Deloitte: Making an impact that matters

Our purpose – to make an impact that matters – and our aspiration – to be the undisputed leader in professional services – define us.

We serve clients with quality and distinction – making a measurable and attributable impact.

We inspire our people to deliver value – mentoring and developing future leaders and colleagues for life.

We contribute to society – building confidence and trust, upholding integrity and supporting the community.

We are leaders in the profession – challenging ourselves to do what matters most, delivering innovative ideas that reflect our unique capabilities.

Deloitte’s shared values

Our shared values succinctly describe the core principles that distinguish the Deloitte culture.

Integrity
Everything we do starts with integrity. In our marketplace, nothing is more important than our reputation and, accordingly, we commit to conducting business with honesty, distinctive quality and a high level of professional behaviour.

Outstanding value to markets and clients
We play a critical role in helping the capital markets and our clients operate more effectively. We consider this role a privilege, and we know it requires constant vigilance and unrelenting commitment.

Commitment to each other
We are proud of our culture of borderless collegiality and work hard to support our people. We strive to create an inclusive environment that reflects our strong, clear expectations about diversity, respect and fair treatment.

Strength from cultural diversity
Our clients’ business challenges are complex, and benefit from the innovation and varied perspectives that our practitioners bring. We understand that working with people of different backgrounds, cultures and thinking styles helps our people grow into better professionals and leaders.
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A message from the Chief Executive Officer, Lwazi Bam

Welcome to Deloitte Africa’s first Transparency Report for the financial year ended 31 May 2018 (FY18).

Practising vigilance through a state capture watch list

The media has reported extensively about state capture in South Africa. Many high-profile companies, both locally and abroad, have suffered severe brand damage from their association with ‘state capturers’. This has caused us to re-examine our own client book. We have since conducted an historical review of all our business relationships and client engagements. We flagged all potentially implicated entities and individuals, placing them on a watch list. Whenever a partner, director or staff member is asked to render services to an entity or individual on the watch list, our Reputation, Risk, Independence & Legal team is immediately notified. This team, subsequently, rejects the client or engagement, or institutes a special take-on process with a risk mitigation plan.

Building trust and confidence in challenging times

The past year was characterised by several high-profile company failures and scandals, which led to stakeholders questioning the role and responsibilities of auditors. There exists a discrepancy, an ‘expectation gap’, between what an audit does and what people think it does, or should do. This has caused us to introspect, specifically on whether we can do more to close this expectation gap. We have already identified areas where improvements are required, but the bigger questions – about where the roles and responsibilities of the auditor start and end – will require a much broader engagement with numerous stakeholders.

We trust that our report’s disclosures about structure, governance, pay gaps across gender and race, revenue split between advisory and audit, and risk management will showcase the commitment of Deloitte Africa’s (the firm) to honesty, distinctive quality and the highest standards of professional behaviour. With this report, we aim to spearhead a new standard for professional services firms in Africa.

We are also producing an Impact Report that will detail our Broad-Based Black Economic Empowerment (B-BBEE) rating, our impact on communities and how we challenge ourselves to continue to earn the trust and confidence of our clients and staff.

Co-operation with investigations and disciplinary hearings

The IRBA is conducting two regulatory investigations into the professional conduct of Deloitte South Africa auditors, as described below.

Audits of African Bank Investments Limited (and its subsidiaries)

African Bank was placed under curatorship by the South African Reserve Bank in 2014. Deloitte South Africa fulfilled and complied with our obligations.

Audits of Steinhoff International Holdings Proprietary Limited (and its subsidiaries)

The IRBA has initiated an investigation into the audit of Steinhoff, whose share price collapsed after the company admitted to accounting irregularities following queries raised by Deloitte. We are co-operating fully with the IRBA, as well as other regulatory authorities on both of these matters.

Building trust and confidence in challenging times

Practising vigilance through a state capture watch list

Building trust and confidence in challenging times

Practising vigilance through a state capture watch list

We do not tolerate any form of misconduct, nor do we reward misconduct. This commitment to the highest standards of professional conduct guides our actions.

Audits of African Bank Investments Limited (and its subsidiaries)

As companies and accounting principles become more complex, it is not possible to perform an effective audit without the use of various specialist skills, which are not part of the traditional audit skillset. Deloitte audit teams have access to advisors with deep technical skills and experience in many specialist areas.

Building trust and confidence in challenging times

This cross-disciplinary collaboration is rigorously regulated to uphold our independence and is preapproved by our clients’ audit committees.

Our audit partners are primarily rewarded for audit quality and are, therefore, not rewarded for selling advisory services to audit clients.

Guided by our purpose

Our purpose is to make an impact that matters for our clients, people and society. It remains the ‘north star’ of what we do on a daily basis. It guides us as we provide robust and high-quality audit and advisory services. We recognise that we are an important contributor to, and enabler of, trust and confidence. We also recognise that recent scandals have dented that trust in our profession and our firm.

Being transparent about our commitment to audit quality, and about the ongoing investments we are making to maintain and enhance independence and confidence in audit, is very much in the public interest. This report is a key part of providing that transparency and is an important element of our communication with regulators, investors, audit committees and other stakeholders.

In July, the Independent Regulatory Board for Auditors (IRBA) issued a call to South African audit firms to introduce the public reporting of relevant internal information in the form of a transparency report. Although transparency reporting is mandatory in some jurisdictions, including the United Kingdom, Australasia and Japan, South African audit firms are not bound to such a regulation yet. Deloitte South Africa is issuing this 2018 Transparency Report on a voluntary basis, following broad reporting guidelines from member firms in the Deloitte Touche Tohmatsu Limited (Deloitte Global) network. Consistent with other member firms in the Deloitte Global network, we also focus mainly on our audit business in this 2018 Transparency Report.

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2018 Transparency Report

Key highlights

This 2018 Transparency Report demonstrates our commitment to a culture of integrity, professional excellence, accountability and audit quality.

All information provided in this report relates to the position of Deloitte South Africa prior to our financial year-end on 31 May 2018, unless indicated otherwise.

We have mostly focused on our South African operations in this year's report, but we intend to cover our Africa-wide operations in the 2019 Transparency Report.

Deloitte South Africa's 2020 transformation strategy

We are on track to meet these transformation targets by 2020.

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<thead>
<tr>
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<th>Black</th>
<th>White</th>
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<tbody>
<tr>
<td>2012</td>
<td>27%</td>
<td>73%</td>
</tr>
<tr>
<td>2018</td>
<td>37%</td>
<td>63%</td>
</tr>
</tbody>
</table>

Partner/director pay gap These pay gap figures are linked to the current demographics of the partnership (predominantly male and white), which will gradually be corrected as we reach our transformation and gender targets.

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<tr>
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<th>Black</th>
<th>White</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>76%</td>
<td>24%</td>
</tr>
<tr>
<td>2018</td>
<td>71%</td>
<td>29%</td>
</tr>
</tbody>
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Transformation across the firm (all staff)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2018</th>
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<tbody>
<tr>
<td>Male</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>Female</td>
<td>53%</td>
<td>47%</td>
</tr>
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Revenue in R'million

Deloitte South Africa: R4,482m

Advisory-only clients: R2,815m

Audit-only clients: R1,667m

* Advisory and audit clients are mutually exclusive, except where advisory services are pre-approved by the client’s audit committee.

Our pipeline of future leaders is consistent with our transformation targets.
Global co-operation
As members of the Deloitte Global network, we benefit from shared activities, investments and resources. These enhance our ability to provide core services to key local and global clients, as well as development opportunities for our people. We also use Deloitte’s brand, eminence and intellectual property to ensure high standards are consistently met across our regions and around the globe.

Benefits of our multidisciplinary model
Cross-functional insights
We develop insights through multiple lenses, enhancing our auditors’ understanding of the business risks relevant to audits.

Access to specialists
The Audit & Assurance business has immediate access to specialised resources and expertise via other business lines. This promotes quality because auditors can tap the knowledge of dedicated advisory professionals who are skilled in subjects that are often not native to auditors.

Attract and retain talent
A diverse organisation helps attract and retain premier talent, and provides access to intellectual capital which resides within the broader Deloitte network.

We offer professional services through five core business areas
Audit & Assurance: Delivering consistent, high-quality, risk-based audit services.
Consulting: Unlocking opportunities from issue to impact, through strategy, innovation, human capital, technology and managed services.
Corporate Finance: Providing expertise in transaction support services, valuations, mergers and acquisitions, debt and infrastructure advisory and restructuring services.
Risk Advisory: Realising opportunity by managing risk for our clients through integrated solutions, comprising forensics, data analytics, cyber-security, governance, regulatory compliance, business and technology risk, control and assurance.
Tax & Legal: Delivering integrated tailored signature tax solutions and insights, spanning business tax, indirect tax and global employer services.

Deloitte network structure
Deloitte is made up of firms that are members of Deloitte Touche Tohmatsu Limited (Deloitte Global), a UK private company limited by guarantee. Deloitte South Africa is not a subsidiary or branch office of Deloitte Global and we do not act as an agent of Deloitte Global or other member firms. We have voluntarily become members of the Deloitte network with a primary purpose to co-ordinate our approach to client service, professional standards, shared values, methodologies, and systems of quality control and risk management. This structure allows us to be an industry leader at all levels – locally, nationally, regionally and globally.

Deloitte Africa firm structure
Deloitte South Africa forms part of the Deloitte Africa firm. We are, however, a separate partnership that is funded, owned and managed by South African partners/directors.

Our partners/directors fund the partnership through personal capital contributions. Each partner or director makes a capital contribution in cash, based on a percentage of his or her annual earnings. There is no global dividend.
Deloitte South Africa is governed by the Deloitte Africa Board, which is constituted by the firm’s governance agreements.

**Africa Board**

**Role and responsibilities**
- Ongoing oversight and monitoring of the Africa firm’s adherence to ethics, laws and regulations
- Promote and protect partner/director interests and oversee management
- Determine the Africa firm’s long-term strategies, with specific oversight of risk and quality
- Meet at least five times a year

**Members**
- Chairman (elected by the partners/directors)
- Chief Executive Officer, Deputy Chief Executive Officer, Chief Operating Officer, Reputation & Risk Leader
- Independent non-executives with an external Europe, Middle East and Africa (EMEA) observer
- Ten additional elected partners/directors (who are not members of the Executive Committee)
- Co-opted partners/directors representing Transformation and Deloitte Women in Leadership in Africa, respectively

**Africa Board committees**

The Board committees include the Finance Committee; the Risk, Ethics and Compliance Committee; the Remuneration Committee; the Partner/ Director Admissions Committee; the Direct Partner/ Director Admissions Committee; and the Performance, Reward, Succession and Nominations Committee.

These committees ensure that Deloitte adheres to applicable corporate governance, quality and risk management requirements, and discloses these matters in full.

**Members**
- Elected members of Africa Board who are independent from the Executive Committee
- Independent non-executives in attendance, as appropriate
- Members of the partner/director group, as appropriate

**Members of the Africa Board**

- Trevor Brown
  - Chairman

- Olufemi Abegunde
  - Deputy Chairman
  - West Africa

- Professor Njabulo Ndobe
  - Independent Non-executive

- Professor Pat Utomi
  - Independent Non-executive

- Rik Vanpeteghem
  - Observer and EMEA
  - Managing Partner

- Alice Tembo
  - Southern Africa

- Anthea Scholtz
  - Southern Africa

- Augustine Nkwune
  - West Africa

- Doreen Mbogho
  - East Africa

- Eric Tshabalala
  - Southern Africa

- Eshak Harunani
  - East Africa

- Gaba Tabe
  - Southern Africa

- Nazeer Essop
  - Southern Africa

- Ruwayda Redfearn
  - Southern Africa

- Suddasha Naidoo
  - Southern Africa

- Lwazi Bam
  - Ex-officio
  - Chief Executive Officer

- Sihlalo Jordan
  - Ex-officio
  - Deputy Chief Executive Officer

- Mike Jarvis
  - Ex-officio
  - Chief Operating Officer

- Murray Dicks
  - Ex-officio
  - Reputation & Risk Leader
Africa Executive Committee

The Executive Committee oversees Deloitte Africa’s operating functions and plans its future development.

Role and responsibilities

• Assist the Chief Executive Officer in managing the firm
• Implement the policies and strategies of the firm as approved by the Africa Board
• Retain the authority to manage the day-to-day operations of Deloitte Africa

Members

• Chief Executive Officer (elected by the partners/directors)
• Other members who are appointed by the Chief Executive Officer
• Members have specific responsibilities with an emphasis on working as a team to lead Deloitte Africa
• Every member is also actively engaged with our clients

Representing Deloitte Africa globally

Some of our partners/directors have global roles, including our Chief Executive Officer, Lwazi Bam, and our Deputy Chief Executive Officer, Sihlalo Jordan, who sit on the Deloitte Global Executive Committee and the Deloitte Global Board, respectively.

These roles allow the African partnership to:

• Influence the strategic direction of the Deloitte Global network
• Represent Deloitte Africa at a global level.

Representing Deloitte Africa globally:

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These roles allow the African partnership to:

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• Represent Deloitte Africa at a global level.

Members of the Africa Executive Committee

Lwazi Bam
Chief Executive Officer

Sihlalo Jordan
Deputy Chief Executive Officer

Mike Jarvis
Chief Operating Officer

Delia Ndlovu
Tax & Legal Managing Director

Thiru Pillay
Consulting Managing Director

Karin Hodson
Corporate Finance Managing Partner

Novin Sing
Risk Advisory Managing Director

Andrew Mackie
Audit & Assurance Managing Partner

Joe Eshun
Regional Chief Executive Officer East Africa

Fatai Folarin
Regional Chief Executive Officer West Africa

Murray Dicks
Reputation & Risk Leader

Justine Mazzocco
Talent and Transformation Leader
Our partner/director model

Deloitte South Africa is wholly owned by its partners/directors.

Partner classification
The title of partner is given to owners of the business. Our partners are all qualified chartered accountants (CA(SA)), registered with the South African Institute of Chartered Accountants (SAICA) and with the Independent Regulatory Board of Auditors (IRBA).

Director classification
Directors are also owners of the business, but are not registered with the IRBA. Our directors have the same rights and voting powers as our partners, except for matters pertaining to the audit business.

Specific considerations relating to audit partners
We have designed our appraisal and promotion processes and considerations to establish a solid link between audit quality and partner remuneration.

In assessing performance, a role-model contribution in the areas listed below is expected from all partners/directors. This is essential, regardless of the level of their contribution in other areas.

<table>
<thead>
<tr>
<th>Quality</th>
<th>Uncompromising quality in all professional work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
<td>Consistent and strong contributions across all areas of risk and independence</td>
</tr>
<tr>
<td>Performance</td>
<td>Strong performance against key metrics, objectives and career plan</td>
</tr>
</tbody>
</table>

Although great strides have been made to bridge the inequality gap in South Africa, much more needs to be done. Deloitte South Africa is committed to being at the forefront of this change.

Transformation goals
Our approach to transformation is not a ‘tick box’ exercise. Rather than basing our strategy on the transformation quotas, our transformation strategy is based on what we believe is right.

As a Level-1 B-BBEE contributor, we are proud of the fact that, over the past four decades, we have made progress to bridge the inequality gap and increase the number of black owners of Deloitte South Africa.

Our goal is also to achieve a fair representation of both genders throughout Deloitte South Africa, increasing the number of women in leadership and governance bodies.

The following key goals underpin our strategy:
- achieve 51 per cent black\(^{11}\) ownership and 35 per cent female ownership by 2020
- drive demographic transformation as per the Economically Active Population targets set by government
- create and sustain a corporate culture of inclusion, in which all can achieve and excel.

We believe that achieving these goals will be the tipping point that makes us a firm representing South Africa’s diverse demographics.

Transformation across the firm (all staff)

Deloitte South Africa average partner/director tenure, year-on-year

<table>
<thead>
<tr>
<th>Year</th>
<th>Tenure (yrs)</th>
<th>Average age</th>
</tr>
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<tbody>
<tr>
<td>2012</td>
<td>44</td>
<td>9.6</td>
</tr>
<tr>
<td>2013</td>
<td>45</td>
<td>9.6</td>
</tr>
<tr>
<td>2014</td>
<td>45</td>
<td>9.5</td>
</tr>
<tr>
<td>2015</td>
<td>45</td>
<td>9.7</td>
</tr>
<tr>
<td>2016</td>
<td>45</td>
<td>10</td>
</tr>
<tr>
<td>2017</td>
<td>45</td>
<td>9.6</td>
</tr>
<tr>
<td>2018</td>
<td>46</td>
<td>11.4</td>
</tr>
</tbody>
</table>

\(^{10}\) Deloitte adopts the definition of ‘black’ as per the B-BBEE Act: to mean “African, coloured or Indian persons who are natural persons and: 1.4.1 are citizens of the Republic of South Africa by birth or descent.”

\(^{11}\) A black female partner, who left the firm post 31 May 2018 is included in these statistics. She is, however, not included in the list of Board members.
Deloitte South Africa’s focus on independence, integrity and quality is embedded in all parts of our firm. It brings a rigorous approach to such areas as client and engagement acceptance, engagement risk, and assessment of existing and new service offerings.

Deloitte invests in systems and internal processes to safeguard the independence and objectivity of our firm, our professionals and our engagement teams, and to avoid conflicts of interest. The main systems and processes are as follows:

**Independence declarations**

This process secures confirmation from partners, directors, professionals and support staff that they are aware of restricted-entity policies and are not engaged in any restricted business or financial relationships. Each new hire completes a declaration upon joining the firm. In addition, all Deloitte staff must confirm their independence annually.

**Restricted entities database**

This system records comprehensive details on every restricted entity. It allows partners, directors and professionals to check independence requirements for any type of investment or product before they enter any personal financial or audit relationship.

**Global independence monitoring system (GIMS)**

The GIMS records and monitors the personal financial interests of all partners, directors and client-facing professionals of manager grade and above, including those of their immediate spouses and dependants. The system ensures that all our partners, directors and high-level staff are financially independent from our audit clients.

**Business relationships monitoring system (BRMS)**

Certain business relationships may involve risks that could damage the firm’s reputation and lead to conflicts of interest and/or potential impairment of auditor independence. These relationships require pre-approval through our BRMS. The system monitors the business relationships of the firm and our partners, directors and professionals. Before a client is approved, the system requests a conflict check, a risk assessment and partner engagement acceptance approval.

Deloitte entity search and compliance (DESC) system

The DESC system stores information related to our public interest entity (PIE) audit clients and their affiliates. Any new request for services, at any of these entities, is submitted to a relevant lead partner, whose role is to ensure that the request complies with laws and regulations, and that it falls within the scope preapproved by the entity’s audit committee. The information provided in the DESC system is continuously updated to help ensure its accuracy and completeness.

**Engagement conflict checks**

The Deloitte conflict checking system considers the principal parties in a client engagement, the scope of work, the client engagement team and specific questions which are driven by the proposed service offering. Each conflict check is undertaken to identify any potential conflicting relationships. Where conflicts arise, mitigating actions are mandated and teams may not commence engagement until the right actions are executed. Alternatively, the engagement may be rejected.

**Inspection and testing**

Each year, a dedicated team performs an in-depth assessment. Their aim is to evaluate the business and financial relationships of a sample of partners, directors and client-facing professionals of manager grade and above, including that of their spouses and dependants.

In 2017, 10 staff members were subject to financial penalties of R81,600, down from 39 staff members in 2016. These penalties were imposed due to potential conflicts of interest. The combined value of these opportunities was approximately R100 million.
there is evidence of unlawful or unethical quality of service scoping, evidence promotes a speak-up and consultative there has been adverse media coverage archiving and document retention.

Acceptance processes
The firm follows a structured approach to accepting and maintaining clients, engagements, business partners, vendors, employees and contractors. This ensures that their associated risks are mitigated, minimised and/or managed.

We have rigorous policies, procedures and approval processes to accept prospective clients and engagements, and assess engagement risk. They include evaluating the client’s risk profile, based on information about the client, its directors and its management. We then classify the client engagement risk as normal, greater than normal or much greater than normal.

Different levels of authority may become involved in the acceptance decision, depending on the engagement risk classification. Risk mitigation plans are put in place for high-risk clients or engagements.

In our most recent financial year, we developed and continue to maintain a list of about 170 entities, which we will not do work for or be associated with.

Although we believe that our client-evaluation processes are robust, in light of the current operating environment we persist in continually enhancing them.

Portfolio risk reviews
An annual portfolio risk review identifies significant risk exposure within our client and engagement portfolio. Based on this, we design and implement safeguards to mitigate our exposure to risk.

Deloitte’s current audit client portfolio in South Africa includes 73 Johannesburg Stock Exchange (JSE) Main Board-listed entities (out of 371 listed entities; i.e. 19.6%).

Our approach to state capture – implicated entities and individuals
In light of concerns surrounding state capture, we performed a firm-wide historical review of all client and business relationships, based on a list of potentially implicated entities and individuals. We have declined, and we will continue to decline, clients whose integrity is not beyond reproach.

An entity or individual is considered implicated in any of these circumstances:
• there is evidence of unlawful or unethical behaviour, as decided by a court, an arbitrator, a regulator, a lawfully established commission or enquiry (including an internal enquiry) or an independent investigation
• there has been adverse media coverage from respected media institutions, especially if the coverage is sustained or confirmed by other media entities or respected non-profit organisations.

Promoting ethics within the firm
Our Global Code of Business Conduct and our Africa Code of Conduct set the foundation and outline the commitments we make as Deloitte professionals. Anyone found in breach of these codes may be disciplined according to the Deloitte Africa disciplinary framework.

Deloitte launched the Integrity Imperative Initiative in 2017, which aims to amplify key themes of professional behaviour, public trust, objectivity, respect, fair treatment and anti-corruption within our global code. In addition, the firm has implemented a multifaceted financial crime programme that contains elements of anti-corruption, anti-money laundering, counter-terrorism financing and sanctions screening.

Through these initiatives, we strive to create an environment that:
• empowers leaders to set a strong tone from the top
• promotes a speak-up and consultative culture for all professionals
• enables the organisation to act quickly and appropriately in the face of misconduct.

Enforcing compliance
Compliance with our policies is rigorously managed and monitored through:
• the appointment of risk and compliance officers in each of the regions and businesses to support our people with risk assessment and compliance, assisting with consultations on a real-time basis
• the ongoing development and enhancement of formal policies governing expectations of our people

Our firm’s policies and processes include (among others):
1. a robust anti-corruption policy requiring compliance with local and international anti-corruption laws
2. the ‘Know Your Client’ process, as part of the client acceptance and due diligence screening, for clients as well as non-clients
3. periodic communications from senior leaders to set the tone from the top regarding the importance of, and commitment to, the fight against bribery and corruption.
4. the ‘Ethics Hotline’, a dedicated and anonymous channel for the reporting of fraud, corruption and ethics violations
5. a non-retaliation policy to encourage the reporting of fraud, corruption and ethics violations without fear of retribution.

The Ethics Hotline is open to all Deloitte staff. In the past year, 14 cases were reported and subsequently addressed.

Risk management principles
1 A consistent risk management culture and tone set at the top, embracing risk management as a non-negotiable, fundamental responsibility and recognising and rewarding actions that demonstrate positive risk management.
2 Effective risk governance and a related structure that is fully aligned with the business and the strategic objectives.
3 Globally consistent, mature and sophisticated risk management infrastructures that effectively identify, mitigate and report on risks.
4 Globally consistent, standardised risk reporting and escalation protocols that enable effective and timely communication across the network.

Our firm’s risk management process is summarised below:

1 Identify priority business risks (i.e. those that could affect the strategy of the firm)
2 Assess risks and evaluate results
3 Develop and execute mitigation plans to manage risks
4 Continually monitor mitigation plans
5 Periodically report to Risk, Ethics and Compliance Committee of the Africa Board

The review processes typically cover our compliance in these areas:
• client and engagement acceptance
• quality of service scope, evidence obtained, deliverables issued
• financial management of client engagements
• archiving and document retention.

Disciplinary process
Deloitte South Africa partners, directors and employees are subject to disciplinary action if they violate any of our quality, ethics or independence policies. Depending on the severity of the violation, such actions may include written warnings, financial penalties, and termination of employment.

Partners/directors with frequent violations and contraventions are also penalised via their earnings or allocation of profit-sharing units, and may also be dismissed from the partnership.

Risk management process
The firm’s risk management process is summarised below:

1 Identify priority business risks (i.e. those that could affect the strategy of the firm)
2 Assess risks and evaluate results
3 Develop and execute mitigation plans to manage risks
4 Continually monitor mitigation plans
5 Periodically report to Risk, Ethics and Compliance Committee of the Africa Board

The firm has made significant investments in the risk management function, which grew substantially in the past year, and now consists of sector specialists who help the Reputation & Risk Leader make risk-informed strategic decisions, respond to disruptions and protect the reputation of the Deloitte Africa firm.

Global Code of Business Conduct
Our Global Code of Business Conduct is globally consistent, standardised risk reporting and escalation protocols that enable effective and timely communication across the network.

Globally consistent, mature and sophisticated risk management infrastructures that effectively identify, mitigate and report on risks.

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3 Globally consistent, mature and sophisticated risk management infrastructures that effectively identify, mitigate and report on risks.
4 Globally consistent, standardised risk reporting and escalation protocols that enable effective and timely communication across the network.
The enterprise risk management function is managed by the Reputation & Risk Leader, who is a member of the Africa Executive Committee and the Africa Board.

Ensuring information security and privacy
Deloitte works in an industry where maintaining client and public trust is vital. Our ability to safeguard confidential information directly affects markets, clients, our people and our brand. In addition, the global organisations we serve are increasingly subject to confidentiality, privacy, cyber-security, and industry laws that affect how they use and protect information.

We are committed to enhancing our information security, privacy and confidentiality strategies.

Information security
Our firm works with the Deloitte Global Information Security team to implement an aggressive strategy that is designed to:

- create a cohesive programme with consistent, high-quality security services
- provide security tools for advanced protection of highly distributed data
- reduce the risk of data loss through practitioner actions.

All staff members are required to attend annual training on information security, and to abide by rules pertaining to the handling of sensitive information, including all client information (such as device encryption and authentication rules).

Privacy
We align our privacy programmes with leading accountability practices, for data protection compliance. We work closely with the Deloitte Global Privacy and the Deloitte Global Public Policy and Regulatory teams to monitor new privacy developments affecting our clients and our firm. We also continually review available mechanisms to better facilitate and safeguard data transfers.

Confidentiality
We are dedicated to continually improving how we safeguard client confidential information and internal information about our people and operations. We work with the Deloitte Global Confidentiality team to shape a globally consistent approach. Our confidentiality leaders use a variety of strategies – for example, maturity assessments, cutting-edge technology, communication and training – to consciously shape a culture in which every Deloitte professional feels a sense of ownership in their role of protecting confidential information.

Cyber-security
The risk of a malicious cyber-attack or breach of security is an area of considerable focus. Such an event could result in Deloitte's data, or that of our clients, being lost, corrupted or disclosed to unauthorised parties, or it could prevent the firm from doing business as normal. The firm has implemented a process of monitoring, review and continuous improvement in response to this growing risk.

Deloitte operates multiple levels of cyber-defence, with permanent security operations staff covering IT, information, physical and personnel security, as well as business continuity and resilience, all helping to manage cyber-risk.

The firm operates a programme of continual vulnerability testing and annual cyber-crisis management exercises to ensure readiness for a cyber-attack. We perform additional focused testing during the year, and ongoing review of incident and crisis management effectiveness.

Deloitte also regularly monitors for any insider threat. The firm's privileged access-management system reduces the risk of highly privileged accounts being accessed inappropriately or abused. In addition, our dedicated insider threat and investigations function includes an end-to-end leaver-monitoring process, which monitors data usage of individuals exiting the firm. Finally, all partners, directors and staff receive annual security awareness training, supported by ongoing communications.

A spotlight on audit
From the mindset of the auditor to the specific capabilities, tools, methods and standards we apply in conducting audits and managing our audit practice, our commitment to quality is paramount.

Auditors play a vigilant and objective role in ensuring that shareholders' interests are well protected, and that a company’s management team has acted within reason. It is the shareholders who primarily depend on the good faith and efficiency of auditors to ensure that the company’s actions in daily operations are verified.

In view of recent questions raised about the audit profession, on the following pages, we provide additional information on how our firm strives to maintain high standards of quality and client service through our audit practice.
Assigning the right team
The selection of the engagement team is vital to executing an effective and efficient audit. The process consists of assigning an engagement partner who has the appropriate independence, competence, capabilities and authority to perform the role and lead the engagement team with distinction.

We implement staff planning systems and processes to monitor the workload and availability of engagement teams. This allows sufficient time for teams to be appropriately staffed on client engagements. The professional staff assigned to the engagement team, and who assist the partner to issue appropriate reports, must have the competence and capabilities to meet professional standards, and any applicable legal and regulatory requirements for the engagement.

Involving specialists and experts
We involve specialists throughout the audit engagement. These tax, IT and actuarial experts (amongst others) receive annual training because they are part of the extended audit teams and work directly within our audit systems.

Each of our audit partners is empowered to make appropriate decisions for their client engagements. However, we encourage our client engagement teams to also seek consultation from experts not working directly on their engagements, whenever they need additional information, perspectives or specialized knowledge.

Audit file configuration
Our bespoke audit software provides a clear framework of procedures. This gives the engagement teams the tools to assess risks and make refined audit judgements, while managing the progress of engagements and recording the appropriate reviews and evidence on file.

Our technology transformation programme helps us continuously move towards our vision of the future of the audit – a digitally enabled, agile environment, where low risk and standardised tasks are automated, and cognitive technologies support testing in areas of significant judgement.

Audit approach
We continue to enhance our audit methodologies to encourage a robust, fact-based risk assessment. Adjusting our audit response is a result of that risk assessment. We recently increased our focus on understanding internal controls and embracing data analytics to enhance the audit.

Our audit approach includes requirements and guidance to assist in planning, performing, reporting and concluding audit engagements. These are based on the International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the IFAC, and other applicable auditing standard frameworks for dual-listed entities. The firm has supplemented these requirements and guidance to reflect local requirements, as applicable.

Audit reporting
Our audit reports comply with auditing standards and legislation. Within those formatting parameters, our reports clearly convey our opinion on the truth and fairness of financial statements. Our communications with audit committees and our clients’ boards of directors cover the scope of the audit, consideration of any threats to independence or objectivity, risk assessment and judgements made. They also provide valuable commentary on more qualitative aspects of financial reporting and management of clients’ businesses.

Where an audit finding meets the definition of a reportable irregularity, we must report that finding to the IRBA, which then notifies the appropriate regulators of the details. This ensures that regulators like the JSE, the Financial Services Conduct Authority, the Companies and Intellectual Property Commission and the South African Revenue Service can take action to protect stakeholder interests.

Where uncertainty exists regarding a potential reportable irregularity, consultation is sought from a reportable irregularities panel comprising well-respected subject matter experts. The panel consults with the audit team and ensures that appropriate reporting outcomes are achieved.

In addition, we also consider our obligations in terms of NOCLAR (non-compliance with laws and regulations). NOCLAR sets out a framework to guide us in what actions to take in the public interest and to disclose facts and circumstances to the appropriate public authorities. NOCLAR deals with matters such as fraud, corruption and bribery, money laundering, tax payments, financial products and services, environmental protection, and public health and safety.

Audit ownership breakdown by ethnicity
<table>
<thead>
<tr>
<th></th>
<th>Audit partners</th>
<th>JSE accredited</th>
</tr>
</thead>
<tbody>
<tr>
<td>African black</td>
<td>18%</td>
<td>13%</td>
</tr>
<tr>
<td>Chinese</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Coloured</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Indian</td>
<td>16%</td>
<td>18%</td>
</tr>
<tr>
<td>White and foreign</td>
<td>63%</td>
<td>65%</td>
</tr>
<tr>
<td>nationals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of audit partners</td>
<td>119</td>
<td>76</td>
</tr>
</tbody>
</table>

This year, 339 of our candidates wrote the exam and achieved an 82 per cent pass rate, compared to the national pass rate of 74 per cent.

These results confirm that we are attracting top talent at Deloitte and we look forward to retaining the most sought-after talent as they build their careers within the firm.

Building future audit leaders
Our annual contribution towards developing future chartered accountants in South Africa has resulted in a 25 per cent increase in articled clerk intake in 2018.

The Initial Test of Competence is the standard-setting exam, written after the completion of an accredited Certificate of Theory in Accounting Programme; it is an assessment of core technical competence.

Two of our candidates ranked in the top ten nationwide.
Our commitment to audit quality − today, tomorrow and always

Internal monitoring
Practice review
Our annual practice review is a key component of the firm’s overall system of quality control. This inspection and monitoring mechanism determines whether we have compiled, in all material respects, with our internal professional standards and policies, applicable professional standards and applicable regulatory and legal requirements.

Every audit partner is subject to a review over a three-year cycle. The review itself is subject to oversight by an independent partner from a Deloitte member firm, other than the Deloitte Africa firm.

If partners are rated below a certain level, more of their engagement files are reviewed. Those partners are also automatically listed for continuous monitoring in the current year, and a practice review the following year.

Continuous monitoring
Continuous monitoring is a proactive approach to enhancing audit quality.

Subject matter-specific ‘health checks’ assist Deloitte audit-quality leaders to quickly intervene with potential audit quality deficiencies, while engagements are in progress. These audit health checks are conducted throughout the year to ensure we identify ‘red flags’ early on.

Engagement quality control review
Every PIE audit is subject to an independent engagement quality control review. This review is conducted by a partner designated by our Quality and Professional Practice Network.

For PIEs and engagements with increased risk, a senior specialist evaluates the engagement team’s significant judgements and conclusions. This includes reviewing the proposed wording of the deliverable (for example, an audit opinion) to assess its appropriateness, accuracy and consistency of reporting within the practice.

All engagements for which the team considers issuing a modified audit opinion are subject to an additional level of independent review.

External inspections
We are subject to inspections by the IRBA and the Public Company Accounting Oversight Board (PCAOB), which independently evaluate our quality. The inspections focus mainly on elements of the International Standard on Quality Control.

Following its inspection between January and March 2017, the IRBA rated our internal quality control processes ‘satisfactory’.

The PCAOB raised only two findings out of the files reviewed in 2016. We have submitted a remediation plan, which was accepted by the PCAOB.

Financial information
Deloitte’s strong financial performance reflects the success of our multidisciplinary model. It drives the delivery of innovative world-class audit, consulting, corporate finance, risk advisory, and tax & legal services, and it creates an environment where the world’s leading practitioners thrive.

Deloitte South Africa financial highlights
Deloitte South Africa’s financial information has been extracted from our financial records for the financial year ended 31 May 2018.

Our revenue represents amounts recovered or recoverable from clients for statutory audits, audit-related services and advisory services during FY17 and FY18, excluding VAT. Recoverable amounts reflect the fair value of the services provided, based on the stage of completion of each client engagement, including expenses and disbursements, as at the balance sheet date.

### Total revenue

<table>
<thead>
<tr>
<th></th>
<th>R’m FY18</th>
<th>R’m FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total SA partnership</td>
<td>4,481</td>
<td>4,241</td>
</tr>
<tr>
<td>Top 200 clients</td>
<td>3,312</td>
<td>3,203</td>
</tr>
<tr>
<td>Advisory clients(^{12})</td>
<td>2,081</td>
<td>1,961</td>
</tr>
<tr>
<td>Audit clients(^{12})</td>
<td>1,231</td>
<td>1,242</td>
</tr>
<tr>
<td>Non-audit related services(^{11}) as a percentage of audit fees at Top 200 audit clients</td>
<td>9%</td>
<td>11%</td>
</tr>
</tbody>
</table>

\(^{12}\) Advisory and audit clients are mutually exclusive that is, Deloitte does not offer audit and advisory services concurrently for the same client except when advisory support is needed to aid an audit opinion, as further indicated in the table.

\(^{11}\) Our firm provides these services in an audit and non-audit capacity. In very complex audit engagements, advisory services may support the audit opinion by providing relevant and sufficient audit evidence from our firm’s subject matter experts. In this capacity, non-audit services must be pre-approved by the client’s audit committee.

### Value-based billing

The pricing model in value billing is based on payments for a pre-defined set of outcomes. These outcomes are not defined in terms of the work performed on a project, but rather on the impact achieved. Value-based billing, therefore, focuses on ensuring that a contract delivers the desired outcomes.

Only nine per cent of revenue earned from audit clients is made up of non-audit services. We are confident that we have not impaired our independence or objectivity by delivering these essential, non-audit related services to selected audit clients.

### Value-based billing

The pricing model in value billing is based on payments for a pre-defined set of outcomes. These outcomes are not defined in terms of the work performed on a project, but rather on the impact achieved. Value-based billing, therefore, focuses on ensuring that a contract delivers the desired outcomes.

Our policies and regulations do not allow us to apply value-based billing to any of our audit clients. However, our advisory business can value bill advisory-only clients for advisory services, upon mutual agreement and with certain agreed ceiling limits. Each situation differs, depending on the nature, risk and value of the engagement. The principles used in determining the value-add amount, timing and structuring of the value-based billing should be responsible and fair to both parties.

Our internal monitoring initiatives complement the policies, procedures and tools we have in place to drive audit quality, enabling us to continually improve.
Remuneration of partners/directors

A partner/director's total compensation includes salary, medical aid, shares in profits, retirement and group life benefits, and interest on capital. Remuneration is based on a comprehensive evaluation of their individual and team contributions to achieving the firm’s strategic objectives.

All partners/directors are subject to partner grading, which is reviewed annually. Each level of grade describes the skills, attributes and broad performance expected of a partner/director. Each level reflects a wide band of total remuneration units so that relative contributions can be recognised.

Partner/director performance is evaluated, beginning with the Africa Board’s approval of the total remuneration strategy proposed by the Africa Executive Committee and concluding with the Board’s review of the recommended profit allocation and grading for each individual partner/director. These outcomes are disclosed in full with all partners and directors.

The Remuneration Committee of the Board oversees the process, with a focus on consistent and equitable treatment.

Partner/director compensation

The average total compensation per partner/director in the year ended 31 May 2018 amounted to R4.5 million (before tax).

Partner/director pay gap

The pay gap percentage is calculated based on the average remuneration units per partner/director (per demographic grouping) at each partner grading level. The pay gap figures shown in the table below are linked to the current demographics of the partnership (predominantly male and white), which will gradually be corrected as we reach our transformation targets.

<table>
<thead>
<tr>
<th>Partner/director grading</th>
<th>Number of partners/directors</th>
<th>% Gap (mean per level)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>White/Black</td>
<td>Male/Female*</td>
</tr>
<tr>
<td>1 – 2</td>
<td>129</td>
<td>6%</td>
</tr>
<tr>
<td>3 – 4</td>
<td>127</td>
<td>3%</td>
</tr>
<tr>
<td>5 – 6</td>
<td>6</td>
<td>-28%</td>
</tr>
</tbody>
</table>

* No female representation at grading levels 5 and 6.

1 Black partners/directors’ earnings in this grading are more than that of their white counterparts.

Independent non-executives

We pay our firm’s independent non-executives, Professors Njabulo Ndebele and Pat Utomi, fees based on attendance at Africa Board meetings.
In closing
A message from our Chairman, Trevor Brown

In our role as a global leader in professional services, Deloitte is expected to be agile and adaptive, while maintaining the assurance and stability that our clients, our people and society demands. In our first Transparency Report, we demonstrate that we have been able to respond to challenges to make an impact that matters.

A lot has been said in the media about ‘audit-only’ firms. While we support measures to improve competition, any changes to the audit market must not be to the detriment of audit quality, and should not harm South Africa’s competitive advantages as a business location and centre for capital market activity.

We will continue to confront economic volatility and uncertainty, regulatory developments, rapidly shifting technology paradigms and political challenges. We are confident that our current strategy and purpose-led approach position us well to achieve our goal of undisputed leadership in the professional services industry.

Our people have been our competitive advantage and are our most valued asset. Our performance in FY18 is a testament to their ability to provide clients with a broad range of specialised knowledge in a wide array of innovative, differentiated and high-value services.

I am very proud of the many things our firm, our clients and the people of South Africa achieved in the past year. Deloitte remains focused on serving the entire African continent with distinction.

I am, personally, also committed to making choices that will secure a strong future for Deloitte Africa by ensuring trust in the capital markets, supporting inclusive growth and building skills. This will remain a focus for us in the years to come.

We trust you found Deloitte Africa’s first Transparency Report informative and useful. In our role as a global leader in professional services, Deloitte is expected to be agile and adaptive, while maintaining the assurance and stability that our clients, our people and society demands. In our first Transparency Report, we demonstrate that we have been able to respond to challenges to make an impact that matters.

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