

# Our quality journey

Quality informs every aspect of our business and is the bedrock of our strategy. Our pursuit of quality is at the centre of our culture of continuous improvement and innovation.

In previous reports, we have focused primarily on our audit quality journey. As part of our commitment to being a responsible business, we have expanded our Transparency Report to include our quality journey across all our businesses.

The International Auditing and Assurance Standards Board (IAASB) Framework for Audit Quality acknowledges that “there is no definition or analysis of [audit quality] that has achieved universal recognition”. The same is true for the quality of our advisory services. Nevertheless, in our view, we deliver quality when we meet or exceed the expectations of our stakeholders, including, in particular, the public and our clients.

## To paraphrase the IAASB’s Framework for Audit Quality:

A quality service is likely to have been delivered by an engagement team that:

- Exhibited appropriate values, ethics and attitudes;
- Was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the work;
- Applied a rigorous process and quality control procedures that complied with law, regulation and applicable standards;
- Provided useful and timely reports; and
- Interacted appropriately with relevant stakeholders.

This report focuses on the steps we have taken and are implementing to further enhance quality across our businesses.

While we made significant progress in our audit quality journey, we still have some work to do to achieve a consistent level of quality, and we recognise that the quality benchmarks are also evolving.

## Appointment of a Quality Leader

We have appointed a firmwide Quality Leader to ensure consistent oversight and reporting across our business.

## How we measure quality?

Given our multidisciplinary model approach, the measurement of quality differs across the businesses, but in all cases we identify root causes of inadequate quality and implement measures to remediate those causes. Our reporting that follows focuses on the primary quality measurements for our businesses and how we have performed against those measures during the past financial year.

## Audit

In our Audit business, the primary measure of quality is the outcome of external reviews by regulators. Making sure audit quality keeps pace with emerging economic, business, and regulatory conditions, as well as technological advances is critical to the continual enhancement of our role in protecting public interest and supporting the effective functioning of the financial ecosystem. Our brand is defined by the high-quality audits delivered and by the unwavering commitment to continuous improvement.

Deloitte embarked on an Audit Future-Fit project which cast a spotlight on the areas within our business where intensified and prioritised actions would allow us to significantly enhance our overall system of quality management and drive a superior quality experience. The Deloitte Future-Fit Audit Journey provides detail on some of the actions taken and provide a focus on the measures we have taken to improve audit quality. Below we outline our quality strategic objectives to continuously build capabilities to support the delivery of high-quality audits and make leading contributions to shape the future of the audit profession.

## Culture of quality

- **Strengthen our culture of quality and excellence,** encourage, and support habitual behaviours that demonstrate the ethical, challenging, sceptical mindset of our people and pride in our profession.

## Audit excellence

- **Build eminence** with respect to the profession and regulatory environment, lead and/or contribute to debates that will architect the audit product of the future through the lens of public interest.
- **Generate clear market reputation** that Deloitte leads the profession in the quality of our audits and in serving public interest.
- **Apply the Deloitte Way,** our globally consistent approach to the execution of audits, including adoption of quality – enhancing transformation components and global technology platforms.

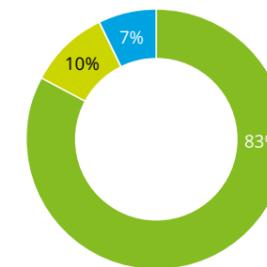
## Operational excellence

- **Implement a world class system of quality management** that supports quality, transformation and related operational objectives and global consistency.
- **Continue to evolve and support the quality and risk infrastructure for our Audit & Assurance business.**

## Holding ourselves to account

- Active, visible leadership commitment.
- Mindset inspired by purpose, ethics, professional pride.
- Dedicated audit quality monitoring and measurement capability to provide a level of internal assurance to leadership.
- Incentivise and reward commitment to quality.
- Accountability framework that defines our approach and response to acknowledging and remediating deficiencies at both systemic (firm) and individual (partner) level.
- 11 partners who had poor quality history, as at February 2020, are no longer with our firm.

Below is the results of our Audit Accountability Framework for this year.



	Good quality	Improvement required	Significant improvement required
South Africa	106	5	4
East Africa	8	2	1
West Africa	14	2	2
Southern Corridor*	12	7	5

\* Botswana, Malawi, Mozambique, Namibia, Zambia and Zimbabwe

## Considering the company we keep

- Africa risk-sensing group supported by technology – enabled risk-sensing capabilities.
- Africa client review board to drive deliberate and consistent changed behaviours in our client acceptance and continuance process.
- Improved guidance and support to drive consistent high quality response to take on procedures and know your client processes.
- Accelerated approach to address emerging issues and changing stakeholder expectations.
- Since inception of the Client Review Board, 320 clients have been reviewed, 12 engagements were terminated due to undesirably high risk of association and enhanced risk mitigation plans were developed for a significant number of clients.
- 343 Client Review Boards are scheduled across Africa for the 2021 calendar year. 11 (6% of client review boards held in 2021 thus far) client relationships were terminated or opportunities not pursued.

## Executing better quality audits & continuous improvement

- Evolving quality & risk infrastructure to achieve greater consistency.
- Continued investment in emerging technologies, capabilities and diversity of thought that enables the delivery of enhanced quality, insights & value to our clients and the markets.
- Intensive focus on ways to help our professionals apply professional scepticism in practice.
- Improved engagement team support in key areas of judgement and rigorous engagement quality control review response.
- Enhanced workforce planning, skillset and capabilities of audit professionals (now and in the future).

The South African regulator, IRBA, regulates most of our audits and the results of their reviews are presented below.

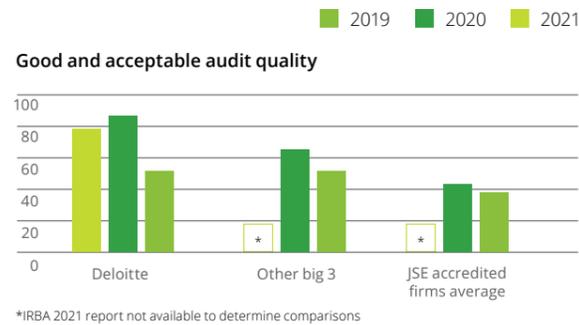
### IRBA Individual Inspections

Embracing external inspection results presents an opportunity to gain insight into potential deficiencies existing within our system of quality management and work towards solutions that drive continuous improvement in audit quality. IRBA performed an inspection under their seventh inspection cycle from 11th January 2021 to 16th March 2021 (2019, 2020 and 2021).

**The objective of IRBA's individual assurance engagement file inspections is to monitor the firm and its engagement partners' compliance with the International Standards on Auditing, codes of conduct and legislation in performing assurance work of a consistent, sustainable high quality.**

These reviews are performed annually, using a risk-based approach, with a focus on engagements and audit areas where deficiencies are likely and areas that if not appropriately responded to by the auditor, create a risk of an inappropriate auditor's report being issued.

We are pleased with the overall improvement in the reduction of the number of deficiencies identified on engagement files over the last three years, especially in the light that various engagement files inspected in 2021 were executed during the COVID-19 lockdown in a virtual environment.



**We are proud of**

- Our progress towards being the audit quality leader.
- **78%** good/acceptable quality results.
- **Decrease in the number** of deficiencies reported.

**12** Listed entity group files were reviewed. | **78%** of the files being "good quality" or "acceptable quality"

**23** Audit files selected



### IRBA Firm Inspection Themes

#### IRBA Firm Inspection Themes

**23** Engagement files



Deficiencies were identified which require remedial action by the firm



As a result of the IRBA's individual assurance engagement file inspections the following reportable deficiency themes were identified for Deloitte to remediate.

Quality Control System	Impairment of Assets	Financial Statements - Disclosure Deficiencies	Engagement Quality Control Reviews (EQCR)	Audit Procedures - Revenue
<b>17 of the 23 files</b> had one or more significant deficiency reported to the firm.	<b>4 of the 23 files</b> have reportable deficiencies relating to inadequate audit evidence to support deviations from impairment of assets accounting standard (IAS 36).	Inadequate review of financial statements disclosure as required by relevant accounting framework.	<b>12 of the engagement files</b> reviewed have reportable findings in areas that are within the scope of the EQCR.	Inadequate procedures/ documented audit evidence to ensure sufficient testing of revenue.
<b>Our response</b> We have made several strategic quality investments to improve our quality control practices.	<b>Our response</b> We continue to enhance our guidance and learning to ensure consistency of application and documentation within our engagement files.	<b>Our response</b> We have implemented a proactive, consistent review process on financial statements which encompasses a number of measures such as completions of the full IFRS checklist, use of the firm's IFRS team, additional reviews for listed entities as well as specific training to practitioners.	<b>Our response</b> We have designed and embedded an EQCR engagement support centre of excellence, enhanced training and learning and implemented engagement quality control reviewer assistants.	<b>Our response</b> We have deployed enabling tools to the practitioners, additional guidance on the testing of information produced by the entity and have planned additional learning to be delivered to all practitioners relating to the audit of revenue.

### Systems of quality

A continued focus on audit quality is of paramount importance to the Deloitte brand. Our audit quality monitoring and measurement program is focused on driving:

- Continuous, consistent and robust monitoring of completed engagements.
- Fundamental understanding of deficiencies and timely execution of corrective action.
- Greater transparency and consistency in reporting key measures of audit quality to relevant stakeholders.

In 2021, IRBA did not perform a firm inspection of our quality control processes, however the IRBA uses the results of the engagement file inspections as an indicator of the effectiveness of the system of quality control.

We are pleased with our systems of quality results as they showcase the power of our quality systems and the resilience of our people while working in unprecedented times during the COVID-19 pandemic.

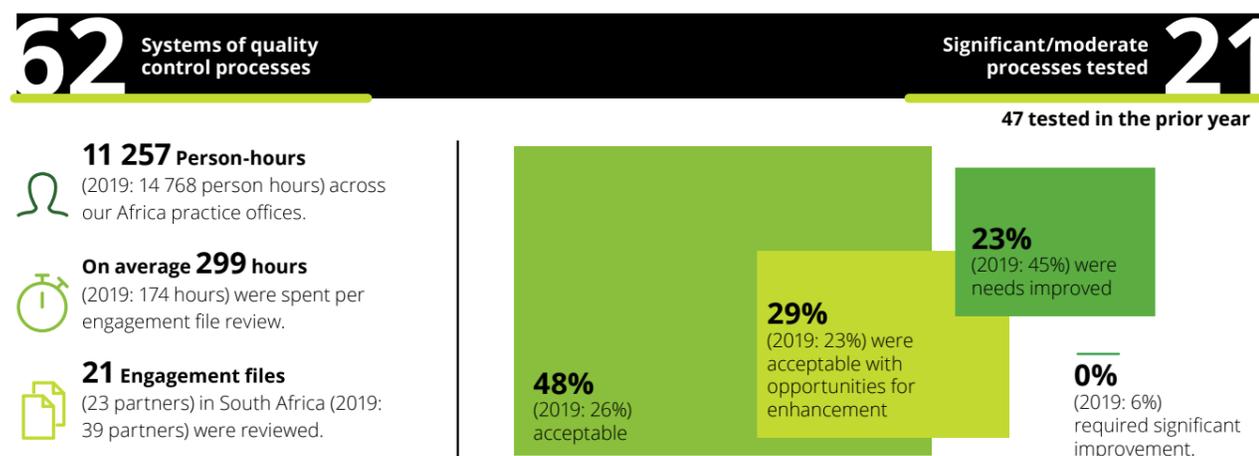
**We are proud of**

- Significant improvement in the systems of quality results.
- Investment in monitoring systems.
- Investment in systems of quality control.

The appropriateness of the design, implementation, and effective operation of our system of quality control is monitored through two key quality monitoring inspection processes, namely:

- **Deloitte internal inspection**, overseen by an allocated senior audit partner from an independent Deloitte member firm (Canada), as mandated by our Deloitte policies manual; and
- **The IRBA**, who conduct inspections in accordance with International Forum of Audit Regulators (“IFIAR”) Core Principles and as mandated by Section 47 of the APA.

### Deloitte Internal Systems of Quality Control Inspections

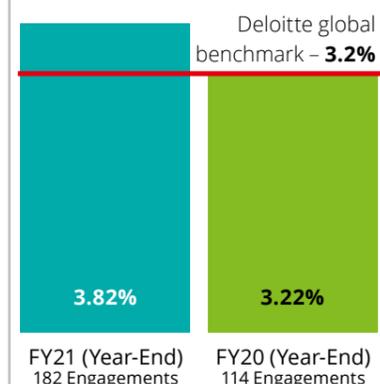


The significant advancements and intensified, prioritised actions we have embedded in our business to accelerate quality improvement has positively supported us in continually and relentlessly raising the standards of quality to serve the public interest.

#### Key observations from our systems of quality review

The quality control processes identified for continuous improvement were incorporated in the changes to our business model and audit quality investments.

Our **Consulting** business primarily measures the cost of quality on an ongoing basis to monitor quality delivery. Cost of quality (CoQ) is a measure of actual effort required relative to planned effort in order to meet stakeholder expectations. A lower cost of quality is indicative of better quality processes.



Note: this is South Africa only, which comprises 90%+ of our Africa Consulting Revenue. Additionally, we currently focus cost of quality measures on larger assignments. Even though we do not perform CoQ for the East and West Africa regions currently, we do perform the required Quality Assurance Reviews on engagements. We are in the process of updating our systems to ensure that we able to report on the CoQ for all our regions in future.

**Tax & Legal** measures quality through internal practice reviews. The table below depicts our practice review outcomes for 2019 and 2020\*. The results are split between compliance testing, which is adherence to policy and quality testing.

Review period	Region	# engagements	Compliance Testing – Findings Summary				Quality Testing – Findings summary			
			No findings	Minor findings	Moderate findings	Major findings	No findings	Minor findings	Moderate findings	Major findings
FY20	South	25	20	4	1	-	23	-	-	-
	Southern	3	3	-	-	-	3	-	-	-
	East	3	-	3	-	-	3	-	-	-
	West	9	9	-	-	-	9	-	-	-
	<b>Total</b>	<b>40</b>	<b>32</b>	<b>7</b>	<b>1</b>	<b>-</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total %</b>		<b>80%</b>	<b>18%</b>	<b>2%</b>	<b>-</b>	<b>95%</b>	<b>-</b>	<b>-</b>	<b>-</b>	
FY19	South	18	14	4	-	-	17	1	-	-
	Southern	6	-	-	6	-	3	-	3	-
	East	6	6	-	-	-	6	-	-	-
	West	13	10	-	3	1	13	-	-	-
	<b>Total</b>	<b>43</b>	<b>30</b>	<b>4</b>	<b>9</b>	<b>-</b>	<b>39</b>	<b>1</b>	<b>3</b>	<b>-</b>
<b>Total %</b>		<b>70%</b>	<b>9%</b>	<b>21%</b>	<b>-</b>	<b>91%</b>	<b>2%</b>	<b>7%</b>	<b>-</b>	

- **Minor** – failure to complete a process within the required timelines and there is no absolute disregard of process or policy or where there is an inaccurate or negligent completion of a process.
- **Moderate** – a breach of DTTL Global Policy which is not a breach of a regulatory or professional standard or non-compliance of Risk, Independence & Legal or Tax & Legal rules process or policy. Any minor failures where there was a complete disregard of a process or policy. The incident does not result in a financial loss to the member firm.
- **Major** – a breach of a regulatory or professional standard and any incident which results in a financial loss to the member firm, investigation by a Regulator or Professional body and an adverse reputational effect on Deloitte.

**Financial Advisory** measures quality through internal practice reviews. The table below depicts our practice review outcomes for 2019 and 2020\*.

Review period	# engagements	Practice reviews		
		Minor findings	Moderate findings	Major findings
FY20	17	4	8	2
FY19	22	31	6	4

FY20 average of 0.8 findings per engagement  
FY19 average of 1.9 findings per engagement

#### Guidance to ratings

- 1 No exceptions
- 2 Minor isolated exceptions
- 3 Minor exceptions on more than an isolated basis/moderate exception
- 4 Exceptions on a frequent basis/major exception

**Risk Advisory** measures quality through internal practice reviews. The table below depicts our practice review outcomes year-on-year Africa-wide\*.

Scores are calculated based on a set of predetermined questions. Each question is assigned a weight from 1 to 3. Individual question scores are then summed to determine the total points accumulated. A final grade percentage is then calculated as a percentage of the total points accumulated divided by the total points available for the review.

#### 2020 practice reviews

Rating Level	Average overall assessment grade	Total number of engagements
Green +	99 - 100%	7
Green	90 - 98.99%	11
Yellow +	80 - 89.99%	0
Yellow	70 - 79.99%	0
Red	0 - 69.99%	0

#### 2019 Practice reviews

Rating Level	Average overall assessment grade	Total number of engagements
Green +	99 - 100%	7
Green	90 - 98.99%	14
Yellow +	80 - 89.99%	2
Yellow	70 - 79.99%	1
Red	0 - 69.99%	2