

Deloitte.



Deloitte & Touche, Kenya
Audit Regulatory Transparency Report

Aspire with assurance
September 2018

Scope of this report

This report has been prepared in accordance with the provisions of Article 13 of EU Regulation no. 537/2014 of the European parliament and the council of European Union of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities which requires the publication of certain information by transparency reporting auditors, such as Deloitte and Touche Kenya. This report relates to the firm's audit activities in Kenya for the year ended 31 May 2018.

Deloitte network

The Deloitte network

The Deloitte network is a globally connected network of member firms and their affiliates operating in more than 150 countries and territories across the world. These separate and independent member firms operate under a common brand.

Deloitte Touche Tohmatsu Limited ("DTTL") is a UK private company limited by guarantee. DTTL serves a coordinating role for its member firms and their affiliates by requiring adherence to policies and protocols with the objective of promoting a consistently high level of quality, professional conduct and service across the Deloitte network. DTTL does not provide professional services to clients, or direct, manage, control or own any interest in any member firm or any member firm's affiliated entities. For more information about the Deloitte network, please see: [About Deloitte](#).

As members of the Deloitte Global network, we benefit from shared activities, investments and resources that enhance our ability to provide core services to key local and global clients and development opportunities to our people. We also leverage Deloitte's brand, eminence and intellectual property.

Deloitte East Africa

Deloitte East Africa is connected to the Deloitte network through Deloitte Africa, a member firm of Deloitte Touche Tohmatsu Limited. Deloitte Africa holds practice rights to provide professional services using the "Deloitte" name which it extends to Deloitte entities within its territory, including Deloitte East Africa.

Deloitte East Africa comprises four countries including Kenya, Tanzania, Uganda and Rwanda (collectively, the "DEA practice"). The DEA practice is a network of companies and partnerships in each country ultimately owned by Deloitte East Africa Trust (Mauritius) (DEAT). The DEA practice, through an Africa Association Agreement, are joined by nine other practices in Africa to form the integrated Deloitte Africa Member firm.

Deloitte & Touche Kenya and its affiliated entities (collectively, the "Firm") forms part of the Deloitte East Africa practice. Deloitte & Touche Kenya is part of the East African Management Committee, which reports into the Deloitte Africa Executive Committee.

Deloitte core services

In addition to the audit services, as a multidisciplinary firm, Deloitte is a significant provider of non-audit advisory services. At a high level, these comprise the following services:

- Tax & Legal
- Risk Advisory
- Consulting
- Corporate Finance

These services are provided in both an audit and non-audit capacity. In the audit capacity, services such as IT control reviews over financial systems, asset valuation services, tax re-computation, etc., support the audit opinion, by providing relevant and sufficient audit evidence from the relevant subject matter experts in the firm. These subject matter experts are part of the engagement team and subject to the same individual independence tests/ confirmations as the rest of the audit team.

This availability and access to subject matter experts with deep technical and industry knowledge enhances audit quality.

Deloitte has developed global compliance processes to ensure that every advisory service provided to audit clients complies with the regulatory requirements applicable to the client concerned. These processes are applied consistently across our advisory businesses.

Emphasis is placed on consultation with the clients' audit committees (where applicable) to ensure that any proposed advisory services will not impair our independence. Even if the advisory services are allowed in terms of regulations, the clients' audit committee may opt not to allow the audit firm to provide the advisory services. Deloitte have always supported and respected this right and will continue to do so.

Governance – leadership in action

Deloitte Africa Board

The Deloitte Africa Board is constituted in terms of the partnership agreement and is elected by partners and directors every three years. The partnership agreement provides for a basis of election, which is designed to ensure that the interests of all partners and directors are represented on the board and that provision is made for external viewpoints with appropriate emphasis on current strategic initiatives. In accordance with the best traditions of corporate governance, we insist on a separation between the board of partners and directors and executive management.

The board elects a chairperson at the beginning of its term, and his/her duties are very similar to those of a corporate chairperson in line with the best principles of corporate governance.

The board regards its primary responsibilities as:

- ongoing monitoring of the firm's adherence to ethics, laws and regulations;
- promotion and protection of partner and director interests and for the oversight of management;
- determining Deloitte Africa's long-term strategies and has specific oversight of risk and quality.

The board is mandated to meet at least five times a year.

Deloitte Africa Executive Committee

Our Africa Executive Committee is led by our Chief Executive Officer and consists of the Deputy Chief Executive Officer, the Chief Operating Officer, Reputation and Risk Leader, Talent and Transformation Leader, service line managing partners or directors and Africa regional leaders.

The Africa Executive Committee is tasked with the following roles and responsibilities:

- assisting the Chief Executive in managing the firm;
- implementation of the policies and strategies of the firm as approved by the Board;
- planning the firm's future development; and
- management of the firm's day-to-day operations.

Deloitte Audit Executive Committee

The Deloitte Africa Audit Executive Committee is responsible for the governance and oversight of the Audit & Assurance practice. Specific responsibilities include setting the strategic direction and focus areas, approving audit and assurance business strategy, approving admission of partners, approving the allocation of units and earnings to partners and approving the financial aspects of business plans.

Andrew Mackie, Audit & Assurance Managing Partner, is appointed by the Deloitte Africa CEO, and along with other members of senior management develop and implement the strategy for the Audit & Assurance practice, including related policies and procedures. In all of their activities, Deloitte Africa senior leaders are responsible for the overarching objective of audit quality, including compliance with applicable professional standards and regulatory requirements. Deloitte Africa strategy is developed in alignment with the overall strategic direction established for the Deloitte network.

The following are the members of the Deloitte Africa Audit Executive Committee:

Member	Role
Andrew Mackie	Chairman
James Welch	Chief Operating Officer
George Tweedy	Audit Risk Leader
Penny Binnie	Audit Capture & Defend Leader
Hermine Smit	National Professional Practice Director
Graham Berry	Lead Client Service Partner
Thega Marriday	Audit Chief Financial Officer
Bonga Nyembe	Gauteng Audit Leader
Eric Tshabalala	Transformation & Diversity Leader
Anne Muraya	East Africa Audit Leader
Michael Daudu	West Africa Audit Leader
Stephen Munro	Africa Financial Services Industries Leader

The key elements of the Deloitte East Africa practice governance structure is as follows:

- Regional Chief Executive Officer (CEO) for the DEA practice, as elected, and reporting to the Deloitte Africa CEO;
- Regional Management Committee (MANCO) The Regional CEO has, in consultation with Africa Service Line leaders, elected members of a MANCO to assist him in carrying out the regional strategy and operations;
- A Regional Chief Risk Officer (CRO) has been elected to oversee all Risk matters; and
- A Regional Professional Practice Director (PPD) has been elected to oversee quality and process matters across the region.

The Deloitte Audit Quality Journey

The Deloitte & Touche Kenya Internal quality control system is based on "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements" (ISQC 1).

The Deloitte & Touche Kenya system of quality control includes policies and procedures addressing each of the following elements:

- Leadership responsibilities for the system of quality within the firm
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring

A detailed description of each of the elements is on Appendix 1.

The internal quality control system was functioning effectively during the year ended 31 May 2018.

An indication of when the last quality assurance review referred to in Article 26 took place.

The Institute of Certified Public Accountants of Kenya (ICPAK) reviews were performed in 2010 and the outcome of the monitoring visit was satisfactory. External monitoring is complemented by internal quality monitoring in appendix 3.

List of audited public interest entities

Below is a list of our relevant audit clients that are classified as Public Interest Entities within Kenya during the current and preceding year:

1. African Banking Corporation Limited
2. Bamburi Cement Limited
3. Britam Life Assurance Company (Kenya) Limited
4. Britam Holdings Plc
5. Britam General Insurance Company (Kenya) Limited
6. Car & General (Kenya) Plc
7. Deacons East Africa Plc (Under administration)
8. Faulu Microfinance Bank Limited
9. Jamii Bora Bank Limited
10. Mayfair Bank Limited
11. Kakuzi Plc
12. Kenolkobil Plc
13. Kenya Airways Plc
14. Kenya Women Microfinance Bank Limited
15. Saham Assurance Company Kenya Limited
16. The East African Portland Cement Plc
17. SMEP Microfinance Bank Limited
18. Central Bank Of Kenya
19. Continental Reinsurance Limited
20. Fidelity Shield Insurance Company Limited

21. AIG Kenya Insurance Company Limited
22. Old Mutual Life Assurance Company Limited
23. Paramount Bank Limited
24. Resolution Insurance Limited
25. The Company for Habitat and Housing in Africa (Shelter Afrique)
26. Williamson Tea Kenya Plc
27. Kapchorua Tea Kenya Plc
28. WPP Scangroup Plc
29. ARM Cement Plc (Under administration)
30. Carbacid Investments Limited (rotated out in the current year)
31. Consolidated Bank Kenya Limited(rotated out in the current year)

A statement concerning the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted

The Deloitte & Touche Kenya Independence policies are based primarily on the requirements of section 290 of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (the "Code") and supplemented by other relevant requirements, including the DTTL Policy Manual. Certain policies in the firm are more restrictive than would be imposed under the Code. Where a more restrictive policy has been adopted, it is based on the conclusion that the policy makes good business sense because it:

- Mitigates risks of non-compliance;
- Facilitates assigning or consulting the appropriate individuals on a timely basis; and
- Enhances our ability to service global Clients on an integrated basis.

An internal review of independence compliance was conducted in the 2017/2018 financial year, and the results were satisfactory.

Firm Rotation

Capital Markets Authority rules recommend that public company audit firms rotate off engagements every six to nine years.

The Insurance Regulatory Authority require mandatory audit firm rotation every seven years.

For the banks, no firm rotation is required. However the rotation rules are five years for both partners and Managers. We also have rotation policies for partners and manager on non-public company audit engagements.

This improves our independence, objectivity and professional critique.

Our Regional Professional Practice Director uses systems and processes to manage partner portfolios and rotations on a timely basis, including identifying successor partners who have the skills and capacity to maintain consistent audit quality.

A statement on the policy followed by the audit firm concerning the continuing education of statutory auditors referred to in Article 13

Deloitte & Touche Kenya has established the minimum levels of continuing professional development that their Audit Partners and Professional Staff should undertake 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).

Financial information*

We have extracted the following financial information from Deloitte Kenya's unaudited financial statements and financial records for the year ended 31 May 2018. The figures relate to Kenya only, in line with the Report's scope and focus on Kenya activities.

Practice	Amount	Share
Statutory audit (PIEs and their subsidiaries)	1,780,287	6.9%
Statutory audit (non-PIEs and their subsidiaries)	6,360,283	24.5%
Non-audit services (non-audited entities)	14,483,825	55.8%
Permitted Non audit services(audited entities)	3,334,587	12.8%

These amounts are disclosed in USD.

*Disclosure in accordance with Article 13.2 of the EU Audit Regulation 537/2014

Total Deloitte Africa audit and assurance revenue for the year ended 31 May 2018 was \$ 200m of which \$ 24m related to advisory business.

Basis for the partners' remuneration

Partners' remuneration is based on profit sharing ratios as determined by a Remuneration Committee (REMCO). These ratios are determined based on the value that each partner contributes to the practice. Appropriate performance evaluations are undertaken at least annually to evaluate each partner's performance against key performance criteria. The partner's remuneration is adjusted accordingly based on the results of such performance evaluation, which includes adherence to the firm's internal quality control policies.

To ensure that audit partners focus on their primary responsibility to provide audit services of the highest quality, the policies of Deloitte, which are consistent with regulations in Kenya, forbid them from receiving compensation, bonus, or other direct financial incentives for selling products or services, other than audit, review, or assurance-related services, to the audit clients they serve. Moreover, in determining the remuneration of audit partners, due consideration is given in their performance evaluations to the results of practice reviews of their engagements.

Audit is of vital importance to our firm. It is the bedrock of what we do and we are all committed to ensuring its continued role in serving the public interest.

I hope you find this report interesting and insightful.



Anne Muraya
East Africa Audit Leader
Deloitte & Touche
Nairobi, Kenya

Appendix 1

Overview of Quality Control Procedures

Deloitte & Touche Kenya and its affiliated entities (collectively, the "Firm") forms part of the Deloitte East Africa Member Firm which is part of the "Deloitte Network" of firms associated to Deloitte Touche Tohmatsu Limited, an English company limited by guarantee ("DTTL").

Member firms operate under the Deloitte brand and related names. These names include "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," "Tohmatsu," and others. Deloitte & Touche Kenya 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 such engagements, and is organized into the following sections:

- Leadership responsibilities for the system of quality control
- Ethical requirements
- Client and engagement acceptance and continuance.
- Human resources
- 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 the Firm's leadership assumes ultimate responsibility for the system of quality control, the Professional Practice Director is assigned operational responsibility for the Firm's quality control system and has the necessary experience and authority to assume that operational responsibility.

The person who is assigned operational responsibility for the firms' system of quality control has sufficient and appropriate experience and ability, and the necessary authority, to assume that 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 Firm complies 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). When the national professional 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 other than the Chief Executive Officer or Managing Partner (collectively referred to as “CEO”) of the Firm, who has direct access to the CEO and the Firm’s governing body. In addition, the Firm has developed and implemented its own code of conduct that describes, in some detail, critical professional behaviour that reflects local customs, regulations, and legal requirements.

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 independence standards. 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, and 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 brokerage accounts into a tracking system (GIMS). GIMS enables an electronic review of financial interests and brokerage accounts to help identify if independence restrictions may affect the ability to hold such items. The Firm 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 showing 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, and Confirmations

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:

- (a) 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 brokerage accounts) to identify if an entity or its financial interests or brokerage accounts are restricted;
- (b) partners and managerial personnel record their financial interests and brokerage accounts in their portfolios in GIMS, and
- (c) the Firm periodically confirms to DTTL its compliance and the compliance of its partners, professional staff, and support staff 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 brokerage accounts

Each DTTL member firm also identifies and reports the publicly available securities and brokerage accounts 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 brokerage account, to determine if restrictions apply that affect them. This includes investments and brokerage 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 or not the item is permitted in the particular circumstances. This includes generating notices to the individual in situations where a once-permissible holding becomes newly restricted, so that appropriate and timely action 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 partners, professional staff, and support staff upon joining the Firm, as well as ongoing confirmations on an annual basis.

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 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.

4. Independence Learning

The Firm provides independence learning to its partners and professional staff. Learning is provided in the classroom, as well as electronically through e-learnings that are updated from time to time, with any updates to Global independence rules. In addition, it is provided to all new hires, as well as on promotion to managerial and/or partner level.

5. Monitoring of Independence Systems and Controls Relating to Personal Independence, and Engagement and Practice Reviews

Inspection of Personal Independence

On a periodic basis, the Firm inspects individuals 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 an annual practice review . 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 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 consultations, (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 Firm's Director of Independence, Firm management, and DTTL's independence group. 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 engagements and business relationships, which is automatically searched when proposing for new engagements or relationships.

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
- Enable the Firm to issue reports that are appropriate in the circumstances

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 fulfil 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 coaching program to assist professional staff in identifying realistic career paths and developing action plans to help realize professional goals has been established.

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. All 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).

Assignment of Partners and Professional Staff to Audit Engagements

The Firm assigns responsibility for each audit engagement to an audit engagement partner. The Firm's policies define the responsibilities of an 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 ordinarily includes one or more of each of the following: audit engagement partner, audit 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

Client and Engagement Acceptance and Continuance

The Firm has rigorous policies and procedures in place for accepting prospective clients and 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 Risk Leaders 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 re-evaluated. 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. 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 analysing 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 determine 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 audit 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. 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 of the following engagements;

- Audits of financial statements of Public Interest Entities;
- Audits of financial statements where engagement risk has been assessed as greater than normal or much greater than normal
- Audits of financial statements of a large entity
- any engagement where the audit procedures performed are relied upon by an engagement team in another member firm, and that engagement team has requested an engagement quality control review be performed

The review is performed by a partner or a 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 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 National Professional Practice Director with specialized technical skills and experience is supported by 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.

Monitoring

Annual Quality Assurance Review

In accordance with the firm's policies, the audit practice of the Firm is subject to an annual quality assurance review, commonly referred to as a "practice review". Compliance with this policy is achieved by an annual practice review covering the audit practice.

The annual practice review is designed to cover the firm's internal quality control systems as well as review of a selection of individual audit engagements. The selection of individual audit assignments is based on a set criteria that ensures that all partners are covered in a cycle of 3 years and all large and public interest clients are covered in a cycle of 5 years. Any findings from these reviews are addressed through appropriate remediation plans to ensure continuous improvement. There is also a remediation programme for individual partners and managers who are involved in these reviews.

The Firm is responsible for the practice review in line with set guidelines, procedures and processes. The general coordination and administration of the practice review program is the responsibility of the Firm's practice Review Director at Africa Level, in conjunction with and as concurred by an external review 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 in overseeing and challenging the planning and performance of the practice review.

Types of Engagements Reviewed

The engagements 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 or from other practice offices within the Firm. 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

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 engagement acceptance and continuance
- Independence
- Recruitment and advancement
- Professional development
- Public filings in other countries
- Information technology specialist reviews
- Assignment of professional staff to audit engagements
- Consultation with Firm experts
- Consultation with outside experts
- Engagement quality control reviews

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. 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 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.

Appendix 2

What Deloitte Audit & Assurance brings to capital markets

Audit & Assurance Transformation

Being a relevant profession of the future and a sustainable practice that evolves with the pace of change in technology and society is critical. Driving this goal is the Deloitte Audit & Assurance Transformation initiative, which is currently being developed and deployed across the Deloitte network, including Deloitte & Touche Kenya.

Audit & Assurance Transformation is an important shift across the network in the way Deloitte professionals work and includes:



Audit engagement acceptance and continuance

As a part of Transformation efforts, global initiatives are underway to foster a standard approach to audit engagement acceptance across the Deloitte network, resulting in consistent decisions and consideration of risk. Deloitte & Touche Kenya has detailed policies and procedures in place for accepting prospective clients and engagements and assessing engagement risk. These policies and procedures are designed with the objective that Deloitte & Touche Kenya only accepts engagements where it:

- Is able to perform the engagement and has the capabilities, including time and resources, to do so.
- Can comply with all relevant ethical requirements and professional standards, including independence and conflicts of interest assessments and considerations.
- Considered the integrity of the potential client's management team.

Audit innovation

Innovation is an expectation in today's fast-changing business environment, and this expectation holds true for the audit profession as well. Today's complex business environment requires that the audit be dynamic, multidimensional, and insightful. There is a demand for real-time, relevant information, and clients expect audits to evolve as they innovate their businesses and processes. While traditional procedures still have a place in auditing, Deloitte & Touche Kenya auditors are enhancing procedures by making more use of technology-based analytics, Artificial Intelligence (AI), cognitive & cloud-based technologies, etc. This is due in part to the increased automation and effectiveness such data analytics and other tools may provide, but also the need for Deloitte & Touche Kenya to stay in front of technological advances used by the entities that we audit.

Innovation is an integral part of the entire audit delivery process, which is supported through Deloitte's three leading platforms: Cognia, Illumia, and Magnia.

	COGNIA	How we equip our people portal providing a full suite of tools
	ILLUMIA	How we analyze data approach to audit analytics
	MAGNIA	How we deliver our audits approach to audit delivery

Learning and development initiatives

Central to the Audit & Assurance Transformation initiative are various enhancements to the Deloitte talent model:

- A single, global Audit Learning Curriculum for auditors (supplemented based on local requirements as needed).
- Specific learning opportunities for traditional auditors (e.g. on big data) and specialists (e.g. audit skills). Mixed composition of traditional auditors and specialists on engagement teams provides complementary skillsets, but also the need for different learning offerings.
- Enhanced project management, which is viewed as a key capability for the auditor of the future, and as such, is being integrated into talent strategies (e.g. recruitment and learning).

The objective of the Deloitte & Touche Kenya professional development program is to help partners and other professionals maintain and enhance their professional competence and ensure consistency of audit execution. To supplement on-the-job development, Deloitte & Touche Kenya provides formal continuing professional development programs in relevant subject areas consistent with the Deloitte Global Audit Curriculum.

Deloitte & Touche Kenya establishes minimum levels of continuing professional development to be undertaken by partners and other professionals within a specific period of time. To achieve these levels of development, Deloitte & Touche Kenya 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).

Appendix 3

Internal audit quality monitoring

Audit Quality Monitoring & Measurement

A continued focus on audit quality is of key importance to the Deloitte brand. It is critical that a Deloitte audit is consistently executed and of high quality, wherever in the world it is performed.

The objectives of the Global Audit Quality Monitoring & Measurement (AQMM) program are to:

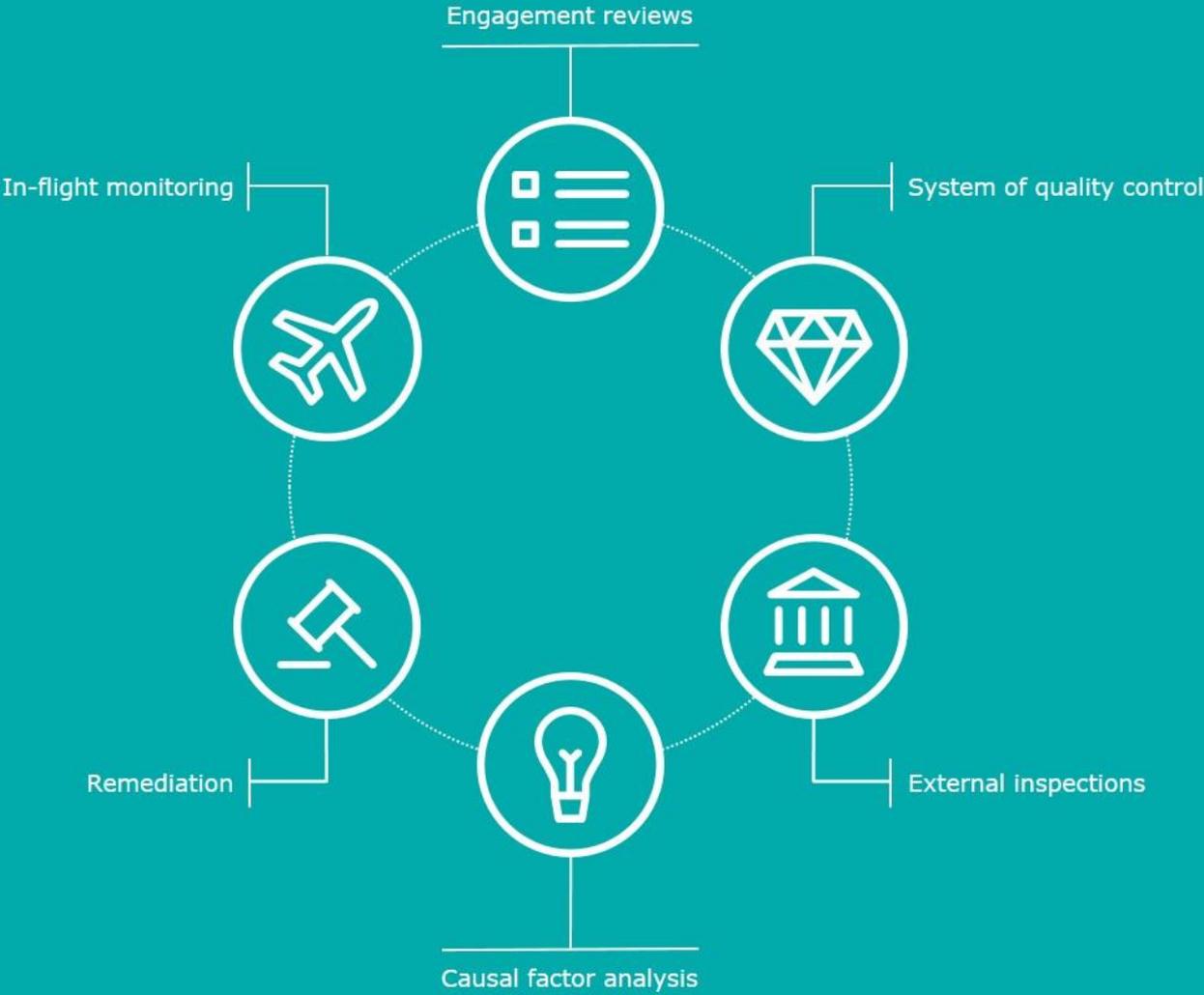
- Transform the way audit quality is monitored and measured and audit deficiencies are resolved; and
- Enhance the internal system of quality control which all Deloitte network firms follow

The AQMM program is focused on driving:

- Continuous, consistent, and robust monitoring of completed and in-flight engagements
- Fundamental understanding of deficiencies and timely execution of corrective actions by all member firms consistently
- Greater transparency and consistency in reporting key measures of audit quality

Deloitte & Touche Kenya maintains policies and procedures to promote an internal culture based on the recognition that quality is the number one priority. Deloitte & Touche Kenya focuses on professional excellence as the foundation for achieving audit quality on a consistent basis.

Audit Quality Monitoring & Measurement



In-flight monitoring

Continuous audit quality monitoring by Deloitte and Touche Kenya drives a faster response to audit issues on “in-flight” engagements, driving identification, timely solutions, and real time corrective actions achieved by:

- Deployment and monitoring of a series of core Diagnostics, enabling engagement partners and teams, as well as Deloitte and Touche Kenya audit quality leader(s) to continuously monitor audit quality and take immediate action.
- A program of subject matter specific “health checks” to assist Deloitte and Touche Kenya audit quality leader(s) in assessing progress and identifying potential issues on in-flight engagements.
- An integrated approach to monitoring and measuring execution of the audit methodology enhancements.

Engagement reviews

Key components of engagement reviews include:

- Risk-based engagement selection and consideration of all major industries served by Deloitte and Touche Kenya.
- Mandatory moderation panel to drive consistency in findings and engagement ratings.
- External partners and deputies who oversee practice reviews to increase global consistency.
- Identifying appropriate resources (from within Deloitte and Touche Kenya as well as from other Deloitte geographies) with the right experience and industry expertise, including establishing central review teams.

System of quality control (SQC)

SQC includes numerous elements such as documenting key areas of the SQC processes and controls and performing procedures for testing the operating effectiveness of the SQC, including execution of a comprehensive SQC review program.

Used in conjunction with other metrics, Audit Quality Indicators (AQIs) further assist Deloitte and Touche Kenya in developing and monitoring audit quality action plans and reporting on the progress in its audit quality journey. AQIs are integrated with ongoing AQMM activities.

In addition, proper timing and sequencing of audit activities, including timely reviews of work performed and the resolution of matters identified, are closely associated with high quality audits. Audit Quality Milestones are intended to drive consistency of engagement teams in project management, timing of when work is done, and necessary focus on engagement staffing, including sufficiency and expertise of assigned resources.

Causal factor analysis and remediation

Focusing on continuous improvement is essential to driving improvements in audit quality. Understanding why audit deficiencies occur is essential to the design of effective actions to remediate findings. Further, actions are taken when audit deficiencies in the performance of an audit engagement are identified. An Audit Quality Plan is prepared by Deloitte and Touche [KENYA] and provides for effective implementation and monitoring of key audit quality priorities.

Statement on the effectiveness of the functioning of the internal quality control system

We confirm that we are satisfied that our internal quality controls and systems are robust, operate effectively, and allow us to readily identify any areas of potential enhancement. We continually seek to refine all aspects of our business and we use the findings of the practice review, other internal reviews and external regulatory reviews to enhance our system of quality control.

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