is operating effectively. Any matters identified through the various monitoring and review processes are acted upon and appropriate corrective action is taken to remedy them.

External inspections (Article 40(1)(e))

PwC Israel is subject to an annual quality review by the Peer Review Institute (a subsidiary of the Institute of Certified Public Accountants in Israel). During the period covered by this Transparency report, PwC Israel was subject to the inspection of the Peer Review Institute. The Peer Review Institute report is not public.

PwC Israel is a public accounting firm registered in the US with the PCAOB; in UK with the FRC; and in Canada with the CPAB, and therefore is subject to inspections by these regulators. During the period covered by this Transparency report, PwC Israel was not subject to an inspection by the FRC. PwC Israel is subject to an inspection by the PCAOB at least once every three years. During the period covered by this Transparency Report, PwC Israel was not subject to an inspection by the PCAOB.

Public interest audit clients (Article 40(1)(f))

During the period covered by this Transparency Report, PwC Israel has signed the audit report for Frutarom Ltd that has GDRs listed on the UK's London Stock Exchange.

Independence procedures and practices (Article 40(1)(g))

Organisation

PwC Israel has a designated partner, (known as the “Partner Responsible for Independence” or “PRI”) with appropriate seniority and standing, who is responsible for providing appropriate support and processes such that partners and staff are knowledgeable about independence matters and that they take the actions required of them by the firm’s independence policies and supporting guidance. The partner is supported by a team of independence specialists.

The PRI reports directly to the Territory Risk Management Partner, who is a member of the firm’s executive forum.

Policies and guidance

The PwC Network Independence Policy, which is based on the International Ethics Standards Board for Accountants (‘IESBA’) Code of Ethics for Professional Accountants, contains minimum standards with which PwC member firms have agreed to comply, including processes that are to be followed to maintain independence from clients, when necessary.

The independence requirements of the United States Securities and Exchange Commission and those of the Public Accounting Oversight Board of the United States are, in certain instances, more restrictive than the firm’s policy. Given the reach of these requirements and their impact on PwC Network Firms, the policy identifies key areas where these requirements are more restrictive.

PwC Israel supplements the PwC Network Independence Policy as required by local professional and regulatory rules.

The firm’s independence policy covers, among others, the following areas:

- personal and firm independence, including policies and guidance on the holding of financial interests and other financial arrangements, e.g. bank accounts and loans by partners, staff, the firm and its pension schemes;
- non-audit services and fee arrangements. The policy is supported by Statements of Permitted Services (‘SOPS’), which provide practical guidance on the application of the policy in respect of non-audit services to assurance clients; and
- business relationships, including policies and guidance on joint business relationships (such as joint ventures and joint marketing) and on purchasing of goods and services acquired in the normal course of business.

Training and confirmations

PwC Israel provides all partners and practice staff with annual or on-going training in independence matters. Training typically focuses on milestone training relevant to a change in position or role, changes in policy or external regulation and, as relevant, provision of services. Partners and staff receive computer-based training on PwC Global independence policy and related topics. Additionally, face-to-face training is delivered to members of the practice on an as-needed basis by PwC Israel’s independence specialists.

PwC Israel requires all partners and practice staff, upon joining and at least annually thereafter, to confirm their compliance with all aspects of PwC Israel’s independence policy, including their own personal independence. In addition all partners confirm that all non-audit services and business relationships for which they are responsible comply with policy and that PwC Israel’s processes have been followed in accepting these engagements and relationships. These confirmations serve two primary purposes: to identify any threats to independence that may have arisen; and to provide a periodic reminder of PwC Israel’s independence policies and procedures. These annual confirmations are supplemented by periodic and ad-hoc engagement level confirmations for PwC Israel’s SEC clients.

Independence Systems

As a member of the PricewaterhouseCoopers network, the firm has access to a number of global systems that assist PwC member firms and their personnel in complying with independence policies and procedures. These systems include:

- The Central Entity Service (“CES”), which contains information about corporate entities including public interest audit clients and SEC restricted clients and their related securities. CES assists in determining the independence status of clients of the firm before entering into a new non-audit engagement or business relationship. This system also feeds GPS;
- The Global Portfolio System (“GPS”) which facilitates the pre-clearance of publicly traded securities by all partners, directors and practice managers before acquisition and records their subsequent purchases and disposals. Where a member firm wins a new audit client, this system automatically informs those holding securities in this client of the requirement to sell the security where required; and
- Authorisation for Services (“AFS”) which is a global system that facilitates communication between a non-audit services engagement leader and the audit engagement leader, documenting the potential independence threats of the service and proposed safeguards, and acts as a record of the audit partner’s conclusion on the acceptability of the service.

PwC Israel also has a number of Israeli-specific systems which include:

- A rotation tracking process which monitors compliance with PwC Israel's audit rotation policies for engagement leaders, other key audit partners involved in an audit; and
- A database that records significant approved business relationships entered into by PwC Israel. These relationships are reviewed on a six monthly basis to ensure their ongoing permissibility.

Internal reviews of independence procedures and practices

Our independence procedures and practices are subject to internal review on an ongoing basis. This is achieved through a monitoring and testing programme, which includes the following:

- Quality control reviews of engagements to confirm compliance with risk management processes, including independence (as described in Section 6 above);
- Personal independence compliance testing of a random selection of partners, directors and managers;
- Compliance testing of independence controls and processes; and
- Annual assessment of PwC Israel's adherence with the PricewaterhouseCoopers network’s independence risk management standard.

In addition, policies and guidance are reviewed and revised when changes arise such as updates to laws and regulations, when PwC Network policies and guidance change or as a result of the above reviews and of our monitoring and testing programme.

The results of PwC Israel's monitoring and testing are reported to its management on a regular basis.

The investigations of any identified violations of policies also serve to identify the need for improvements in PwC Israel's systems and processes and for additional guidance and training.

Disciplinary policy

PwC member firms are required to have disciplinary mechanisms to promote compliance with independence policies and processes and to report and address any violations of independence requirements.

A partner or staff member may be subject to a fine or other disciplinary action for a violation of independence policy.

Continuing professional education of partners and staff eligible for appointment as statutory auditors (Article 40(1)(h))

PwC Israel maintains up-to-date reference materials which are accessible by all assurance practice partners and staff. These cover audit policy, procedure and methodology, and include a library of Israeli and international accounting, auditing and ethical standards. To support and keep staff and partners' knowledge up to date, partners and staff receive regular communications on technical and regulatory topics as they arise. Support is available to partners and staff on auditing, accounting and regulatory requirements, including access to subject matter experts in specialist industries.

PwC Israel internal training curriculum provides a broad range of technical solutions as well as business and personal skills programmes. There are also specialised training programmes available for those with clients in specialist industries. Through their participation in the internal objective setting and related performance appraisal processes, engagement leaders assess their on-going personal development needs and identify any necessary development activities, including in relation to quality. Unsatisfactory work results in reduced performance reward.

The PwC Global Code of Conduct and PwC Israel's Code of Conduct set expectations of behaviour and values. Mandatory ethics and business conduct training covers the Code of Conduct as well as ethical, accounting, auditing and other regulatory matters.

PwC Israel also monitors compliance with Continuing Professional Development requirements, including the completion of mandatory training programmes, so that PwC Israel's services are delivered by individuals who have the right experience and – where required – are qualified under relevant legislative and other applicable requirements.

Financial information (Article 40(1)(i))

As mentioned above, during the period covered by this Transparency Report, PwC Israel prepared an audit report for Frutarom Ltd, a public-interest audit client incorporated outside the EU which has securities listed on an EU Regulated Market.

Total fee for auditing services, for services related to the audit and for tax services of Frutarom Ltd. in 2015 totaled US\$1,658 thousand (compared to US\$1,576 thousand in 2014) in Israel and in the subsidiaries abroad.

Other fees for additional services - the overall fees for services provided by PwC Israel which are not included above totaled US\$246 thousand in 2015 (compared to US\$65 thousand in 2014) in Israel and in subsidiaries abroad.

The total/audit fees from Frutarom Ltd. is less than 5% of the total/audit fees of the firm, respectively."

Remuneration (Article 40(1)(j))

Partners are remunerated solely out of the profits of PwC Israel. Audit partners are not permitted to be incentivised, evaluated or remunerated for the selling of non-audit services to their audit clients.

The final allocation and distribution of profit to individual Partners is made by the firm's senior partner, once their performance has been assessed and the annual financial statements have been approved. The oversight body approves the process and oversees its application.

Each Partner's remuneration takes into account three interrelated profit-dependent components:

- equity unit income – reflecting the overall profitability of PwC Israel.
- performance income – reflecting how a Partner and their team(s) has performed; and
- responsibility income – reflecting the Partner's sustained contribution and responsibilities;

Each Partner's performance income is determined by assessing achievements against an individually-tailored balanced scorecard of objectives, based on the Partner's role and responsibilities.